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

FORM 10-K

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

For the fiscal year ended December 31, 2020

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

For the transition period from __________ to __________

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on which Registered
Common Stock, par value $0.01 per share	FNB	New York Stock Exchange
Depositary Shares each representing 1/40th interest in a share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E	FNBPrE	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2020, determined using a per share closing price on that date of $7.50, as quoted on the New York Stock Exchange, was $2,364,996,210.

As of January 31, 2021, the registrant had outstanding 321,523,121 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of F.N.B. Corporation’s definitive proxy statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on May 11, 2021 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14, of this Annual Report on Form 10-K. F.N.B. Corporation will file its definitive proxy statement with the Securities and Exchange Commission on or before April 15, 2021.

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Glossary of Acronyms and Terms

Acronym	Description
ACL	Allowance for credit losses
ADC	Acquisition, development or construction
AFS	Available for sale
ALCO	Asset/Liability Committee
AOCI	Accumulated other comprehensive income
ARRC	Alternative Reference Rates Committee
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
AULC	Allowance for unfunded loan commitments
BOLI	Bank owned life insurance
Basel III	Basel III Capital Rules
BHC Act	Bank Holding Company Act of 1956, as amended
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CECL	Current expected credit losses
CET1	Common equity tier 1
CFPB	Consumer Financial Protection Bureau
COVID-19	Novel coronavirus disease of 2019
CRA	Community Reinvestment Act of 1977
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	U.S. Department of Justice
DTA	Deferred tax asset
DTL	Deferred tax liability
EAD	Exposure at default
Economic Growth Act	Economic Growth, Regulatory Relief and Consumer Protection Act
EVE	Economic value of equity
ERISA	Employee Retirement Income Security Act of 1974
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
FINRA	Financial Industry Regulatory Authority
FNB	F.N.B. Corporation
FNBIA	F.N.B. Investment Advisors, Inc.
FNBPA	First National Bank of Pennsylvania
FNIA	First National Insurance Agency, LLC
FNTC	First National Trust Company
FOMC	Federal Open Market Committee
FSOC	Financial Stability Oversight Council
FRB	Board of Governors of the Federal Reserve System
FTE	Fully taxable equivalent
FVO	Fair value option
GAAP	U.S. generally accepted accounting principles
GLB Act	Gramm-Leach Bliley Act of 1999
GSE	Government-sponsored entity
HTM	Held to maturity
HUD	Department of Housing and Urban Development
HVCRE	High volatility commercial real estate
IRLC	Interest rate lock commitment
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
LIHTC	Low income housing tax credit
LTV	Loan-to-value
MCH	Months of Cash on Hand
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MSA	Mortgage servicing asset
MSRs	Mortgage servicing rights
NYSE	New York Stock Exchange
OCI	Other comprehensive income
OCC	Office of the Comptroller of the Currency
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PCD	Purchase credit deteriorated
PCI	Purchase credit impaired
PD	Probability of default
Penn-Ohio	Penn-Ohio Life Insurance Company
PPP	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Fund
QM	Qualified mortgage
Regency	Regency Finance Company
RESPA	Real Estate Settlement Procedures Act
RRR	Reference rate reform
R&S	Reasonable and Supportable
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
SOX	Sarbanes-Oxley Act of 2002
TCJA	Tax Cuts and Jobs Act of 2017
TDR	Troubled debt restructuring
TILA	Truth in Lending Act
TPS	Trust preferred securities
U.S.	United States of America
UST	U.S. Department of the Treasury
VIE	Variable interest entity
YDKN	Yadkin Financial Corporation

PART I

Forward-Looking Statements: From time to time F.N.B. Corporation has made and may continue to make written or oral forward-looking statements with respect to our outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report) also includes forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information in Item 7 of this Report.

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

ITEM 1. BUSINESS

Overview

We are a Pennsylvania corporation, a bank holding company and a financial holding company. With our subsidiaries, we have been in business since 1864. Our principal executive office is located at 12 Federal Street, Pittsburgh, Pennsylvania 15212. As a diversified financial services holding company, FNB, through our subsidiaries, provides a full range of financial services, principally to consumers, corporations, governments and small- to medium-sized businesses in our market areas through our subsidiary network, which is led by our largest subsidiary, FNBPA. Our business strategy focuses primarily on providing quality, consumer- and commercial-based financial services adapted to the needs of each of the markets we serve. We seek to maintain our community orientation by providing local management with certain autonomy in decision making, enabling them to respond to customer requests more quickly and to concentrate on transactions within their market areas. We seek to preserve some decision making at a local level, however, we have centralized legal, loan review, credit underwriting, accounting, investment, audit, loan operations, deposit operations and data processing functions. The centralization of these processes enables us to maintain consistent quality of these functions and to achieve certain economies of scale.

As of December 31, 2020, we have three reportable business segments: Community Banking, Wealth Management and Insurance, with the remaining operations described in *Other*. As of December 31, 2020, we have 358 Community Banking offices in Pennsylvania, Ohio, Maryland, West Virginia, North Carolina, South Carolina and Virginia.

As of December 31, 2020, we had total assets of $37.4 billion, loans of $25.5 billion and deposits of $29.1 billion. See Item 7, MD&A, and Item 8, "Financial Statements and Supplementary Data," of this Report.

Internet Information

Our website is at http://www.fnb-online.com and information regarding FNB and investor relations is located under the heading, "About Us." We use our website to distribute company information, including as a means of disclosing material, non-public information and for complying with our disclosure obligations under Regulation FD. We generally post and make accessible before or promptly following first use of financially-related press releases, including earnings releases and supplemental financial information, various SEC filings, including annual, quarterly and current reports and proxy statements, presentation materials associated with earnings and other investor calls or events on our corporate website. Under some circumstances, the information may be relevant to investors but be directed to customers, in which case it may be accessed directly through our websites home page rather than "About Us-Investor Information." Investors should monitor the Investor Relations portion of our website, in addition to following our press releases, SEC filings, public conference calls and webcasts. For earnings and other conference calls or events, we generally include in our posted materials a cautionary statement regarding forward-looking and non-GAAP financial information, and we provide GAAP reconciliations when we provide non-GAAP financial information. Such GAAP reconciliations may be in materials for the applicable presentations, in materials for prior presentations or in our annual, quarterly or current reports.

Securities and Exchange Commission Reports and Corporate Governance Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act) and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on the "About Us" portion of our website under the heading Investor Information (accessible by clicking on the SEC Filings link) as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC and at the SEC's website, www.sec.gov.

Notwithstanding the foregoing, the information contained on our website as referenced in this paragraph is not incorporated by reference into this Annual Report on Form 10-K. Also, under the "About Us" portion of our website under the heading Investor Information you may click on Corporate Governance to view the following: (i) our Code of Conduct and Code of Ethics; (ii) our Corporate Governance Guidelines; (iii) the charter of each active committee of our Board of Directors; and (iv) Policy With Respect to Related Persons Transactions. We also intend to disclose any amendments to our Code of Conduct and waivers of our Code of Conduct required to be disclosed by the rules of the SEC and the NYSE on the Investor Information portion of our website. All of these corporate governance materials are also available free of charge in print to shareholders who request them in writing to: F.N.B. Corporation, Attention: Office of the Corporate Secretary, 12 Federal Street, 5th Floor, Pittsburgh, Pennsylvania, 15212.

Our registered investment adviser subsidiary is subject to the Investment Advisers Act of 1940 and related rules and regulations promulgated by the SEC. Our investment adviser subsidiary is also subject to additional regulation by states or local jurisdictions. The SEC has active enforcement functions that oversee investment advisers and can bring actions that result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations also can affect our ability to expeditiously issue new securities into the capital markets.

Business Segments

In addition to the following information relating to our business segments, more detailed information is contained in Note 24, “Business Segments” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. As of December 31, 2020, FNB had three business segments, with the largest being the Community Banking segment consisting of a regional community bank. The Wealth Management segment consists of a trust company, a registered investment advisor and a subsidiary that offers broker-dealer services through a third-party networking arrangement with a non-affiliated licensed broker-dealer entity. The Insurance segment consists of an insurance agency and a reinsurer.

Community Banking

Our Community Banking segment consists of FNBPA, which offers commercial and consumer banking services. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, business credit, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Additionally, Bank Capital Services, LLC, a subsidiary of FNBPA, offers commercial loans and leases to customers in need of new or used equipment. As of December 31, 2020, our Community Banking segment operated in seven states and the District of Columbia. Our branch network spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; Washington, D.C.; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina.

The goals of the Community Banking segment are to generate high-quality, profitable revenue growth through increased business with our current customers, attract new customer relationships through FNBPA’s current branches and expand into new and existing markets through de novo branch openings and the establishment of loan production offices. We consider the Community Banking segment an important source of revenue opportunity through the cross-selling of products and services offered by our other business segments.

The lending philosophy of the Community Banking segment is to establish high-quality customer relationships, while minimizing credit losses by following strict credit approval standards (which include independent analysis of realizable collateral value), diversifying our loan portfolio by industry, geography, product and borrower, and conducting ongoing review and management of the loan portfolio. Commercial loans are generally made to established businesses within the geographic market areas served by the Community Banking segment.

The Community Banking segment maintains formal policies which establish underwriting standards and processes. Our commercial loan policy requires, among other things, that commercial loans be underwritten to document the borrower’s financial capacity to support the cash flow required to repay the loan. The commercial loan policy also contains additional guidelines and requirements applicable to specific loan products or lines of business. Consumer loan products are designed to meet the diverse credit needs of consumers in our markets for personal and household purposes. Our consumer loan policies and procedures require prospective borrowers to provide appropriate and accurate financial information that will assist our loan underwriting personnel in making credit decisions. Specific information requirements vary based on loan type, risk profile and secondary investor requirements where applicable.

No material portion of the loans or deposits of the Community Banking segment has been obtained from a single customer or small group of customers, and the loss of any one customer's loans or deposits or a small group of customers' loans or deposits by the Community Banking segment would not have a material adverse effect on the Community Banking segment or on FNB. The substantial majority of the loans and deposits have been generated within the geographic market areas in which the Community Banking segment operates.

Wealth Management

Our Wealth Management segment delivers wealth management services to individuals, corporations and retirement funds, as well as existing customers of the Community Banking segment, located primarily within our geographic markets.

Our Wealth Management operations are conducted through three subsidiaries of FNBPA. FNTC provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. As of December 31, 2020, the fair value of trust assets under management was approximately $7.1 billion. FNTC is required to maintain certain minimum capitalization levels in accordance with regulatory requirements. FNTC periodically measures its capital position to ensure all minimum capitalization levels are maintained.

Our Wealth Management segment also includes two other subsidiaries. First National Investment Services Company, LLC offers a broad array of investment products and services for customers of the Wealth Management segment through a networking relationship with a third-party licensed brokerage firm. FNBIA, an investment advisor registered with the SEC, offers customers of the Wealth Management segment comprehensive investment programs featuring mutual funds, annuities, stocks and bonds.

No material portion of the business of the Wealth Management segment has been obtained from a single customer or small group of customers, and the loss of any one customer's business or the business of a small group of customers by the Wealth Management segment would not have a material adverse effect on the Wealth Management segment or on FNB.

Insurance

Our Insurance segment operates principally through FNIA, which is a subsidiary of FNB. FNIA is a full-service insurance brokerage agency offering numerous lines of commercial and personal insurance through major carriers to businesses and individuals primarily within FNB's geographic markets. The goal of FNIA is to grow revenue through cross-selling to existing clients of the Community Banking segment and to gain new clients through its own channels.

Our Insurance segment also includes a reinsurance subsidiary, Penn-Ohio. Penn-Ohio is not actively underwriting new policies. Additionally, FNBPA owns a direct subsidiary, First National Corporation, which offers title insurance products.

No material portion of the business of the Insurance segment has been obtained from a single customer or small group of customers, and the loss of any one customer's business or the business of a small group of customers by the Insurance segment would not have a material adverse effect on the Insurance segment or on FNB.

Other

We also operate other non-banking subsidiaries which are not considered to be reportable segments of FNB. F.N.B. Capital Corporation, LLC (FNBCC) was formed as a merchant banking subsidiary to offer mezzanine financing options for small- to medium-sized businesses that need financial assistance beyond the parameters of typical commercial bank lending products. FNBCC has a 22.5% funding commitment in Tecum Capital Partners, L.P. (formerly known as F.N.B. Capital Partners, L.P.) (Tecum), a Small Business Investment Company licensed by the U.S. SBA. Tecum is not an affiliate or a subsidiary of FNB. We have three companies that issued TPS to third-party investors: F.N.B. Statutory Trust II, Yadkin Valley Statutory Trust I and FNB Financial Services Capital Trust I, the last two of which were acquired in conjunction with the YDKN acquisition. FNB Financial Services, Inc. and FNB Consumer Financial Services, Inc. are subsidiaries of FNB and are the general partner and limited partner, respectively, of FNB Financial Services, LP, a company established to issue, administer and repay subordinated notes. The proceeds received from these subordinated note issuances are a general funding source for FNB. Certain financial information concerning these subsidiaries, along with the parent company and intercompany eliminations, are included in the "Parent and Other" category in Note 24, "Business Segments" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Market Area and Competition

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

We compete for loans, deposits and financial services business with a large number of bank and non-bank financial institutions and other lenders engaged in the business of extending credit, including financial technology companies and marketplace lenders. Competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, insurance companies and other financial services companies. The most direct competition for deposits comes from commercial banks, savings banks and credit unions. Additional competition for deposits comes from non-depository competitors such as financial technology companies, mutual funds, securities and brokerage firms and insurance companies. In providing wealth and asset management services, as well as insurance brokerage services, our subsidiaries compete with many other financial services firms, brokerage firms, mutual fund complexes, investment management firms, trust and fiduciary service providers and insurance agencies. Competition for loans and deposits depends on a number of factors, including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits and lending limits. Also, our ability to continue to compete effectively depends in large part on retaining and motivating our employees and our ability to attract new employees, while effectively managing compensation and other expenses.

The ability to deploy and use technology effectively is an important competitive factor in the financial services industry. Technology is not only important with respect to the delivery of financial services, risk management, regulatory compliance and security of customer information, but also in processing information. FNB and each of our subsidiaries must continually make technological investments to remain competitive in the financial services industry. FNBPA has executed several initiatives that have integrated and streamlined its physical branch and e-delivery channels.

Human Capital

We are committed to the attraction, retention, and development of exceptional talent. This commitment also extends to building a diverse workforce that reflects different cultures, ethnicities and backgrounds which foster creativity, innovation, and overall success. To support this focus on our human capital, we employ several strategies to foster an engaged workforce in a safe environment that helps to identify, promote and grow future leaders. Our special culture has contributed to the nearly 30 workplace awards we have received over the past decade. In early 2021, we continued to add to this impressive list with our first-ever national recognition as an employer, having been named a Top Workplace U.S.A. by Energage, an independent research firm, based on employee feedback. As part of this award program, we were also named a national Top Workplace in the financial services industry. As of January 31, 2021, FNB and our subsidiaries had 3,819 full-time and 378 part-time employees.

Recruitment. We are committed to building a diverse and inclusive workforce and have found great success cultivating and fostering mutually beneficial partnerships with job and recruiting centers, colleges and universities and organizations that help to identify and attract diverse candidates. In addition to posting positions with these organizations, our leaders participate in events hosted by these partners to further our brand as an employer of choice.

Employee Development. We focus resources on programs to develop leaders and promote internal advancement within the organization. This includes a mentor program, succession planning and a leadership program, all administered through our dedicated training department team to further develop the talent which our recruitment efforts have attracted.

Diversity. We have an active Diversity Council which takes a proactive, leadership role in promoting diversity, equity and inclusion in our culture. The Diversity Council is responsible for promoting an inclusive culture that attracts, retains and develops the best talent from a broad spectrum to create a diverse, highly productive workforce, at all levels of the organization. The Diversity Council supports our mission to build a workforce in which employees can learn, grow and prosper, and our commitment to diversity, equity and inclusion within the workforce. It supports both corporate and employee initiatives on diversity, equity and inclusion.

The membership composition of the Diversity Council reflects the diversity within our organization. In addition, the membership represents every region in the organization, and various lines of business and position levels.

Engagement. We regularly seek feedback from our employees and in 2020 conducted our biannual engagement survey. This engagement survey collects insights about employees' experiences to help shape our future success. The results are reviewed at various levels of the organization up to, and including, the Board of Directors. Managers create action plans targeting opportunities in areas that the survey highlights. Our scores in the overall engagement focus area, consistently place us in the outstanding category when compared across multiple industries.

Compensation. Our compensation philosophy is to create a program that supports our mission and values. The compensation program is a management tool that, when aligned with an effective communication plan, is designed to support, reinforce, and align our values, business strategy, operational and financial needs with our strategic goals.

We believe that compensation programs, through competitive base salary, short-term incentive plans, and long-term incentive plans, are essential for providing the behavior to set performance expectations, improving service quality and productivity, and recognizing contributions to our success.

The oversight and review of our compensation philosophy and programs are conducted by the Management Compensation Committee. This team, chaired by FNB's Chairman, President and Chief Executive Officer, regularly meets to promote compensation programs that are equitable, to achieve a performance-driven work culture that generates company growth, rewarding employees for focusing on customer needs and demonstrating appropriate risk management behaviors.

At the start of 2020 we accomplished our goal to provide a minimum starting compensation of $15/hour, which was the final phase of a commitment started in 2018 to increase the financial commitment to entry level and front-line employees.

Values & Training. We strive to maintain sound financial practices and governance processes through a commitment to ethical behavior, a solid reputation and a firm record of compliance and stability that these strengths create, both within our Corporation and for our customers.

Employees complete quarterly and annual job specific training, including regulatory and compliance requirements, to increase knowledge of standards required of the financial services industry.

Additionally, employees are provided various avenues to report unethical behavior without repercussions to them, such as FNB's Ethics Hotline. Employees are asked to report any issues that could result in financial or reputational harm to us.

Wellness. Our commitment to the personal and professional well-being of each employee extends beyond a competitive compensation and benefits package. Innovative employee-friendly programs and policies designed to help team members maintain a healthy, meaningful work/life balance by providing resources to support mental, physical and financial health are offered and regularly expanded. This includes parental and caregiver leave, adoption assistance and back-up child-care programs built to provide employees with the financial support and time away from work that they need to focus on their new family members.

Safety. Employee and customer safety are key concerns for us. The COVID-19 pandemic created unique challenges in 2020 that no organizations had faced before. Employee safety and support were key pillars to our response to the pandemic. Highlights of the employee actions we enacted in the spring of 2020 and throughout the remainder of the year include:

- Approximately half of the workforce was mobilized to a work-from-home arrangement by sourcing and procuring the necessary equipment and tools.
- Established an employee information portal updated daily with information related to the pandemic, adjusted operational procedures, and a robust employee Q&A process.
- Provided all employees additional days off and expanded existing leave programs to assist in supporting personal or family illness and childcare.
- Increased safety protocols such as personal protection equipment, sanitization protocols, thermal scanning devices, social distancing signage, furniture modification and other measures were implemented for the safety of employees that needed to continue to work in our facilities during the national emergency.

Government Supervision and Regulation

The following summary sets forth certain material elements of the regulatory framework applicable to FNB, FNBPA and our subsidiaries and affiliates. The financial services industry is subject to extensive regulatory oversight and, in particular, bank holding companies, banks and their affiliates (depending upon charter and business activities) are subject to supervision, regulation and examination by the FRB, OCC, FDIC, CFPB, SEC, FINRA and various state regulatory agencies. The statutory and regulatory framework that governs FNB and our affiliates is generally intended to protect depositors and customers, the federal insurance fund, the U.S. banking and financial system, and financial markets as a whole; however, this framework is not specifically for the protection of security holders. Significant elements of the laws and regulations applicable to FNB and our affiliates are described in this section. To the extent that the following information describes statutory and regulatory provisions or governmental policies, such descriptions are qualified in their entirety by reference to the full text of the statutes, regulations and policies referenced herein. In addition, certain of FNB's public disclosure, internal control environment, risk and capital management and corporate governance principles are subject to SOX, the Dodd-Frank Act, as modified by the 2018 Economic Growth Act, and related regulations and rules of the SEC under the Securities Act of 1933, as amended, and the Exchange Act. Also, FNB is subject to the rules of the NYSE for listed companies.

Political, economic, industry events and other factors typically result in the banking laws, regulations and policies to be continually subject to review by Congress, state legislatures and federal and state regulatory agencies. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance, which sometimes materially changes regulatory expectations. Any change in the statutes, regulations or regulatory policies applicable to us, including changes in their interpretation, expectations or implementation, could have a material effect on our business or organization.

Both the scope of the laws and regulations, as well as expectations regarding risk management, and the intensity of the supervision to which we are subject have increased in recent years in response to the financial crisis, as well as other factors such as technological and market changes. Regulatory enforcement and fines have also significantly increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Act and its implementing regulations, most of which are now in place.

The OCC regulations implemented under the Economic Growth Act raised the minimum asset threshold for covered banks to conduct stress tests from $10 billion to $250 billion. This resulted in FNB and FNBPA no longer being subject to Dodd-Frank Act stress testing requirements, however we will continue to voluntarily perform capital stress testing consistent with the safety and soundness expectations of our banking regulators.

The Economic Growth Act also enacted several important changes in some technical compliance areas, for which the banking agencies have now issued certain corresponding guidance documents and/or proposed final rules, including:

- Prohibiting federal banking regulators from imposing higher capital standards on HVCRE exposures unless they are for ADC loans, and clarifying ADC status;
- Requiring the federal banking agencies to amend the LCR Rule such that all qualifying investment-grade, liquid and readily-marketable municipal securities are treated as level 2B liquid assets, making them more attractive investment alternatives;
- Exempting from appraisal requirements certain transactions involving real property in rural areas and valued at less than $400,000; and
- Directing the CFPB to provide guidance on the applicability of the TILA-RESPA Integrated Disclosure rule to mortgage assumption transactions and construction-to-permanent home loans, as well as the extent to which lenders can rely on model disclosures that do not reflect recent regulatory changes. (See discussion under Risk Factors - caption *"We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry").*

GENERAL

FNB is a legal entity separate and distinct from our subsidiaries. As a financial holding company and a bank holding company, FNB is regulated under the BHC, as amended, and is subject to regulation, inspection, examination and supervision by the FRB.

Under the BHC Act, FRB is the "umbrella" regulator of a financial holding company. In addition, a financial holding company's operating entities, meaning its subsidiary broker-dealers, investment managers, investment advisory companies, insurance companies and banks, as applicable, are subject to the jurisdiction of various federal and state "functional" regulators and self-regulatory organizations, such as FINRA.

Our subsidiary bank, FNBPA, and FNBPA's subsidiary trust company, FNTC, are organized as national banking associations, which are subject to regulation, supervision and examination by the OCC, which is a bureau of the UST. FNBPA is also subject to certain regulatory requirements of the CFPB, the FDIC, the FRB and other federal and state regulatory agencies, including but not limited to requirements to maintain reserves against deposits, capital requirements, limitations regarding dividends, restrictions on the types and amounts of loans that may be granted and the interest that may be charged on loans, affiliate transactions, CRA, consumer compliance and anti-discrimination laws and unfair, deceptive or abusive acts and practices prohibitions, monitoring obligations under the federal bank secrecy act and anti-money laundering requirements, limitations on the types of investments that may be made, cybersecurity and consumer privacy requirements, activities that may be engaged in and types of services that may be offered. In addition to banking laws, regulations and regulatory agencies, FNB and our subsidiaries are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of FNB and our ability to make distributions to our stockholders. If we fail to comply with these or other applicable laws and regulations, we may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain cases, criminal penalties.

Pursuant to the GLB Act, bank holding companies such as FNB that have qualified as financial holding companies because they are “well-capitalized” and “well managed” have broad authority to engage in activities that are financial in nature or incidental to such financial activity, including insurance underwriting and brokerage, merchant banking, securities underwriting, dealing and market-making; and such additional activities as the FRB in consultation with the Secretary of the UST determines to be financial in nature, incidental thereto or complementary to a financial activity. As a result of the GLB Act, a bank holding company may engage in those activities directly or through subsidiaries by qualifying as a “financial holding company.” As a financial holding company, FNB may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, provided the FNB continues such status and gives the FRB after-the-fact notice of the new activities. The GLB Act also permits national banks, such as FNBPA, to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC (see discussion under the caption, *“Financial Holding Company Status and Activities”*).

As a regulated financial holding company, FNB’s relationships and good standing with our regulators are of fundamental importance to the continuation and growth of our businesses. The FRB, OCC, FDIC, CFPB and SEC have broad enforcement powers and authority to approve, deny or refuse to act upon applications or notices of FNB or our subsidiaries to open new or close existing offices, conduct new activities, acquire or divest businesses or assets or reconfigure existing operations. In addition, FNB, FNBPA, FNTC and other affiliates are subject to examination by the various federal and state regulators, which involves periodic examinations and supervisory inquiries, the reports of which are not publicly available and can affect ratings that can impact the conduct and growth of our businesses. These examinations consider not only safety and soundness principles, but also compliance with applicable laws and regulations, including anti-money laundering requirements, loan quality and administration, capital levels, asset quality and risk management ability and performance, earnings, liquidity, consumer compliance, anti-discrimination laws, unfair, deceptive or abusive acts and practices prohibitions, community reinvestment, cybersecurity and consumer privacy requirements, and various other factors. The federal banking interagency Guidelines for Establishing Standards for Safety and Soundness set forth compliance considerations and guidance with respect to the following operations of banking organizations: (1) internal controls and information systems; (2) internal audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate exposure; (6) asset growth; (7) executive compensation, fees and benefits; (8) asset quality; and (9) earnings. Significant adverse findings reporting safety and soundness or violations of laws or regulations by any of FNB’s federal bank regulators could potentially result in the imposition of significant fines, penalties, reimbursements, enforcement actions as well as limitations and prohibitions on the activities and growth of FNB and our subsidiaries.

There are numerous laws, regulations and rules governing the activities of financial institutions - including non-bank financial institutions, such as financial technology companies and marketplace lenders, which provide products and services comparable to banking organizations - financial holding companies and bank holding companies. The following discussion is general in nature and seeks to highlight some of the more significant of these regulatory requirements, but does not purport to be complete or to describe all of the laws and regulations that apply to us and our subsidiaries.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Act continues to have a broad impact on the financial services industry by imposing significant regulatory and compliance requirements including, among other things:

- enhanced authority over troubled and failing banks and their holding companies;
- increased capital and liquidity requirements;
- increased regulatory examination fees;

- increased assessments banks must pay the FDIC for federal deposit insurance; and
- specific provisions designed to improve supervision and oversight of bank safety and soundness and consumer practices, by imposing restrictions and limitations on the scope and type of banking and financial activities.

In addition, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system that is enforced by new and existing federal regulatory agencies and authorities, including the FSOC, FRB, OCC, FDIC and CFPB. The following description briefly summarizes certain impacts of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of FNB, FNBPA, and our subsidiaries and affiliates.

Deposit Insurance. The Dodd-Frank Act established a $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revised the assessment base against which an insured depository institution's deposit insurance premiums paid to the FDIC's DIF are calculated. Under the amendments, the FDIC assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. The Dodd-Frank Act requires a phase-in of the minimum designated reserve ratio for the DIF, increasing it from 1.15% to 1.35% of the estimated amount of total insured deposits which was achieved as of the third quarter of 2018. FDIC regulations provide that, among other things, upon reaching the minimum, surcharges on insured depository institutions with total consolidated assets of $10 billion or more will cease. The last quarterly surcharge was reflected in FNBPA's December 2018 assessment invoice, which covered the assessment period from July 1, 2018 through September 30, 2018. FNBPA's assessment invoices have not included a quarterly surcharge since that time. In addition, the Dodd-Frank Act eliminated the requirement of the FDIC to pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has set the target designated reserve ratio at 2%. Assessment rates, which declined for all banks when the reserve ratio first surpassed 1.15% in the third quarter of 2016, are expected to remain unchanged. Assessment rates are scheduled to decrease when the reserve ratio exceeds 2%. The DIF and the DIF ratio were $117.9 billion and 1.29%, respectively, at December 31, 2020.

In addition, TCJA, which was signed into law on December 22, 2017, disallows the deduction of FDIC deposit insurance premium payments for banking organizations with total consolidated assets of $50 billion or more. For banks with less than $50 billion in total consolidated assets, such as FNBPA, the premium deduction is phased-out based on the proportion of the bank's assets exceeding $10 billion.

In December 2019, the FDIC issued a proposed rule to modernize its brokered deposit regulations. The proposal would, among other things, establish a new framework for analyzing whether deposits placed through deposit placement arrangements qualify as brokered deposits. Notable aspects of the proposed rule include language: (i) defining the operative prongs of the definition of a "deposit broker;" (ii) creating three general tests to determine the applicability of the "primary purpose" exception; (iii) establishing an application process for entities that wish to make use of the primary purpose exception; and (iv) allowing wholly owned subsidiaries of insured depository institutions to make use of the "insured depository institution" (the "own bank") exception. The prospects and timing for the adoption of a final rule are uncertain at this time.

Interest on Demand Deposits. Under the Dodd-Frank Act, depository institutions are permitted to pay interest on demand deposits. In accordance therewith, we pay interest on certain classes of commercial demand deposits.

Volcker Rule. Section 619 of the Dodd-Frank Act (known as the Volcker Rule) prohibits insured depository institutions and their holding companies from engaging in proprietary trading, except under limited circumstances, and prohibits them from owning equity interests in excess of three percent (3%) of Tier 1 capital in private equity and hedge funds. In December 2013, the federal banking agencies adopted the Volcker Implementing Rules. The Volcker Implementing Rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds, which are referred to as "covered funds." The Volcker Implementing Rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The Volcker Rule also requires each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to the entity's regulators. Historically, this meant that reporting requirements were tied to a bank's total assets, where banks with assets at or below $10 billion had less stringent reporting requirements and banks with more than $10 billion had increasingly more stringent requirements, as the size of the bank increased.

Effective January 1, 2020, five federal banking agencies revised certain aspects of the Volcker Rule by specifying that compliance requirements will be based on the amount of assets and liabilities that a bank trades. Firms with significant trading activities (i.e., those with $20 billion or more in trading assets and liabilities) will have heightened compliance obligations. Compliance with the revised Volcker Rule were required on January 1, 2021.

In June, 2020, five federal financial regulators modified the "covered funds" portion of the Volcker Rule by streamlining the rule, addressing the treatment of certain foreign funds, and permitting banking entities to offer financial services and engage in other permissible activities that do not raise concerns that the Volcker Rule was intended to address.

The Consumer Financial Protection Bureau. The CFPB's responsibility is to establish, implement and enforce laws, rules and regulations under certain federal consumer financial laws, as defined by the Dodd-Frank Act and interpreted by the CFPB, with respect to the conduct of both bank and non-bank providers of certain consumer financial products and services. The CFPB has rulemaking and enforcement authority over many of the statutes that govern products and services banks offer to consumers. The CFPB has authority to prevent unfair, deceptive or abusive acts and practices in connection with the offering of consumer financial products and services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB, and state attorneys general will have the authority to enforce consumer protection rules that the CFPB adopts against state-chartered institutions and against, with respect to certain non-preempted laws, national banks. Compliance with any such new regulation or other precedent established by the CFPB and/or states could reduce our revenue, increase our cost of operations and compliance, and limit, prevent, or make more costly, our ability to expand into certain products and services. Over the past several years, the CFPB has been active in bringing enforcement actions against banks and non-bank financial institutions to enforce federal consumer financial laws. Other federal financial regulatory agencies, including the OCC, as well as state attorneys general and state banking agencies and other state financial regulators also have been increasingly active in this area with respect to institutions over which they have jurisdiction. We have incurred and may in the future incur additional costs in complying with these requirements.

Debit Card Interchange Fees. The FRB, pursuant to its authority under the Dodd-Frank Act, has issued rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion, adopting a per-transaction interchange cap base of $0.21 plus 0.05% of the transaction total (and an additional one cent to account for fraud protection costs).

Transactions with Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act, as implemented by Regulation W, banks are subject to restrictions that limit certain types of transactions between banks and their non-bank affiliates. In general, banks are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving non-bank affiliates. Also, transactions between banks and their non-bank affiliates are required to be on arms-length terms and consistent with safe and sound banking practices. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" to include the borrowing or lending of securities or derivative transactions, and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained. In addition, the provisions of the Volcker Rule apply similar restrictions on transactions between a bank and any "covered fund" that the bank advises or sponsors.

Transactions with Insiders. The Dodd-Frank Act expands insider transaction limitations through the strengthening of loan restrictions to insiders and extending the types of transactions subject to the various requirements to include derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending and borrowing transactions. The Dodd-Frank Act also places restrictions on certain asset sales to and from an insider of an institution, including requirements that such sales be on market terms and, in certain circumstances, receive the approval of the institution's board of directors.

Enhanced Lending Limits. Federal banking law limits a national bank's ability to extend credit to one person or group of related persons to an amount that does not exceed certain thresholds. Among other things, the Dodd-Frank Act expanded the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements and securities lending and borrowing transactions.

The changes resulting from the Dodd-Frank Act continue to impact our profitability, including limitations on fee income opportunities, increased compliance costs, imposition of more stringent capital, liquidity and leverage requirements that affect our business. We cannot predict what effect any newly implemented, presently contemplated or future changes in the laws or regulations or their interpretations may have on us.

Capital and Operational Requirements

The FRB, OCC and FDIC issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, due to its financial condition or actual or anticipated growth.

FNB, like other bank holding companies, through December 31, 2019 was required to maintain CET1, tier 1 and total capital (the sum of tier 1 and tier 2 capital) equal to at least 7.00%, 8.50% and 10.50%, respectively, of our total risk-weighted assets (including various off-balance sheet items). The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. At December 31, 2020, our CET1, tier 1 and total capital ratios under these guidelines were 9.8%, 10.2% and 12.3%, respectively. At December 31, 2020, we had $316.3 million of capital securities and subordinated debt that qualified as tier 2 capital.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines currently provide for a minimum ratio of tier 1 capital to average total assets, less goodwill and certain other intangible assets (the leverage ratio), of 4.0% for bank holding companies that meet certain specified criteria, including the highest regulatory rating. The guidelines also provide that bank holding companies, depending on the types, quality and quantity of risk associated with its activities (e.g., acquisitions, internal growth), will be expected to maintain strong capital positions above the minimum supervisory levels without significant reliance on intangible assets. Our leverage ratio at December 31, 2020 was 7.8%.

Increased Capital Standards and Enhanced Supervision

The Dodd-Frank Act's regulatory capital requirements are intended to ensure that "financial institutions hold sufficient capital to absorb losses during future periods of financial distress" and requires the federal banking agencies to establish minimum leverage and risk-based capital requirements on a consolidated basis for insured depository institutions, their holding companies and non-bank financial companies that have been determined to be systemically important by the FSOC.

Basel III Capital Rules

In July 2013, the FRB published Basel III establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. Basel III substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including FNB and FNBPA, compared to the then-existing U.S. risk-based capital rules. Basel III defines the components of capital and addresses other issues affecting the numerator in banking institutions' regulatory capital ratios. Basel III also addresses risk weights and other issues affecting the denominator in a banking institution's regulatory capital ratios.

Basel III, among other things, (i) introduces the concept of CET1, (ii) specifies that tier 1 capital consists of CET1 and "Additional Tier 1" capital instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the deductions/adjustments as compared to existing regulations.

Basel III requires FNB and FNBPA to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital (that is, tier 1 plus tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of tier 1 capital to average quarterly assets (as compared to a prior minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations which do not use the advanced approach, such as FNB and FNBPA, may make a one-time permanent election to continue to exclude these items. FNB and FNBPA made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of FNB's AFS securities portfolio. Basel III also precludes certain hybrid securities, such as TPS, as tier 1 capital of bank holding companies, subject to phase-out. TPS no longer included in FNB's tier 1 capital may nonetheless be included as a component of tier 2 capital on a permanent basis without phase-out.

With respect to FNBPA, Basel III also revises the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under the caption *"Prompt Corrective Action."*

Basel III prescribes a standardized approach for risk weightings that expands the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

In addition, Basel III provides more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increases the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation. In November 2017, the federal banking agencies adopted a final rule to extend the regulatory capital treatment applicable during 2017 under Basel III for certain items, including regulatory capital deductions, risk weights, and certain minority interest limitations. The relief provided under the final rule applies to banking organizations that are not subject to the capital rules' advanced approaches, such as FNB. Specifically, the final rule extends the current regulatory capital treatment of MSAs, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, significant investments in the capital of unconsolidated financial institutions in the form of common stock, non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and CET1 minority interest, tier 1 minority interest, and total capital minority interest exceeding applicable minority interest limitations. Management believes that, as of December 31, 2020, FNB and FNBPA meet all capital adequacy requirements under Basel III on a fully phased-in basis as if such requirements had been in effect.

In July 2019, the federal banking agencies adopted a final rule simplifying certain aspects of Basel III, the key elements of which apply solely to banking organizations that are not subject to the advanced approaches capital rules. Under the final rule, non-advanced approaches banking organizations, such as FNB and FNBPA, apply a more simple regulatory capital treatment for MSAs; certain DTAs; investments in the capital of unconsolidated financial institutions than those currently applied; and capital issued by a consolidated subsidiary of a banking organization and held by third parties (sometimes referred to as a minority interest) that is includable in regulatory capital. Specifically, the final rule eliminates: (i) the 10 percent CET1 capital deduction threshold that applies individually to MSAs, temporary difference DTAs, and significant investments in the capital of unconsolidated financial institutions in the form of common stock; (ii) the aggregate 15 percent CET1 capital deduction threshold that subsequently applies on a collective basis across such items; (iii) the 10 percent CET1 capital deduction threshold for non-significant investments in the capital of unconsolidated financial institutions; and (iv) the deduction treatment for significant investments in the capital of unconsolidated financial institutions not in the form of common stock. Basel III no longer has distinct treatments for significant and non-significant investments in the capital of unconsolidated financial institutions, but instead now requires that non-advanced approaches banking organizations deduct from CET1 capital any amount of MSAs, temporary difference DTAs, and investments in the capital of unconsolidated financial institutions that individually exceeds 25 percent of CET1 capital.

In December 2019, the federal banking agencies issued a final rule on the capital treatment of HVCRE exposures. The final rule aligns the regulatory definition of "HVCRE exposure" with the statutory definition of "HVCRE ADC" in the Economic Growth Act. The final rule also clarifies the capital treatment for loans that finance the development of land under the revised HVCRE exposure definition and establishes the requirements for certain exclusions from HVCRE exposure capital treatment.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets, which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modelled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the FRB, OCC, and FDIC, who are tasked with implementing Basel IV, supported the revisions. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the regulatory capital requirements framework applicable to FNB and FNBPA.

Current Expected Credit Loss Treatment

In June 2016, the FASB issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the prior "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. We adopted CECL on January 1, 2020. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and HTM debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and R&S forecasts that affect the collectability of the reported amount. On December 21, 2018, the federal banking agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the CECL model. The CARES Act allows for an optional five-year phase in period for the day-one regulatory capital effects of the CECL adoption. FNB has elected this option. The final rule also revises the agencies' other rules to reflect the update to the accounting standards. The final rule took effect April 1, 2019. See Note 2, New Accounting Standards, for more information on our CECL adoption.

Stress Testing

As part of the regulatory relief provided by the Economic Growth Act, the asset threshold requiring insured depository institutions to conduct and report to their primary federal bank regulators annual company-run stress tests was raised from $10 billion to $250 billion in total consolidated assets and makes the requirement "periodic" rather than annual. The Economic Growth Act also provided that bank holding companies under $100 billion in assets were no longer subject to stress testing requirements and provided the FRB with discretion to subject bank holding companies with more than $100 billion in total assets to enhanced supervision. Notwithstanding these amendments, the federal banking agencies indicated through interagency bank regulatory guidance that the capital planning and risk management practices of institutions with total assets less than $100 billion would continue to be reviewed through the regular supervisory process. We will continue to monitor and stress test our capital consistent with the safety and soundness expectations of our banking regulators.

Prompt Corrective Action

FDICIA, among other things, classifies insured depository institutions into five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital-raising requirements, restrictions on its business and a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and in certain circumstances the appointment of a conservator or receiver. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it became "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, the obligation under such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, tier 1 risk-based capital, CET1 and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well-capitalized" institution must have a CET1 risk-based capital ratio of at least 6.5%, a tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital ratio of at least 10.0% and a leverage ratio of at least 5.0% and not be subject to a capital directive order. Under these guidelines, FNBPA was considered well-capitalized as of December 31, 2020.

When determining the adequacy of an institution's capital, federal regulators must also take into consideration (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance sheet position) and (c) risks from non-traditional activities, as well as an institution's ability to manage those risks. This evaluation is made as part of the institution's regular safety and soundness examination. In addition, any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations.

Community Reinvestment Act and Fair Lending

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to and investments in low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. In its most recent CRA examination, FNBPA received a "satisfactory" rating. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

On December 12, 2019, the OCC and the FDIC issued a proposed rule that would modernize their respective agencies' regulations under the CRA. The proposed rule would: (i) clarify what activities qualify for CRA credit and (ii) require banks to identify an additional assessment area based on where they receive a significant portion of their domestic retail deposits, thus, creating two assessment areas: a deposit-based assessment area and a facility-based assessment area. The OCC has not adopted the final amendments to the CRA regulations, and it is not anticipated to do so until after the new Comptroller of the Currency is appointed in 2021.

Fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been an increasing focus for the CFPB, HUD, and other regulators. Fair lending laws include the Equal Credit Opportunity Act and the Fair Housing Act, which outlaw discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender, and religion. A lender may be liable for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the DOJ for investigation. In December 2012, the DOJ and CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations and have generally committed to strengthen their coordination efforts. The new Presidential Administration had indicated a focus on prioritizing enforcement of the federal anti-discrimination laws, and we anticipate that such coordination will continue to occur. FNBPA is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Cybersecurity

The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a banking organization's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management, processes related to information technology and operational resiliency, and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more; however, it is possible that, if these enhanced standards are implemented, the OCC will consider them in connection with the examination and supervision of banks below the $50 billion threshold. The federal banking agencies have not yet taken further action on these proposed standards. The OCC, however, as part of its bank supervision operational plan has prioritized review of national bank's information security, data protection and third-party risk management, including the extent to which national banks are positioned to assess the evolving cyber-threat environment and maintain resilient defenses against such threats.

In February 2018, the SEC announced interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. The guidance provides the SEC's views about public companies' disclosure obligations under existing law with respect to matters involving cybersecurity risk and incidents. It also addresses the importance of cybersecurity policies and procedures and the application of disclosure controls and procedures, insider trading prohibitions, and Regulation FD and selective disclosure prohibitions in the cybersecurity context. FNB has reviewed and assessed the SEC guidance in connection with its business operations.

Anti-Money Laundering Initiatives and the USA PATRIOT Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (USA PATRIOT Act), which amended the Bank Secrecy Act of 1970, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the U.S. The UST has issued a number of regulations that apply various requirements of the USA PATRIOT Act to financial institutions such as FNBPA. These regulations require financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. In 2016, these regulations were amended, effective May 2018, to include express requirements regarding risk-based procedures for conducting ongoing customer due diligence. Such procedures require banks to take appropriate steps to understand the nature and purpose of customer relationships. In addition, absent an applicable exclusion, banks must identify and verify the identity of the beneficial owners of all legal entity customers at the time a new account is established. The failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, including criminal law enforcement, and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The U.S. has instituted economic sanctions which affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC rules" because they are administered by the UST Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions target countries in various ways. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country, and prohibitions on "U.S. persons" engaging in financial transactions which relate to investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the institution.

Consumer Protection Statutes and Regulations

In addition to the consumer regulations promulgated by the FRB, OCC and state agencies, and the regulations that may be issued by the CFPB pursuant to its authority under the Dodd-Frank Act, FNBPA is subject to various federal consumer protection statutes including the TILA, Truth in Savings Act, Equal Credit Opportunity Act, Fair Housing Act, RESPA, Fair Debt Collection Practices Act, Fair Credit Reporting Act, Electronic Fund Transfer Act and Home Mortgage Disclosure Act, and regulations and guidance promulgated thereunder by the CFPB and the federal banking agencies. Among other things, these acts and regulations:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with more detailed information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions;
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations;
- require prescribed consumer disclosures and the adoption of error resolution procedures and other consumer protection protocols with respect to electronic fund transfers; and
- prohibit unfair, deceptive or abusive acts and practices in connection with consumer loans, the collection of debt, and the provision of other consumer financial products and services.

The CFPB has implemented a series of final consumer protection and disclosure rules related to mortgage loan origination and mortgage loan servicing designed to address the Dodd-Frank Act mortgage lending protections. In particular, the CFPB issued a rule implementing the ability-to-repay and QM provisions of the TILA, as amended by the Dodd-Frank Act (the QM Rule). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of QM are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet underwriting guidelines of U.S. GSEs, the Federal Housing Administration and the U.S. Department of Veteran Affairs may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. Additionally, regulations governing the servicing of residential mortgages have placed additional requirements on mortgage servicers that often lengthen the process for foreclosing on residential mortgages. The CFPB also adopted integrated disclosure requirements related to mortgage originations under RESPA and TILA and each statute's implementing regulations. These disclosure requirements became effective in October 2015. The CFPB issued proposed amendments to the requirements in July 2016, which were finalized in July 2017. The CFPB also issued interpretive guidance and updated model disclosure forms in 2017.

As discussed, the CFPB has the authority to take supervisory and enforcement action against banks and other financial services companies under the agency's jurisdiction that fail to comply with federal consumer financial laws. As an insured depository institution with total assets of more than $10 billion, FNBPA is subject to the CFPB's supervisory and enforcement authorities. The Dodd-Frank Act also permits states to adopt more strict consumer protection laws and state attorneys general to enforce consumer protection rules issued by the CFPB. We continuously evaluate the impact of the consumer rules issued by the CFPB to determine if they will have any long-term impact on our mortgage loan origination and servicing activities. Compliance with these rules will likely increase our overall regulatory compliance costs. The CFPB has historically been active in bringing enforcement actions against banks and other financial institutions to enforce consumer financial laws. The federal financial regulatory agencies, including the OCC and state attorneys general, have also become increasingly active in this area with respect to institutions over which they have jurisdiction. We have incurred and may in the future incur additional costs in complying with these requirements.

Pursuant to the Dodd-Frank Act, the FDIC has backup enforcement authority over a depository institution holding company, such as FNB, if the conduct or threatened conduct (including any acts or omissions) of such holding company poses a risk to the DIF, although such authority may not be used if the holding company is in generally sound condition and does not pose a foreseeable and material risk to the DIF. The Dodd-Frank Act may have a material impact on FNB and FNBPA's operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations.

Dividend Restrictions

Our primary source of funds for cash distributions to our stockholders, and funds used to pay principal and interest on our indebtedness, is dividends received from FNBPA. FNBPA is subject to federal laws and regulations governing its ability to pay dividends to FNB, including requirements to maintain capital above regulatory minimums. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of its net income for the current year combined with its retained net income for the two preceding years. The OCC has the authority to prohibit the payment of dividends by a national bank on the bases that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition to dividends from FNBPA, other sources of parent company liquidity for FNB include cash, short-term investments and issuance of debt instruments, as well as dividends and loan repayments from other subsidiaries.

In addition, the ability of FNB and FNBPA to pay dividends may be affected by the various minimum capital requirements previously described in the *"Capital and Operational Requirements," "Basel III Capital Rules" and "Stress Testing"* discussions herein, and the capital and non-capital standards established under FDICIA, as described above. The right of FNB, our stockholders and our creditors to participate in any distribution of the assets or earnings of our subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

Source of Strength

According to the Dodd-Frank Act and FRB policy, a financial or bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such subsidiary. Consistent with the "source of strength" policy, the FRB has stated that, as a matter of prudent banking, a bank or financial holding company generally should not maintain a rate of cash dividends unless its net income has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with our capital needs, asset quality and overall financial condition. This support may be required at times when the parent holding company may not be able to provide such support.

In addition, if FNBPA was no longer “well-capitalized” and “well-managed” within the meaning of the BHC Act and FRB rules (which take into consideration capital ratios, examination ratings and other factors), the expedited processing of certain types of FRB applications would not be available to us. Moreover, examination ratings of “3” or lower, “unsatisfactory” ratings, capital ratios below well-capitalized levels, regulatory concerns regarding management, controls, assets, operations or other factors can all potentially result in the loss of financial holding company status, practical limitations on the ability of a bank or bank (or financial) holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends or continue to conduct existing activities.

Financial Holding Company Status and Activities

Under the BHC Act, an eligible bank holding company may elect to be a “financial holding company” and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. FNB is a financial holding company under the BHC Act. The financial holding company may engage directly or through a subsidiary in certain statutorily authorized activities (subject to certain restrictions and limitations imposed by the Dodd-Frank Act). A financial holding company may also engage in any activity that has been determined by rule or order to be financial in nature, incidental to such financial activity, or (with prior FRB approval) complementary to a financial activity and that does not pose substantial risk to the safety and soundness of an institution or to the financial system generally. In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary U.S. depository institutions must be “well-capitalized” and “well-managed.” The FRB generally must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent CRA review as of the time it submits its request for financial holding company status. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company under the BHC Act, the company fails to continue to meet any of the requirements for financial holding company status, the company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the FRB may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

Activities and Acquisitions

The BHC Act requires a bank or financial holding company to obtain the prior approval of the FRB before:

- the company may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition the bank holding company will directly or indirectly own or control more than five percent of any class of voting securities of the institution;
- any of the company’s subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or
- the company may merge or consolidate with any other bank or financial holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking Act) generally permits bank holding companies to acquire banks in any state, and preempts all state laws restricting the ownership by a holding company of banks in more than one state. A bank is subject to any state requirement that the bank has been organized and operating for a minimum period of time and the requirement that the bank holding company, after the proposed transaction, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the U.S. and no more than 30 percent or such lesser or greater amount set by the state law of such deposits in that state. The Interstate Banking Act also permits:

- a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank;
- a bank to acquire branches from an out-of-state bank; and
- a bank to establish and operate de novo interstate branches whenever the host state permits de novo branching of its own state-chartered banks.

Bank or financial holding companies and banks seeking to engage in mergers authorized by the Interstate Banking Act must be at least adequately capitalized as of the date that the application is filed, and the resulting institution must be well-capitalized and managed upon consummation of the transaction.

Pursuant to the Dodd-Frank Act, national and state-chartered banks may open an initial branch in a state other than its home state (e.g., a host state) by establishing a de novo branch at any location in such host state at which a bank chartered in such host state could establish a branch. Applications to establish such branches must still be filed with the appropriate primary federal regulator.

The Change in Bank Control Act prohibits a person, entity or group of persons or entities acting in concert, from acquiring "control" of a bank holding company or bank unless the FRB has been given prior notice and has not objected to the transaction. Under current FRB regulations, the acquisition of 10% or more (but less than 25%) of the voting stock of a corporation would, under the circumstances set forth in the regulations, create a rebuttable presumption of acquisition of control of the corporation.

Effective April 1, 2020, the FRB implemented a rule to codify and simplify its interpretations and opinions regarding regulatory presumptions of control. The rule will likely have a meaningful impact on control determinations related to investments in banks and bank holding companies and investments by bank holding companies in non-bank companies.

Incentive Compensation

Guidelines adopted by the federal banking agencies pursuant to the Federal Deposit Insurance Act prohibit excessive compensation as an unsafe and unsound practice. The federal banking agencies jointly adopted the Guidance on Sound Incentive Compensation Policies intended to ensure that banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This guidance, which covers all employees that have the ability to expose the organization to material amounts of risk, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide employee incentives that appropriately balance risk in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation. Any deficiencies in the compensation practices of FNB or its subsidiaries and affiliates could lead to supervisory or enforcement action.

Section 956 of the Dodd-Frank Act required the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as FNB, having at least $1 billion in total assets that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators were required to establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The federal banking agencies proposed such regulations in April 2011 and issued a second proposed rule in June 2016. The second proposed rule would apply to all banks, among other institutions, with at least $1 billion in average total consolidated assets, for which it would go beyond the Guidance on Sound Incentive Compensation Policies discussed above to prohibit certain types and features of incentive-based compensation arrangements for senior executive officers, require incentive-based compensation arrangements to adhere to certain basic principles to avoid a presumption of encouraging inappropriate risk, require appropriate board or committee oversight, establish minimum recordkeeping and mandate disclosures to the appropriate agency. In addition, institutions with at least $50 billion in average total consolidated assets would be subject to additional compensation-related requirements and prohibitions. The prospects for continued consideration of these proposed rules by the SEC and federal banking agencies are uncertain, but implementation of any final rules is not expected in the near term. Nevertheless, incentive compensation and sales practices, particularly in connection with certain products and services that are viewed as high-risk from a supervisory perspective - such as cross-selling and overdraft services - continue to be priority issues on the examination and supervision agendas of the CFPB and the federal banking agencies.

Securities and Exchange Commission

FNBIA is registered with the SEC as an investment advisor and, therefore, is subject to the requirements of the Investment Advisers Act of 1940 and other applicable SEC regulations. The principal purpose of the regulations applicable to investment advisors is the protection of investment advisory clients and the securities markets, rather than the protection of creditors and stockholders of investment advisors. The regulations applicable to investment advisors cover all aspects of the investment advisory business, including limitations on the ability of investment advisors to charge performance-based or non-refundable fees to clients, record-keeping, operating, marketing and reporting requirements, disclosure requirements, limitations on principal transactions between an advisor or its affiliates and advisory clients, as well as other anti-fraud prohibitions. FNBIA also may be subject to certain state securities laws and regulations.

Additional legislation, changes in or new rules promulgated by the SEC and other federal and state regulatory authorities and self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of FNBIA. The profitability of FNBIA could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation, homeland security and electronic commerce.

Under various provisions of the federal and state securities laws, including in particular those applicable to broker-dealers, investment advisors and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in a limitation of permitted activities and disqualification to continue to conduct certain activities.

FNBIA also may be required to conduct its business in a manner that complies with rules and regulations promulgated by the U.S. Department of Labor (DOL) under the ERISA, among others. The principal purpose of these regulations is the protection of clients and ERISA plan and individual retirement account assets and beneficiaries, rather than the protection of stockholders and creditors. Significantly, in June 2018, the U.S. Fifth Circuit Court of Appeals issued a mandate vacating the DOL's "fiduciary rule" and related prohibited transaction exemptions. As a result, although FNBPA may have taken certain measures to comply with the rule on a transitional basis, FNBPA's securities brokerage and investment advisory service and activities will no longer be affected.

Separately, in June 2019, pursuant to the study conducted by the SEC that was required by the Dodd-Frank Act, the SEC adopted Regulation Best Interest, which, among other things, established a new standard of conduct for a broker-dealer to act in the best interest of a retail consumer when making a recommendation of any securities transaction or investment strategy involving securities to such consumer. The new rule by the SEC requires us to review and possibly modify our compliance activities, which is causing us to incur some additional costs. In addition, state laws that impose a fiduciary duty also may require monitoring, as well as require that we undertake additional compliance measures.

Standards for Safety and Soundness

The federal banking agencies have adopted the Interagency Guidelines for Establishing Standards for Safety and Soundness (the Guidelines). The Guidelines establish certain safety and soundness standards for all depository institutions. The operational and managerial standards in the Guidelines relate to the following: (1) internal controls and information systems; (2) internal audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate exposure; (6) asset growth; (7) compensation, fees and benefits; (8) asset quality; and (9) earnings. Rather than providing specific rules, the Guidelines set forth basic compliance considerations and guidance with respect to a depository institution. Failure to meet the standards in the Guidelines, however, could result in a request by the OCC to one of the nationally chartered banks to provide a written compliance plan to demonstrate its efforts to come into compliance with such Guidelines. Failure to provide a plan or to implement a provided plan requires the appropriate federal banking agency to issue an order to the institution requiring compliance.

Insurance Agencies

FNIA is subject to licensing requirements and extensive regulation under the laws of the Commonwealth of Pennsylvania and the various states in which FNIA conducts its insurance agency business. These laws and regulations are primarily for the protection of policyholders. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, those authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including for regulatory violations or upon conviction for certain crimes. Possible sanctions that may be imposed for violation of regulations include the suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Penn-Ohio is subject to examination by the Arizona Department of Insurance. Representatives of the Arizona Department of Insurance periodically determine whether Penn-Ohio has maintained required reserves, established adequate deposits under a reinsurance agreement and complied with reporting requirements under the applicable Arizona statutes.

Other Laws and Regulations Pertaining to Banks and Financial Services Companies

FNB, FNBPA and our subsidiaries and affiliates are also subject to a variety of other laws and regulations in addition to those already discussed herein with respect to the operation of our businesses, including but not limited to Expedited Funds Availability (and its implementing Regulation CC), Reserve Requirements (and its implementing Regulation D), Margin Stock Loans (and its implementing Regulation U), Right To Financial Privacy Act, Flood Disaster Protection Act, Homeowners Protection Act, Servicemembers Civil Relief Act, Telephone Consumer Protection Act, CAN-SPAM Act, Children's Online Privacy Protection Act, and the John Warner National Defense Authorization Act.

In addition, SOX addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by SOX, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under SOX have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

Governmental Policies

The operations of FNB and our subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities and the new Presidential Administration. In particular, the FRB regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. FRB monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future. In addition, the new federal bank regulatory and SEC leadership appointees by the new Presidential Administration are anticipated to result in a philosophical change in the priorities and approach to supervision, compliance and enforcement and other policies which may impact our operations.

In view of changing conditions in the national economy and in money markets, as well as the effect of credit policies by monetary and fiscal authorities, including the FRB, it is difficult to predict the impact of possible future changes in interest rates, deposit levels and loan demand, or their effect on our business and earnings or on the financial condition of our various customers (see discussion under Risk Factors - caption "*We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry*").

Tax Cuts and Jobs Act of 2017

The TCJA includes a number of provisions that impact FNB, including the following:

Tax Rate. The TCJA replaced the corporate tax rate of 35% applicable under prior law with a reduced 21% statutory tax rate. Although the reduced tax rate generally should be favorable to us by resulting in increased earnings and capital, it decreased the value of our then-existing DTAs. The effect of remeasuring DTAs due to the reduction in the tax rate was a significant item impacting earnings but is generally not expected to have a substantial adverse impact on our core earnings or capital over the long term. The new Presidential Administration has announced that one if its priorities is to raise the corporate tax rate.

FDIC Insurance Premiums. As discussed above, the TCJA prohibits taxpayers with consolidated assets over $50 billion from deducting any FDIC insurance premiums and prohibits taxpayers with consolidated assets between $10 and $50 billion from deducting the portion of their FDIC premiums equal to the ratio, expressed as a percentage, that (i) the taxpayer's total consolidated assets over $10 billion, as of the close of the taxable year, bears to (ii) $40 billion. As a result, FNBPA's ability to deduct its FDIC premiums is now limited.

Employee Compensation. A "publicly held corporation" is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. The TCJA eliminated certain exceptions applicable under prior law for performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals. As a result, our ability to deduct certain compensation paid to our most highly compensated employees is now limited.

Business Asset Expensing. The TCJA allows taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased down proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).

Interest Expense. The TCJA limits a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of "adjusted taxable income," defined as a business's taxable income without taking into account business interest income or expense, net operating losses, and, for 2018 through 2021, depreciation, amortization and depletion. Because we generate significant amounts of net interest income, we do not expect to be impacted by this limitation.

Available Information

We make available through our website at www.fnbcorporation.com, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (and amendments to any of the foregoing) as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Information on our website is not incorporated by reference into this document and should not be considered part of this Report. Our common stock is traded on the NYSE under the symbol "FNB".

ITEM 1A. RISK FACTORS

We are subject to numerous risks, many of which are inherent to our business. As a financial services organization, we must balance revenue generation and profitability with the risks associated with our business activities. For information about how our risk oversight and management process operates, see Item 7 of this Report, MD&A – "Risk Management." The following discussion highlights specific risks that could affect us and our business, financial condition, results of operations and cash flows. Based on the information currently known, we believe that the following information identifies the material risk factors affecting us. The risks and uncertainties we face are not limited to those described below. Additional risks and uncertainties not presently known or that we currently believe to be immaterial may also adversely affect our business.

You should carefully consider each of the following risks and all of the other information set forth in this Report. If any of the following risks and uncertainties develop into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our business, financial condition, results of operations or cash flows. These events could also have a negative effect on the trading price of our securities.

1. Global/Regional Market and Environmental Influences

The COVID-19 pandemic could adversely affect our business, financial condition and results of operations, and the ultimate impacts of the pandemic on our business, financial condition and results of operations will depend on future developments and other factors that are highly uncertain and will be impacted by the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and U.S. economies and financial markets and is having an adverse effect on our business, financial condition and results of operations. The spread of COVID-19 has caused death, illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability. In response to the COVID-19 pandemic, the governments of the states in which we have branch offices, and of most other states, have taken preventative or protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forego their time outside of their homes. These restrictions and other consequences of the pandemic have resulted in significant adverse effects for many different types of businesses, and have resulted in a significant number of layoffs and furloughs of employees nationwide and in the regions in which we operate.

The ultimate effects of COVID-19 on the broader economy and the markets that we serve are not known nor is the ultimate length of the restrictions described above and any accompanying effects. Moreover, the FOMC has taken action to lower the Federal Funds rate, which may negatively affect our interest income and, therefore, earnings, financial condition and results of operations. Additional impacts of COVID-19 on our business could be widespread and material, and may include, or exacerbate, among other consequences, the following:

- employees, including, key executives, contracting COVID-19;

- reductions in our operating effectiveness as our employees work from home;
- a work stoppage, forced quarantine, or other interruption of our business;
- unavailability of key personnel necessary to conduct our business activities;
- effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls;
- sustained longer-term closures of our branch lobbies or the offices of our customers;
- declines in demand for loans and other banking services and products;
- reduced consumer spending due to both job losses and other effects attributable to COVID-19;
- unprecedented volatility in U.S. financial markets;
- volatile performance of our investment securities portfolio;
- decline in the credit quality of our loan portfolio, owing to the effects of COVID-19 in the markets we serve, leading to a need to increase our ACL and the potential for higher loan losses;
- declines in the net worth and liquidity of borrowers and loan guarantors, impairing their ability to honor commitments to us; and
- declines in demand resulting from businesses being deemed to be “non-essential” by governments in the markets we serve, and from “non-essential” and “essential” businesses suffering adverse effects from reduced levels of economic activity in our markets.

These factors, together or in combination with other events or occurrences that are not yet known or anticipated, may materially and adversely affect our business, financial condition and results of operations.

The ongoing COVID-19 pandemic has resulted in meaningfully lower stock prices for many companies, including the financial services sector, as well as the trading prices for many other securities. The further spread of the COVID-19 outbreak, as well as ongoing or new governmental, regulatory and private sector responses to the pandemic, may materially disrupt banking and other economic activity generally and in the geographic areas in which we operate. This could result in further decline in demand for our banking products and services, and could negatively impact, among other things, our liquidity, regulatory capital and our growth strategy. Any one or more of these developments could have a material adverse effect on our business, financial condition and results of operations.

We are taking precautions to protect the safety and well-being of our employees and customers. However, no assurance can be given that the steps being taken will be adequate or deemed to be appropriate, nor can we predict the level of disruption which will occur to our employee’s ability to provide customer support and service. If we are unable to recover from a business disruption on a timely basis, our business, financial condition and results of operations could be materially and adversely affected. We may also incur additional costs to remedy damages caused by such disruptions, which could further adversely affect our business, financial condition and results of operations.

Additional COVID-19 outbreaks, spikes and "second or subsequent" waves, new COVID-19 strains and widespread ineffectiveness of the COVID-19 vaccines may lead to efforts by federal, state and local governments and health authorities to engage in efforts to contain or mitigate the pandemic's impact.

The ongoing COVID-19 global and national health emergency may continue to cause significant disruption in the U.S. economy and the U.S. financial and labor markets by imposing or extending restrictions on movement or business activities. Additionally, the potential expiration of the current fiscal unemployment relief or the failure to provide for additional COVID-19 related stimulus relief may adversely impact our business and financial performance by prolonging the U.S. economic recovery and possibly adversely impact the demand and profitability of our products and services, the valuation of assets and our ability to meet the financial and banking needs of our clients.

Interest rates on our outstanding financial instruments might be subject to change based on developments related to LIBOR, which could adversely affect revenue, expenses, and the value of those financial instruments.

In July 2017, the United Kingdom’s Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The ARRC, a committee of U.S. financial market participants, has recommended the SOFR as the rate that represents best practice as the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to U.S. dollar-LIBOR. The ARRC has proposed a paced market transition plan from LIBOR to SOFR and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. We have a significant number of loans, derivatives and other financial instrument contracts that are indexed to LIBOR and are actively monitoring this activity and evaluating the related risks. The market transition away from LIBOR to an alternative reference rate, including SOFR, is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, and the revenue and expenses associated with, our floating rate loans, derivatives and other financial instruments tied to LIBOR, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally;
- adversely affect the value of our floating rate loans, derivatives and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts; and
- require the transition to, or development of, appropriate systems and analytics to effectively transition our risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark.

The impact of this transition, as well as the effect of these developments on our funding costs, loan and investment securities portfolios, asset-liability management, and business, is uncertain.

Our business could be adversely affected by difficult economic conditions in the regions in which we operate.

We operate in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. Most of our customers are individuals and small- and medium-sized businesses that are dependent upon their regional economies. The economic conditions in these local markets may be different from, and in some instances worse than, economic conditions in the U.S. as a whole. Difficult economic and employment conditions in the market areas FNB serves could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- demand for our loans, deposits and services may decline;
- loan delinquencies, problem assets, foreclosures and charge-offs may increase;
- weak economic conditions could limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;
- collateral for our loans may decline in value; and
- the amount of our low-cost or non-interest-bearing deposits may decrease.

Hurricanes, excessive rainfall, droughts or other adverse weather events could negatively affect the local economies in the North Carolina and South Carolina markets, or disrupt our operations in those markets, which could have an adverse effect on our business or results of operations.

The economy of the coastal regions of North Carolina and South Carolina is affected, from time to time, by adverse weather events, particularly hurricanes. Our market area includes the Outer Banks and other portions of coastal North Carolina. Agricultural interests are highly sensitive to excessive rainfall or droughts. We cannot predict whether, or to what extent, damage caused by future weather conditions will affect our operations, customers or the economies in our North Carolina and South Carolina markets. Weather events could cause a disruption in our day-to-day business activities in branches located in coastal communities, a decline in loan originations, destruction or decline in the value of properties securing our loans, or an increase in the risks of delinquencies, foreclosures, and loan losses. Even if a hurricane does not cause any physical damage in our North Carolina and South Carolina market areas, a turbulent hurricane season could significantly affect the market value of all coastal property.

2. Lending

As a participating lender in the SBA PPP, we are subject to additional regulatory and DOJ enforcement risks and the risk of litigation from FNBPA's clients or other parties regarding FNBPA's processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

Under the CARES Act, enacted in March 2020, Congress allocated $349 billion for the PPP loan program to be administered through the SBA. Under the PPP, small businesses and other entities and individuals applied for loans from existing SBA lenders and other approved regulated lenders that enrolled in the program, subject to various limitations and eligibility criteria. FNBPA participated as a lender in the PPP beginning in April 2020. From the beginning of the PPP, there has been ambiguity and continuously evolving rules, interpretations and guidance regarding the operation of the PPP and the respective obligations of banks and loan applicants, which has exposed banks to risks relating to non-compliance with the PPP by various government investigative agencies and the DOJ, who are charged with investigating PPP loan fraud and pursuing civil and criminal sanctions. Congress has approved additional funding for the PPP and beginning in January 2021, FNBPA elected to participate in the second round of PPP loans. Since the opening of the PPP, several larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. We may be exposed to the risk of litigation, from both clients and non-clients that approached FNBPA regarding PPP loans, regarding our process and procedures used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial, civil or criminal liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial condition and results of operations.

FNBPA also has credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, underwritten, certified by the borrower, funded, or serviced by FNBPA, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, certified by the borrower, funded, or serviced by FNBPA, the SBA may deny its liability under its loan guaranty, reduce the amount of the guaranty, deny forgiveness of a PPP loan or, if it has already paid under the guaranty or honored the loan forgiveness, seek recovery of any loss related to the deficiency from us.

Our results of operations are significantly affected by the ability of our borrowers to repay their loans.

Lending money is an essential part of the banking business. However, for various reasons, borrowers do not always repay their loans. The risk of non-payment is affected by:

- credit risks of a particular borrower;
- changes in economic conditions that impact certain geographic markets or industries;
- fluctuations in interest rates on adjustable rate loans;
- the duration of the loan; and
- in the case of a collateralized loan, uncertainties as to the future value of the collateral.

Generally, commercial loans and leases present a greater risk of non-payment by a borrower than other types of loans. They typically involve larger loan balances and are particularly sensitive to economic conditions. The borrower's ability to repay usually depends on the successful operation of its business and income stream. In addition, some of our commercial borrowers have more than one loan outstanding with us, which means that an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss. In the case of commercial and industrial loans, collateral often consists of accounts receivable, inventory and equipment, which may not yield substantial recovery of principal losses incurred, and is susceptible to deterioration or other loss in advance of liquidation of such collateral. These types of loans, however, have historically driven the growth in our loan portfolio and we intend to continue our lending efforts for commercial and industrial products. At December 31, 2020, commercial loans and leases comprised 68.6% of our loan portfolio and consumer loans comprised 31.4% of our loan portfolio. Consumer loans typically have shorter terms and lower balances with higher yields compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. For additional information, see the Lending Activity section of MD&A, which is included in Item 7 of this Report.

Our mortgage banking profitability could be significantly reduced if we are not able to originate and resell a high volume of mortgage loans.

Mortgage banking is generally considered a volatile source of income because it depends largely on the volume of loans we originate and sell in the secondary market. If our originations of mortgage loans decrease, resulting in fewer loans that are available to be sold to investors, this would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income.

- Mortgage loan production levels are sensitive to changes in economic conditions and activity, strengths or weaknesses in the housing market and interest rate fluctuations. Generally, any sustained period of decreased economic activity or higher interest rates could reduce demand for mortgage loans and refinancings. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.
- Our ability to originate and resell mortgage loans readily is dependent upon the availability of an active secondary market. GSEs, including FHLB, Fannie Mae, Freddie Mac and Ginnie Mae, account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect our mortgage banking business. In September 2008, the GSEs were placed into conservatorship by the U.S. government. We cannot predict if, when or how the conservatorship will end, or any associated changes to the business structure and operations of the GSEs that could result. Additionally, there are various proposals to reform the role of the GSEs in the U.S. housing finance market. The extent and timing of any such regulatory reform regarding the housing finance market and the GSEs are uncertain.
- Future changes to our eligibility to participate in the programs offered by the GSEs and other secondary purchasers, or the loan criteria of the GSEs and other secondary purchasers could also result in a lower volume of corresponding loan originations.

Our financial condition and results of operations could be adversely affected if we must further increase our provision for credit losses or if our ACL is not sufficient to absorb actual losses.

There is no precise method of predicting loan losses. We can give no assurance that our ACL will be sufficient to absorb actual loan losses. Excess loan losses could have a material adverse effect on our financial condition and results of operations. We attempt to maintain an appropriate ACL to provide for estimated current expected credit losses in our loan portfolio as of the corresponding reporting date based on various assumptions and judgments about the collectability of the loan portfolio. We regularly determine the amount of our ACL based upon consideration of several quantitative and qualitative factors including, but not limited to, the following:

- a regular review of the quality, mix and size of the overall loan portfolio;
- historical loan loss experience;
- evaluation of non-performing loans;
- geographic or industry concentrations;
- assessment of economic conditions and their effects on FNB’s existing portfolio;
- the amount and quality of collateral, including guarantees, securing loans; and
- geographic or industry economic market conditions.

The level of the ACL reflects the judgment and estimates of management regarding the amount and timing of future cash flows, current fair value of the underlying collateral and other qualitative risk factors that may affect the loan. Determination of the allowance is inherently subjective and is based on factors that are susceptible to significant change. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the ACL. In addition, bank regulatory agencies periodically review our ACL and may require an increase in the provision for credit losses or the recognition of additional loan charge-offs, based on judgments different from those of management. In addition, if charge-offs in future periods exceed the ACL, we will need additional provisions to increase the ACL. Any increases in the ACL will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

For additional discussion relating to this matter, refer to the Allowance and Provision for Credit Losses section of MD&A, which is included in Item 7 of this Report.

Changes in economic conditions, the impact of COVID-19 and the composition of our loan portfolio could lead to higher loan charge-offs or an increase in our provision for credit losses and may reduce our net income.

Changes in national and regional economic conditions, and in large metropolitan areas within our market, including the economic impact of COVID-19, continue to impact our loan portfolios. For example, an increase in unemployment, a decrease in real estate values or changes in interest rates, as well as other factors, could weaken the economies of the communities we serve. Weakness in the market areas served by FNB could depress our earnings and consequently our financial condition because customers may not want or need our products or services; borrowers may not be able to repay their loans; the value of the collateral securing our loans to borrowers may decline; and the quality of our loan portfolio may decline. Any of the latter three scenarios could require us to charge-off a higher percentage of our loans and/or increase our provision for credit losses, which would reduce our net income. Additionally, changes to macroeconomic conditions and the related CECL modeling considerations may result in volatility in our provision from period to period.

3. Goodwill

Declines in the fair value of our reporting units could result in a goodwill impairment charge and negatively affect our financial condition and results of operations.

COVID-19 impacted worldwide economic conditions and the resulting adverse effects to stock market capitalization negatively impact the valuation of goodwill assets. Goodwill is periodically tested for impairment by comparing the fair value of each reporting unit to its carrying amount. If the fair value is greater than the carrying amount, then the reporting unit's goodwill is deemed not to be impaired. The fair value of a reporting unit is impacted by the reporting unit's expected financial performance and susceptibility to adverse economic, regulatory and legislative changes. The most significant assumptions affecting our goodwill impairment evaluation are variables including projections of earnings, the discount rates used in the income approach to fair value and the control premium above our current stock price that an acquirer would pay to obtain control of FNB. While these factors provide some relative market information about the estimated fair value of the reporting units, they are not individually determinative and need to be evaluated in the context of the current economic environment. However, significant and sustained declines in our market capitalization or other factors could be an indication of potential goodwill impairment.

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions, estimates and market factors. If any estimates, market factors, or assumptions change in the future, these amounts are susceptible to impairments. For additional discussion related to goodwill, refer to Note 1, Summary of Significant Accounting Policies and Note 9, Goodwill and Other Intangible Assets.

4. Growth Trends

If we are not able to continue our historical levels of growth, we may not be able to maintain our historical revenue trends.

To achieve our past levels of growth, we have focused on both organic growth and acquisitions. We may not be able to sustain our historical rate of growth or may not be able to grow at all. More specifically, we may not be able to obtain the financing necessary to fund additional growth. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new retail branches or optimizing our existing branch network. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our internal growth. If we are not able to continue our historical levels of growth, we may not be able to maintain our historical revenue trends.

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations (see discussion under "Government Supervision and Regulation" included in Item 1 of this Report). As a financial holding company, we seek to maintain capital sufficient to meet the "well-capitalized" standard set by regulators. We anticipate that our current capital resources will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support continued growth, whether such growth occurs organically or through acquisitions.

The availability of additional capital or financing will depend on a variety of factors, many of which are outside of our control, such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, marketability of our stock, as well as the possibility that lenders could develop a negative perception of our long- or short-term financial prospects if we incur large credit losses or if the level of business activity decreases due to economic conditions. Accordingly, there can be no assurance of our ability to expand our operations through internal growth or acquisitions. As such, we may be forced to delay raising capital, issue shorter term securities than desired or bear an unattractive cost of capital, which could decrease profitability and significantly reduce financial flexibility. In addition, if we decide to raise additional equity capital, it could be dilutive to our existing stockholders.

5. Regulations, Tax Laws and Political Impacts

Our financial condition and results of operations may be adversely affected by changes in tax rules and regulations, or interpretations.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items. The new Presidential Administration approach to corporate tax rates could affect our future results of operations. Our future effective tax rates could be affected by changes in the federal tax rates and in tax rates in jurisdictions where our income is earned, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our DTAs and DTLs. Changes in statutory tax rates or DTAs and DTLs may adversely affect our profitability.

Our business and financial performance is impacted significantly by market rates and changes in those rates. The monetary, tax and other policies of governmental agencies, including the UST and the FRB, have a direct impact on interest rates and overall financial market performance over which we have no control and which may not be able to be predicted with reasonable accuracy.

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates can have a material effect on our business, profitability and the value of our financial assets and liabilities. Such scenarios may include the following:

- changes in interest rates or interest rate spreads can affect the difference between the interest that FNBPA can earn on assets and the interest that FNBPA has to pay on liabilities, which impacts FNBPA’s overall net interest income and profitability;
- such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments and can, in turn, affect our loss rates on those assets;
- such changes may decrease the demand for interest rate-based products or services, including bank loans and deposit products and the subordinated notes offered by our subsidiary, FNB Financial Services, LP;
- such changes can also affect our ability to hedge various forms of market and interest rate risks and may decrease the profitability or increase the risk associated with such hedges; and
- movements in interest rates also affect mortgage repayment speeds and could result in impairments of mortgage servicing assets or otherwise affect the profitability of such assets.

The monetary, tax and other policies of the U.S. Government and its agencies also have a significant impact on interest rates and overall financial market performance. An important function of the FRB is to regulate the national supply of bank credit and certain interest rates. The actions of the FRB influence the rates of interest that FNBPA may charge on loans and what FNBPA may pay on borrowings and interest-bearing deposits and can also affect the value of FNB’s and FNBPA’s on-balance sheet and off-balance sheet financial instruments. Principally due to the impact of rates and by controlling access to direct funding from the FRB, the FRB’s policies also influence to a significant extent, FNBPA’s cost of funding. We cannot predict the nature or timing of future changes in monetary, fiscal, tax and other policies or the effects that may be implemented by the current Administration or a newly elected Administration and that they may have on FNBPA’s and other affiliates’ activities and financial results.

Our financial condition and results of operations may be adversely affected by changes in accounting policies, standards and interpretations.

The FASB, regulatory agencies and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of our financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB, SEC and banking regulators) may change prior interpretations or positions on how these standards should be applied. Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

Significant recent guidance issued was FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, commonly referred to as "CECL," which introduced new guidance for the accounting for credit losses on instruments within its scope. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and R&S forecasts. It also modifies the impairment model for debt securities AFS and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. For further information regarding new or updated standards, see Note 2, "New Accounting Standards" of the Notes to Consolidated Financial Statements.

Changes in the federal, state or local tax laws may negatively impact our financial performance.

We are subject to legislative tax rate changes that could increase our effective tax rates. Depending on enactment dates, these law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. For example, the TCJA resulted in a reduction in our corporate tax rate to 21% beginning in 2018, which has a favorable impact on our earnings and capital generation abilities, however, the new Presidential Administration has announced that modification of corporate tax rates is a priority. In addition, the TCJA also enacted limitations on certain deductions, such as the deduction of FDIC deposit insurance premiums, which will partially offset the anticipated increase in net earnings from the lower tax rate. The impact of the TCJA may differ from the foregoing, possibly materially, due to changes in interpretations or in assumptions that we have made, guidance or regulations that may be promulgated, and other actions that we may take as a result of the TCJA. Similarly, FNB's customers are likely to experience varying effects from both the individual and business tax provisions of the TCJA and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole.

We could be adversely affected by changes in the law, especially changes in the regulation of the banking industry.

We operate in a highly regulated environment and our businesses are subject to supervision and regulation by several governmental agencies, including the SEC, FRB, OCC, CFPB, FDIC, FSOC, DOJ, UST, FINRA, HUD and state attorneys general and banking, financial services, and securities regulators. Regulations are generally intended to provide protection for depositors, borrowers and other customers, as well as the stability of the financial services industry, rather than for investors in our securities. We are subject to changes in federal and state law, regulations, governmental policies, agency supervisory and enforcement policies and priorities, and tax laws and accounting principles. Changes in regulations or the regulatory environment could adversely affect the banking and financial services industry as a whole and could limit our growth and the return to investors by restricting such activities as, for example:

- the payment of dividends and stock repurchases;
- balance sheet growth;
- investments;
- loans and interest rates;
- assessments of fees, such as overdraft and electronic transfer interchange fees;
- the provision of securities, insurance, brokerage or trust services;
- mergers with or acquisitions of other institutions or branches;
- the types of non-deposit activities in which our subsidiaries may engage; and
- offering of new products and services.

Under regulatory capital adequacy guidelines and other regulatory requirements, FNB and FNBPA must meet guidelines subject to qualitative judgments by regulators about components, risk weightings and other factors. From time to time, the regulators implement changes to those regulatory capital adequacy guidelines. Changes to present capital and liquidity requirements could restrict our activities and require us to maintain additional capital. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected.

Although significant changes to existing laws, regulations and policies may be proposed by the new Presidential Administration and implemented by Congress and/or the federal banking agencies and the CFPB, it is difficult to predict with precision the changes that will be implemented into law and when such changes may occur. Accordingly, the impact of any legislative or regulatory changes on our competitors and on the financial services industry as a whole cannot be determined at this time. In any event, the laws and regulations to which we are subject are constantly under review by Congress, federal regulatory agencies, and state authorities. These laws and regulations could be changed drastically in the future, which could affect our profitability, our ability to compete effectively, or the composition of the financial services industry in which we compete.

Certain provisions of our Articles of Incorporation and By-laws and Pennsylvania law may discourage takeovers.

Our Articles of Incorporation and By-laws contain certain anti-takeover provisions that may discourage or may make more difficult or expensive a tender offer, change in control or takeover attempt that is opposed by our Board of Directors. In particular, our Articles of Incorporation and By-laws:

- require shareholders to give us advance notice to nominate candidates for election to our Board of Directors or to make shareholder proposals at a shareholders' meeting;
- permit our Board of Directors to issue, without approval of our common shareholders unless otherwise required by law, preferred stock with such terms as our Board of Directors may determine;
- require the vote of the holders of at least 75% of our voting shares for shareholder amendments to our By-laws;
- in the case of a proposed business combination with a shareholder owning 10% or more of the voting shares of FNB, the vote of the holders of at least two-thirds of the voting shares not owned by such shareholder is required to approve the business combination, unless it is approved by a majority of FNB's disinterested directors.

Under Pennsylvania law, only shareholders holding at least 25% of a corporation's outstanding stock may call a special meeting for any purpose. In addition, Pennsylvania law provides that in discharging their duties, including in the context of a takeover attempt, the board of directors, committees of the board and individual directors may consider a broad range of factors as they deem pertinent, which may include but is not limited to shareholders' interests, in considering the best interests of the corporation.

These provisions of our Articles of Incorporation and By-laws and of Pennsylvania law could discourage potential acquisition proposals and could delay or prevent a change in control, even though the holders of a majority of our stock may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace members of our Board of Directors. Moreover, these provisions could diminish the opportunities for shareholders to participate in certain tender offers, including tender offers at prices above the then-current market price of our common stock, and may also inhibit increases in the trading price of our common stock that could result from takeover attempts.

6. Liquidity

Liquidity risk could impair our ability to fund operations and meet our obligations as they become due.

Our ability to implement our business strategy will depend on our liquidity and ability to obtain funding for loan originations, working capital and other general purposes. Liquidity is needed to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures. Liquidity risk is the potential that we will be unable to meet our obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends on our common stock because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Our preferred sources for funding are deposits and customer repurchase agreements, which are low cost and stable sources of funding for us. We compete with commercial banks, savings banks and credit unions, as well as non-depository competitors such as mutual funds, securities and brokerage firms and insurance companies, for deposits and customer repurchase agreements. If we are unable to attract and maintain sufficient levels of deposits and customer repurchase agreements to fund our loan growth and liquidity objectives, we may be subject to paying higher funding costs by raising interest rates that are paid on deposits and customer repurchase agreements or cause us to source funds from third-party providers which may be higher cost funding.

Secondary sources of liquidity include principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations; FHLB advances and subordinated notes issued through one of our subsidiaries, which are fully and unconditionally guaranteed by us.

Our liquidity and ability to fund and run our business could be materially adversely affected by a variety of conditions and factors, including financial and credit market disruptions and volatility or a lack of market or customer confidence in financial markets in general, which may result in a loss of customer deposits or outflows of cash or collateral and/or ability to access capital markets on favorable terms. Other conditions and factors that could materially adversely affect our liquidity and funding include a lack of market or customer confidence in, or negative news about, us or the financial services industry generally, which could result in a loss of deposits and negatively affect our ability to access the capital markets and to sell or securitize loans or other assets. If we are unable to continue to fund assets through deposits and customer repurchase agreements or access funding sources on favorable terms, or if we suffer an increase in borrowing costs or otherwise fail to manage liquidity effectively, our liquidity, operating margins, financial condition and results of operations may be materially adversely affected.

7. Financial Industry

The financial soundness of other financial institutions may adversely affect FNB, FNBPA and other affiliates.

Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. FNB, FNBPA and other affiliates are exposed to many different industries and counterparties and they routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these types of transactions expose FNB, FNBPA and other affiliates to credit risk in the event of default of the counterparty or client. In addition, FNBPA and other affiliates' credit risks may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure that we are due.

We are subject to operational risk that could damage our reputation and our business. We engage in a variety of businesses in diverse markets and rely on systems, employees, service providers and counterparties to properly process a high volume of transactions.

Like all businesses, we are subject to operational risk, which represents the risk of loss resulting from inadequate or failed internal processes in our systems, human error and external events. Operational risk also encompasses technology, compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, rules, regulations, prescribed practices or ethical standards, as well as the risk of FNB's and our subsidiaries' noncompliance with contractual and other obligations. Many strategic initiatives, such as development of new products, product enhancements, use of technology, staffing reductions, changes in business processes and acquisitions of other financial services companies or their assets, could substantially increase operational risk. We are also exposed to operational risk through our outsourcing arrangements, and the effect the changes in circumstances or capabilities of FNB's outsourcing vendors can have on our ability to continue to perform operational functions necessary to FNB's business. We outsource certain data processing and online and mobile banking services to third-party providers. Those third-party providers could also be sources of operational and information security risk to FNB, including from breakdowns or failures of their own systems or capacity constraints. Although we take steps to mitigate operational risks through a system of internal controls which we review on a regular basis and update as required, no system of controls - however well designed and maintained - is infallible, and, to the extent the risks arise from the operations of third-party vendors or customers, we have limited ability to control those risks. Control weaknesses or failures or other operational risk could result in charges, increased operational costs, harm to our reputation, inability to secure insurance, civil litigation, regulatory intervention, including enforcement action and enhanced supervisory scrutiny, foregone business opportunities, the loss of customer business, especially if customers are discouraged from using our mobile bill pay, mobile banking and online banking services, or the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary information.

Additionally, we may seek growth by acquiring financial institutions and branches as well as non-depository entities engaged in permissible activities for our financial institution subsidiaries. We may encounter unforeseen expenses, as well as difficulties and complications in integrating expanded operations and new employees without disruption to our overall operations. Following each acquisition, we must expend substantial resources to integrate the entities. The integration of non-banking entities often involves combining different industry cultures and business methodologies. The failure to integrate acquired entities successfully with our existing operations may adversely affect our results of operations and financial condition. As we grow, our regulatory costs also may become more significant.

In addition to acquisitions, we may expand into additional communities or attempt to strengthen our position in our current markets by undertaking additional de novo branch openings. Based on our experience, we believe that it generally takes up to three years for new banking facilities to achieve operational profitability due to the impact of organizational and overhead expenses and the start-up phase of generating loans and deposits. To the extent that we undertake additional de novo branch openings or branch acquisitions, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new banking facilities, which may have an adverse effect on our net income, earnings per share, return on average stockholders' equity and return on average assets.

The financial services industry is experiencing leadership changes at the federal banking agencies, which may impact regulations and government policies applicable to us.

The former Presidential Administration had advocated and pursued approaches to reduce financial services banking regulation, supervision and enforcement. The new Presidential Administration is anticipated to advocate a more expansive regulatory, supervisory and enforcement approach and its appointment of the federal bank regulatory agencies' leadership positions will likely reflect this change. At this time, the full impact of the new Presidential Administration's approach to financial services regulation is uncertain. Likewise, it is also difficult to predict the impact that any legislative or regulatory changes will have on our competitors and on the financial services industry as a whole. Regardless, our results of operations also could be adversely affected by changes in the way in which existing statutes, regulations, and laws are interpreted or applied by courts and government agencies as advocated by the current or a new Administration.

Increases in or required prepayments of FDIC insurance premiums may adversely affect our earnings.

In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions. Pursuant to the Dodd-Frank Act, the minimum reserve ratio for the DIF was increased from 1.15% to 1.35% of estimated insured deposits, or the assessment base, and the FDIC was directed to take the steps needed to cause the reserve ratio of the DIF to reach 1.35% of estimated insured deposits by September 30, 2020. The DIF achieved this level in the third quarter of 2018. As part of its long-range management plan to ensure that the DIF is able to maintain a positive balance despite banking crises and steady, moderate assessment rates, despite economic and credit cycles, the FDIC set the DIF's designated reserve ratio at 2% of estimated insured deposits. The FDIC is required to offset the effect of the increased minimum reserve ratio for banks with assets of less than $10 billion, so smaller community banks will be spared the cost of funding the increase in the minimum reserve ratio. Moreover, as a result of the TCJA's disallowance of the deduction of FDIC deposit insurance premium payments for certain banking organizations, the after-tax cost of our deposit insurance premium payments has increased.

We generally have limited ability to control the amount of premiums that we are required to pay for FDIC insurance. Any future increases in or required prepayments of FDIC insurance premiums may adversely affect our financial condition and results of operations. In light of our status as a large bank, FNBPA may be required to pay additional amounts to the DIF, which could have an adverse effect on our earnings. If FNBPA's deposit insurance premium assessment rate increases again, either because of our risk classification, a change in the concentration of our loan portfolio, emergency assessments, or because of another uniform increase, our earnings could be further adversely impacted.

The banking and financial services industry continually encounters technological change, especially in the systems that are used to deliver products to, and execute transactions on behalf of, customers, and if we fail to continue to invest in technological improvements as they become appropriate or necessary, our ability to compete effectively could be severely impaired.

The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better compete for and serve customers and reduce costs. Our future success will depend, in part, on our ability to address customer needs by using secure technology to provide products and services that will satisfy customer demands, as well as create additional efficiencies in our operations. Many of our larger competitors have greater resources to invest in technological improvements, and we may not effectively implement new technology-driven products and services or do so as quickly as our competitors. Failure to successfully keep pace with technological change affecting the banking and financial services industry could negatively affect our revenue and profitability.

8. Cybersecurity

An interruption in or breach in security of our information systems, or other cybersecurity risks, could result in a loss of customer business, increased compliance and remediation costs, civil litigation or governmental regulatory action, and have an adverse effect on our results of operations, financial condition and cash flows.

As part of our business, we collect, process and retain sensitive and confidential client and customer information in both paper and electronic form and rely heavily on communications and information systems for these functions. This information includes non-public, personally-identifiable information that is protected under applicable federal and state laws and regulations. Additionally, certain of these data processing functions are not handled by us directly, but are outsourced to third-party providers. We devote significant resources and management focus to ensuring the confidentiality, integrity and availability of our systems, including adoption of policies and procedures that involve our third-party providers to prevent, detect and deter cyber-related crimes intended to infiltrate our networks, capture sensitive client and customer information, deny service to customers, or harm electronic processing capabilities and be ready to respond, if necessary. Despite these efforts, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism and other physical security threats, computer viruses or compromises, ransomware attacks, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of our confidential business, employee or customer information, whether originating with us, our vendors or retail businesses, could severely damage our reputation, expose us to the risks of civil litigation and liability, require the payment of regulatory fines or penalties or undertaking of costly remediation efforts with respect to third parties affected by a security breach, disrupt our operations, and have a material adverse effect on our business, financial condition and results of operations.

The additional cost of our day-to-day cybersecurity monitoring and protection systems and controls includes the cost of hardware and software, third-party technology providers, consulting and forensic testing firms, insurance premium costs and legal fees, in addition to the incremental cost of our personnel who focus a substantial portion of their responsibilities on cybersecurity. We may also need to expend substantial resources to comply with the data security breach notification requirements adopted by banking regulators and the states, which have varying levels of individual, consumer, regulatory or law enforcement notification and remediation requirements in certain circumstances in the event of a security breach.

Cybersecurity risks appear to be growing and, as a result, the cyber-resilience of banking organizations is of increased importance to federal and state banking agencies and other regulators. New or revised laws and regulations may significantly impact our current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could materially and adversely affect our profitability.

In the last few years, there have been an increasing number of cyber incidents, including several well-publicized cyber-attacks that targeted other U.S. companies, including financial services companies much larger than us. These cyber incidents have been initiated from a variety of sources, including terrorist organizations and hostile foreign governments. As technology advances, the ability to initiate transactions and access data has also become more widely distributed among mobile devices, personal computers, automated teller machines, remote deposit capture sites and similar access points, some of which are not controlled or secured by FNB. It is possible that we could have exposure to liability and suffer losses as a result of a security breach or cyber-attack that occurred through no fault of FNB. Further, the probability of a successful cyber attack against us or one of our third-party services providers cannot be predicted. Although we maintain specific “cyber” insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. In addition, cyber threat scenarios are inherently difficult to predict and can take many forms, several of which may not be covered under our cyber insurance coverage. As cyber threats continue to evolve and increase, we may be required to spend significant additional resources to continue to modify or enhance our protective and preventative measures or to investigate and remediate any information security vulnerabilities.

9. Reputation

Our key assets include our brand and reputation and our business may be affected by how we are perceived in the market place.

Our brand and our reputation are key assets of FNB. Our ability to attract and retain banking, insurance, wealth management and corporate clients and employees is highly dependent upon external perceptions of our culture, level of service, security, trustworthiness, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage our reputation among existing customers and corporate clients and employees, which could make it difficult for us to attract new clients and employees and retain existing ones. Adverse developments with respect to the financial services industry or sociopolitical events and circumstances may also, by association, negatively impact our reputation, or result in greater regulatory or legislative scrutiny or litigation against us. Although we monitor developments for areas of potential risk to our reputation and brand, negative perceptions or publicity could materially and adversely affect our revenues and profitability.

10. Human and Vendor Resources

Our day-to-day operations rely heavily on the proper functioning of products, information systems and services provided by third-party, external vendors.

We rely on certain external vendors to provide products, information systems and services necessary to maintain our day-to-day operations. These third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third-party vendors carefully and we oversee their provision of service to us in accordance with applicable enterprise risk management and third-party vendor risk management standards and in a manner consistent with the supervisory expectations of our regulators, we cannot control the actions of our third-party vendors entirely. Any complications caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to comply with applicable laws and regulations or to conform to our internal controls and risk management procedures, and failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor’s ability to provide services. Furthermore, our vendors could also be sources of operational and information security risk, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third-party vendors could also create significant delay and expense. Problems caused by external vendors could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our failure to continue to recruit and retain qualified banking professionals could adversely affect our ability to compete successfully and affect our profitability.

Our continued success and future growth depends heavily on our ability to attract and retain highly skilled, diverse and motivated banking professionals. We compete against many institutions with greater financial resources both within our industry and in other industries to attract these qualified individuals. Our failure to recruit and retain adequate talent could reduce our ability to compete successfully and adversely affect our business and profitability.

11. Modeling Assumptions

There may be risks resulting from the extensive use of models in our business.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, developing presentations made to market analysts and others, creating loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, developing strategic planning initiatives, capital stress testing and calculating regulatory capital levels, as well as to estimate the value of financial instruments and Balance Sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of such information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Certain decisions that the regulators make, including those related to capital distributions and dividends to our stockholders, could be adversely affected due to the regulator’s perception that the quality of the models used to generate our relevant information is insufficient.

Our asset valuations may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets or industries, could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

We must use estimates, assumptions and judgments when assets are measured and reported at fair value. Assets carried at fair value inherently result in a higher degree of financial statement volatility. Because the assets are carried at fair value, a decline in their value may cause us to incur losses even if the assets in question present minimal risk. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party resources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relative inputs. Changes in underlying factors or assumptions in any of the areas underlying these estimates could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. In such cases, valuations in certain asset classes may require more subjectivity and management discretion; valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented market conditions in any particular market (e.g., credit, equity, fixed income) could materially impact the valuation of assets as reported within our Consolidated Financial Statements, and the period-to-period changes in value could vary significantly.

We may be required to record future impairment charges if the declines in asset values are considered other-than-temporary. If the impairment charges are significant enough, they could affect the ability of FNBPA to pay dividends to FNB (which could have a material adverse effect on our liquidity and our ability to pay dividends to stockholders), and could also negatively impact our regulatory capital ratios and result in FNBPA not being classified as “well-capitalized” for regulatory purposes.

12. Investment in Securities

We are dependent on dividends from our subsidiaries to meet our financial obligations and pay dividends to stockholders.

We are a holding company and conduct almost all of our operations through our subsidiaries. We do not have any significant assets other than cash and the stock of our subsidiaries. Accordingly, we depend on dividends from our subsidiaries to meet our financial obligations and to pay dividends to stockholders. Our right to participate in any distribution of earnings or assets of our subsidiaries is subject to the prior claims of creditors of such subsidiaries. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of our net income for the current year combined with our retained net income for the two preceding years. The OCC has the authority to prohibit FNBPA from paying dividends if it determines such payment would be an unsafe and unsound banking practice. Likewise, FNB’s state-based entities are subject to state laws governing dividend practices and payments.

Regulatory authorities may restrict our ability to pay dividends on and repurchase our common stock.

Dividends on our common stock will be payable only if, when and as authorized and declared by our Board of Directors. In addition, banking laws and regulations and our banking regulators may limit our ability to pay dividends and make share repurchases. For example, our ability to make capital distributions, including our ability to pay dividends or repurchase shares of our common stock, is subject to the review and non-objection of our annual capital plan by the FRB. In certain circumstances, we will not be able to make a capital distribution unless the FRB has approved such distribution, including if the dividend could not be fully funded by our net income over the last four quarters (net of dividends paid), our prospective rate of earnings retention appears inconsistent with our capital needs, asset quality, and overall financial condition, or we will not be able to continue meeting minimum required capital ratios. As a bank holding company, we also are required to consult with the FRB before increasing dividends or redeeming or repurchasing capital instruments. Additionally, the FRB could prohibit or limit our payment of dividends if it determines that payment of the dividend would constitute an unsafe or unsound practice. There can be no assurance that we will declare and pay any dividends or repurchase any shares of our common stock in the future.

We have outstanding securities senior to the common stock which could limit our ability to pay dividends on our common stock.

We have outstanding TPS and Series E preferred stock that are senior to the common stock and could adversely affect our ability to declare or pay dividends or distributions on our common stock. The terms of the TPS prohibit us from declaring or paying dividends or making distributions on our junior capital stock, including the common stock, or purchasing, acquiring, or making a liquidation payment on any junior capital stock, if: (1) an event of default has occurred and is continuing under the junior subordinated debentures underlying the TPS, (2) we are in default with respect to a guarantee payment under the guarantee of the related TPS or (3) we have given notice of our election to defer interest payments, but the related deferral period has not yet commenced or a deferral period is continuing. We also would be prohibited from paying dividends on our common stock unless all full dividends for the latest dividend period have been declared and paid on all outstanding shares of the Series E preferred stock. If we experience a material deterioration in our financial condition, liquidity, capital, results of operations or risk profile, our regulators may not permit us to make future payments on our TPS or preferred stock, which would also prevent us from paying any dividends on our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Pittsburgh, Pennsylvania. The Pittsburgh headquarters, which are leased, are also occupied by employees of the Community Banking, Wealth Management and Insurance segments, including customer support and operations personnel. We also lease office space for regional headquarters in the Cleveland, Ohio, Baltimore, Maryland, and Raleigh, Charlotte and Greensboro, North Carolina markets. In Hermitage, Pennsylvania, we continue to maintain administrative offices, as well as offices for personnel of the Community Banking and Wealth Management segments, in a six-story office building, and a data processing and technology center in a two-story office building, both of which are owned by us. Additionally, we lease other office space in Harrisburg and Hermitage, Pennsylvania, and in Raleigh, North Carolina which house various support departments.

The operating leases for the branches/retail offices of the Community Banking segment expire at various dates through the year 2038 and generally include options to renew. For additional information regarding the lease commitments, see Note 10, "Operating Leases" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Following is a table that shows the branches/retail offices, by state, and the branches/retail offices owned and leased for the Community Banking segment:

December 31, 2020	**Community Banking**
Pennsylvania	209
Ohio	29
Maryland	26
West Virginia	2
North Carolina	86
South Carolina	4
Washington, D.C.	1
Virginia	1
Total number of branches/retail offices	358
Total branches/retail offices owned	206
Total branches/retail offices leased	152

ITEM 3. LEGAL PROCEEDINGS

We are involved in various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These claims result from ordinary business activities relating to our current and/or former operations. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, we believe that we have valid defenses for all asserted claims. In accordance with applicable accounting guidance, when a loss is considered probable and reasonably estimable, we, in conjunction with internal and outside counsel handling the matter, record a liability in the amount of our best estimate for the ultimate loss. We continue to monitor the matter for further developments that could affect the amount of the accrued liability that has previously been established.

Litigation expense represents a key area of judgment and is subject to uncertainty and factors outside of our control. Significant judgment is required in making these estimates and our financial liabilities may ultimately be more or less than the current estimate.

The information required by this Item is set forth in the "Other Legal Proceedings" discussion in Note 16, "Commitments, Credit Risk and Contingencies" in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report, and which is incorporated herein by reference in response to this Item.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The name, age and principal occupation for each of our executive officers as of January 31, 2021 are set forth below:

Name	Age	Principal Occupation
Vincent J. Delie, Jr.	56	President and Chief Executive Officer of FNB; Chief Executive Officer of FNBPA
Vincent J. Calabrese, Jr.	58	Chief Financial Officer of FNB; Executive Vice President of FNBPA
Gary L. Guerrieri	60	Chief Credit Officer of FNB; Executive Vice President of FNBPA
James G. Orie	62	Chief Legal Officer and Corporate Secretary of FNB; Executive Vice President of FNBPA
James L. Dutey	47	Corporate Controller and Senior Vice President of FNB
David B. Mitchell, II	63	Chief Wholesale Banking Officer of FNBPA
Barry C. Robinson	57	Chief Consumer Banking Officer of FNBPA

There are no family relationships among any of the above executive officers, and there is no arrangement or understanding between any of the above executive officers and any other person pursuant to which he was selected as an officer. The executive officers are elected by our Board of Directors, subject in certain cases to the terms of an employment agreement between the officer and us.

PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NYSE under the symbol “FNB.” As of January 31, 2021, there were 15,711 holders of record of our common stock.

The information required by this Item 5 with respect to securities authorized for issuance under equity compensation plans is set forth in Part III, Item 12 of this Report.

The following table provides information regarding FNB's purchases of our common stock during the three-month period ended December 31, 2020.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (1)
October 1 - October 31, 2020	584,338	$ 7.55	584,338	$ 120,569,186
November 1 - November 30, 2020	400,721	7.47	400,721	117,571,535
December 1 - December 31, 2020	645,490	9.28	645,490	111,571,970
Total	1,630,549	$ 8.22	1,630,549	

(1) The number shown represents, as of the end of each period, the approximate dollar value of Common Stock that may yet be purchased under publicly-announced share repurchase authorizations. The shares may be purchased, from time-to-time, depending on market conditions.

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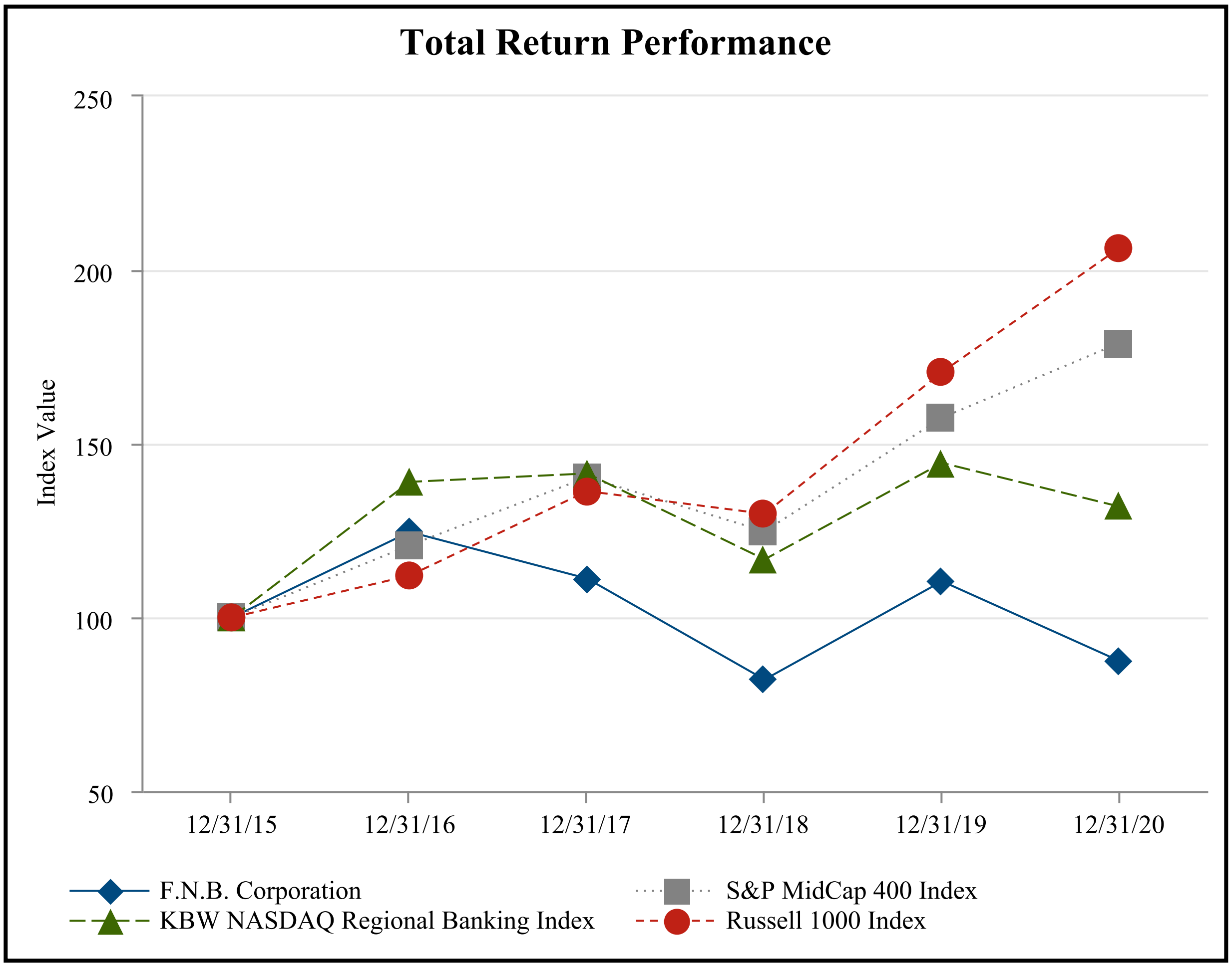
STOCK PERFORMANCE GRAPH

Comparison of Total Return on F.N.B. Corporation's Common Stock with Certain Averages

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on our common stock (♦), the S&P MidCap 400 Index (■), KBW NASDAQ Regional Banking Index (▲), and the Russell 1000 Index (●). This stock performance graph assumes $100 was invested on December 31, 2015, and the cumulative return is measured as of each subsequent fiscal year end.

F.N.B. Corporation Five-Year Stock Performance
Total Return, Including Stock and Cash Dividends



Source: S & P Global Market Intelligence

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31	2020	2019	2018 [1]	2017 [2]	2016 [3]
(Dollars in millions, except per share data)					
Total interest income	**$ 1,130**	$ 1,247	$ 1,170	$ 980	$ 679
Total interest expense	**208**	330	238	134	67
Net interest income	**922**	917	932	846	612
Provision for credit losses	**123**	44	61	61	56
Total non-interest income	**294**	294	276	252	201
Total non-interest expense	**750**	696	695	681	511
Net income	**286**	387	373	199	171
Net income available to common stockholders	**278**	379	365	191	163
At Year-End					
Total assets	**$37,354**	$ 34,615	$ 33,102	$ 31,418	$ 21,845
Net loans	**25,096**	23,093	21,973	20,823	14,739
Deposits	**29,122**	24,786	23,455	22,400	16,066
Short-term borrowings	**1,804**	3,216	4,129	3,678	2,503
Long-term borrowings	**1,095**	1,340	627	668	539
Total stockholders' equity	**4,959**	4,883	4,608	4,409	2,572
Per Common Share					
Basic earnings per share	**$ 0.86**	$ 1.17	$ 1.13	$ 0.63	$ 0.79
Diluted earnings per share	**0.85**	1.16	1.12	0.63	0.78
Cash dividends declared	**0.48**	0.48	0.48	0.48	0.48
Book value	**15.09**	14.70	13.88	13.30	11.68
Tangible book value (non-GAAP) [4]	**7.88**	7.53	6.68	6.06	6.53
Ratios					
Return on average assets	**0.78 %**	1.14 %	1.16 %	0.68 %	0.83 %
Return on average tangible assets (non-GAAP) [4]	**0.87**	1.26	1.29	0.78	0.91
Return on average equity	**5.83**	8.14	8.30	4.89	6.84
Return on average tangible common equity (non-GAAP) [4]	**11.66**	16.84	18.41	10.90	12.76
Equity to assets (period-end)	**13.28**	14.11	13.92	14.03	11.77
Tangible equity to tangible assets (period-end) (non-GAAP) [4]	**7.54**	7.91	7.39	7.11	7.16
Common equity to assets (period-end)	**12.99**	13.80	13.60	13.69	11.28
Tangible common equity to tangible assets (period-end) (non-GAAP) [4]	**7.24**	7.58	7.05	6.74	6.64
Average equity to average assets	**13.40**	14.05	13.97	13.98	12.09
Dividend payout ratio	**56.45**	41.45	42.96	74.61	62.43

(1) On August 31, 2018, we completed the sale of Regency.

(2) On March 11, 2017, we completed our acquisition of YDKN.

(3) On April 22, 2016 and February 13, 2016, we completed our purchase of 17 branch-banking locations and related consumer loans from Fifth Third Bank and completed the acquisition of Metro Bancorp, Inc., respectively.

(4) Refer to the *Reconciliations of Non-GAAP Financial Measures and Key Performance Indicators to GAAP* section in Item 7, "MD&A," of this Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MD&A represents an overview of and highlights material changes to our financial condition and consolidated results of operations. This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes presented in Item 8 of this Report. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Report may contain statements regarding our outlook for earnings, revenues, expenses, tax rates, capital and liquidity levels and ratios, asset quality levels, financial position and other matters regarding or affecting our current or future business and operations. These statements can be considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve various assumptions, risks and uncertainties which can change over time. Actual results or future events may be different from those anticipated in our forward-looking statements and may not align with historical performance and events. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance upon such statements. Forward-looking statements are typically identified by words such as "believe," "plan," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "will," "should," "project," "goal," and other similar words and expressions. We do not assume any duty to update forward-looking statements, except as required by federal securities laws.

Our forward-looking statements are subject to the following principal risks and uncertainties:

- Our business, financial results and balance sheet values are affected by business, economic and political circumstances, including, but not limited to: (i) developments with respect to the U.S. and global financial markets; (ii) actions by the FRB, FDIC, UST, OCC and other governmental agencies, especially those that impact money supply, market interest rates or otherwise affect business activities of the financial services industry; (iii) a slowing of the U.S. economic environment; (iv) the impacts of tariffs or other trade policies of the U.S. or its global trading partners; and the sociopolitical environment in the U.S.
- Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of systems and controls, third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital and liquidity standards.
- Competition can have an impact on customer acquisition, growth and retention, and on credit spreads, deposit gathering and product pricing, which can affect market share, deposits and revenues. Our ability to anticipate, react quickly and continue to respond to technological changes and COVID-19 challenges can also impact our ability to respond to customer needs and meet competitive demands.
- Business and operating results can also be affected by widespread natural and other disasters, pandemics, including the ongoing COVID-19 pandemic crisis, dislocations, terrorist activities, system failures, security breaches, significant political events, cyber-attacks or international hostilities through impacts on the economy and financial markets generally, or on us or our counterparties specifically.
- Legal, regulatory and accounting developments could have an impact on our ability to operate and grow our businesses, financial condition, results of operations, competitive position, and reputation. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and the ability to attract and retain management. These developments could include:
    - Changes resulting from a new U.S. presidential administration, including legislative and regulatory reforms, different approaches to supervisory or enforcement priorities, changes affecting oversight of the financial services industry, regulatory obligations or restrictions, consumer protection, taxes, employee benefits, compensation practices, pension, bankruptcy and other industry aspects, and changes in accounting policies and principles.
    - Changes to regulations or accounting standards governing bank capital requirements, loan loss reserves and liquidity standards.
    - Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to FNB.

  - Results of the regulatory examination and supervision process, including our failure to satisfy requirements imposed by the federal bank regulatory agencies or other governmental agencies.
  - The impact on our financial condition, results of operations, financial disclosures and future business strategies related to ACL changes due to changes in forecasted macroeconomic scenarios commonly referred to as the "current expected credit loss" standard, or CECL.
  - A failure or disruption in or breach of our operational or security systems or infrastructure, or those of third parties, including as a result of cyber-attacks or campaigns.

- The COVID-19 pandemic and the federal, state and local regulatory and governmental actions implemented in response to COVID-19 have resulted in significant deterioration and disruption in financial markets, national and local economic conditions and record levels of unemployment and business failures, and could have a material impact on, among other things, our business, financial condition, results of operations or liquidity, or on our management, employees, customers and critical vendors and suppliers. In view of the many unknowns associated with the COVID-19 pandemic, our forward-looking statements continue to be subject to various conditions that may be substantially different than what we are currently expecting, including, but not limited to, a weakened U.S. economic recovery, prolonged economic recovery, deterioration of commercial and consumer customer fundamentals and sentiments, and impairment of the recovery of the U.S. labor market. As a result, the COVID-19 outbreaks and its consequences, including responsive measures to manage it or provide relief and the uncertainty regarding its duration, may possibly have a material adverse impact on our business, operations and financial performance.

The risks identified here are not exclusive or the types of risks we may confront and actual results may differ materially from those expressed or implied as a result of these risks and uncertainties, including, but not limited to, the risk factors and other uncertainties described under Item 1A. Risk Factors and Risk Management sections in this Annual Report on Form 10-K (including the MD&A section), our subsequent 2021 Quarterly Reports on Form 10-Q (including the risk factors and risk management discussions) and our other subsequent filings with the SEC, which are available on our corporate website at https://www.fnb-online.com/about-us/investor-relations-shareholder-services. More specifically, our forward-looking statements may be subject to the evolving risks and uncertainties related to the COVID-19 pandemic and its macro-economic impact and the resulting governmental, business and societal responses to it. We have included our web address as an inactive textual reference only. Information on our website is not part of this Report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our Consolidated Financial Statements are prepared in accordance with GAAP. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported. For example, on January 1, 2020, we adopted CECL. Under the CECL methodology, the ACL represents the expected lifetime credit losses on loans and leases that we do not expect to collect.

The most significant accounting policies followed by FNB are presented in Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how we value significant assets and liabilities in the Consolidated Financial Statements, how we determine those values and how we record transactions in the Consolidated Financial Statements.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the Consolidated Financial Statements. Management currently views the determination of the ACL, fair value of financial instruments, goodwill and other intangible assets, income taxes and DTAs and litigation reserves to be critical accounting policies.

Allowance for Credit Losses

The ACL is a valuation account that is deducted from the amortized cost basis of loans and leases resulting in the net amount expected to be collected. We charge off loans against the ACL in accordance with our policies or if a loss confirming event occurs. Expected recoveries do not exceed the aggregate of the amounts previously charged-off and expected to be charged-off.

The model used to calculate the ACL is dependent on the portfolio composition and credit quality, as well as historical experience, current conditions and forecasts of economic conditions and interest rates. Specifically, the following considerations are incorporated into the ACL calculation: a third-party macroeconomic forecast scenario; a 24-month R&S forecast period for macroeconomic factors with a reversion to the historical mean on a straight-line basis over a 12-month period; and the historical through-the-cycle default mean calculated using an expanded period to include a prior recessionary period. Adjustments to historical loss information, where applicable, are made for differences in current loan-specific risk characteristics such as differences in lending policies and procedures, underwriting standards, experience and depth of relevant personnel, the quality of our credit review function, concentrations of credit, external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters and other relevant factors. Such factors are used to adjust the historical probabilities of default and severity of loss so that they reflect management's expectation of future conditions based on a R&S forecast. To the extent the lives of the loans in the portfolio extend beyond the period for which a R&S forecast can be made, the model reverts over 12 months on a straight-line basis back to the historical rates of default and severity of loss over the remaining life of the loans.

Determining the appropriateness of the ACL is complex and requires significant management judgment about the effect of matters that are inherently uncertain. Due to those significant management judgments and the factors included in the calculation, significant changes to the ACL level could occur in future periods.

The Provision for Credit Losses section in the Results of Operations includes a discussion of the factors affecting changes in the ACL during the current period. See Note 1, “Summary of Significant Accounting Policies” and Note 5, “Loans and Leases” in the Notes to Consolidated Financial Statements for further information on the ACL.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial assets and liabilities and determine fair value disclosures. Additionally, from time to time we may be required to record at fair value other assets on a non-recurring basis, such as loans held for sale, certain impaired loans, MSRs, OREO and certain other assets. The accounting guidance for fair value measurements includes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Judgment is required to determine which level of the three-level hierarchy certain assets or liabilities measured at fair value are classified.

Fair value represents the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. We use significant and complex estimates, assumptions and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Where available, fair value and information used to record valuation adjustments for certain assets or liabilities is based on either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists. When such third-party information is not available, we may estimate fair value by using cash flow and other financial modeling techniques. Our assumptions about what a market participant would use in pricing an asset or liability is developed based on the best information available in the circumstances. These estimates are inherently subjective and can result in significant changes in the fair value estimates over the life of the asset or liability. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility.

See Note 1, “Summary of Significant Accounting Policies” and Note 25, “Fair Value Measurements” in the Notes to Consolidated Financial Statements for further discussion of accounting for financial instruments.

Goodwill and Other Intangible Assets

As a result of acquisitions, we have recorded goodwill and other identifiable intangible assets on our Consolidated Balance Sheets. Goodwill represents the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Our recorded goodwill relates to value inherent in our Community Banking, Wealth Management and Insurance segments.

The value of goodwill and other identifiable intangibles is dependent upon our ability to provide high quality, cost-effective services in the face of competition. As such, these values are supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment in value, which could result in additional expense and adversely impact earnings in future periods.

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

In connection with the preparation of the year-end 2020 financial statements, we completed our annual goodwill impairment test as of October 1, 2020 which included certain assumption updates to market levels. The excess of fair values over carrying values, or cushion, of our reporting units as a percentage of their carrying value ranged from 11% in our Community Banking reporting unit to greater than 50% in our Wealth and Insurance reporting units, resulting in the conclusion that the goodwill assigned to each reporting unit, as of October 1, 2020, was not impaired. We also performed a qualitative analysis and concluded that it was not more-likely-than-not that the fair value of one or more of our reporting units was below its respective carrying amount, and therefore no triggering event has occurred, as of December 31, 2020. If economic conditions deteriorate, or the pandemic's effects prolong or worsen, it may be more-likely-than-not that the fair value of one or more of our reporting units falls below its respective carrying amount, which would require us to perform a quantitative goodwill impairment test before our next annual assessment. Any impairment charge would not affect our capital ratios, tangible common equity, tangible book value per share or liquidity position.

Inputs and assumptions used in estimating fair value include projected future cash flows, discount rates reflecting the risk inherent in future cash flows, long-term growth rates, anticipated cost savings and an evaluation of market comparables and recent transactions. We considered the sensitivity of significant assumptions in our impairment analysis including consideration of changes in estimated future cash flows and change in the discount rate for each reporting unit. The hypothetical sensitivity of the estimated fair value of our Community Banking reporting unit to an immediate and isolated increase of 100 basis points in the discount rate assumption at October 1, 2020, without consideration of any offsetting or simultaneous effects of other key assumptions, would not result in impairment, but could reduce the excess fair value over the carrying value below 5%. The purpose of this sensitivity is to provide an indication of the isolated impacts of hypothetical alternative assumptions on modeled fair value estimates and is not considered probable.

See Note 1, "Summary of Significant Accounting Policies" and Note 9, "Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements for further discussion of accounting for goodwill and other intangible assets.

Income Taxes and Deferred Tax Assets

We are subject to the income tax laws of federal, state and other taxing jurisdictions where we conduct business. The laws are complex and subject to different interpretations by the taxpayer and various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex tax statutes, related regulations and case law. In the process of preparing our tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the taxing authorities or based on management's ongoing assessment of the facts and evolving case law.

We determine deferred income taxes using the balance sheet method. Under this method, the net DTA or DTL is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes the effect of enacted changes in tax rates and laws in the period in which they occur. That effect would be included in income in the reporting period that includes the enactment date of the change. See the Results of Operations, Income Taxes section later in this MD&A for further tax-related discussion.

On a quarterly basis, management assesses the reasonableness of our effective tax rate based on management's current best estimate of pretax earnings and the applicable taxes for the full year. DTAs and DTLs are assessed on an annual basis, or sooner, if business events or circumstances warrant. DTAs represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, and from operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies.

We establish a valuation allowance when it is more likely than not that we will not be able to realize a benefit from our DTAs, or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessments of realizable DTAs.

See Note 1, "Summary of Significant Accounting Policies" and Note 19, "Income Taxes" in the Notes to Consolidated Financial Statements for further discussion of accounting for income taxes.

Litigation Reserves

The Corporation is involved in various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These claims result from ordinary business activities relating to our current and/or former operations. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, we believe that the Corporation has valid defenses for all asserted claims. In accordance with applicable accounting guidance, when a loss is considered probable and reasonably estimable, we, in conjunction with internal and outside counsel handling the matter, record a liability in the amount of our best estimate for the ultimate loss. We continue to monitor the matter for further developments that could affect the amount of the accrued liability that has previously been established.

Litigation expense represents a key area of judgment and is subject to uncertainty and factors outside of our control. Significant judgment is required in making these estimates and our financial liabilities may ultimately be more or less than the current estimate. See our policy on establishing accruals for litigation in Note 16, "Commitments, Credit Risk and Contingencies" in the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements and Developments

Note 2, “New Accounting Standards” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by us in 2020 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted.

USE OF NON-GAAP FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

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

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

Management believes charges such as merger expenses, branch consolidation costs, loss on early debt extinguishment, COVID-19 expenses and gains on sale of VISA class B shares are not organic costs to run our operations and facilities. These charges are considered significant items impacting earnings as they are deemed to be outside of ordinary banking activities. The merger expenses and branch consolidation charges principally represent expenses to satisfy contractual obligations of the acquired entity or closed branches without any useful ongoing benefit to us. These costs are specific to each individual transaction and may vary significantly based on the size and complexity of the transaction. Similarly, gains derived from the sale of Visa class B stock and losses on FHLB debt extinguishment and related hedge terminations are not organic to our operations. The COVID-19 expenses represent special Company initiatives to support our employees and the communities we serve during an unprecedented time of a pandemic.

To provide more meaningful comparisons of net interest margin and efficiency ratio, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets (loans and investments) to make it fully equivalent to interest income earned on taxable investments (this adjustment is not permitted under GAAP). Taxable-equivalent amounts for the 2020, 2019 and 2018 periods were calculated using a federal statutory income tax rate of 21%.

OVERVIEW

FNB, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. As of December 31, 2020, we had 358 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina and South Carolina. We provide a full range of commercial banking, consumer banking, insurance and wealth management solutions through our subsidiary network which is led by our largest affiliate, FNBPA. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, business credit, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include asset management, private banking and insurance.

FINANCIAL SUMMARY

For the full year of 2020, net income available to common stockholders was $278.0 million, or $0.85 per diluted common share. Comparatively, full-year 2019 net income available to common stockholders totaled $379.2 million, or $1.16 per diluted common share. On an operating basis, full-year 2020 earnings per diluted common share (non-GAAP) was $0.96, excluding $0.11 for significant items. Operating earnings per diluted common share (non-GAAP) for the full year of 2019 was $1.18, excluding $0.02 for significant items. The results for 2020 reflect the pre-tax impact of $45.6 million of significant items, including loss on debt extinguishment and related hedge termination of $25.6 million related to the prepayment of higher-rate FHLB borrowings given continued strong deposit growth; branch consolidation costs of $18.7 million resulting from our branch optimization efforts and continued customer migration to digital channels; COVID-19 related expenses of $11.3 million, including $2.5 million in contributions to our FNB Foundation to continue to support our communities as they deal with the ongoing pandemic; and service charge refunds of $3.8 million, partially offset by a gain on the sale of all of FNBPA's holdings of Visa Class B shares of $13.8 million. Operating results for 2020 also included the successful adoption of the CECL accounting standard and elevated reserve levels to address the impact of COVID-19 on the ACL, both of which weighed on the earnings trajectory compared to 2019. Although 2020 earnings were impacted by COVID-19, total revenue was at a record level of $1.2 billion, a testament to executing our strategic initiatives while facing a near-zero interest rate environment.

Income Statement Highlights (2020 compared to 2019)

- Record total revenue was $1.2 billion.
- Net income available to common stockholders was $278.0 million, compared to $379.2 million, down 26.7%.
- Operating net income available to common stockholders (non-GAAP) was $314.0 million, compared to $386.1 million, down 18.7%.
- Earnings per diluted common share was $0.85, compared to $1.16, a decrease of 26.7%.
- Operating earnings per diluted common share (non-GAAP) was $0.96, compared to $1.18, a decrease of 18.6%.
- Net interest income was $922.1 million, compared to $917.2 million.
- Net interest margin (FTE) (non-GAAP) declined 26 basis points to 2.91% from 3.17%, primarily from the impact of lower interest rates.
- Non-interest income was $294.6 million, compared to $294.3 million.
- Non-interest expense was $750.3 million, compared to $696.1 million.
- The termination of $715 million in higher-rate FHLB borrowings, with a rate of 2.49% resulted in a loss on early debt extinguishment and related hedge termination costs of $25.6 million.
- There was a $13.8 million gain on the sale of all of FNBPA's holdings of Visa Class B shares.
- The provision for credit losses totaled $122.8 million, compared to $44.6 million, which reflected COVID-19 related macroeconomic impacts and the life-of-loan CECL reserving requirements in 2020.
- Net charge-offs totaled $59.8 million, or 0.24% of total average loans, compared to $28.3 million, or 0.12%, in 2019, reflecting COVID-19 impacts on certain segments of the loan portfolio.

- Income tax expense decreased $26.1 million, or 31.2%, primarily due to lower pre-tax earnings and significant items.
- The effective tax rate was 16.7%, compared to 17.7%, with both years impacted by renewable energy tax credits.
- The efficiency ratio (non-GAAP) was 56.1%, compared to 54.5%, reflecting the low interest rate environment and higher non-interest expense from operations.
- Return on average tangible common equity ratio (non-GAAP) of 11.66%, compared to 16.84%.

Balance Sheet Highlights (period-end balances, 2020 compared to 2019, unless otherwise indicated)

- Total assets were $37.4 billion, compared to $34.6 billion, an increase of $2.7 billion, or 7.9%, primarily due to the origination of PPP loans during 2020, of which $2.2 billion was outstanding as of December 31, 2020.
- Growth in total average loans was $2.4 billion, or 10.7%, reflecting commercial loan growth of $2.5 billion, or 17.4%, and a $54.9 million, or 0.6%, decrease in average consumer loans reflecting the sale of $0.5 billion in indirect auto loans in 2020. Average net PPP loans were $1.6 billion in 2020, with the majority of loans originated in the second quarter of 2020.
- Total average deposits grew $3.3 billion, or 13.6%, including an increase in average non-interest-bearing deposits of $1.9 billion, or 30.6%, and an increase in average interest-bearing demand deposits of $2.0 billion, or 20.1%, partially offset by a managed decrease in average time deposits of $1.0 billion, or 19.1%. Average deposit growth reflects inflows from the PPP and government stimulus activities, in addition to organic growth in new and existing customer relationships.
- We issued $300 million of 2.20% fixed rate senior notes due 2023.
- The ratio of loans to deposits was 87.4%, compared to 94.0%, as deposit growth outpaced loan growth. Additionally, the funding mix continued to improve with non-interest-bearing deposits totaling 31% of total deposits, compared to 26%.
- The dividend payout ratio for 2020 was 56.45% compared to 41.45%.
- The delinquency ratio was 1.02%, compared to 0.94%.
- We repurchased nearly 4.0 million shares at a weighted average share price of $9.63 for $38.4 million under the existing $150 million share repurchase program.
- The ratio of the allowance for loan losses to total loans and leases was 1.43%, compared to 0.84%. Excluding PPP loans that do not carry an ACL due to a 100% government guarantee, the ACL to total loans and leases ratio equaled 1.56% at December 31, 2020.
- Tangible book value per share (non-GAAP) of $7.88 increased 5% from year-end 2019.
- Tangible common equity to tangible assets (non-GAAP) of 7.24%, decreased 34 basis points from year-end 2019 due primarily to the PPP loan impact and the 2020 Day 1 CECL adoption impact of 16 basis points.
- The CET1 ratio of 9.84 is the strongest in our history.

TABLE 1

Year-to-Date Results Summary	2020	2019
Reported results		
Net income available to common stockholders (millions)	**$ 278.0**	$ 379.2
Net income per diluted common share	**0.85**	1.16
Book value per common share (period-end)	**15.09**	14.70
Pre-provision net revenue (reported) (millions)	**466.3**	515.4
Operating results (non-GAAP)		
Operating net income available to common stockholders (millions)	**314.0**	386.1
Operating net income per diluted common share	**0.96**	1.18
Tangible common equity to tangible assets (period-end)	**7.24 %**	7.58 %
Tangible book value per common share (period-end)	**$ 7.88**	$ 7.53
Pre-provision net revenue (operating) (millions)	**516.0**	527.4
Average diluted common shares outstanding (thousands)	**325,488**	326,061
Significant items impacting earnings (1) (millions)		
Pre-tax COVID-19 expense	**$ (11.3)**	$ —
After-tax impact of COVID-19 expense	**(8.9)**	—
Pre-tax gain on sale of Visa class B stock	**13.8**	—
After-tax impact of gain on sale of Visa class B stock	**10.9**	—
Pre-tax loss on FHLB debt extinguishment and related hedge terminations	**(25.6)**	—
After-tax impact of loss on FHLB debt extinguishment and related hedge terminations	**(20.2)**	—
Pre-tax branch consolidation costs	**(18.7)**	(4.5)
After-tax impact of branch consolidation costs	**(14.8)**	(3.6)
Pre-tax service charge refunds	**(3.8)**	(4.3)
After-tax impact of service charge refunds	**(3.0)**	(3.4)
Total significant items pre-tax	**$ (45.6)**	$ (8.8)
Total significant items after-tax	**$ (36.0)**	$ (7.0)

(1) Favorable (unfavorable) impact on earnings

Industry Developments

COVID-19

The COVID-19 pandemic has had an immense human and economic impact on the global economy. On March 22, 2020, the UST announced that financial institution employees are part of the critical infrastructure workforce and stated that these employees have a "special responsibility to maintain your normal work schedule." As a result, financial institutions were confronted with the challenge of protecting the health and safety of their employees, while also ensuring that critical financial services such as providing consumer and commercial access to banking and lending services, maintaining core systems and the integrity and security of data, continuing the processing of payments and services, such as clearing and settlement services, wholesale funding, insurance services and capital markets activities, for the duration of the pandemic crisis period.

Our crisis and risk management processes were critical to our preparedness for the COVID-19 pandemic since we had the necessary plans in place and had conducted a pandemic emergency event scenario (involving key management and operations employees) in the fourth quarter of 2019 to test the efficacy of our pandemic response plans and to improve these plans. We were well positioned to continue providing critical financial services to our customers through multiple channels such as interactive teller machines, automated teller machines, our mobile application, and our interactive website. We adjusted our physical retail locations by focusing on "drive up" services and closed our lobbies, reverting to "by appointment only" practices, while maintaining appropriate health, sanitization, social distancing and other safety protocols consistent with the Centers for Disease Control and Prevention (CDC) and state guidelines. Based on the available COVID-19 federal data, we began to re-open our branch lobbies to customers in July 2020 while adhering to CDC safety measures, including employee and customer safety (i.e., masks), social distancing and cleaning protocols, while continuing to regularly monitor and adjust branch hours based on local COVID-19 conditions and circumstances.

We leveraged our information technology infrastructure by making accommodations to give employees the ability to work remotely where appropriate. Our executive and senior management worked rotating schedules or from remote offices or home in order to mitigate the risk of wide-spread occurrence of the COVID-19 contagion among this group. With respect to our other employees, approximately half of our workforce worked remotely. We will continue to actively monitor case levels and consider guidance from government agencies to determine when we activate further "return-to-the workplace" schedules. Our remote and rotational working arrangements and implementation of CDC health and safety protocols have not impaired our ability to continue to operate our business. We do rely on some third parties for certain services. At this time, we have not experienced a disruption in those services.

To protect our customers and communities from economic disruption, we:

- developed a formal loan deferral program and other measures to support customers who may be enduring financial hardships;
- extended the residential mortgage foreclosure moratorium beyond the requirements for government-backed loans, under the CARES Act, to all residential mortgage loan customers; and
- actively participated in the SBA PPP, which authorized financial institutions to make federally guaranteed loans that are eligible to be forgiven to qualifying small businesses and nonprofits on the terms set forth in the CARES Act and related regulations.

We continue to evaluate other COVID-19 related FRB and federal government relief and stimulus programs to determine their suitability for our customers and communities.

COVID-19 has had a significant impact on the provision for credit losses during 2020. The uncertainty in the market, a significant increase in unemployment, and adverse economic forecasts all point to the volatility of the expected additional losses in the loan portfolio. We would expect inherent volatility in the COVID-19 impact on our provision for credit losses for the duration of the current COVID-19 pandemic environment and immediate periods following the mitigation of the pandemic crisis.

The federal banking regulators have in place certain measures to assist financial institutions in meeting the needs of our customers during this time. Some of these that impact us are as follows:

- As part of Section 4013 of the CARES Act and in accordance with federal interagency bank regulatory guidance, financial institutions have been granted temporary relief from reporting TDRs caused by COVID-19. To be eligible for TDR relief, a loan modification must be due to impacts from COVID-19, not more than 30 days past due as of December 31, 2019 and executed between March 1, 2020 and the earlier of January 1, 2022 or 60 days after the end of the national emergency. Interagency bank regulatory guidance encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and will not criticize financial institutions for working with borrowers in a safe and sound manner. Loan modification programs are considered positive actions that can mitigate adverse effects on borrowers due to COVID-19. Institutions generally do not need to categorize COVID-19-related loan modifications as TDRs if the loan modifications are short-term in nature and are made on a good-faith basis in response to COVID-19 to borrowers who were current at the time the modification program was implemented. For borrowers who were current prior to COVID-19 that have requested and been granted a concession while experiencing a hardship during the pandemic, we will not be including those modifications as past due or a TDR at the time of the concession. As of June 30, 2020, approximately $2.4 billion, or 10%, of our loan portfolio was approved during the initial deferment request window. Over 98% of the $2.4 billion of loans in deferment were current and in good standing at December 31, 2019. As of December 31, 2020, total deferrals decreased to $397 million or 1.7% of total loans and leases (excluding PPP loans).

- The regulatory agencies have agreed to allow an option to delay the effects of CECL on regulatory capital by two years for those financial institutions that adopt in 2020. This delay will be followed by a three-year transition period of 75%, 50%, and 25% respectively. We adopted CECL in January 2020 and have elected this option.

- The FRB initiated a facility to provide liquidity to financial institutions participating and funding loans for the PPP. The non-recourse loans are available to institutions eligible to make PPP loans, with the SBA-guaranteed loans pledged as collateral to the FRB. Financial institutions can also pledge PPP loans to the discount window. Each liquidity option is set at different rates and terms. PPP loans pledged to the PPPLF may be excluded from leverage ratio calculations. We have not utilized this facility, as we have ample liquidity.

As we continue to manage through the COVID-19 challenges and meet the needs of our various constituents, our focus continues to be on our four key pillars. The pillars are: employee protection and assistance; operational response and preparedness; customer and community support; and risk management and actions taken to preserve shareholder value given the extreme challenges presented.

LIBOR

The United Kingdom's Financial Conduct Authority (FCA), who is the regulator of LIBOR, anticipates LIBOR to retire on December 31, 2021, for one-week and two-month LIBOR rates, and June 30, 2023 for all other LIBOR rates. The FRB of New York has created a working group called the ARRC to assist U.S. institutions with a successful transition away from using LIBOR as a benchmark interest rate. Similarly, we created an internal working group that is managing our transition away from LIBOR. This working group is a cross-functional team composed of representatives from the commercial, retail and mortgage banking lines of business, as well as loan operations, information technology, legal, finance and other support functions. The committee has completed an assessment of tasks needed for the transition, identified contracts that contain LIBOR language, is in process of reviewing existing contract language for the presence of robust fallback language, developed loan fallback language for when LIBOR is retired and identified risks associated with the transition. The financial impact regarding pricing, valuation and operations of the transition is not yet known. Our transition team will work within the guidelines established by the FCA and ARRC to provide for a smooth transition away from LIBOR.

During the third quarter of 2020, we finalized the transition of new adjustable rate mortgages away from the LIBOR index to SOFR, which is the alternative rate recommended by ARRC. The effective date for this change was October 1, 2020. We also changed our valuation methodology to reflect changes made by central clearinghouses to their discounting methodology and interest calculation of cash margin to SOFR for U.S. dollar cleared interest rate swaps. The effective date for this change was October 16, 2020.

RESULTS OF OPERATIONS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net income available to common stockholders for 2020 was $278.0 million or $0.85 per diluted common share, compared to net income available to common stockholders for 2019 of $379.2 million or $1.16 per diluted common share. Operating earnings per diluted common share (non-GAAP) was $0.96 for 2020 compared to $1.18 for 2019. The results for 2020 included the impact of $45.6 million of significant items, including loss on debt extinguishment and related hedge termination of $25.6 million related to the prepayment of higher-rate FHLB borrowings given continued strong deposit growth; branch consolidation costs of $18.7 million resulting from our branch optimization efforts and continued customer migration to digital channels; COVID-19 related expenses of $11.3 million, including $2.5 million in contributions to our FNB Foundation to continue to support our communities as they deal with the ongoing pandemic; and service charge refunds of $3.8 million, partially offset by a $13.8 million gain on the sale of all of the FNBPA's holdings of Visa Class B shares. In comparison, the results for 2019 included $4.5 million of branch consolidation costs and $4.3 million of service charge refunds. Average diluted common shares outstanding decreased 0.6 million shares, or 0.2%, to 325.5 million shares for 2020.

The major categories of the Consolidated Statements of Income and their respective impact to the increase (decrease) in net income are presented in the following table:

TABLE 2

(in thousands, except per share data)	Year Ended December 31 2020	Year Ended December 31 2019	$ Change	% Change
Net interest income	**$ 922,082**	$ 917,239	$ 4,843	0.5 %
Provision for credit losses	**122,798**	44,561	78,237	175.6
Non-interest income	**294,556**	294,266	290	0.1
Non-interest expense	**750,349**	696,128	54,221	7.8
Income taxes	**57,485**	83,567	(26,082)	(31.2)
Net income	**286,006**	387,249	(101,243)	(26.1)
Less: Preferred stock dividends	**8,041**	8,041	—	—
Net income available to common stockholders	**$ 277,965**	$ 379,208	$ (101,243)	(26.7)%
Earnings per common share – Basic	**$ 0.86**	$ 1.17	$ (0.31)	(26.5)%
Earnings per common share – Diluted	**0.85**	1.16	(0.31)	(26.7)
Cash dividends per common share	**0.48**	0.48	—	—

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

TABLE 3

Year Ended December 31	**2020**	**2019**
Return on average equity	**5.83 %**	8.14 %
Return on average tangible common equity (2)	**11.66**	16.84
Return on average assets	**0.78**	1.14
Return on average tangible assets (2)	**0.87**	1.26
Book value per common share (1)	**$ 15.09**	$ 14.70
Tangible book value per common share (1) (2)	**7.88**	7.53
Equity to assets (1)	**13.28 %**	14.11 %
Average equity to average assets	**13.40**	14.05
Common equity to assets (1)	**12.99**	13.80
Tangible equity to tangible assets (1) (2)	**7.54**	7.91
Tangible common equity to tangible assets (1) (2)	**7.24**	7.58
Dividend payout ratio	**56.45**	41.45

(1) Period-end

(2) Non-GAAP

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

TABLE 4

	Year Ended December 31								
	2020			2019			2018		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets									
Interest-earning assets:									
Interest-bearing deposits with banks	**$ 470,466**	**$ 1,910**	**0.41 %**	$ 73,834	$ 4,404	5.96 %	$ 62,100	$ 1,347	2.17 %
Taxable investment securities [1]	**5,038,547**	**106,266**	**2.11**	5,296,830	126,101	2.38	5,247,250	118,614	2.26
Tax-exempt investment securities [1] [2]	**1,132,307**	**40,121**	**3.54**	1,121,026	40,155	3.58	1,008,944	35,438	3.51
Loans held for sale	**212,328**	**9,817**	**4.62**	102,344	5,386	5.26	47,761	2,841	5.95
Loans and leases [2] [3]	**25,211,191**	**984,662**	**3.91**	22,776,639	1,085,094	4.76	21,581,629	1,025,229	4.75
Total interest-earning assets [2]	**32,064,839**	**1,142,776**	**3.56**	29,370,673	1,261,140	4.29	27,947,684	1,183,469	4.23
Cash and due from banks	**359,936**			382,144			366,971		
Allowance for credit losses	**(350,309)**			(191,171)			(181,019)		
Premises and equipment	**336,117**			330,920			329,151		
Other assets	**4,196,847**			3,958,197			3,675,710		
Total assets	**$ 36,607,430**			$ 33,850,763			$ 32,138,497		
Liabilities									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	**$ 12,161,766**	**57,224**	**0.47**	$ 10,123,701	104,236	1.03	$ 9,396,339	62,876	0.67
Savings	**2,890,440**	**2,822**	**0.10**	2,532,456	8,535	0.34	2,558,370	6,007	0.23
Certificates and other time	**4,261,738**	**72,825**	**1.71**	5,268,208	103,852	1.97	5,022,607	73,341	1.46
Total interest-bearing deposits	**19,313,944**	**132,871**	**0.69**	17,924,365	216,623	1.21	16,977,316	142,224	0.84
Short-term borrowings	**2,515,558**	**38,504**	**1.53**	3,551,135	79,990	2.24	3,917,858	74,439	1.89
Long-term borrowings	**1,473,708**	**36,849**	**2.50**	1,108,135	33,167	2.99	641,379	21,047	3.28
Total interest-bearing liabilities	**23,303,210**	**208,224**	**0.89**	22,583,635	329,780	1.46	21,536,553	237,710	1.10
Non-interest-bearing demand	**8,004,557**			6,128,196			5,843,429		
Total deposits and borrowings	**31,307,767**		**0.66**	28,711,831		1.15	27,379,982		0.87
Other liabilities	**395,363**			381,467			267,682		
Total liabilities	**31,703,130**			29,093,298			27,647,664		
Stockholders' equity	**4,904,300**			4,757,465			4,490,833		
Total liabilities and stockholders' equity	**$ 36,607,430**			$ 33,850,763			$ 32,138,497		
Net interest-earning assets	**$ 8,761,629**			$ 6,787,038			$ 6,411,131		
Net interest income (FTE) [2]		**934,552**			931,360			945,759	
Tax-equivalent adjustment		**(12,470)**			(14,121)			(13,270)	
Net interest income		**$ 922,082**			$ 917,239			$ 932,489	
Net interest spread			**2.67 %**			2.83 %			3.13 %
Net interest margin [2]			**2.91 %**			3.17 %			3.39 %

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

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

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

Net Interest Income

Net interest income on an FTE basis (non-GAAP) of $934.6 million for 2020 decreased $3.2 million, or 0.3%, from $931.4 million for 2019. Average interest-earning assets increased $2.7 billion, or 9.2%, and average interest-bearing liabilities increased $0.7 billion, or 3.2%, from 2019, due to organic growth in loans and deposits and benefits from our expanded banking footprint in our southeastern markets. Our net interest margin FTE (non-GAAP) was 2.91% for 2020, compared to 3.17% for 2019, reflecting the impact of lower interest rates as average 1-month LIBOR for the full year of 2020 declined to 0.52% from 2.22% for the full year of 2019. The FOMC lowered the target Federal Funds rate by 150 basis points in 2020.

The following table provides certain information regarding changes in net interest income on an FTE basis (non-GAAP) attributable to changes in the average volumes and yields earned on interest-earning assets and the average volume and rates paid for interest-bearing liabilities for the periods indicated:

TABLE 5

	2020 vs 2019			2019 vs 2018		
(in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest Income (1)						
Interest-bearing deposits with banks	**$ 1,608**	**$ (4,102)**	**$ (2,494)**	$ 298	$ 2,759	$ 3,057
Securities (2)	**(7,809)**	**(12,060)**	**(19,869)**	7,542	4,662	12,204
Loans held for sale	**3,246**	**1,185**	**4,431**	2,611	(66)	2,545
Loans and leases (2)	**103,916**	**(204,348)**	**(100,432)**	49,717	10,148	59,865
Total interest income (2)	**100,961**	**(219,325)**	**(118,364)**	60,168	17,503	77,671
Interest Expense (1)						
Deposits:						
Interest-bearing demand	**12,858**	**(59,870)**	**(47,012)**	10,457	30,903	41,360
Savings	**652**	**(6,365)**	**(5,713)**	1,130	1,398	2,528
Certificates and other time	**(18,803)**	**(12,224)**	**(31,027)**	3,739	26,772	30,511
Short-term borrowings	**(22,010)**	**(19,476)**	**(41,486)**	(7,079)	12,630	5,551
Long-term borrowings	**8,872**	**(5,190)**	**3,682**	12,559	(439)	12,120
Total interest expense	**(18,431)**	**(103,125)**	**(121,556)**	20,806	71,264	92,070
Net change (2)	**$ 119,392**	**$ (116,200)**	**$ 3,192**	$ 39,362	$ (53,761)	$ (14,399)

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

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

Interest income on an FTE basis (non-GAAP) of $1.1 billion for 2020, decreased $118.4 million or 9.4% from 2019, resulting from the decrease in benchmark interest rates, partially offset by an increase in interest-earning assets of $2.7 billion. The increase in interest-earning assets was primarily driven by a $2.4 billion, or 10.7%, increase in average total loans due to PPP activity and solid origination activity across the footprint. Average commercial loan growth totaled $2.5 billion, or 17.4%, including growth of $1.7 billion, or 33.8%, in commercial and industrial loans. Commercial loan growth was led by strong commercial activity in the Pittsburgh, Cleveland, South Carolina, and Mid-Atlantic regions. Average consumer loans declined by $54.9 million, or 0.6%, reflecting a decline of $133.4 million, or 8.8%, in consumer credit lines and $317.6 million, or 16.3%, in indirect auto installment loans due to the sale of $0.5 billion of indirect auto loans in November 2020 partially offset by increases in residential mortgage loans of $226.7 million, or 7.0%, and direct installment balances of $169.4 million, or 9.6%. Additionally, the net reduction in the securities portfolio was a result of management's strategy to deploy excess liquidity into higher yielding loans, as average securities decreased $247.0 million, or 3.8%, given historically low and unattractive interest rates available for reinvestment purposes. The yield on average interest-earning assets (non-GAAP) decreased 73 basis points to 3.56% for 2020 compared to 4.29% for 2019, primarily due to the lower interest rate environment.

Interest expense of $208.2 million for 2020 decreased $121.6 million, or 36.9%, from 2019 primarily due to a decrease in rates paid, partially offset by an increase in average interest-bearing deposits and borrowings. Average interest-bearing deposits increased $1.4 billion, or 7.8%, which reflects the benefit of organic growth, as well as deposits for PPP funding and government stimulus activities. Average long-term borrowings increased $365.6 million, or 33.0%, primarily due to increases of $254.3 million in senior debt and $117.1 million in long-term FHLB borrowings. The funding of both fixed and adjustable longer-term borrowings was opportunistically transacted to take advantage of the lower interest rate environment and add liquidity to support loan growth. These actions included the first quarter of 2020 issuance of $300 million of 2.20% fixed rate senior notes due in 2023 and the termination of $715 million of higher-rate FHLB borrowings during 2020. During the first quarter of 2019, we issued $120.0 million of 4.950% fixed-to-floating rate subordinated notes due in 2029. The rate paid on interest-bearing liabilities decreased 57 basis points to 0.89% for 2020, compared to 1.46% for 2019, due to reduced costs on interest-bearing deposits and lower borrowing costs.

Provision for Credit Losses

The provision for credit losses is determined based on management's estimates of the appropriate level of ACL needed to absorb probable life-of-loan losses inherent in the loan and lease portfolio, after giving consideration to charge-offs and recoveries for the period. The following table presents information regarding the credit loss expense and net charge-offs for the years 2018 through 2020:

TABLE 6

(dollars in thousands)	**2020**	**2019**	**2020 vs 2019 $ Change**	**2020 vs 2019 % Change**	**2018**	**2019 vs 2018 $ Change**	**2019 vs 2018 % Change**
Provision for credit losses (on loans and leases)	**$ 121,756**	$ 44,561	$77,195	173.2 %	$61,227	$(16,666)	(27.2)%
Net loan charge-offs	**59,808**	28,334	31,474	111.1	55,960	(27,626)	(49.4)
Net loan charge-offs / total average loans and leases	**0.24 %**	0.12 %			0.26 %		

Provision for credit losses on loans and leases of $121.8 million during 2020 increased $77.2 million from 2019, which reflected CECL adoption worsening economic conditions associated with COVID-19 that required additional provision in 2020. Net charge-offs of $59.8 million for 2020 increased $31.5 million from 2019, primarily due to COVID-19 impacts on certain segments of the loan portfolio in 2020. For additional information relating to the allowance and provision for credit losses, refer to the Allowance for Credit Losses section of this MD&A.

Non-Interest Income

The breakdown of non-interest income for the years 2018 through 2020 is presented in the following table:

TABLE 7

			2020 vs 2019			2019 vs 2018	
(dollars in thousands)	**2020**	**2019**	**$ Change**	**% Change**	**2018**	**$ Change**	**% Change**
Service charges	**$ 108,146**	$ 124,285	$(16,139)	(13.0)%	$ 125,476	$ (1,191)	(0.9)%
Trust services	**31,249**	27,885	3,364	12.1	25,818	2,067	8.0
Insurance commissions and fees	**24,212**	20,463	3,749	18.3	18,312	2,151	11.7
Securities commissions and fees	**17,441**	17,088	353	2.1	17,545	(457)	(2.6)
Capital markets income	**39,337**	33,224	6,113	18.4	21,366	11,858	55.5
Mortgage banking operations	**49,665**	31,689	17,976	56.7	21,940	9,749	44.4
Dividends on non-marketable equity securities	**13,736**	18,641	(4,905)	(26.3)	15,553	3,088	19.9
Bank owned life insurance	**13,835**	11,794	2,041	17.3	13,500	(1,706)	(12.6)
Net securities gains	**282**	70	212	302.9	34	36	105.9
Loss on debt extinguishment	**(16,655)**	—	(16,655)	—	—	—	—
Other	**13,308**	9,127	4,181	45.8	16,107	(6,980)	(43.3)
Total non-interest income	**$ 294,556**	$ 294,266	$ 290	0.1 %	$ 275,651	$ 18,615	6.8 %

Total non-interest income of $294.6 million for 2020 increased $0.3 million, or 0.1%, from $294.3 million in 2019. On an operating basis, non-interest income increased $9.9 million, or 3.3%, when excluding significant items impacting earnings of $15.6 million and $6.0 million in 2020 and 2019, respectively. The variances in significant individual non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of $108.1 million for 2020 decreased $16.1 million, or 13.0%, from $124.3 million in 2019, as there were noticeably lower customer transaction volumes in the COVID-19 environment, although volumes have steadily increased in the second half of 2020. Additionally, we recorded service charge refunds of $3.8 million and $4.3 million in 2020 and 2019, respectively.

Trust services of $31.2 million for 2020 increased $3.4 million, or 12.1%, from the same period of 2019, primarily driven by strong organic revenue production, and the market value of assets under management increasing $1.0 billion, or 17.0%, to $7.1 billion at December 31, 2020.

Insurance commissions and fees of $24.2 million for 2020 increased $3.7 million, or 18.3%, from $20.5 million in 2019, primarily due to new business in the Carolina regions of our footprint, as well as organic growth in commercial lines.

Capital markets income of $39.3 million for 2020 increased $6.1 million, or 18.4%, from $33.2 million for 2019, reflecting our strong relationships with new and existing commercial customers and a volatile interest rate environment.

Mortgage banking operations income of $49.7 million for 2020 increased $18.0 million, or 56.7%, from $31.7 million for 2019, due to increased saleable volume and meaningfully expanding margins. During 2020, we sold $1.7 billion of residential mortgage loans, an increase of 19.5% compared to $1.4 billion for 2019, excluding portfolio bulk sales of $110.1 million and $151.8 million during 2019. The higher origination and secondary market revenues were partially offset by $4.7 million higher MSR impairment related to unfavorable interest-rate valuation adjustments and $9.8 million of higher MSR amortization due to higher prepayment speeds.

Dividends on non-marketable equity securities of $13.7 million for 2020 decreased $4.9 million, or 26.3%, from $18.6 million for 2019, primarily due to a decrease in the FHLB dividend rate and the impact of lower levels of FHLB borrowings given the strong growth in deposits.

Income from BOLI of $13.8 million for 2020 increased $2.0 million, or 17.3%, from $11.8 million in 2019, primarily due to life insurance claims.

The early termination of $490.0 million in higher-rate long-term FHLB borrowings resulted in a loss on debt extinguishment of $16.7 million in 2020.

Other non-interest income was $13.3 million and $9.1 million for 2020 and 2019, respectively. In 2020, we recorded a $13.8 million gain on the sale of all of FNBPA's Visa Class B shares, partially offset by $9.0 million in hedge termination costs associated with the early termination of certain higher-rate FHLB borrowings.

The following table presents non-interest income excluding significant items impacting earnings:

TABLE 8

(dollars in thousands)	2020	2019	$ Change	% Change
Total non-interest income, as reported	$ 294,556	$ 294,266	$ 290	0.1 %
Significant items:				
Gain on sale of Visa class B stock	(13,818)	—	(13,818)	
Loss on FHLB debt extinguishment and related hedge terminations	25,611	—	25,611	
Loss on fixed assets related to branch consolidations	—	1,722	(1,722)	
Service charge refunds	3,780	4,279	(499)	
Total non-interest income, excluding significant items [(1)]	$ 310,129	$ 300,267	$ 9,862	3.3 %

(1) Non-GAAP

Non-Interest Expense

The breakdown of non-interest expense for the years 2018 through 2020 is presented in the following table:

TABLE 9

			2020 vs 2019			2019 vs 2018	
(dollars in thousands)	2020	2019	$ Change	% Change	2018	$ Change	% Change
Salaries and employee benefits	**$ 405,529**	$ 375,084	$ 30,445	8.1 %	$ 369,630	$ 5,454	1.5 %
Net occupancy	**71,166**	58,416	12,750	21.8	59,679	(1,263)	(2.1)
Equipment	**65,312**	61,903	3,409	5.5	55,430	6,473	11.7
Amortization of intangibles	**13,362**	14,167	(805)	(5.7)	15,652	(1,485)	(9.5)
Outside services	**69,258**	64,006	5,252	8.2	65,682	(1,676)	(2.6)
FDIC insurance	**20,073**	23,294	(3,221)	(13.8)	32,959	(9,665)	(29.3)
Bank shares and franchise taxes	**14,376**	12,493	1,883	15.1	11,929	564	4.7
Other	**91,273**	86,765	4,508	5.2	83,571	3,194	3.8
Total non-interest expense	**$ 750,349**	$ 696,128	$ 54,221	7.8 %	$ 694,532	$ 1,596	0.2 %

Total non-interest expense of $750.3 million for 2020 increased $54.2 million, or 7.8%, from $696.1 million in 2019. On an operating basis, non-interest expense increased $27.0 million, or 3.9%. The variances in significant individual non-interest expense items are further explained in the following paragraphs.

Salaries and employee benefits of $405.5 million for 2020 increased $30.4 million, or 8.1%, from $375.1 million in 2019, primarily related to production-related commissions, normal merit increases and stock-based compensation. During 2020, we made a change to long-term stock-based compensation retirement vesting to become more aligned with current practices at other banks resulting in accelerated grant date expense recognition for certain 2020 awards, with full expense recognition on the grant date instead of recognizing the same expense amount over a 36-month vesting period. These awards are not released until the three-year service period is complete or the specified performance criteria is met over the three-year period. We recorded branch consolidation costs of $1.4 million and $0.5 million in 2020 and 2019, respectively. Additionally, we recorded $3.1

million relating to COVID-19 expenses in 2020. Our total full-time equivalent employees were 4,077 and 4,066 at December 31, 2020 and 2019, respectively.

Net occupancy and equipment expense of $136.5 million for 2020 increased $16.2 million, or 13.4%, from $120.3 million in 2019, primarily due to branch consolidation costs of $15.7 million for 2020 and $2.2 million in 2019. On an operating basis, net occupancy and equipment expense was $120.8 million for 2020 and $118.1 million for 2019, an increase of $2.6 million, or 2.2%.

Outside services expense of $69.3 million for 2020 increased $5.3 million, or 8.2%, from $64.0 million in 2019, primarily due to increases in data processing costs and the investments in our digital platform.

FDIC insurance expense of $20.1 million for 2020 decreased $3.2 million, or 13.8%, from 2019, primarily from a lower FDIC assessment rate due to increased subordinated debt at FNBPA and improved liquidity metrics.

Bank shares and franchise taxes expense of $14.4 million for 2020 increased $1.9 million, or 15.1%, from $12.5 million in 2019, primarily due to the 2020 capital base increase and higher tax credits in 2019.

Other non-interest expense was $91.3 million and $86.8 million for 2020 and 2019, respectively. During 2020, we recorded $6.8 million in COVID-19 related expenses. The COVID-19 related expenses included a $2.5 million contribution to our foundation for relief assistance to our communities, benefiting food banks and providing funding for essential medical supplies. These items were partially offset by decreases in several other items in other non-interest expense, including marketing and business development expenses, which were somewhat impacted by the COVID-19 operating environment. Additionally, in 2020 and 2019, we recorded an impairment charge of $4.1 million and $3.2 million, respectively, from renewable energy investment tax credit transactions. The related renewable energy investment tax credits were recognized as a benefit to income taxes.

The following table presents non-interest expense excluding significant items impacting earnings:

TABLE 10

(dollars in thousands)	**2020**	**2019**	**$ Change**	**% Change**
Total non-interest expense, as reported	$750,349	$696,128	$54,221	7.8 %
Significant items:				
Branch consolidations	(18,745)	(2,783)	(15,962)	
COVID-19 expense	(11,276)	—	(11,276)	
Total non-interest expense, excluding significant items (1)	$720,328	$693,345	$26,983	3.9 %

(1) Non-GAAP

Income Taxes

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

TABLE 11

Year ended December 31	**2020**	**2019**	**2018**
(dollars in thousands)			
Income tax expense	**$ 57,485**	$ 83,567	$ 79,523
Effective tax rate	**16.7 %**	17.7 %	17.6 %
Statutory federal tax rate	**21.0 %**	21.0 %	21.0 %

Our income tax expense for 2020 decreased $26.1 million or 31.2% from 2019. The effective tax rate was 16.7% for 2020, compared to 17.7% and 17.6% for 2019 and 2018, respectively, primarily resulting from lower pre-tax earnings and significant items in 2020. Effective tax rates are lower than the 21.0% federal statutory rate due to the tax benefits resulting from renewable energy investment and historic tax credits, tax-exempt income on investments and loans and income from BOLI.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Refer to the MD&A in our 2019 Annual Report on Form 10-K filed with the SEC on February 27, 2020 for a comparison of the years ended 2019 versus 2018.

FINANCIAL CONDITION

The following table presents our condensed Consolidated Balance Sheets:

TABLE 12

(dollars in millions)	December 31 2020	December 31 2019	$ Change	% Change
Assets				
Cash and cash equivalents	**$ 1,383**	$ 599	$ 784	130.9 %
Securities	**6,331**	6,564	(233)	(3.5)
Loans held for sale	**154**	51	103	202.0
Loans and leases, net	**25,096**	23,093	2,003	8.7
Goodwill and other intangibles	**2,316**	2,329	(13)	(0.6)
Other assets	**2,074**	1,979	95	4.8
Total Assets	**$ 37,354**	$ 34,615	$ 2,739	7.9 %
Liabilities and Stockholders' Equity				
Deposits	**$ 29,122**	$ 24,786	$ 4,336	17.5 %
Borrowings	**2,899**	4,556	(1,657)	(36.4)
Other liabilities	**374**	390	(16)	(4.1)
Total Liabilities	**32,395**	29,732	2,663	9.0
Stockholders' Equity	**4,959**	4,883	76	1.6
Total Liabilities and Stockholders' Equity	**$ 37,354**	$ 34,615	$ 2,739	7.9 %

Our cash position increased in 2020 due to continued customer expansion in our footprint, government stimulus programs and the strategic reduction in our investment portfolio, as reinvestment opportunities were less attractive in the low interest rate environment. The investment portfolio allocation shifted as exposure to prepayment sensitive securities was reduced.

Lending Activity

The loan and lease portfolio consists principally of loans and leases to individuals and small- and medium-sized businesses within our primary markets in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. During 2020, we originated $2.6 billion of PPP loans and during November 2020, we sold $0.5 billion of indirect installment loans.

Paycheck Protection Program

The CARES Act included an allocation of $349 billion for loans to be issued by financial institutions through the SBA, utilizing the PPP. The Paycheck Protection Program and Health Care Enhancement Act (PPP/HCE Act) was passed by Congress on April 23, 2020 and signed into law on April 24, 2020. The PPP/HCE Act authorized an additional $320 billion of funding for PPP loans. As of December 31, 2020, we had approximately $2.2 billion of PPP loans outstanding, net of unamortized net deferred fees of $32.1 million, which are included in the commercial and industrial category. During 2020, $0.4 billion of PPP loan balances were forgiven by the SBA.

PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. Loans closed prior to June 5, 2020, carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. Payments are deferred until after a forgiveness determination is made, if submitted within ten months of the end of the loan forgiveness Covered Period. The loans are 100% guaranteed by the SBA, which provides a reduced risk of loss to us on these loans. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan. This fee is recognized in interest income over the contractual life of the loan under the effective yield method, adjusted for expected prepayments on these pools of homogenous loans. We expect most of the remaining $32.1 million of net deferred fees to be recognized by September 30, 2021 based on expected loan forgiveness activity. On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act (PPP Flexibility Act) which extended the term for new PPP loans to 5 years and permitted a lender to extend a 2-year PPP loan up to a 5-year term by mutual agreement of the lender and borrower. The PPP Flexibility Act also gives the borrower the option of 24 weeks to distribute the funds, and a borrower can remain eligible for loan forgiveness by using at least 60% of the funds for payroll costs. The SBA announced that lenders will have 60 days to review PPP loan forgiveness applications and that the SBA will remit the forgiveness payments within 90 days of receipt of approved forgiveness applications.

Following is a summary of loans and leases:

TABLE 13

December 31	**2020**	**2019**	**2018**	**2017**	**2016**
(in millions)					
Commercial real estate	**$ 9,731**	$ 8,960	$ 8,786	$ 8,742	$ 5,435
Commercial and industrial	**7,214**	5,308	4,556	4,170	3,043
Commercial leases	**485**	432	373	267	197
Other	**40**	21	46	17	36
Total commercial loans and leases	**17,470**	14,721	13,761	13,196	8,711
Direct installment	**2,020**	1,821	1,764	1,906	1,844
Residential mortgages	**3,433**	3,374	3,113	2,703	1,845
Indirect installment	**1,218**	1,922	1,933	1,448	1,196
Consumer lines of credit	**1,318**	1,451	1,582	1,746	1,301
Total consumer loans	**7,989**	8,568	8,392	7,803	6,186
Total loans and leases	**$ 25,459**	$ 23,289	$ 22,153	$ 20,999	$ 14,897

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

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

Additional information relating to originated loans and loans acquired in a business combination is provided in Note 5, “Loans and Leases” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Total loans and leases increased $2.2 billion, or 9.3%, to $25.5 billion at December 31, 2020, compared to $23.3 billion at December 31, 2019, reflecting commercial loan growth of $2.7 billion or 18.7%, and a decrease in consumer loans of $0.6 billion or 6.8%. The commercial loan growth was primarily attributed to $2.6 billion of PPP loans originated, while the decline in consumer loans was primarily due to the sale of $0.5 billion in indirect auto loans.

Total loans and leases increased $1.1 billion, or 5.1%, to $23.3 billion at December 31, 2019, compared to $22.2 billion at December 31, 2018, led by strong commercial loan activity, combined with increases in the residential mortgage and indirect installment portfolios.

As of December 31, 2020, 28.1% of the commercial real estate loans were owner-occupied, while the remaining 71.9% were non-owner-occupied, compared to 30.6% and 69.4%, respectively, as of December 31, 2019. As of December 31, 2020 and 2019, we had commercial construction loans of $1.7 billion and $1.3 billion, respectively, representing 6.8% and 5.5% of total loans and leases, respectively. Additionally, as of December 31, 2020 and 2019, we had residential construction loans of $191.5 million and $297.3 million, respectively, representing 0.8% and 1.2% of total loans and leases, respectively.

Within our primary lending footprint, certain industries are more predominant given the geographic location of these lending markets. We strive to maintain a diverse commercial loan portfolio by avoiding undue concentrations or exposures to any particular sector, and we actively monitor our commercial loan portfolio to ensure that our industry mix is consistent with our risk appetite and within targeted thresholds. Several factors are taken into consideration when determining these thresholds, including recent economic and market trends. As of December 31, 2020 and 2019, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

Following is a summary of the maturity distribution of certain loan categories with fixed and floating interest rates as of December 31, 2020:

TABLE 14

(in millions)	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial loans and leases	$ 1,682	$ 9,077	$ 6,711	$ 17,470
Residential mortgages	9	43	3,381	3,433
Total	$ 1,691	$ 9,120	$ 10,092	$ 20,903
Interest rates for loans with maturities over one year:				
Fixed		$ 4,299	$ 3,299	$ 7,598
Floating		4,821	6,793	11,614

For additional information relating to lending activity, see Note 5, "Loans and Leases" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Non-Performing Assets

Non-performing loans include non-accrual loans and non-performing TDRs. Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. We place a loan on non-accrual status and discontinue interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days, unless the loan is both well secured and in the process of collection. Commercial loans are placed on non-accrual at 90 days, installment loans are placed on non-accrual at 120 days and residential mortgages and consumer lines of credit are generally placed on non-accrual at 180 days. When a loan is placed on non-accrual status, all unpaid accrued interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate ability to collect the remaining principal and interest is reasonably assured. TDRs are loans in which the borrower has been granted a concession on the interest rate or the original repayment terms due to financial distress.

During 2020, non-performing assets increased $52.1 million. This reflects an increase of $88.9 million in non-accrual loans and a decrease of $15.2 million in OREO. Loans in COVID-19 sensitive industries, primarily within the hotel and lodging sector, contributed to the increase in non-accrual loans at the end of 2020. Prior to the adoption of CECL, acquired PCD loans were excluded from our non-performing disclosures. PCD loans that meet the definition of non-accrual are now included in the disclosures and resulted in a $54 million CECL adoption Day 1 increase in non-accrual loans compared to December 31, 2019. The decrease in OREO was largely driven by the sale of multiple pieces of real estate.

During the first half of 2020, we saw significant macroeconomic changes due to the COVID-19 pandemic. Stay-at-home orders and non-essential business closures in many of our markets temporarily suspended the income generation of some of our borrowers. Government stimulus and support programs generated through the CARES Act, such as the PPP, began to assist our borrowers through the difficult financial disruptions. We continued to offer these programs during the second half of 2020. We offered short-term modifications to our customers to assist them through this period. The programs our customers have taken advantage of are:

- Existing customers who were current prior to the start of the pandemic, can elect to defer loan principal and interest payments or interest payments for up to 90 days without late fees but will continue to accrue interest. During 2020, approximately 6,100 commercial customers have elected this option.
- Mortgage and consumer loan customers have up to a 90-day payment deferral option, depending on their loan type. During 2020, approximately 9,500 of these customers have elected this option.
- SBA disaster relief assistance, including the PPP.

The loan deferral programs can be extended on an individual basis. Total deferrals at December 31, 2020 were approximately $397 million, or 1.7%, of total loans and leases (excluding PPP loans) on deferral as of December 31, 2020, down from $2.4 billion, or 10.2% as of June 30, 2020.

As long as the borrower was not experiencing financial difficulties immediately prior to COVID-19, short-term modifications, such as principal and interest deferments, are not being included in TDRs. These modifications will be closely monitored for any future deterioration and included in the tables as the probability of collection deteriorates.

During 2019, non-performing assets decreased $6.9 million. This reflects an increase of $2.2 million in non-accrual loans and decreases of $0.3 million in TDRs and $9.4 million in OREO. The increase in non-accrual loans is attributable to the migration of three commercial credit relationships to non-accrual during 2019. The decrease in OREO reflects sales activity of the remaining Florida land projects totaling $13.2 million.

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

TABLE 15

December 31 (in millions)	**2020**	2019	2018	2017	2016
Commercial real estate	**$ 85**	$ 32	$ 23	$ 31	$ 21
Commercial and industrial	**44**	29	37	23	26
Commercial leases	**2**	1	2	2	4
Other	**1**	1	1	1	1
Total commercial loans and leases	**132**	63	63	57	52
Direct installment	**11**	13	14	17	15
Residential mortgages	**18**	17	14	16	13
Indirect installment	**2**	3	2	2	2
Consumer lines of credit	**7**	7	7	6	4
Total consumer loans	**38**	40	37	41	34
Total non-performing loans and leases (1)	**$ 170**	$ 103	$ 100	$ 98	$ 86

(1) Prior to 2020, does not include loans acquired in a business combination at fair value.

Following is a summary of non-performing assets:

TABLE 16

December 31	**2020**	**2019**	**2018**	**2017**	**2016**
(dollars in millions)					
Non-accrual loans	**$ 170**	$ 81	$ 79	$ 75	$ 66
Troubled debt restructurings	**—**	22	21	23	20
Total non-performing loans and leases	**170**	103	100	98	86
Other real estate owned	**10**	26	35	41	32
Total non-performing assets	**$ 181**	$ 129	$ 135	$ 139	$ 118
Non-performing loans / total loans and leases	**0.67 %**	0.44 %	0.45 %	0.47 %	0.58 %
Non-performing loans + OREO / total loans and leases + OREO	**0.71 %**	0.55 %	0.61 %	0.66 %	0.79 %
Non-performing assets / total assets	**0.48 %**	0.37 %	0.41 %	0.44 %	0.54 %

After the adoption of CECL, all non-accrual loans and TDRs are included in the non-accrual loans line in the above table.

Troubled Debt Restructured Loans

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.

TDRs that are accruing and performing include loans for which we can reasonably estimate the timing and amount of the expected cash flows on such loans and for which we expect to fully collect the new carrying value of the loans. TDRs that are accruing and non-performing are comprised of loans that have not demonstrated a consistent repayment pattern on the modified terms for more than six months, however it is expected that we will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent principal and interest have been paid and the ultimate ability to collect the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and may result in incremental losses which are factored into the ACL estimate. Additional information related to our TDRs is included in Note 5, “Loans and Leases” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

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

TABLE 17

(in millions)	Accruing	Non-Accrual	Total
December 31, 2020			
Commercial real estate	**$ 4**	**$ 18**	**$ 22**
Commercial and industrial	**1**	**3**	**4**
Total commercial loans	**5**	**21**	**26**
Direct installment	**23**	**4**	**27**
Residential mortgages	**24**	**7**	**31**
Consumer lines of credit	**6**	**1**	**7**
Total consumer loans	**53**	**12**	**65**
Total	**$ 58**	**$ 33**	**$ 91**
December 31, 2019			
Commercial real estate	$ 3	$ 5	$ 8
Commercial and industrial	1	3	4
Total commercial loans	4	8	12
Direct installment	18	3	21
Residential mortgages	14	3	17
Consumer lines of credit	5	1	6
Total consumer loans	37	7	44
Total	$ 41	$ 15	$ 56
December 31, 2018			
Commercial real estate	$ 3	$ 2	$ 5
Commercial and industrial	1	—	1
Total commercial loans	4	2	6
Direct installment	17	4	21
Residential mortgages	13	3	16
Consumer lines of credit	5	—	5
Total consumer loans	35	7	42
Total	$ 39	$ 9	$ 48
December 31, 2017			
Commercial real estate	$ 3	$ 4	$ 7
Commercial and industrial	3	—	3
Total commercial loans	6	4	10
Direct installment	19	3	22
Residential mortgages	15	2	17
Consumer lines of credit	4	1	5
Total consumer loans	38	6	44
Total	$ 44	$ 10	$ 54
December 31, 2016			
Commercial real estate	$ —	$ 4	$ 4
Commercial and industrial	—	2	2
Total commercial loans	—	6	6
Direct installment	19	2	21
Residential mortgages	15	1	16
Consumer lines of credit	4	—	4
Total consumer loans	38	3	41
Total	$ 38	$ 9	$ 47

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

TABLE 18

December 31	2020	2019	2018	2017	2016
(dollars in millions)					
Total loans and leases 90 days or more past due	**$ 16**	$ 42	$ 58	$ 99	$ 50
As a percentage of total loans and leases	**0.06 %**	0.18 %	0.26 %	0.47 %	0.33 %

Prior to the adoption of CECL on January 1, 2020, loans acquired in a business combination that were 90 days or more past due were considered to be accruing since we could reasonably estimate future cash flows and we expected to fully collect the carrying value of these loans.

Following is a table showing the amounts of contractual interest income and actual interest income related to non-performing loans:

TABLE 19

December 31	2020	2019	2018	2017	2016
(in millions)					
Gross interest income:					
Per contractual terms	**$ 13**	$ 13	$ 15	$ 23	$ 12
Recorded during the year	**—**	—	1	1	1

Allowance for Credit Losses on Loans and Leases

On January 1, 2020, we adopted CECL which changed how we calculate the ACL as more fully described in Note 1 to the Notes to Consolidated Financial Statements. This expected credit loss model takes into consideration the expected credit losses over the life of the loan at the time the loan is originated compared to the incurred loss model under the prior standard. At the time of the adoption, we recorded a one-time cumulative-effect adjustment of $50.6 million as a reduction to Retained Earnings. The ACL balance increased by $105 million and included a “gross-up" of PCD loan balances and the ACL of $50 million. Included in the CECL adoption impact was a Day 1 increase of $10 million to our AULC.

The model used to calculate the ACL is dependent on the portfolio composition and credit quality, as well as historical experience, current conditions and forecasts of economic conditions and interest rates. Specifically, the following considerations are incorporated into the ACL calculation:

- a third-party macroeconomic forecast scenario;
- a 24-month R&S forecast period for macroeconomic factors with a reversion to the historical mean on a straight-line basis over a 12-month period; and
- the historical through the cycle default mean calculated using an expanded period to include a prior recessionary period.

COVID-19 Impacts on the ACL

Starting in March 2020, the broader economy experienced a significant deterioration in the macroeconomic environment driven by the COVID-19 pandemic resulting in notable adverse changes to forecasted economic variables utilized in our ACL modeling process. Based on these changes, we utilized a third-party pandemic recessionary scenario through September 30, 2020 for ACL modeling purposes. For December 31, 2020, we utilized a third-party consensus macroeconomic forecast due to the improving macroeconomic environment. This scenario captures forecasted macroeconomic variables as of mid-December to ensure our ACL calculation considers the most recently available macroeconomic data in a quickly evolving environment at quarter-end. Macroeconomic variables that we utilized from this scenario for our ACL calculation as of December 31, 2020 included but were not limited to: (i) gross domestic product, which reflects growth of up to 4% in 2021, (ii) the Dow Jones Total Stock Market Index, which grows steadily throughout the R&S period, (iii) unemployment, which steadily declines and averages 6% over the R&S period and (iv) the Volatility Index, which remains stable over the R&S period.

Following is a summary of changes in the ACL related to loans and leases:

TABLE 20

Year Ended December 31 (dollars in millions)	2020	2019	2018	2017	2016
Balance at beginning of period	**$ 196**	$ 180	$ 175	$ 158	$ 142
Charge-offs:					
Commercial real estate	**(31)**	(4)	(7)	(2)	(7)
Commercial and industrial	**(32)**	(10)	(20)	(27)	(19)
Commercial leases	**(1)**	—	(3)	(1)	(1)
Other	**(4)**	(3)	(4)	(4)	(3)
Commercial loans and leases	**(68)**	(17)	(34)	(34)	(30)
Direct installment	**(1)**	(1)	(17)	(12)	(10)
Residential mortgages	**(2)**	(2)	—	—	—
Indirect installment	**(8)**	(11)	(9)	(10)	(8)
Consumer lines of credit	**(2)**	(2)	(3)	(2)	(2)
Consumer loans	**(13)**	(16)	(29)	(24)	(20)
Loans acquired in a business combination	**—**	(9)	(7)	(2)	(1)
Total charge-offs	**(81)**	(42)	(70)	(60)	(51)
Recoveries:					
Commercial real estate	**7**	4	3	2	4
Commercial and industrial	**7**	4	2	2	2
Other	**1**	—	—	1	—
Commercial loans and leases	**15**	8	5	5	6
Direct installment	**1**	—	2	2	2
Residential mortgages	**1**	—	—	—	—
Indirect installment	**4**	4	4	4	2
Consumer loans	**6**	4	6	6	4
Loans acquired in a business combination	**—**	2	3	5	1
Total recoveries	**21**	14	14	16	11
Net charge-offs	**(60)**	(28)	(56)	(44)	(40)
Provision for credit losses	**122**	44	61	61	56
ASC 326 adoption impact	**55**	—	—	—	—
Initial ACL on PCD loans	**50**	—	—	—	—
Balance at end of period	**$ 363**	$ 196	$ 180	$ 175	$ 158
Net loan charge-offs/average loans	**0.24 %**	0.12 %	0.26 %	0.22 %	0.28 %
Allowance for credit losses/total loans and leases	**1.43 %**	0.84 %	0.81 %	0.84 %	1.06 %
Allowance for credit losses/non-performing loans	**212.64 %**	190.29 %	180.37 %	178.75 %	183.99 %

Following is a summary of changes in the AULC by portfolio segment:

TABLE 21

Year Ended December 31	**2020**
(in millions)	
Balance at beginning of period	**$ 3**
Provision for unfunded loan commitments and letters of credit:	
Commercial portfolio	**1**
Consumer portfolio	**—**
ASC 326 adoption impact:	
Commercial portfolio	**8**
Consumer portfolio	**2**
Balance at end of period	**$ 14**

The ACL at December 31, 2020 increased $167.2 million or 85.4% from December 31, 2019, primarily due to the adoption of CECL, as discussed above. The ratio of the ACL to total loans and leases was 1.43% and 0.84% at December 31, 2020 and 2019, respectively, with the 2020 figure reflecting the adoption of CECL and COVID-19 impacts. Excluding PPP loans that do not carry an ACL due to a 100% government guarantee, the ACL to total loans and leases ratio equaled 1.56% at December 31, 2020. The provision for credit losses during 2020 was $122.8 million, which reflected COVID-19 related macroeconomic impacts and life-of-loan CECL reserving requirements in 2020. Net charge-offs totaled $59.8 million or 0.24% of total average loans, compared to $28.3 million or 0.12% in 2019, reflecting COVID-19 impacts on certain segments of the loan portfolio.

The ACL at December 31, 2019 increased $16.2 million or 9.0% from December 31, 2018, in response to growth in originated loans and some migration in the commercial and indirect portfolios. The provision for credit losses during 2019 was $44.6 million, which covered net charge-offs and supported organic loan growth.

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

Following is a summary of the allocation of the ACL and the percentage of loans in each category to total loans:

TABLE 22

December 31	2020		2019		2018		2017		2016	
(dollars in millions)	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans
Commercial real estate	**$ 181**	**38 %**	$ 60	30 %	$ 55	28 %	$ 50	25 %	$ 47	28 %
Commercial and industrial	**81**	**29**	53	22	49	19	52	17	48	18
Commercial leases	**17**	**2**	11	2	8	2	5	1	3	1
Other	**1**	**—**	2	—	2	—	2	—	1	—
Commercial loans and leases	**280**	**69**	126	54	114	49	109	43	99	47
Direct installment	**26**	**8**	13	8	14	7	21	8	21	12
Residential mortgages	**34**	**13**	22	13	20	12	16	10	10	10
Indirect installment	**11**	**5**	19	8	15	9	12	7	11	8
Consumer lines of credit	**12**	**5**	9	5	10	5	10	5	10	7
Consumer loans	**83**	**31**	63	34	59	33	59	30	52	37
Total originated loans	**363**	**100**	189	88	173	82	168	73	151	84
Loans acquired in a business combination	**—**	**—**	7	12	7	18	7	27	7	16
Total	**$ 363**	**100 %**	$ 196	100 %	$ 180	100 %	$ 175	100 %	$ 158	100 %

With the adoption of CECL on January 1, 2020, we no longer separately reflect an ACL on loans acquired in a business combination. The ACL on those loans are reflected in their respective loan categories.

During 2020, the ACL allocated to commercial real estate and commercial and industrial loans increased primarily due to the adoption of CECL, as previously discussed, and also to support loan growth.

During 2019, the ACL allocated to commercial real estate and commercial and industrial loans increased to support organic loan growth and $2.6 million of additional specific reserves, and indirect installment increased due to an increase in early stage delinquency. Additionally, the increases in residential mortgages and commercial leases support organic loan growth.

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

Investment Activity

Investment activities serve to generate net interest income while supporting interest rate sensitivity and liquidity positions. Securities purchased with the intent and ability to hold until maturity are categorized as securities HTM and carried at amortized cost. All other securities are categorized as securities AFS and are recorded at fair value. Securities, like loans, are subject to similar interest rate and credit risk. In addition, by their nature, securities classified as AFS are also subject to fair value risks that could negatively affect the level of liquidity available to us, as well as stockholders' equity. A change in the value of securities HTM could also negatively affect the level of stockholders' equity if there was a decline in the underlying creditworthiness of the issuers and an OTTI is deemed to have occurred or if there was a change in our intent and ability to hold the securities to maturity.

As of December 31, 2020, debt securities classified as AFS and HTM totaled $3.5 billion and $2.9 billion, respectively. During 2020, debt securities AFS increased by $174.1 million and debt securities HTM decreased by $407.8 million from December 31, 2019. As of December 31, 2020 and 2019, we did not hold any trading securities.

The following table indicates the respective maturities and weighted-average yields of debt securities as of December 31, 2020:

TABLE 23

(dollars in millions)	Amount	Weighted Average Yield
Obligations of U.S. Treasury:		
Maturing within one year	$ 600	0.08 %
Maturing after five years but within ten years	1	5.25
Obligations of U.S. government agencies:		
Maturing after one year but within five years	6	1.79
Maturing after five years but within ten years	83	1.10
Maturing after ten years	84	0.83
Obligations of U.S. government-sponsored entities:		
Maturing within one year	160	1.43
Maturing after one year but within five years	96	1.31
Maturing after five years but within ten years	25	0.58
States of the U.S. and political subdivisions:		
Maturing within one year	4	2.96
Maturing after one year but within five years	32	2.12
Maturing after five years but within ten years	165	3.01
Maturing after ten years	939	3.64
Other debt securities:		
Maturing after five years but within ten years	2	1.03
Residential mortgage-backed securities:		
Agency mortgage-backed securities	1,763	2.02
Agency collateralized mortgage obligations	1,686	1.92
Commercial mortgage-backed securities	685	2.40
Total	$ 6,331	2.06 %

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

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

TABLE 24

December 31	**2020**	**2019**	**2018**
(in millions)			
Securities Available for Sale:			
U.S. Treasury	**$ 600**	$ —	$ —
U.S. government agencies	**172**	152	188
U.S. government-sponsored entities	**160**	225	317
Residential mortgage-backed securities:			
Agency mortgage-backed securities	**959**	1,310	1,465
Agency collateralized mortgage obligations	**1,094**	1,234	1,179
Commercial mortgage-backed securities	**361**	341	229
States of the U.S. and political subdivisions	**32**	11	21
Other debt securities	**2**	2	2
Total debt securities available for sale	**$ 3,380**	$ 3,275	$ 3,401
Debt Securities Held to Maturity:			
U.S. Treasury	**$ 1**	$ 1	$ 1
U.S. government agencies	**1**	1	2
U.S. government-sponsored entities	**120**	175	215
Residential mortgage-backed securities:			
Agency mortgage-backed securities	**769**	949	1,036
Agency collateralized mortgage obligations	**562**	721	794
Commercial mortgage-backed securities	**307**	308	126
States of the U.S. and political subdivisions	**1,108**	1,120	1,080
Total debt securities held to maturity	**$ 2,868**	$ 3,275	$ 3,254

The increase in U.S. Treasury securities is a result of our strategic reduction in other investment categories, as reinvestment opportunities were less attractive in the low interest rate environment. For additional information relating to investment activity, see Note 3, "Securities" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Deposits

As a bank holding company, our primary source of funds is deposits. These deposits are provided by business, consumer and municipal customers who we serve within our footprint.

Following is a summary of deposits:

TABLE 25

December 31	**2020**	**2019**	**$ Change**	**% Change**
(in millions)				
Non-interest-bearing demand	**$ 9,042**	$ 6,384	$ 2,658	41.6 %
Interest-bearing demand	**13,157**	11,049	2,108	19.1
Savings	**3,261**	2,625	636	24.2
Certificates and other time deposits	**3,662**	4,728	(1,066)	(22.5)
Total deposits	**$ 29,122**	$ 24,786	$ 4,336	17.5 %

Total deposits increased during 2020, as a result of growth in non-interest-bearing and interest-bearing balances due to an expansion of customer relationships and higher customer balances, which were aided by inflows from the PPP and government stimulus activity. During the year, customer preferences shifted away from higher rate certificates of deposit to lower yielding, more liquid products. The deposit growth helped us eliminate overnight borrowings and substantially reduce other short-term borrowings.

Following is a summary of time deposits of $100,000 or more by remaining maturity at December 31, 2020:

TABLE 26

(in millions)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	$ 392	$ 26	$ 418
Three to six months	316	25	341
Six to twelve months	414	34	448
Over twelve months	450	110	560
Total	$ 1,572	$ 195	$ 1,767

Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. Short-term borrowings, made up of customer repurchase agreements (also referred to as securities sold under repurchase agreements), FHLB advances, federal funds purchased and subordinated notes, decreased to $1.8 billion at December 31, 2020 from $3.2 billion at December 31, 2019, due to a $1.0 billion decline in short-term FHLB borrowings and the elimination of the $0.6 billion in federal funds purchased position.

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

TABLE 27

At or for the Year Ended December 31	**2020**	**2019**	**2018**
(dollars in millions)			
FHLB Advances (Short-term)			
Balance at year-end	**$ 1,280**	$ 2,255	$ 2,230
Maximum month-end balance	**2,055**	2,620	2,800
Average balance during year	**1,699**	1,797	1,932
Weighted average interest rates:			
At year-end	**1.97 %**	1.90 %	2.64 %
During the year	**0.88**	2.52	2.14
Federal Funds Purchased			
Balance at year-end	**$ —**	$ 575	$ 1,535
Maximum month-end balance	**1,420**	1,957	1,830
Average balance during year	**348**	1,383	1,585
Weighted average interest rates:			
At year-end	**— %**	1.57 %	2.51 %
During the year	**1.08**	2.35	1.93

For additional information relating to deposits and short-term borrowings, see Note 12, “Deposits” and Note 13, “Short-Term Borrowings” in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Capital Resources

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

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

We have an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, we may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities, depositary shares, warrants, stock purchase contracts or units. On February 24, 2020, we completed an offering of $300.0 million of 2.20% fixed rate senior notes due in 2023 under this registration statement. The net proceeds of the debt offering after deducting underwriting discounts and commissions and offering expenses were $297.9 million. We used the net proceeds from the sale of the notes for general corporate purposes, which included investments at the holding company level, capital to support the growth of FNBPA, repurchase of our common shares and refinancing of outstanding indebtedness.

On February 14, 2019, we completed an offering of $120.0 million of 4.950% fixed-to-floating rate subordinated notes due in 2029 under this registration statement. The subordinated notes are treated as tier 2 capital for regulatory capital purposes. The net proceeds of this debt offering after deducting underwriting discounts and commissions and offering expenses were $118.2 million. We used the net proceeds from the sale of the subordinated notes to redeem higher-rate long-term borrowings and for general corporate purposes.

On September 23, 2019 we announced that our Board of Directors approved a share repurchase program for the repurchase of up to an aggregate of $150 million of our common stock. The repurchases will be made from time to time on the open market at prevailing market prices or in privately negotiated transactions. The purchases will be funded from available working capital. There is no guarantee as to the exact number of shares that will be repurchased and we may discontinue purchases at any time. During 2020, we repurchased 4.0 million shares at a weighted average share price of $9.63 for $38.4 million under this repurchase program.

Capital management is a continuous process with capital plans and stress testing for FNB and FNBPA updated at least annually. These capital plans include assessing the adequacy of expected capital levels assuming various scenarios by projecting capital needs for a forecast period of 2-3 years beyond the current year. Both FNB and FNBPA are subject to various regulatory capital requirements administered by federal banking agencies. For additional information, see Note 22, “Regulatory Matters” in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report. From time to time, we issue shares initially acquired by us as treasury stock under our various benefit plans. We may issue additional preferred or common stock in order to maintain our well-capitalized status.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth contractual obligations of principal that represent required and potential cash outflows as of December 31, 2020:

TABLE 28

(in millions)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Deposits without a stated maturity	$ 25,460	$ —	$ —	$ —	$ 25,460
Certificates and other time deposits	2,464	919	223	56	3,662
Operating leases	25	38	27	64	154
Long-term debt	427	350	105	213	1,095
Total	$ 28,376	$ 1,307	$ 355	$ 333	$ 30,371

The following table sets forth the amounts and expected maturities of commitments to extend credit and standby letters of credit as of December 31, 2020:

TABLE 29

(in millions)	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Commitments to extend credit	$ 6,153	$ 1,676	$ 846	$ 610	$ 9,285
Standby letters of credit	152	5	1	—	158
Total	$ 6,305	$ 1,681	$ 847	$ 610	$ 9,443

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements because while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. Additionally, a significant portion of these commitments can be terminated by FNB. For additional information relating to commitments to extend credit and standby letters of credit, see Note 16, "Commitments, Credit Risk and Contingencies" in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

LIQUIDITY

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

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

The principal sources of the parent company's liquidity are its strong existing cash resources plus dividends it receives from its subsidiaries. These dividends may be impacted by the parent's or its subsidiaries' capital needs, statutory laws and regulations, corporate policies, contractual restrictions, profitability and other factors. In addition, through one of our subsidiaries, we regularly issue subordinated notes, which are guaranteed by FNB. Management has utilized various strategies to ensure sufficient cash on hand is available to meet the parent's funding needs. On February 24, 2020, we completed a senior debt offering whereby we issued $300.0 million aggregate principal amount of 2.20% senior notes due in 2023. The proceeds from this transaction were used for general corporate purposes and were the primary factor resulting in an increase in our MCH liquidity metric as shown below.

Starting in March 2020, management incorporated potential liquidity impacts related to COVID-19 into our daily analysis. Management concluded that our cash levels remain appropriate given the current market environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the LCR and MCH. The LCR is defined as the sum of cash on hand plus projected cash inflows over the next 12 months divided by projected cash outflows over the next 12 months. The MCH is defined as the number of months of corporate expenses and dividends that can be covered by the cash on hand.

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

TABLE 30

December 31	2020	2019	Internal Limit
Liquidity coverage ratio	**2.7 times**	2.2 times	> 1 time
Months of cash on hand	**22.2 months**	15.2 months	> 12 months

Our liquidity position has been positively impacted by our ability to generate growth in relationship-based accounts. Organic growth in low-cost transaction deposits was complemented by management's strategy of deposit gathering efforts focused on attracting new customer relationships and deepening relationships with existing customers, in part through internal lead generation efforts leveraging data analytics capabilities. Total deposits were $29.1 billion at December 31, 2020, an increase of $4.3 billion, or 17.5%, from December 31, 2019. Total non-interest-bearing demand deposit accounts grew $2.7 billion, or 41.6%, total interest-bearing demand deposit accounts grew $2.1 billion, or 19.1%, savings accounts grew $0.6 billion, or 24.2%, and time deposits decreased $1.1 billion, or 22.5%. As mentioned earlier, inflows from PPP and government stimulus checks were a significant factor in the deposit growth.

The significant increase in customer deposits, along with the proceeds from the sale of $0.5 billion in indirect auto loans, resulted in a $1.7 billion reduction in borrowings. The reduction in borrowings included the termination of $715 million in FHLB advances that had a rate of 2.49%. Finally, our cash held at the FRB was $0.8 billion at December 31, 2020, an increase of $0.7 billion as we shifted from a Federal Funds Purchased position of $0.6 billion at December 31, 2019 to an excess cash position held at the FRB at December 31, 2020.

FNBPA has significant unused wholesale credit availability sources that include the availability to borrow from the FHLB, the FRB, correspondent bank lines, access to brokered deposits, the PPPLF and other channels. In addition to credit availability, FNBPA also possesses salable unpledged government and agency securities that could be utilized to meet funding needs. We currently also have excess cash to meet our pledging requirements. The ALCO is currently targeting a 1% guideline level for salable unpledged government and agency securities due to an elevated influx of related deposits, in part related to the PPP, combined with a strategic decline of $234 million of investment securities, which represents 0.6% of total assets.

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

TABLE 31

December 31	2020	2019
(dollars in millions)		
Unused wholesale credit availability	**$ 16,434**	$ 11,154
Unused wholesale credit availability as a % of FNBPA assets	**44.1 %**	32.3 %
Salable unpledged government and agency securities	**$ 546**	$ 1,788
Salable unpledged government and agency securities as a % of FNBPA assets	**1.5 %**	5.2 %

The PPPLF accounted for 42% of the $5.2 billion increase in availability since December 31, 2019. This funding source has been extended to March 31, 2021. We also had $828.3 million, or 2.4% of total assets, in excess cash available to meet our pledging requirements.

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis as of December 31, 2020 compares the difference between our cash flows from existing earning assets and interest-bearing liabilities over future time intervals. Management seeks to limit the size of the liquidity gaps so that sources and uses of funds are reasonably matched in the normal course of business. A reasonably matched position lays a better foundation for dealing with additional funding needs during a potential liquidity crisis. The twelve-month cumulative gap to total assets ratio was 8.2% as of December 31, 2020 compared to (0.3)% as of December 31, 2019. Management calculates this ratio at least quarterly and it is reviewed monthly by ALCO.

TABLE 32

(dollars in millions)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$ 771	$ 1,483	$ 1,852	$ 3,302	$ 7,408
Investments	1,491	506	361	692	3,050
	2,262	1,989	2,213	3,994	10,458
Liabilities					
Non-maturity deposits	514	1,029	977	1,641	4,161
Time deposits	298	558	681	932	2,469
Borrowings	13	172	235	363	783
	825	1,759	1,893	2,936	7,413
Period Gap (Assets - Liabilities)	$ 1,437	$ 230	$ 320	$ 1,058	$ 3,045
Cumulative Gap	$ 1,437	$ 1,667	$ 1,987	$ 3,045	
Cumulative Gap to Total Assets	3.8 %	4.5 %	5.3 %	8.2 %	

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

MARKET RISK

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

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

Interest rate risk is comprised of repricing risk, basis risk, yield curve risk and options risk. Repricing risk arises from differences in the cash flow or repricing between asset and liability portfolios. Basis risk arises when asset and liability portfolios are related to different market rate indices, which do not always change by the same amount. Yield curve risk arises when asset and liability portfolios are related to different maturities on a given yield curve; when the yield curve changes shape, the risk position is altered. Options risk arises from “embedded options” within asset and liability products as certain borrowers have the option to prepay their loans, which may be with or without penalty, when rates fall, while certain depositors can redeem their certificates of deposit early, which may be with or without penalty, when rates rise.

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

The following repricing gap analysis as of December 31, 2020 compares the difference between the amount of interest-earning assets and interest-bearing liabilities subject to repricing over a period of time. Management utilizes the repricing gap analysis as a diagnostic tool in managing net interest income and EVE risk measures.

TABLE 33

(dollars in millions)	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$ 10,133	$ 2,620	$ 1,264	$ 2,169	$ 16,186
Investments	1,496	510	518	679	3,203
	11,629	3,130	1,782	2,848	19,389
Liabilities					
Non-maturity deposits	9,130	—	—	—	9,130
Time deposits	407	558	678	929	2,572
Borrowings	1,412	757	12	18	2,199
	10,949	1,315	690	947	13,901
Off-balance sheet	550	530	—	(100)	980
Period Gap (assets - liabilities + off-balance sheet)	$ 1,230	$ 2,345	$ 1,092	$ 1,801	$ 6,468
Cumulative Gap	$ 1,230	$ 3,575	$ 4,667	$ 6,468	
Cumulative Gap to Assets	3.7 %	10.9 %	14.2 %	19.6 %	

The twelve-month cumulative repricing gap to total assets was 19.6% and 7.0% as of December 31, 2020 and 2019, respectively. The positive cumulative gap positions indicate that we have a greater amount of repricing earning assets than repricing interest-bearing liabilities over the subsequent twelve months. If interest rates increase as modeled, net interest income will increase and, conversely, if interest rates decrease as modeled, net interest income will decrease. The change in the cumulative repricing gap at December 31, 2020, compared to December 31, 2019, is primarily related to growth and changes in the mix of loans, deposits and borrowings. Strong commercial loan growth, a large portion of which was swapped to adjustable rates, and the increased cash flow from the loan and investment portfolios, were partially offset by growth in and repricing of certain interest-bearing non-maturity deposit balances and the repayment of FHLB advances. The funding and redemption of both fixed and adjustable borrowings that were swapped to a fixed rate was opportunistically transacted to take advantage of the lower interest rate environment and add liquidity to support loan growth.

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

Utilizing net interest income simulations, the following net interest income metrics were calculated using rate shocks which move market rates in an immediate and parallel fashion. The variance percentages represent the change between the net interest income and EVE calculated under the particular rate scenario compared to the net interest income and EVE that was calculated assuming market rates as of December 31, 2020. Using a static Balance Sheet structure, the measures do not reflect all of management's potential counteractions.

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

TABLE 34

December 31,	2020	2019	ALCO Limits
Net interest income change (12 months):			
+ 300 basis points	**17.9 %**	6.5 %	n/a
+ 200 basis points	**12.0**	4.6	(5.0)%
+ 100 basis points	**5.9**	2.5	(5.0)
– 100 basis points	**(0.4)**	(4.1)	(5.0)
Economic value of equity:			
+ 300 basis points	**8.8**	(2.0)	(25.0)
+ 200 basis points	**7.1**	(0.5)	(15.0)
+ 100 basis points	**4.5**	0.2	(10.0)
– 100 basis points	**(9.4)**	(3.8)	(10.0)

We also model rate scenarios which move all rates gradually over twelve months (Rate Ramps) and model scenarios that gradually change the shape of the yield curve. Assuming a static Balance Sheet, a +100 basis point Rate Ramp increases net interest income (12 months) by 3.2% and 1.5% at December 31, 2020 and 2019, respectively. The corresponding metrics for a minus 100 basis point Rate Ramp are 0.4% and (2.0)% at December 31, 2020 and 2019, respectively.

The FRB's rapid and large downward interest rate moves in March 2020 as a response to the COVID-19 pandemic lowered all market interest rates, specifically 1-month LIBOR. Thirty-five percent of our loans are indexed to one-month LIBOR. Further, the yield curve flattened. These factors were the primary drivers of the increase in asset sensitivity off of a lower base net interest income. In this historically low rate environment, our strategy is to remain asset sensitive.

There are multiple factors that influence our interest rate risk position and impact Net Interest Income. These include external factors such as the shape of the yield curve and expectations regarding future interest rates, as well as internal factors regarding product offerings, product mix and pricing of loans and deposits.

Management utilizes various tactics to achieve our desired interest rate risk (IRR) position. In response to the change in interest rates, management was proactive in addressing our IRR position. As mentioned earlier, we were successful in growing our transaction deposits which provides funding that is less interest rate-sensitive than short-term time deposits and wholesale borrowings. Also, we were able to lower rates on deposit products and shorten the term of the certificates of deposit volumes. This continues to be an intense focus of management. Further, during the second half of the year, management took advantage of the interest rate environment to reduce borrowing costs. On the lending side, we regularly sell long-term fixed-rate residential mortgages to the secondary market and have been successful in the origination of consumer and commercial loans with short-term repricing characteristics. In particular, we have made use of interest rate swaps to commercial borrowers (commercial swaps) to manage our IRR position as the commercial swaps effectively increase adjustable-rate loans. Total variable and adjustable-rate loans were 56.0% and 59.1% of total loans as of December 31, 2020 and 2019, respectively. As of December 31, 2020, 80.2% of these loans, or 44.9% of total loans, are tied to the Prime or one-month LIBOR rates. As of December 31, 2020, the commercial swaps totaled $4.8 billion of notional principal, with $1.4 billion in original notional swap principal originated during 2020. For additional information regarding interest rate swaps, see Note 15, “Derivative and Hedging Activities” to the financial statements in this Report. The investment portfolio is also used, in part, to manage our IRR position.

We recognize that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as prepayment rates on interest-earning assets and repricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon our experience, business plans, economic and market trends and available industry data. While management believes that its methodology for developing such assumptions is reasonable, there can be no assurance that modeled results will be achieved. Furthermore, the metrics are based upon the Balance Sheet structure as of the valuation date and do not reflect the planned growth or management actions that could be taken.

RISK MANAGEMENT

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

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

We support our risk management process through a governance structure involving our Board of Directors and senior management. The joint Risk Committee of our Board of Directors and the FNBPA Board of Directors helps ensure that business decisions are executed within appropriate risk tolerances. The Risk Committee has oversight responsibilities with respect to the following:

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

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

As noted above, we have a Risk Management Council comprised of senior management. The purpose of this committee is to provide regular oversight of specific areas of risk with respect to the level of risk and risk management structure. Management has also established an Operational Risk Committee that is responsible for identifying, evaluating and monitoring operational risks across FNB, evaluating and approving appropriate remediation efforts to address identified operational risks and providing periodic reports concerning operational risks to the Risk Management Council. The Risk Management Council reports on a regular basis to the Risk Committee of our Board of Directors regarding our enterprise-wide risk profile and other significant risk management issues. Our Chief Risk Officer is responsible for the design and implementation of our enterprise-wide risk management strategy and framework through the multiple second line of defense areas, including the following departments: Enterprise-Wide Risk Management, Fraud Risk, Loan Review, Model Risk Management, Third-Party Risk Management, Anti-Money Laundering and Bank Secrecy Act, CRA, Appraisal Review, Compliance, and Information and Cyber Security. All second line of defense departments report to the Chief Risk Officer to ensure the coordinated and consistent implementation of risk management initiatives and strategies on a day-to-day basis. Our Enterprise-Wide Risk Management Department conducts risk and control assessments across all of our business and operational areas to ensure the appropriate risk identification, risk management and reporting of risks enterprise-wide. The Fraud Risk Department monitors for internal and external fraud risk across all of our business and operational units. The Loan Review Department conducts independent testing of our loan risk ratings to ensure their accuracy, which is instrumental to calculating our ACL. Our Model Risk Management Department oversees validation and testing of all models used in managing risk across our company. Our Third-Party Risk Management Department ensures effective risk management and oversight of third-party relationships throughout the vendor life cycle. The Anti-Money Laundering and Bank Secrecy Act Department monitors for compliance with money laundering risk and associated regulatory compliance requirements. Our Community Reinvestment Department monitors for compliance with the requirements of the CRA. The Appraisal Review Department facilitates independent ordering and review of real estate appraisals obtained for determining the value of real estate pledged as collateral for loans to customers. Our Compliance Department is responsible for developing policies and procedures and monitoring compliance with applicable laws and regulations which govern our business operations. Our Information and Cyber Security Department is responsible for maintaining a risk assessment of our information and cybersecurity risks and ensuring appropriate controls are in place to manage and control such risks, through the use of the National Institute of Standards and Technology framework for improving critical infrastructure by measuring and evaluating the effectiveness of information and cybersecurity controls. As discussed in more detail under the COVID-19 section of this Report, we have in place various business and emergency continuity plans to respond to different crises and circumstances which include rapid deployment of our Crisis Management Team, Incident Management Team and Business Continuity Coordinators to activate our plans for various types of emergency circumstance. Further, our audit function performs an independent assessment of our internal controls environment and plays an integral role in testing the operation of the internal controls systems and reporting findings to management and our Audit Committee. Each of the Risk, Audit, Credit Risk and CRA Committees of our Board of Directors regularly report on risk-related matters to the full Board of Directors. In addition, both the Risk Committee of our Board of Directors and our Risk Management Council regularly assess our enterprise-wide risk profile and provide guidance on actions needed to address key and emerging risk issues.

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

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

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

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

TABLE 35

Operating net income available to common stockholders

Year Ended December 31	2020	2019	2018	2017	2016
(in thousands)					
Net income available to common stockholders	$ 277,965	$ 379,208	$ 364,817	$ 191,163	$ 162,850
Merger-related expense	—	—	—	56,513	37,439
Tax benefit of merger-related expense	—	—	—	(18,846)	(12,550)
Merger-related net securities gains	—	—	—	(2,609)	—
Tax expense of merger-related net securities gains	—	—	—	913	—
Reduction in valuation of deferred tax assets	—	—	—	54,042	—
COVID-19 expense	11,276	—	—	—	—
Tax benefit of COVID-19 expense	(2,368)	—	—	—	—
Discretionary 401(k) contribution	—	—	874	—	—
Tax benefit of discretionary 401(k) contribution	—	—	(184)	—	—
Gain on sale of Visa class B stock	(13,818)	—	—	—	—
Tax expense of gain on sale of Visa class B stock	2,902	—	—	—	—
Loss on FHLB debt extinguishment and related hedge terminations	25,611	—	—	—	—
Tax benefit of loss on FHLB debt extinguishment and related hedge terminations	(5,378)	—	—	—	—
Gain on sale of subsidiary	—	—	(5,135)	—	—
Tax expense of gain on sale of subsidiary	—	—	1,078	—	—
Branch consolidation costs	18,745	4,505	6,616	—	—
Tax benefit of branch consolidation costs	(3,936)	(946)	(1,389)	—	—
Service charge refunds	3,780	4,279	—	—	—
Tax benefit of service charge refunds	(794)	(899)	—	—	—
Operating net income available to common stockholders (non-GAAP)	$ 313,985	$ 386,147	$ 366,677	$ 281,176	$ 187,739

The table above shows how operating net income available to common stockholders (non-GAAP) is derived from amounts reported in our financial statements. We believe certain charges such as merger expenses, branch consolidation costs, service charge refunds, COVID-19 expenses and special one-time employee 401(k) contributions related to tax reform are not organic costs to run our operations and facilities. The merger expenses and branch consolidation charges principally represent expenses to satisfy contractual obligations of the acquired entity or closed branches without any useful ongoing benefit to us. These costs are specific to each individual transaction and may vary significantly based on the size and complexity of the transaction. Similarly, gains derived from the sale of a business and gains on sale of Visa class B stock and losses on FHLB debt extinguishment and related hedge terminations are not organic to our operations. The COVID-19 expenses represent special Company initiatives to support our front-line employees and the communities we serve during an unprecedented time of a pandemic.

TABLE 36

Operating earnings per diluted common share

Year Ended December 31	2020	2019	2018	2017	2016
Net income per diluted common share	$ 0.85	$ 1.16	$ 1.12	$ 0.63	$ 0.78
Merger-related expense	—	—	—	0.19	0.18
Tax benefit of merger-related expense	—	—	—	(0.06)	(0.06)
Merger-related net securities gains	—	—	—	(0.01)	—
Tax expense of merger-related net securities gains	—	—	—	—	—
Reduction in valuation of deferred tax assets	—	—	—	0.18	—
COVID-19 expense	0.03	—	—	—	—
Tax benefit of COVID-19 expense	(0.01)	—	—	—	—
Discretionary 401(k) contribution	—	—	—	—	—
Tax benefit of discretionary 401(k) contribution	—	—	—	—	—
Gain on sale of Visa class B stock	(0.04)	—	—	—	—
Tax expense of gain on sale of Visa class B stock	0.01	—	—	—	—
Loss on FHLB debt extinguishment and related hedge terminations	0.08	—	—	—	—
Tax benefit of loss on FHLB debt extinguishment and related hedge terminations	(0.02)	—	—	—	—
Gain on sale of subsidiary	—	—	(0.01)	—	—
Tax expense of gain on sale of subsidiary	—	—	0.01	—	—
Branch consolidation costs	0.06	0.01	0.02	—	—
Tax benefit of branch consolidation costs	(0.01)	—	(0.01)	—	—
Service charge refunds	0.01	0.01	—	—	—
Tax benefit of service charge refunds	—	—	—	—	—
Operating earnings per diluted common share (non-GAAP)	$ 0.96	$ 1.18	$ 1.13	$ 0.93	$ 0.90

TABLE 37

Return on average tangible common equity

Year Ended December 31	2020	2019	2018
(dollars in thousands)			
Net income available to common stockholders	$ 277,965	$ 379,208	$ 364,817
Amortization of intangibles, net of tax	10,556	11,192	12,365
Tangible net income available to common stockholders (non-GAAP)	$ 288,521	$ 390,400	$ 377,182
Average total stockholders' equity	$ 4,904,300	$ 4,757,465	$ 4,490,833
Less: Average preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Average intangible assets [1]	(2,322,981)	(2,331,630)	(2,334,727)
Average tangible common equity (non-GAAP)	$ 2,474,437	$ 2,318,953	$ 2,049,224
Return on average tangible common equity (non-GAAP)	11.66 %	16.84 %	18.41 %

(1) Excludes loan servicing rights.

TABLE 38

Return on average tangible assets

Year Ended December 31	2020	2019	2018
(dollars in thousands)			
Net income	$ 286,006	$ 387,249	$ 372,858
Amortization of intangibles, net of tax	10,556	11,192	12,365
Tangible net income (non-GAAP)	$ 296,562	$ 398,441	$ 385,223
Average total assets	$ 36,607,430	$ 33,850,763	$ 32,138,497
Less: Average intangible assets [1]	(2,322,981)	(2,331,630)	(2,334,727)
Average tangible assets (non-GAAP)	$ 34,284,449	$ 31,519,133	$ 29,803,770
Return on average tangible assets (non-GAAP)	0.87 %	1.26 %	1.29 %

(1) Excludes loan servicing rights.

TABLE 39

Tangible book value per common share

December 31	2020	2019	2018
(dollars in thousands, except per share data)			
Total stockholders' equity	$ 4,958,903	$ 4,883,198	$ 4,608,285
Less: Preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Intangible assets (1)	(2,316,527)	(2,329,545)	(2,333,375)
Tangible common equity (non-GAAP)	$ 2,535,494	$ 2,446,771	$ 2,168,028
Ending common shares outstanding	321,629,529	325,014,560	324,314,529
Tangible book value per common share (non-GAAP)	$ 7.88	$ 7.53	$ 6.68

(1) Excludes loan servicing rights.

TABLE 40

Tangible equity to tangible assets (period-end)

December 31	2020	2019	2018
(dollars in thousands)			
Total stockholders' equity	$ 4,958,903	$ 4,883,198	$ 4,608,285
Less: Intangible assets [1]	(2,316,527)	(2,329,545)	(2,333,375)
Tangible equity (non-GAAP)	$ 2,642,376	$ 2,553,653	$ 2,274,910
Total assets	$ 37,354,351	$ 34,615,016	$ 33,101,840
Less: Intangible assets [1]	(2,316,527)	(2,329,545)	(2,333,375)
Tangible assets (non-GAAP)	$ 35,037,824	$ 32,285,471	$ 30,768,465
Tangible equity / tangible assets (period-end) (non-GAAP)	7.54 %	7.91 %	7.39 %

(1) Excludes loan servicing rights.

TABLE 41

Tangible common equity / tangible assets (period-end)

(dollars in thousands)	2020	2019	2018
Total stockholders' equity	$ 4,958,903	$ 4,883,198	$ 4,608,285
Less: Preferred stockholders' equity	(106,882)	(106,882)	(106,882)
Less: Intangible assets [(1)]	(2,316,527)	(2,329,545)	(2,333,375)
Tangible common equity (non-GAAP)	$ 2,535,494	$ 2,446,771	$ 2,168,028
Total assets	$ 37,354,351	$ 34,615,016	$ 33,101,840
Less: Intangible assets [(1)]	(2,316,527)	(2,329,545)	(2,333,375)
Tangible assets (non-GAAP)	$ 35,037,824	$ 32,285,471	$ 30,768,465
Tangible common equity / tangible assets (period-end) (non-GAAP)	7.24 %	7.58 %	7.05 %

(1) Excludes loan servicing rights.

TABLE 42

Allowance for credit losses / loans and leases, excluding PPP (period-end)

December 31	**2020**
(dollars in thousands)	
ACL - loans	$ 363,107
Loans and leases	$25,458,645
Less: PPP loans outstanding	(2,158,452)
Loans and leases, excluding PPP loans outstanding (non-GAAP)	$23,300,193
ACL loans / loans and leases, excluding PPP (non-GAAP)	1.56 %

Key Performance Indicators

TABLE 43

Pre-provision net revenue to average tangible common equity

(dollars in thousands)	2020	2019	2018
Net interest income	$ 922,082	$ 917,239	$ 932,489
Non-interest income	294,556	294,266	275,651
Less non-interest expense	(750,349)	(696,128)	(694,532)
Pre-provision net revenue (as reported)	$ 466,289	$ 515,377	$ 513,608
Adjustments:			
Add: Branch consolidation costs (non-interest income)	$ —	$ 1,722	$ 3,677
Add: Service charge refunds (non-interest income)	3,780	4,279	—
Less: Gain on sale of Visa class B stock (non-interest income)	(13,818)	—	—
Add: Loss on FHLB debt extinguishment and related hedge terminations (non-interest income)	25,611	—	—
Less: Gain on sale of subsidiary (non-interest income)	—	—	(5,135)
Add: COVID - 19 expense (non-interest expense)	11,276	—	—
Add: Discretionary 401(k) contribution (non-interest expense)	—	—	874
Add: Branch consolidation costs (non-interest expense)	18,745	2,783	2,939
Add: Tax credit-related impairment project (non-interest expense)	4,101	3,213	—
Pre-provision net revenue (operating) (non-GAAP)	$ 515,984	$ 527,374	$ 515,963
Average total shareholders' equity	$ 4,904,300	$ 4,757,465	$ 4,490,833
Less: Average preferred shareholders' equity	(106,882)	(106,882)	(106,882)
Less: Average intangible assets (1)	(2,322,981)	(2,331,630)	(2,334,727)
Average tangible common equity (non-GAAP)	$ 2,474,437	$ 2,318,953	$ 2,049,224
Pre-provision net revenue (reported) / average tangible common equity (non-GAAP)	18.84 %	22.22 %	25.06 %
Pre-provision net revenue (operating) / average tangible common equity (non-GAAP)	20.85 %	22.74 %	25.18 %

(1) Excludes loan servicing rights

TABLE 44

Efficiency ratio

Year Ended December 31	2020	2019	2018
(dollars in thousands)			
Non-interest expense	$ 750,349	$ 696,128	$ 694,532
Less: Amortization of intangibles	(13,362)	(14,167)	(15,652)
Less: OREO expense	(4,434)	(4,652)	(6,359)
Less: COVID-19 expense	(11,276)	—	—
Less: Discretionary 401(k) contribution	—	—	(874)
Less: Branch consolidation costs	(18,745)	(2,783)	(2,939)
Less: Tax credit-related project impairment	(4,101)	(3,213)	—
Adjusted non-interest expense	$ 698,431	$ 671,313	$ 668,708
Net interest income	$ 922,082	$ 917,239	$ 932,489
Taxable equivalent adjustment	12,470	14,121	13,270
Non-interest income	294,556	294,266	275,651
Less: Net securities gains	(282)	(70)	(34)
Less: Gain on sale of Visa class B stock	(13,818)	—	—
Add: Loss on FHLB debt extinguishment and related hedge terminations	25,611	—	—
Less: Gain on sale of subsidiary	—	—	(5,135)
Add: Branch consolidation costs	—	1,722	3,677
Add: Service charge refunds	3,780	4,279	—
Adjusted net interest income (FTE) + non-interest income	$ 1,244,399	$ 1,231,557	$ 1,219,918
Efficiency ratio (FTE) (non-GAAP)	56.13 %	54.51 %	54.82 %

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in the Market Risk section of MD&A, which is included in Item 7 of this Report, and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

February 25, 2021

F.N.B. Corporation's internal control over financial reporting is a process effected by the Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and the Board of Directors; and (3) provide reasonable assurance regarding prevention, or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013 framework). Based on that assessment, management concluded that, as of December 31, 2020, our internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework* (2013 framework). Ernst & Young LLP, independent registered public accounting firm, has audited our internal control over financial reporting as stated in their Report of Independent Registered Public Accounting Firm.

F.N.B. Corporation

/s/ Vincent J. Delie, Jr.

By: Vincent J. Delie, Jr.
Chairman, President and Chief Executive Officer

/s/ Vincent J. Calabrese, Jr.

By: Vincent J. Calabrese, Jr.
Chief Financial Officer

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F.N.B. Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of F.N.B. Corporation and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses in 2020. As explained below, auditing the Company's allowance for credit losses was a critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Goodwill at the Community Banking reporting unit

Description of the Matter	At December 31, 2020, the Company's goodwill related to the Community Banking reporting unit was approximately $2.2 billion. As discussed in Note 1 and Note 7 to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level. The Company's goodwill is initially assigned to its reporting units as of the acquisition date. In 2020, management concluded under its qualitative assessment that it was more likely than not that the fair value of the Community Banking reporting unit was below its carrying amount due to a sustained decline in bank stock valuations, which was primarily attributable to the systemic uncertainty of COVID-19 and its impact on the global economy. In response, management performed a quantitative goodwill impairment test to reach the conclusion that there was no impairment in 2020. Auditing management's annual goodwill impairment test was complex and highly judgmental due to the significant estimation required to determine the fair value of the reporting units. In particular, the fair value estimate was sensitive to significant assumptions, such as projected future cash flows, discount rates reflecting the risk inherent in future cash flows, long-term growth rates and an evaluation of market comparables and recent transactions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above. To test the estimated fair value of the Company's reporting units, we performed audit procedures that, with the involvement of specialists, included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We compared the significant assumptions used by management to recent financial performance, the Company's peer group, and economic trends. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of the reporting units that would result from changes in the assumptions. In addition, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company.

Allowance for Credit Losses

Description of the Matter	On January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments, which resulted in an increase to the allowance for credit losses (ACL) from retained earnings of $51 million. At December 31, 2020, the Company's net loan and lease portfolio was $25.5 billion with an associated ACL of $363 million. As discussed in Note 1 to the consolidated financial statements, the ACL is based on management's evaluation of current estimate of lifetime credit losses at the balance sheet date. Management makes the estimate using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts under the CECL methodology. The ACL is composed of three components including quantitative reserves, including the economic forecast; asset specific reserves; and qualitative reserves. The qualitative reserves include among others: regulatory, legal and technological environments; competition; forecast uncertainty; and events such as natural disasters and other relevant factors. Auditing the ACL involves a high degree of subjectivity due to the qualitative factor adjustments. Management's identification and measurement of the qualitative factor adjustments is highly judgmental and could have a significant effect on the ACL.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's controls over the ACL process, which include, among others, management's review and approval controls designed to assess the need for and level of qualitative factor adjustments to the ACL and the reliability of the data utilized to support management's assessment. To test the qualitative factor adjustments, we evaluated the appropriateness of management's methodology and assessed the basis for the adjustments and whether all relevant risks were reflected in the ACL. Regarding the measurement of the qualitative factors, we evaluated the completeness, accuracy and relevance of the underlying internal and external data utilized in management's estimate and considered the existence of new or contrary information. We evaluated the overall ACL, inclusive of the qualitative factor adjustments, and whether the amount appropriately reflects a reasonable estimate of lifetime losses by comparing the overall ACL to historical losses.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1993.

Pittsburgh, Pennsylvania
February 25, 2021

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F.N.B. Corporation

Opinion on Internal Control over Financial Reporting

We have audited F.N.B. Corporation's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, F.N.B. Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Report of Management on F.N.B. Corporation's Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
February 25, 2021

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

	December 31	
	2020	**2019**
Assets		
Cash and due from banks	**$ 369**	$ 407
Interest-bearing deposits with banks	**1,014**	192
Cash and Cash Equivalents	**1,383**	599
Debt securities available for sale (amortized cost of **$3,380** and $3,275; allowance for credit losses of **$0)**	**3,463**	3,289
Debt securities held to maturity (fair value of **$2,973** and $3,305; allowance for credit losses of **$0**)	**2,868**	3,275
Loans held for sale (includes **$144** and $41 measured at fair value) (1)	**154**	51
Loans and leases, net of unearned income of **$77** and $1	**25,459**	23,289
Allowance for credit losses	**(363)**	(196)
Net Loans and Leases	**25,096**	23,093
Premises and equipment, net	**332**	333
Goodwill	**2,262**	2,262
Core deposit and other intangible assets, net	**54**	67
Bank owned life insurance	**549**	544
Other assets	**1,193**	1,102
Total Assets	**$ 37,354**	$ 34,615
Liabilities		
Deposits:		
Non-interest-bearing demand	**$ 9,042**	$ 6,384
Interest-bearing demand	**13,157**	11,049
Savings	**3,261**	2,625
Certificates and other time deposits	**3,662**	4,728
Total Deposits	**29,122**	24,786
Short-term borrowings	**1,804**	3,216
Long-term borrowings	**1,095**	1,340
Other liabilities	**374**	390
Total Liabilities	**32,395**	29,732
Stockholders' Equity		
Preferred stock - $0.01 par value; liquidation preference of $1,000 per share		
Authorized – 20,000,000 shares		
Issued – **110,877** shares	**107**	107
Common stock - $0.01 par value		
Authorized – 500,000,000 shares		
Issued – **328,057,368** and 327,242,364 shares	**3**	3
Additional paid-in capital	**4,087**	4,067
Retained earnings	**869**	798
Accumulated other comprehensive loss	**(39)**	(65)
Treasury stock – **6,427,839** and 2,227,804 shares at cost	**(68)**	(27)
Total Stockholders' Equity	**4,959**	4,883
Total Liabilities and Stockholders' Equity	**$ 37,354**	$ 34,615

(1) Amount represents loans for which we have elected the fair value option. See Note 25.

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31		
	2020	**2019**	**2018**
Interest Income			
Loans and leases, including fees	**$ 990**	$ 1,085	$ 1,022
Securities:			
Taxable	**106**	126	119
Tax-exempt	**32**	32	28
Other	**2**	4	1
Total Interest Income	**1,130**	1,247	1,170
Interest Expense			
Deposits	**133**	217	142
Short-term borrowings	**38**	80	75
Long-term borrowings	**37**	33	21
Total Interest Expense	**208**	330	238
Net Interest Income	**922**	917	932
Provision for credit losses	**123**	44	61
Net Interest Income After Provision for Credit Losses	**799**	873	871
Non-Interest Income			
Service charges	**108**	124	126
Trust services	**31**	28	26
Insurance commissions and fees	**24**	20	18
Securities commissions and fees	**17**	17	18
Capital markets income	**39**	33	21
Mortgage banking operations	**50**	32	22
Dividends on non-marketable equity securities	**14**	19	16
Bank owned life insurance	**14**	12	13
Loss on debt extinguishment	**(17)**	—	—
Other	**14**	9	16
Total Non-Interest Income	**294**	294	276
Non-Interest Expense			
Salaries and employee benefits	**406**	375	370
Net occupancy	**71**	59	60
Equipment	**66**	62	55
Amortization of intangibles	**13**	14	16
Outside services	**69**	64	66
FDIC insurance	**20**	23	33
Bank shares and franchise taxes	**14**	12	12
Other	**91**	87	83
Total Non-Interest Expense	**750**	696	695
Income Before Income Taxes	**343**	471	452
Income taxes	**57**	84	79
Net Income	**286**	387	373
Preferred stock dividends	**8**	8	8
Net Income Available to Common Stockholders	**$ 278**	$ 379	$ 365
Earnings per Common Share			
Basic	**$ 0.86**	$ 1.17	$ 1.13
Diluted	**$ 0.85**	$ 1.16	$ 1.12

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31		
	2020	**2019**	**2018**
Net income	**$ 286**	$ 387	$ 373
Other comprehensive income (loss):			
Securities available for sale:			
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of **$15,** $16 and $(5)	**54**	57	(17)
Derivative instruments:			
Unrealized losses arising during the period, net of tax benefit of **$(11),** $(5) and $(1)	**(40)**	(17)	(2)
Reclassification adjustment for gains (losses) included in net income, net of tax expense (benefit) of **$3,** $0 and $0	**18**	(2)	(2)
Pension and postretirement benefit obligations:			
Unrealized gains (losses) arising during the period, net of tax expense (benefit) of **$2,** $(1) and $1	**(6)**	3	(2)
Other Comprehensive Income (Loss)	**26**	41	(23)
Comprehensive Income	**$ 312**	$ 428	$ 350

See accompanying Notes to Consolidated Financial Statements

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2018	$ 107	$ 3	$ 4,033	$ 368	$ (83)	$ (19)	$ 4,409
Comprehensive income (loss)				373	(23)		350
Dividends declared:							
Preferred stock: $72.52/share				(8)			(8)
Common stock: $0.48/share				(157)			(157)
Issuance of common stock		—	6			(2)	4
Restricted stock compensation			10				10
Balance at December 31, 2018	107	3	4,049	576	(106)	(21)	4,608
Comprehensive income				387	41		428
Dividends declared:							
Preferred stock: $72.52/share				(8)			(8)
Common stock: $0.48/share				(157)			(157)
Issuance of common stock		—	6			(6)	—
Restricted stock compensation			12				12
Balance at December 31, 2019	107	3	4,067	798	(65)	(27)	4,883
Comprehensive income				**286**	**26**		**312**
Dividends declared:							
Preferred stock: $72.52/share				**(8)**			**(8)**
Common stock: $0.48/share				**(157)**			**(157)**
Issuance of common stock		**—**	**4**			**(3)**	**1**
Repurchase of common stock						**(38)**	**(38)**
Restricted stock compensation			**16**				**16**
Adoption of new accounting standards				**(50)**			**(50)**
Balance at December 31, 2020	**$ 107**	**$ 3**	**$ 4,087**	**$ 869**	**$ (39)**	**$ (68)**	**$ 4,959**

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31		
	2020	**2019**	**2018**
Operating Activities			
Net income	**$ 286**	$ 387	$ 373
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	**(3)**	45	109
Provision for credit losses	**123**	44	61
Deferred tax expense (benefit)	**(18)**	33	33
Loans originated for sale	**(1,886)**	(1,481)	(1,117)
Loans sold	**1,830**	1,495	1,210
Net gain on sale of loans	**(47)**	(25)	(22)
Net change in:			
Interest receivable	**19**	(8)	(6)
Interest payable	**(8)**	1	7
Bank owned life insurance, excluding purchases	**(6)**	(7)	(10)
Other, net	**(177)**	(225)	(27)
Net cash flows provided by operating activities	**113**	259	611
Investing Activities			
Net change in loans and leases, excluding sales and transfers	**(2,604)**	(1,427)	(1,394)
Debt securities available for sale:			
Purchases	**(2,360)**	(655)	(1,200)
Maturities/payments	**2,244**	770	592
Debt securities held to maturity:			
Purchases	**(301)**	(494)	(387)
Maturities/payments	**703**	468	370
Increase in premises and equipment	**(41)**	(46)	(35)
Net cash received in business combinations and divestitures	**—**	—	134
Loans sold, not originated for sale	**537**	262	—
Other, net	**—**	(9)	—
Net cash flows used in investing activities	**(1,822)**	(1,131)	(1,920)
Financing Activities			
Net change in:			
Demand (non-interest-bearing and interest-bearing) and savings accounts	**5,402**	1,873	406
Time deposits	**(1,065)**	(539)	653
Short-term borrowings	**(1,412)**	(913)	450
Proceeds from issuance of long-term borrowings	**328**	954	37
Repayment of long-term borrowings	**(574)**	(239)	(77)
Repurchases of common stock	**(38)**	—	—
Cash dividends paid:			
Preferred stock	**(8)**	(8)	(8)
Common stock	**(157)**	(157)	(157)
Other, net	**17**	12	14
Net cash flows provided by financing activities	**2,493**	983	1,318
Net Increase in Cash and Cash Equivalents	**784**	111	9
Cash and cash equivalents at beginning of year	**599**	488	479
Cash and Cash Equivalents at End of Year	**$ 1,383**	$ 599	$ 488

See accompanying Notes to Consolidated Financial Statements

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

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

NATURE OF OPERATIONS

F.N.B. Corporation, headquartered in Pittsburgh, Pennsylvania, is a diversified financial services company operating in seven states and the District of Columbia. Our market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; Washington, D.C.; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. As of December 31, 2020, we had 358 banking offices throughout Pennsylvania, Ohio, Maryland, West Virginia, North Carolina, South Carolina and Virginia.

We provide a full range of commercial banking, consumer banking, and wealth management solutions through our subsidiary network which is led by our largest affiliate, FNBPA, founded in 1864. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, government 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 asset management, private banking and insurance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our accompanying Consolidated Financial Statements and these Notes to Consolidated Financial Statements include subsidiaries in which we have a controlling financial interest. We own and operate FNBPA, FNTC, First National Investment Services Company, LLC, FNBIA, FNIA, Bank Capital Services, LLC, and F.N.B. Capital Corporation, LLC, and include results for each of these entities in the accompanying Consolidated Financial Statements.

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

The accompanying Consolidated Financial Statements include all adjustments that are necessary, in the opinion of management, to fairly reflect our financial position and results of operations in accordance with GAAP. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications had no impact on our net income and stockholders' equity. Events occurring subsequent to December 31, 2020 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 SEC.

Use of Estimates

Our accounting and reporting policies conform with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements. Actual results could materially differ from those estimates. Material estimates that are particularly susceptible to significant changes include the ACL, accounting for loans acquired in a business combination prior to January 1, 2020, fair value of financial instruments, goodwill and other intangible assets, income taxes and DTAs.

Adoption of New Accounting Standards

Current Expected Credit Losses. On January 1, 2020, we adopted ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), which replaces the incurred credit loss impairment methodology with a methodology that reflects lifetime current expected credit losses (commonly referred to as CECL) for most financial assets measured at amortized cost, including loans, HTM debt securities, net investment in leases and certain off-balance sheet credit exposure. We adopted CECL using the modified retrospective method for financial assets measured at amortized cost, net investments in leases and off-balance sheet credit exposures. As a result, we recorded a reduction of $50.6 million in retained earnings as of January 1, 2020 for the cumulative effect of the adoption. The transition adjustment was primarily driven by longer duration commercial and consumer real estate loans. Results for reporting periods prior to January 1, 2020 continue to be reported in accordance with previously applicable GAAP.

We used the prospective transition method for PCD financial assets that were previously classified as PCI and accounted for under ASC 310-30, including loans accounted for by analogy under ASC 310-30. In accordance with the transition guidance, we did not reassess whether PCI assets met the criteria for PCD assets nor did we reassess whether modifications to individual acquired financial assets previously accounted for in pools were TDRs as of the date of adoption. We discontinued the use of pools beyond transition accounting and account for these loans on an individual loan basis. After transition, loans previously accounted for in pools are grouped with other loans with similar risk characteristics for purposes of estimating expected credit losses. As a result, beginning in 2020 certain credit metrics and ratios which previously excluded PCI loans now include PCD loans. On January 1, 2020, the amortized cost basis of the PCD assets was adjusted to reflect the addition of an ACL for $50.3 million. The net noncredit discount, after the adjustment for the ACL, is accreted into interest income at the loan's effective interest rate over the remaining contractual life.

We made an accounting policy election to write-off accrued interest receivable balances by reversing interest income in accordance with our non-accrual policies instead of measuring an ACL for accrued interest receivable for all classes of financing receivables and major security types.

We do not hold any securities at adoption for which OTTI had been recognized prior to January 1, 2020.

The following table illustrates the impact of the adoption of ASC 326:

TABLE 1.1

	January 1, 2020		
(in millions)	**As Reported Under ASC 326**	**Pre-ASC 326 Adoption**	**Impact of ASC 326 Adoption**
Assets:			
Allowance for credit losses on debt securities held-to-maturity			
States of the U.S. and political subdivisions (municipals)	$ —	$ —	$ —
Loans			
Commercial real estate	$ 138	$ 60	$ 78
Commercial and industrial	65	53	12
Commercial leases	11	11	—
Commercial other	—	9	(9)
Direct installment	24	13	11
Residential mortgages	32	22	10
Indirect installment	21	19	2
Consumer lines of credit	10	9	1
Allowance for credit losses on loans	$ 301	$ 196	$ 105
Liabilities:			
Allowance for credit losses on off-balance sheet credit exposures	$ 13	$ 3	$ 10

Reference Rate Reform. In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (Topic 848), as amended, which provides optional guidance for a limited period of time to ease the potential burden in accounting for changes in financial reporting brought about by RRR for affected contractual modifications of floating rate financial instruments indexed to interbank offering rates and hedge accounting relationships.

The expedients, exceptions and elections provided by RRR are permitted to be adopted any time through December 31, 2022 and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for certain optional expedients elected for certain hedging relationships existing as of December 31, 2022.

In general, RRR provides, when certain criteria are met, optional expedients and exceptions regarding the accounting for contract modifications, hedging relationships and other transactions affected by RRR. It also allows for a one-time transfer or sale of qualifying HTM securities.

We adopted RRR on October 1, 2020, and the guidance will be followed until the Update terminates on December 31, 2022. The adoption did not have a material impact on our consolidated financial position or results of operations.

We have not yet elected certain optional expedients, exceptions and elections related to RRR, however, we plan to elect these provisions in the future. While RRR is not expected to have a material accounting impact on our consolidated financial position or results of operations, it will ease the administrative burden in accounting for future effects of RRR.

Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

Business Combinations

Business combinations are accounted for by applying the acquisition method. Under the acquisition method, identifiable assets acquired and liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date, and are recognized separately from goodwill. Results of operations of the acquired entities are included in the Consolidated Statements of Income from the date of acquisition.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash items in transit and amounts due from the FRB and other depository institutions (including interest-bearing deposits).

Debt Securities

Debt securities can be classified as trading securities can be classified as trading, HTM or AFS. As of December 31, 2020 and 2019, we did not hold any trading debt securities. Interest income on debt securities includes amortization of purchase premiums or accretion of discounts. Premiums and discounts on debt securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. A debt security is placed on non-accrual when principal or interest becomes greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

HTM debt securities are securities that management has the positive intent and ability to hold until their maturity. Such securities are carried at amortized cost. Beginning in 2020, for certain HTM securities we have an expectation of zero expected credit losses. Based on a long history with no credit losses, high credit ratings, guarantees, and/or implied risk-free characteristics, we expect the nonpayment of our UST, Fannie Mae, Freddie Mac, FHLB, Ginnie Mae, and the SBA securities to be zero, and accordingly, have no ACL on those securities. We believe that these qualitative factors are indicators that historical credit loss information should be nominally impacted, if at all, by current conditions and R&S forecasts. As such, we believe that without a change in these indicators, we may continue to assume zero credit losses on securities concluded to exhibit those factors. We also have a portfolio of HTM debt securities where we do not expect credit losses to be zero. This portfolio consists of high-grade municipal securities. To calculate the expected credit losses on these securities we group securities by major security type, rating and maturity and apply respective cumulative default rates from a third party data provider. The baseline credit loss estimate is adjusted using a qualitative approach to account for potential variability in probabilities of default data for current conditions and R&S forecasts. Where available, expected credit losses take into consideration any enhancement a security has such as insurance, a guarantee or state aid.

Debt securities that are not classified as trading or HTM are classified as AFS and are carried at fair value. AFS debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level.

Beginning in 2020, for AFS debt securities in an unrealized loss position, we first determine whether we have the intent to sell, or it is more likely than not that we will be required to sell, the security before recovery of its amortized cost basis. If the criteria for intent or requirement to sell is met, the security's amortized cost is written down to fair value and the write down is charged against the ACL with any incremental impairment reported in earnings in the Provision for Credit Losses line on the Consolidated Statements of Income. For AFS debt securities that do not meet the criteria for intent or requirement to sell, we evaluate whether the decline in fair value has resulted from credit losses or other factors. We first qualitatively evaluate each security to assess whether a potential credit loss exists. If as a result of this qualitative analysis we expect to get all of our principal back, then we conclude that the present value of expected cash flows equals or exceeds its amortized cost and no credit loss exists. If it was determined a potential credit loss exists, we compare the present value of cash flows expected to be collected with our amortized cost basis to measure its value. The credit loss is recorded through the ACL and limited to the amount the fair value is less than the amortized cost basis. We have made an accounting policy election for each major security type of AFS debt securities to adjust the effective interest rate used to discount expected cash flows to consider the timing of expected cash flows resulting from expected prepayments. Impairment for noncredit-related factors is recorded in OCI, net of income taxes.

Changes in the ACL are recorded as a provision for credit loss expense. Losses are charged against the ACL when an AFS debt security is not collectible or when we believe the criteria regarding the intent or requirement to sell is met.

Prior to 2020, we evaluated our debt securities in a loss position for OTTI on a quarterly basis at the individual security level based on our intent to sell. If we intended to sell the debt security of if it was more likely than not we would have been required to sell the security before recovery of its amortized cost basis, OTTI was recognized in earnings equal to the entire difference between the investments' amortized cost basis and its fair value. If we did not intend to sell the debt security and if it was not more likely than not that we would be required to sell the security before recovery of its amortized cost basis, the OTTI was separated into the amount representing credit loss and the amount related to all other market factors. The amount of credit loss would have been recognized in earnings and the amount related to other market factors would be recognized in OCI, net of tax. We did not recognize any OTTI during 2019 and 2018.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or is requested to be returned to us as deemed appropriate.

Derivative Instruments and Hedging Activities

From time to time, we may enter into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. Foreign exchange derivatives are entered into to accommodate the needs of customers. All derivative instruments are carried at fair value on the Consolidated Balance Sheets as either an asset or liability. Accounting for the changes in fair value of a derivative is dependent upon whether it has been designated in a formal, qualifying hedging relationship. For derivatives in qualifying hedging relationships, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking each hedge transaction. Cash flows from hedging activities are classified in the same category as the items hedged.

Beginning in the first quarter of 2019, we adopted ASU 2017-12 which provides targeted improvements to the hedge accounting model that more closely aligns the accounting and reporting for hedging relationships with risk management activities. In addition, ASU 2017-12 provides administrative relief by easing documentation requirements, simplifying the application of hedge accounting by expanding the application of the shortcut method, eliminating the separate measurement and reporting of hedge ineffectiveness and generally requiring the entire effect of the hedging instrument and the hedged item to be presented in the same income statement line item. We believe these changes will provide users with more useful information about the effect of our risk management activities on the financial statements.

Changes in fair value of a derivative instrument that has been designated and qualifies as a cash flow hedge, including any ineffectiveness, are recorded in AOCI, net of tax. Amounts are reclassified from AOCI to the consolidated statements of income in the same line item used to present the earnings effect of the hedged item in the period or periods in which the hedged transaction affects earnings. Prior to 2019, the ineffective portion, if any, was reported in earnings immediately.

At the hedge’s inception, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in fair values or cash flows of the hedged items and whether they are expected to be highly effective in the future. At each reporting period thereafter, a statistical regression or qualitative analysis is performed to evaluate hedge effectiveness. If it is determined a derivative instrument has not been or will not continue to be highly effective as a hedge, hedge accounting is discontinued.

We also enter into interest rate swap agreements to meet the interest rate risk management needs of qualifying commercial loan customers. These agreements provide the customer the ability to convert from variable to fixed interest rates. We then enter into positions with a derivative counterparty in order to offset our exposure on the fixed components of the customer agreements. The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies and monitoring. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions and using collateral agreements and other contract provisions. These arrangements meet the definition of derivatives, but are not designated as qualifying hedging relationships. The interest rate swap agreement with the loan customer and with the counterparty are reported at fair value in other assets and other liabilities on the Consolidated Balance Sheets with any resulting gain or loss recorded in current period earnings as other income.

Loans Held for Sale and Loan Commitments

Certain of our residential mortgage loans are originated or purchased for sale in the secondary mortgage loan market. We make an automatic election to account for all originated or purchased residential mortgage loans held for sale under the FVO. The FVO election is intended to better reflect the underlying economics and better facilitate the economic hedging of the loans. The FVO is applied on an instrument by instrument basis and is an irrevocable election. Additionally, with the election of the FVO, fees and costs associated with the origination and acquisition of residential mortgage loans held for sale are expensed as incurred, rather than deferred. Changes in fair value under the FVO are recorded in mortgage banking operations non-interest income on the consolidated statements of income. Fair value is determined on the basis of rates obtained in the respective secondary market for the type of loan held for sale. 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 IRLCs for residential mortgage loans that we intend to sell. These IRLCs are considered derivatives. We also enter into loan sale commitments to sell these loans when funded to mitigate the risk that the market value of residential mortgage loans may decline between the time the rate commitment is issued to the customer and the time we sell the loan. These loan sale commitments are also derivatives. Both types of derivatives are recorded at fair value on the Consolidated Balance Sheets with changes in fair value recorded in mortgage banking operations non-interest income.

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

Loans

Loans we intend to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the ACL. Amortized cost primarily consists of the principal balances outstanding, deferred origination fees or costs and premiums or discounts on purchased loans. Interest income on loans is computed over the term of the loans using the effective interest method. Loan origination fees or costs, premiums or discounts are deferred and amortized over the term of the loan or loan commitment period as an adjustment to the related loan yield.

Non-performing Loans

We place loans on non-accrual status and discontinue interest accruals on loans generally when principal or interest is due and has remained unpaid for a certain number of days, unless the loan is both well secured and in the process of collection. Commercial loans and leases are placed on non-accrual at 90 days, installment loans are placed on non-accrual at 120 days and residential mortgages and consumer lines of credit are generally placed on non-accrual at 180 days, though we may place a loan on non-accrual prior to these past due thresholds as warranted. When a loan is placed on non-accrual status, all unpaid accrued interest is reversed against interest income and the amortization of deferred fees and costs is suspended. 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. Loans are charged-off against the ACL and recoveries of amounts previously charged-off are credited to the ACL when realized.

Prior to 2020, PCI loans were not classified as non-performing assets as the loans were considered to be performing. Beginning in 2020, PCI loans previously accounted for in pools are grouped with other loans with similar risk characteristics for purposes of estimating expected credit losses and non-performing classification.

Troubled Debt Restructured Loans

Debt restructurings or loan modifications for a borrower occur in the normal course of business and do not necessarily constitute TDRs. In general, the modification or restructuring of a debt constitutes a TDR, including reasonably expected TDR, if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider under current market conditions or once we have determined that a loan modification for a financially troubled borrower is the most appropriate strategy. Additionally, a loan designated as a TDR does not necessarily result in the automatic placement of the loan on non-accrual status. When the full collection of principal and interest is reasonably assured on a loan designated as a TDR and where the borrower would not otherwise meet the criteria for non-accrual status, we will continue to accrue interest on the loan. Prior to 2020, we did not consider a restructured acquired loan as a TDR if the loan was accounted for as a component of a pool.

TDR classification does not include short-term assistance to borrowers who are current at the time of a natural disaster or other extreme event (e.g. floods, hurricanes and pandemics). These borrowers are considered to not be experiencing financial difficulty at the time of modification, therefore not meeting the criteria for determining TDR status. For modifications of leases related to the effects of the COVID-19 pandemic that do not result in a substantial increase in our rights as lessor or the obligations of the lessee, we elect to account for these lease concessions as though enforceable rights and obligations for those concessions existed in the original contracts. We account for these concessions as if no changes were made to the lease contract.

Allowance for Credit Losses on Loans and Leases

Beginning January 1, 2020, we estimate the ACL on loans and leases using relevant available information, from internal and external sources, relating to past events, current conditions, and R&S forecasts under the CECL methodology. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. Our portfolio segmentation is characterized by similarities in initial measurement, risk attributes, and the manner in which we monitor and assess credit risk and is comprised of commercial real estate, commercial and industrial, commercial leases, commercial - other, direct installment, residential mortgages, indirect installment and consumer lines of credit.

The ACL on loans and leases represents our current estimate of lifetime credit losses in our loan portfolio at the balance sheet date. In determining the ACL, we estimate expected future losses for the loan's entire contractual term adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications. The ACL is the sum of three components: quantitative (formulaic or pooled) reserves; asset specific / individual loan reserves; and qualitative (judgmental) reserves.

Quantitative Component

We use a non-discounted cash flow factor-based approach to estimate expected credit losses that include component PD/LGD/EAD models as well as less complex estimation methods for smaller loan portfolios.

- PD: This component model is used to estimate the likelihood that a borrower will cease making payments as agreed. The major contributors to this are the borrower credit attributes and macro-economic trends.
- LGD: This component model is used to estimate the loss on a loan once a loan is in default.
- EAD: Estimates the loan balance at the time the borrower stops making payments. For all term loans, an amortization based formulaic approach is used for account level EAD estimates. We calculate EAD using a portfolio specific method in each of our revolving product portfolios.

Asset Specific / Individual Component

Loans that do not share risk characteristics are generally evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. We have elected to apply the practical expedient to measure expected credit losses of a collateral dependent asset using the fair value of the collateral, less any costs to sell.

Individual reserves are determined as follows:

- For commercial loans in default which are greater than or equal to $1.0 million, individual reserves are determined based on an analysis of the present value of the loan's expected future cash flows, the loan's observable market value, or the fair value of the collateral less costs to sell.
- For commercial and consumer loans in default which are below $1.0 million, an established LGD percentage is multiplied by the loan balance and the results are aggregated for purposes of measuring specific reserve impairment.

Qualitative Component

The ACL also includes identified qualitative factors related to distinctive risk factors, changes in current economic conditions that may not be reflected in quantitatively derived results, and other relevant factors to ensure the ACL reflects our best estimate of CECL.

While our reserve methodologies strive to reflect all relevant risk factors, there continues to be uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. The ACL also includes factors that may not be directly measured in the determination of individual or collective reserves. Such qualitative factors may include:

- Lending policies and procedures, including changes in policies and underwriting standards and practices for collections, write-offs, and recoveries;
- The experience, ability, and depth of lending, investment, collection, and other relevant personnel;
- The quality of the institution’s credit review function;
- Concentrations of credit or changes in the level of such concentration;
- The effect of other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters and other relevant factors; and
- Forecast uncertainty and imprecision.

Prior to 2020, the allowance for credit losses was established as losses were estimated to have occurred. Loan losses were charged-off against the allowance for credit losses when management believed the uncollectability of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance for credit losses. Allowances for impaired commercial loans over $1.0 million were generally determined based on collateral values or the present value of estimated cash flows. All other impaired loans were evaluated in the aggregate based on loan segment loss given default. Changes in the allowance for credit losses related to impaired loans were charged or credited to the provision for credit losses.

Liability for Credit Losses on Unfunded Lending-Related Commitments

The AULC is management's estimate of credit losses inherent in our unfunded loan commitments, such as letters of credit and home equity lines of credit, and is included in other liabilities on the Consolidated Balance Sheets. The AULC is estimated over the contractual period in which we are exposed to credit risk for obligations which are not unconditionally cancellable by us. The AULC is adjusted through provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated useful life. Consistent with our estimation process on our loan and lease portfolio, we use a non-discounted cash flow factor-based approach to estimate expected credit losses that include component PD/LGD/EAD models as well as less complex estimation methods for smaller portfolios.

Purchased Credit Deteriorated Loans and Leases

We have purchased loans and leases, some of which have experienced more than insignificant credit deterioration since origination.

Beginning in 2020, we have established criteria to assess whether a purchased financial asset, or group of assets, should be accounted for as PCD on the acquisition date. The selection of which criteria to apply, or the addition of new criteria, to a specific acquisition will be based on the facts and circumstances at the time of review, as well as the availability of information supplied by the acquiree. Generally, more-than-insignificant deterioration in credit quality since origination would include risk ratings of special mention or below, inconsistency of loan payments, non-accrual status at the time of acquisition, or loans modified in a TDR, in bankruptcy or for regulatory purposes.

PCD loans are recorded at the amount paid. The initial ACL is determined using the same methodology as other loans held for investment on a collective basis and is allocated to individual loans. The sum of the loan's purchase price and the ACL becomes the initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized or accreted into interest income over the life of the loan. Subsequent changes to the ACL are recorded through the provision credit losses.

Prior to 2020, loans acquired in a business combination (impaired and non-impaired) were initially recorded at their acquisition-date fair values. Fair values were based on a discounted cash flow methodology that involved assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk, and liquidity risk.

The carryover of allowance for credit losses related to loans acquired in a business combination was prohibited as any credit losses in the loans were included in the determination of the fair value of the loans at the acquisition date. The allowance for credit losses on loans acquired in a business combination reflected only those losses incurred after acquisition and represents the present value of cash flows expected at acquisition that is no longer expected to be collected.

At acquisition, we considered certain factors as indicators that an acquired loan has evidence of deterioration in credit quality and is therefore impaired. Any loans acquired in a business combination that were not individually impaired were pooled into groups of similar loans based on various factors including borrower type, loan purpose, and collateral type. For these pools, we used certain loan information, including outstanding principal balance, estimated expected losses, weighted average maturity, weighted average margin, and weighted average interest rate along with estimated prepayment rates, probability of default and loss given default to estimate the expected cash flow for each loan pool. We believe analogizing to impaired loans was a more appropriate option to follow in accounting for discount accretion on nonimpaired loans acquired in a business combination other than revolving loans and therefore account for such loans in accordance with the guidance for impaired loans, excluding revolving loans.

The excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield. The accretable yield was recognized into income over the remaining life of the loan, or pool of loans, using an effective yield method, if the timing and/or amount of cash flows expected to be collected can be reasonably estimated (the accretion model). The difference between the loan's total scheduled principal and interest payments over all cash flows expected at acquisition is referred to as the non-accretable difference. The non-accretable difference represents contractually required principal and interest payments which we do not expect to collect.

Loans acquired in a business combination that met the criteria for non-accrual of interest prior to acquisition were considered performing upon acquisition, regardless of whether the customer was contractually delinquent, if we could reasonably estimate the timing and amount of expected cash flows on such loans. Accordingly, we did not consider contractually delinquent purchased credit impaired loans to be non-accrual or non-performing and we continued to recognize interest income on these loans using the accretion model.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the asset's estimated useful life. Leasehold improvements are expensed over the lesser of the asset's estimated useful life or the term of the lease including renewal periods when reasonably assured. Useful lives are dependent upon the nature and condition of the asset and range from 3 to 39 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized to expense over the identified useful life.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Cloud Computing Arrangements

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

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

Other Real Estate Owned

OREO is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is included in other assets initially at fair value of the asset less estimated selling costs. Subsequent to acquisition, OREO is accounted for at the lower of amortized cost or fair value less estimated selling costs. Changes to the value subsequent to transfer are recorded in non-interest expense along with direct operating expenses. Gains or losses not previously recognized resulting from sales of OREO are recognized in non-interest income on the date of sale.

Goodwill and Other Intangible Assets

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

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

Quarterly, we perform a goodwill impairment assessment. We first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Qualitative factors include, among other things, macroeconomic conditions, industry and market considerations, financial performance of the respective reporting unit and other relevant entity- and reporting-unit specific considerations. If we conclude it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative assessment is performed. If the quantitative assessment results in the fair value of the reporting unit exceeding its carrying value, goodwill of the reporting unit is considered not impaired; however, if the carrying value of the reporting unit exceeds its fair value an impairment charge is recorded for the excess, limited to the amount of goodwill assigned to a reporting unit.

Determining the fair value of a reporting unit under the goodwill impairment test is judgmental and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables.

Loan Servicing Rights

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

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

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 non-interest income or other non-interest income, respectively.

Bank Owned Life Insurance

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

Low Income Housing Tax Credit Partnerships

We invest in various affordable housing projects that qualify for LIHTCs. The net investments are recorded in other assets on the Consolidated Balance Sheets. These investments generate a return through the realization of federal tax credits. We use the proportional amortization method to account for a majority of our investments in these entities. LIHTCs that do not meet the requirements of the proportional amortization method are recognized using the equity method.

Leases

We determine if an arrangement is, or contains, a lease at inception of the contract. As a lessee, we consider a contract to be, or contain, a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration. We recognize in our Consolidated Balance Sheets the obligation to make lease payments and a right-of-use asset representing our right to use the underlying asset for the lease term. For an operating lease, the right-of-use asset and lease liability are included in other assets and other liabilities, respectively. Finance leases are included in premises and equipment, and other liabilities. We do not record leases with an initial term of 12 months or less on the Consolidated Balance Sheets, instead we recognize lease expense for these leases on a straight-line basis over the lease term. For leases that commenced before January 1, 2019, we have applied the modified retrospective transition method which resulted in comparative information not being restated. A number of optional practical expedients were available in transition. We elected the ‘package of practical expedients’, which permits us to not reassess our prior conclusions about lease identification, lease classification and initial direct costs.

Right-of-use assets and liabilities are initially measured at the present value of lease payments over the lease term, discounted using the interest rate implicit in the lease at the commencement date. Right-of-use assets are adjusted for any lease payments made prior to lease commencement, lease incentives, and accrued rent. If the rate implicit in the lease cannot be readily determined, we discount the lease using our incremental borrowing rate which is derived by reference to FNB's secured borrowing rate. Our leases may include options to extend or terminate the lease. When it is reasonably certain that we will exercise such an option, the lease term includes those periods. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized using the effective interest method. Certain of our lease agreements include variable rental payments based on a percentage of transactions and others include variable rental payments that periodically adjust to rates and charges stated in the agreements. Variable costs, such as maintenance expenses, property taxes, property insurance, transaction-based lease payments and index-based rate increases, are expensed as incurred. Right-of-use assets are reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. For operating leases, if deemed impaired, the right-of-use asset is written down and the remaining balance is subsequently amortized on a straight-line basis.

We have real estate lease agreements with lease and non-lease components, which are generally accounted for as a single lease component.

As a lessor, when a lease meets certain criteria indicating that we effectively have transferred control of the underlying asset to the customer, the lease is classified as a sales-type lease. When a lease does not meet the criteria for a sales-type lease but meets the criteria of a direct financing lease, the lease is classified as a direct financing lease. When none of the required criteria for sales-type lease or direct-financing lease are met, the lease is classified as an operating lease.

Both sales-type leases and direct financing leases are recognized as a net investment in the lease on the Consolidated Balance Sheets. The net investment comprises the lease receivable including any residual value of the underlying asset that is guaranteed by the customer or any other third party unrelated to us and the unguaranteed residual value of the underlying asset. Operating lease income is recognized over the lease term on a straight-line basis. We do not evaluate whether sales taxes and similar taxes imposed by a governmental authority on lease transactions and collected by us are our primary obligation as owner of the underlying leased asset and exclude from lease income all taxes collected.

Income Taxes

We file a consolidated federal income tax return. The provision for federal and state income taxes is based on income reported on the Consolidated Financial Statements, rather than the amounts reported on the respective income tax returns. DTAs and DTLs are computed using tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be realized. The effect on DTAs and DTLs resulting from a change in tax rates is recognized as income or expense in the period that the change in tax rates is enacted.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are applied in the calculation of certain tax credits and in the calculation of the deferred income tax expense or benefit associated with certain DTAs and DTLs. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period. We recognize interest and/or penalties related to income tax matters in income tax expense.

We assess the likelihood that we will be able to recover our DTAs. If recovery is not likely, we will increase our valuation allowance against the DTAs that are unlikely to be recovered by recording a provision for income taxes. We believe that we will ultimately recover the DTAs recorded on our Consolidated Balance Sheets.

We periodically review the tax positions we take on our tax return and apply a more likely than not recognition threshold for all tax positions that are uncertain. The amount recognized in the Consolidated Financial Statements is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Marketing Costs

Marketing costs are generally expensed as incurred. Marketing expense totaled $12.6 million, $13.1 million and $12.8 million for 2020, 2019 and 2018, respectively.

Per Share Amounts

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

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

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

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.

Retirement Plans

We sponsor retirement plans for our employees. The calculation of the obligations and related expenses under these plans requires use of actuarial valuation methods and assumptions. The plans utilize assumptions and methods including reflecting trust assets at their fair value for the qualified pension plans and recognizing the overfunded and underfunded status of the plans on our Consolidated Balance Sheets. Gains and losses, prior service costs and credits are recognized in AOCI, net of tax, until they are amortized, or immediately upon curtailment.

Stock-Based Compensation

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

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

We granted restricted stock unit awards with multiple-conditions, both performance and market conditions. These awards are accounted for by considering the market condition in the grant date fair value and recognizing compensation expense over the service period based on the grant date fair value and the probability that the performance condition will be met.

We account for forfeitures as they occur.

NOTE 2. NEW ACCOUNTING STANDARDS

The following table summarizes accounting pronouncements issued by the FASB that we recently adopted.

TABLE 2.1

Standard	Description	Financial Statements Impact
Credit Losses		
ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* ASU 2019-05, *Financial Instruments-Credit Losses, (Topic 326): Targeted Transition Relief* ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*	These Updates replace the current long-standing incurred loss impairment methodology with a methodology that reflects current expected credit losses (commonly referred to as CECL) for most financial assets measured at amortized cost and certain other instruments, including loans, HTM debt securities, net investments in leases and off-balance sheet credit exposures except for unconditionally cancellable commitments. CECL requires loss estimates for the remaining life of the financial asset at the time the asset is originated or acquired, considering historical experience, current conditions and R&S forecasts. In addition, the Update will require the use of a modified AFS debt security impairment model and eliminate the current accounting for PCI loans and debt securities.	On January 1, 2020, we adopted CECL using the modified retrospective method for financial assets measured at amortized cost, net investments in leases and off-balance sheet credit exposures. While these Updates change the measurement of the ACL, it does not change the credit risk of our lending portfolios or the ultimate losses in those portfolios. However, the CECL ACL methodology will produce higher volatility in the quarterly provision for credit losses than our prior reserve process. We created a cross-functional management steering group to govern implementation and the Audit and Risk Committees and the Board of Directors received regular updates. For financial assets measured at amortized cost we have implemented a new modeling platform and integrated other auxiliary models to support a calculation of expected credit losses under CECL. We have made decisions on segmentation, a R&S forecast period, a reversion method and period and a historical loss forecast covering the remaining contractual life, adjusted for prepayments as well as other criteria. Based on our portfolio composition and forecasts of relatively stable macroeconomic conditions over the next two years at the adoption date, we recorded an overall ACL of $301 million. This reflected an increase on the originated portfolio of $55 million, primarily driven by our longer duration commercial and consumer real estate loans and a "gross-up" for PCI loans of $50 million. There is no capital impact related to the PCI loans at adoption. The impact for the adoption of CECL was a reduction to retained earnings of $51 million, which included a $10 million increase to the AULC. The impact upon adoption was dependent on the portfolio composition and credit quality, as well as historical experience, current conditions and forecasts of economic conditions and interest rates at the time of adoption. The impact to our AFS and HTM debt securities was immaterial. Model development, as well as the development of policies and procedures and, internal controls were complete at the time of adoption.

<table>
<tr><th>Standard</th><th>Description</th><th>Financial Statements Impact</th></tr>
<tr><td colspan="3">Reference Rate Reform</td></tr>
<tr><td>ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

ASU 2021-01, Reference Rate Reform (Topic 848): Scope</td><td>These Updates provide temporary optional expedients and exceptions for applying GAAP to financial contracts, hedging relationships and other transactions affected by RRR if certain criteria are met.

The following optional expedients, exceptions and elections are permitted for certain contracts that are modified because of RRR and meet certain scope guidance:
• Contract modifications may be accounted for prospectively as a continuation of existing contracts rather than a new contract without remeasurement or reassessment of significant contract amendments
• modifications of leases to be accounted for as a continuation of the existing contracts without reassessment of lease classification and discount rate or remeasurement of lease payments
• to not reassess the original conclusion about whether a contract contains an embedded derivative that is clearly and closely related to the host contract
• changes to critical terms of hedging relationships, on a hedge-by-hedge basis, without designation of the hedging relationship and various practical expedients and elections designed to allow hedge accounting to continue uninterrupted
• modifications of certain derivatives modified to change the rate used for margining, discounting or contract price alignment.

The Updates also allow an entity to make a one-time election to sell and/or transfer to HTM securities that are affected by RRR and were classified as HTM before January 1, 2020.</td><td>RRR Updates are effective for all entities from the beginning of an interim period that includes or is subsequent to March 12, 2020 and terminates on December 31, 2022 on a full retrospective or prospective basis.

Although we do not expect RRR to have a material accounting impact on our consolidated financial position or results of operations, the Updates will ease the administrative burden in accounting for the effects of RRR.

We adopted these updates on October 1, 2020 by retrospective application. The adoption did not have a material impact on our consolidated financial position or results of operations.

We will continue to assess the impact of adoption through the termination date of these Updates on December 31, 2022.</td></tr>
</table>

NOTE 3. SECURITIES

The amortized cost and fair value of AFS debt securities for the current period are presented in the table below. There was no ACL in the AFS portfolio during 2020. Accrued interest receivable on AFS debt securities totaled $6.2 million at December 31, 2020 and is excluded from the estimate of credit losses and recorded separately in other assets in the Consolidated Balance Sheets. Accordingly, we have excluded accrued interest receivable from both the fair value and the amortized cost basis of AFS debt securities.

TABLE 3.1

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities AFS:				
December 31, 2020				
U.S. Treasury	**$ 600**	**$ —**	**$ —**	**$ 600**
U.S. government agencies	**172**	**—**	**—**	**172**
U.S. government-sponsored entities	**160**	**1**	**—**	**161**
Residential mortgage-backed securities:				
Agency mortgage-backed securities	**959**	**35**	**—**	**994**
Agency collateralized mortgage obligations	**1,094**	**31**	**(1)**	**1,124**
Commercial mortgage-backed securities	**361**	**17**	**—**	**378**
States of the U.S. and political subdivisions (municipals)	**32**	**—**	**—**	**32**
Other debt securities	**2**	**—**	**—**	**2**
Total debt securities AFS	**$ 3,380**	**$ 84**	**$ (1)**	**$ 3,463**

The amortized cost and fair value of debt securities AFS for December 31, 2019 are as follows:

TABLE 3.2

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities AFS:				
December 31, 2019				
U.S. government agencies	$ 152	$ —	$ (1)	$ 151
U.S. government-sponsored entities	225	1	—	226
Residential mortgage-backed securities:				
Agency mortgage-backed securities	1,310	7	(3)	1,314
Agency collateralized mortgage obligations	1,234	10	(4)	1,240
Commercial mortgage-backed securities	341	6	(2)	345
States of the U.S. and political subdivisions (municipals)	11	—	—	11
Other debt securities	2	—	—	2
Total debt securities AFS	$ 3,275	$ 24	$ (10)	$ 3,289

The amortized cost and fair value of HTM debt securities for the current period are presented in the table below. The ACL for the HTM municipal bond portfolio was $0.04 million at December 31, 2020. Accrued interest receivable on HTM debt securities totaled $12.5 million at December 31, 2020 and is excluded from the estimate of credit losses and recorded separately in other assets in the Consolidated Balance Sheets.

TABLE 3.3

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities HTM:				
December 31, 2020				
U.S. Treasury	**$ 1**	**$ —**	**$ —**	**$ 1**
U.S. government agencies	**1**	**—**	**—**	**1**
U.S. government-sponsored entities	**120**	**1**	**—**	**121**
Residential mortgage-backed securities:				
Agency mortgage-backed securities	**769**	**29**	**—**	**798**
Agency collateralized mortgage obligations	**562**	**17**	**—**	**579**
Commercial mortgage-backed securities	**307**	**10**	**—**	**317**
States of the U.S. and political subdivisions (municipals)	**1,108**	**48**	**—**	**1,156**
Total debt securities HTM	**$ 2,868**	**$ 105**	**$ —**	**$ 2,973**

The amortized cost and fair value of HTM debt securities for December 31, 2019 are as follows:

TABLE 3.4

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities HTM:				
December 31, 2019				
U.S. Treasury	$ 1	$ —	$ —	$ 1
U.S. government agencies	1	—	—	1
U.S. government-sponsored entities	175	—	—	175
Residential mortgage-backed securities:				
Agency mortgage-backed securities	949	8	(2)	955
Agency collateralized mortgage obligations	721	5	(6)	720
Commercial mortgage-backed securities	308	3	(2)	309
States of the U.S. and political subdivisions (municipals)	1,120	26	(2)	1,144
Total debt securities HTM	$ 3,275	$ 42	$ (12)	$ 3,305

We did not have any sales during 2020 or 2019. There were no significant gross gains or gross losses realized on securities during the twelve months ended December 31, 2020, 2019 or 2018.

As of December 31, 2020, the amortized cost and fair value of debt securities, by contractual maturities, were as follows:

TABLE 3.5

	Available for Sale		Held to Maturity	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 642	$ 642	$ 122	$ 123
Due after one year but within five years	113	114	20	20
Due after five years but within ten years	124	125	151	155
Due after ten years	87	86	937	981
	966	967	1,230	1,279
Residential mortgage-backed securities:				
Agency mortgage-backed securities	959	994	769	798
Agency collateralized mortgage obligations	1,094	1,124	562	579
Commercial mortgage-backed securities	361	378	307	317
Total debt securities	$ 3,380	$ 3,463	$ 2,868	$ 2,973

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

Following is information relating to securities pledged:

TABLE 3.6

December 31	**2020**	**2019**
(dollars in millions)		
Securities pledged (carrying value):		
To secure public deposits, trust deposits and for other purposes as required by law	**$ 5,384**	$ 4,494
As collateral for short-term borrowings	**402**	285
Securities pledged as a percent of total securities	**91.4 %**	72.8 %

At December 31, 2020, there were no holdings of securities of any one issuer, other than U.S. government and its agencies, in any amount greater than 10% of stockholders' equity.

Following are summaries of the fair values of AFS debt securities in an unrealized loss position for which an ACL has not been recorded, segregated by security type and length of continuous loss position:

TABLE 3.7

	Less than 12 Months			12 Months or More			Total		
(dollars in millions)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Debt Securities AFS									
December 31, 2020									
U.S. government agencies	**1**	**$ 13**	**$ —**	**16**	**$ 69**	**$ —**	**17**	**$ 82**	**$ —**
U.S. government-sponsored entities	**1**	**25**	**—**	**—**	**—**	**—**	**1**	**25**	**—**
Residential mortgage-backed securities:									
Agency collateralized mortgage obligations	**5**	**130**	**(1)**	**—**	**—**	**—**	**5**	**130**	**(1)**
Other debt securities	**—**	**—**	**—**	**1**	**2**	**—**	**1**	**2**	**—**
Total	**7**	**$ 168**	**$ (1)**	**17**	**$ 71**	**$ —**	**24**	**$ 239**	**$ (1)**

	Less than 12 Months			12 Months or More			Total		
(dollars in millions)	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Debt Securities AFS									
December 31, 2019									
U.S. government agencies	5	$ 48	$ —	15	$ 61	$ (1)	20	$ 109	$ (1)
U.S. government-sponsored entities	—	—	—	6	130	—	6	130	—
Residential mortgage-backed securities:									
Agency mortgage-backed securities	13	200	(1)	24	314	(2)	37	514	(3)
Agency collateralized mortgage obligations	11	323	(1)	32	205	(3)	43	528	(4)
Non-agency collateralized mortgage obligations	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	3	114	(2)	—	—	—	3	114	(2)
States of the U.S. and political subdivisions (municipals)	—	—	—	—	—	—	—	—	—
Other debt securities	—	—	—	1	2	—	1	2	—
Total temporarily impaired debt securities AFS	32	$ 685	$ (4)	78	$ 712	$ (6)	110	$ 1,397	$ (10)

We evaluated the AFS debt securities that were in an unrealized loss position at December 31, 2020. Based on the credit ratings and implied government guarantee for these securities, we concluded the loss position is temporary and caused by the movement of interest rates. We do not intend to sell the AFS debt securities and it is not more likely than not that we will be required to sell the securities before the recovery of their amortized cost basis.

Credit Quality Indicators

We use credit ratings to help evaluate the credit quality of our HTM municipal bond portfolio. The ratings are updated quarterly with the last update on December 31, 2020. The remainder of the HTM portfolio is backed by the UST, Fannie Mae, Freddie

Mac, FHLB, Ginnie Mae, and the SBA and we have designated these securities as having zero expected credit loss, and therefore, are not subject to an estimate of expected credit loss under CECL.

Our municipal bond portfolio with a carrying amount of $1.1 billion as of December 31, 2020 is highly rated with an average rating of AA and 100% of the portfolio rated A or better, while 99% have stand-alone ratings of A or better. All of the securities in the municipal portfolio are general obligation bonds. Geographically, municipal bonds support our primary footprint as 65% of the securities are from municipalities located in the primary states within which we conduct business. The average holding size of the securities in the municipal bond portfolio is $3.5 million. In addition to the strong stand-alone ratings, 62% 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.

The credit analysis on the municipal bond portfolio is completed on each bond using:

- The bond’s credit rating;
- Credit enhancements that improve the bond’s credit rating, for example insurance; and
- *Moody’s U.S. Bond Defaults and Recoveries, 1970-2019.*

By using these components, we derive the expected credit loss on the general obligation bond portfolio. We further refine the expected credit loss by factoring in economic forecast data using our Commercial and Industrial Non-Manufacturing PD adjustment as derived through our assessment of the loan portfolio.

For the year-to-date period ending December 31, 2020, we had a provision expense of $0.004 million, with no charge-offs or recoveries. The ACL on the HTM portfolio as of December 31, 2020 was $0.04 million. No other securities portfolios had an ACL. At December 31, 2020, there were no securities that were past due or on non-accrual.

NOTE 4. OTHER SECURITIES

Following is a summary of non-marketable equity securities:

TABLE 4.1

December 31	**2020**	**2019**
(in millions)		
Federal Home Loan Bank stock	**$ 154**	$ 256
Federal Reserve Bank stock	**124**	123
Other non-marketable equity securities	**—**	1
Total non-marketable equity securities	**$ 278**	$ 380

We are a member of the FHLB of Pittsburgh and the FRB of Cleveland. Both institutions require members to purchase and hold a specified minimum level of stock based upon their membership, level of borrowings, collateral balances or participation in other programs. The FHLB and FRB stock is restricted in that they can only be sold back to the respective institutions. These non-marketable equity securities are included in other assets on the Consolidated Balance Sheets. The investments are carried at cost and evaluated for impairment periodically based on the ultimate recoverability of the par value. We determined there was no impairment at December 31, 2020 and 2019.

NOTE 5. LOANS AND LEASES

The loan and lease portfolio categories were generally unchanged with the CECL adoption. Accrued interest receivable on loans and leases, which totaled $62.9 million at December 31, 2020, is excluded from the estimate of credit losses and recorded separately in other assets in the Consolidated Balance Sheets for both periods and not included in the tables below. Upon adoption of CECL, PCD assets were adjusted to reflect the addition of a $50.3 million ACL and a remaining noncredit discount of $110.0 million included in the amortized cost. At December 31, 2020, the remaining noncredit discount was $50.9 million.

Loans and Leases by Portfolio Segment

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

TABLE 5.1

December 31 (in millions)	**2020**	**2019**
Commercial real estate	**$ 9,731**	$ 8,960
Commercial and industrial	**7,214**	5,308
Commercial leases	**485**	432
Other	**40**	21
Total commercial loans and leases	**17,470**	14,721
Direct installment	**2,020**	1,821
Residential mortgages	**3,433**	3,374
Indirect installment	**1,218**	1,922
Consumer lines of credit	**1,318**	1,451
Total consumer loans	**7,989**	8,568
Total loans and leases, net of unearned income	**$ 25,459**	$ 23,289

The loans and leases portfolio categories are comprised of the following types of loans, where in each case the LGD is dependent on the nature and value of the respective collateral:

- Commercial real estate includes both owner-occupied and non-owner-occupied loans secured by commercial properties where operational cash flows on owner-occupied properties or rents received by our borrowers from their tenant(s) on both a property and global basis are the primary default risk drivers, including rents paid by stand-alone business customers for owner-occupied properties;
- Commercial and industrial includes loans to businesses that are not secured by real estate where the borrower's leverage and cash flows from operations are the primary default risk drivers. PPP loans are included in the commercial and industrial category and comprise $2.2 billion of this category's outstanding balance at December 31, 2020. The PPP loans are 100% guaranteed by the SBA, which provides a reduced risk of loss to us on these loans;
- Commercial leases consist of leases for new or used equipment where the borrower's cash flow from operations is the primary default risk driver;
- Other is comprised primarily of credit cards and mezzanine loans where the borrower's cash flow from operations is the primary default risk driver;
- 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 where the primary default risk driver is the borrower's employment status and income;
- Residential mortgages consist of conventional and jumbo mortgage loans for 1-4 family properties where the primary default risk driver is the borrower's employment status and income;
- Indirect installment is comprised of loans originated by approved third parties and underwritten by us, primarily automobile loans where the primary default risk driver is the borrower's employment status and income; and

- Consumer lines of credit include home equity lines of credit and consumer lines of credit that are either unsecured or secured by collateral other than home equity where the primary default risk driver is the borrower's employment status and income.

The loans and leases portfolio consists principally of loans to individuals and small- and medium-sized businesses within our primary market in seven states and the District of Columbia. Our primary market coverage spans several major metropolitan areas including: Pittsburgh, Pennsylvania; Baltimore, Maryland; Cleveland, Ohio; Washington, D.C.; and Charlotte, Raleigh, Durham and the Piedmont Triad (Winston-Salem, Greensboro and High Point) in North Carolina. During the fourth quarter of 2020, we sold $0.5 billion of indirect installment loans that were previously transferred to loans held for sale.

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

TABLE 5.2

December 31	**2020**	**2019**
(dollars in millions)		
Commercial real estate:		
Percent owner-occupied	**28.1 %**	30.6 %
Percent non-owner-occupied	**71.9**	69.4

We have extended credit to certain directors and executive officers and their related interests. These related-party loans were made in the ordinary course of business under normal credit terms and do not involve more than a normal risk of collection.

Following is a summary of the activity for these related-party loans during 2020:

TABLE 5.3

(in millions)	
Balance at beginning of period	$ 7
New loans	2
Repayments	(2)
Balance at end of period	$ 7

Credit Quality

Management monitors the credit quality of our loan portfolio using several performance measures based on payment activity and borrower performance. We use an internal risk rating assigned to a commercial loan or lease, summarized below.

TABLE 5.4

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

The use of these internally assigned credit quality categories within the commercial loan and lease portfolio permits management's use of transition matrices to establish the basis for the R&S forecast portion of the credit risk. Our internal credit risk grading system is based on past experiences with similarly graded loans and leases and conforms to regulatory categories. In general, loan and lease risk ratings within each category are reviewed on an ongoing basis according to our policy for each class of loans and leases. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan and lease portfolio. Loans and leases within the

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

The following table summarizes the designated loan rating category by loan class including term loans on an amortized cost basis by origination year:

TABLE 5.5

December 31, 2020	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
(in millions)								
COMMERCIAL								
Commercial Real Estate:								
Risk Rating:								
Pass	$ 1,879	$ 1,854	$ 1,135	$ 927	$ 888	$ 1,911	$ 163	$ 8,757
Special Mention	9	30	80	158	70	163	4	514
Substandard	4	32	29	81	116	192	6	460
Total commercial real estate	1,892	1,916	1,244	1,166	1,074	2,266	173	9,731
Commercial and Industrial:								
Risk Rating:								
Pass	3,286	1,007	590	304	120	311	1,095	6,713
Special Mention	30	23	13	28	10	35	79	218
Substandard	8	26	65	44	6	37	97	283
Total commercial and industrial	3,324	1,056	668	376	136	383	1,271	7,214
Commercial Leases:								
Risk Rating:								
Pass	178	134	83	56	5	3	—	459
Special Mention	1	1	4	4	1	2	—	13
Substandard	7	2	2	1	1	—	—	13
Total commercial leases	186	137	89	61	7	5	—	485
Other Commercial:								
Risk Rating:								
Pass	—	—	—	—	—	4	35	39
Substandard	—	—	—	—	—	1	—	1
Total other commercial	—	—	—	—	—	5	35	40
Total commercial	5,402	3,109	2,001	1,603	1,217	2,659	1,479	17,470

December 31, 2020	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total
(in millions)								
CONSUMER								
Direct Installment:								
Current	706	337	200	143	171	442	1	2,000
Past due	—	1	2	1	2	14	—	20
Total direct installment	706	338	202	144	173	456	1	2,020
Residential Mortgages:								
Current	1,079	707	283	378	330	603	1	3,381
Past due	1	5	7	4	6	29	—	52
Total residential mortgages	1,080	712	290	382	336	632	1	3,433
Indirect Installment:								
Current	372	260	332	147	67	27	—	1,205
Past due	1	3	4	2	2	1	—	13
Total indirect installment	373	263	336	149	69	28	—	1,218
Consumer Lines of Credit:								
Current	4	7	8	3	5	127	1,146	1,300
Past due	—	—	—	—	—	15	3	18
Total consumer lines of credit	4	7	8	3	5	142	1,149	1,318
Total consumer	2,163	1,320	836	678	583	1,258	1,151	7,989
Total loans and leases	$ 7,565	$ 4,429	$ 2,837	$ 2,281	$ 1,800	$ 3,917	$ 2,630	$ 25,459

We use delinquency transition matrices within the consumer and other loan classes to establish the basis for the R&S forecast portion of the credit risk. Each month, management analyzes payment and volume activity, FICO scores and Debt-to-Income (DTI) scores and other external factors such as unemployment, to determine how consumer loans are performing.

The following tables present the December 31, 2019 summary of our commercial loans and leases by credit quality category segregated by loans and leases originated and loans acquired, prior to the adoption of CECL:

TABLE 5.6

	Commercial Loan and Lease Credit Quality Categories				
(in millions)	Pass	Special Mention	Substandard	Doubtful	Total
Originated Loans and Leases					
December 31, 2019					
Commercial real estate	$ 6,821	$ 171	$ 121	$ 1	$ 7,114
Commercial and industrial	4,768	149	144	2	5,063
Commercial leases	423	3	6	—	432
Other	20	—	1	—	21
Total originated commercial loans and leases	$ 12,032	$ 323	$ 272	$ 3	$ 12,630
Loans Acquired in a Business Combination					
December 31, 2019					
Commercial real estate	$ 1,603	$ 116	$ 127	$ —	$ 1,846
Commercial and industrial	201	19	25	—	245
Total commercial loans acquired in a business combination	$ 1,804	$ 135	$ 152	$ —	$ 2,091

Following is a table showing the December 31, 2019 consumer loans by payment status:

TABLE 5.7

	Consumer Loan Credit Quality by Payment Status		
(in millions)	Performing	Non-Performing	Total
Originated Loans			
December 31, 2019			
Direct installment	$ 1,745	$ 13	$ 1,758
Residential mortgages	2,978	17	2,995
Indirect installment	1,919	3	1,922
Consumer lines of credit	1,086	6	1,092
Total originated consumer loans	$ 7,728	$ 39	$ 7,767
Loans Acquired in a Business Combination			
December 31, 2019			
Direct installment	$ 63	$ —	$ 63
Residential mortgages	379	—	379
Consumer lines of credit	358	1	359
Total consumer loans acquired in a business combination	$ 800	$ 1	$ 801

Non-Performing and Past Due

The following tables provide an analysis of the aging of loans by class.

TABLE 5.8

(in millions)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans and Leases	Non-accrual with No ACL
Loans and Leases							
December 31, 2020							
Commercial real estate	**$ 13**	**$ —**	**$ 85**	**$ 98**	**$ 9,633**	**$ 9,731**	**$ 36**
Commercial and industrial	**8**	**—**	**44**	**52**	**7,162**	**7,214**	**16**
Commercial leases	**2**	**—**	**2**	**4**	**481**	**485**	**—**
Other	**—**	**—**	**1**	**1**	**39**	**40**	**—**
Total commercial loans and leases	**23**	**—**	**132**	**155**	**17,315**	**17,470**	**52**
Direct installment	**7**	**2**	**11**	**20**	**2,000**	**2,020**	**—**
Residential mortgages	**23**	**11**	**18**	**52**	**3,381**	**3,433**	**—**
Indirect installment	**10**	**1**	**2**	**13**	**1,205**	**1,218**	**—**
Consumer lines of credit	**9**	**2**	**7**	**18**	**1,300**	**1,318**	**—**
Total consumer loans	**49**	**16**	**38**	**103**	**7,886**	**7,989**	**—**
Total loans and leases	**$ 72**	**$ 16**	**$ 170**	**$ 258**	**$ 25,201**	**$ 25,459**	**$ 52**

(in millions)	30-89 Days Past Due	> 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans and Leases
Originated Loans and Leases						
December 31, 2019						
Commercial real estate	$ 10	$ —	$ 26	$ 36	$ 7,078	$ 7,114
Commercial and industrial	9	—	28	37	5,026	5,063
Commercial leases	5	—	1	6	426	432
Other	—	—	1	1	20	21
Total commercial loans and leases	24	—	56	80	12,550	12,630
Direct installment	7	1	7	15	1,743	1,758
Residential mortgages	12	2	8	22	2,973	2,995
Indirect installment	15	1	3	19	1,903	1,922
Consumer lines of credit	5	1	3	9	1,083	1,092
Total consumer loans	39	5	21	65	7,702	7,767
Total originated loans and leases	$ 63	$ 5	$ 77	$ 145	$ 20,252	$ 20,397

(in millions)	30-89 Days Past Due	≥ 90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due (1) (2)	Current	(Discount)/ Premium	Total Loans
Loans Acquired in a Business Combination							
December 31, 2019							
Commercial real estate	$ 12	$ 28	$ 3	$ 43	$ 1,942	$ (139)	$ 1,846
Commercial and industrial	2	3	—	5	259	(19)	245
Total commercial loans	14	31	3	48	2,201	(158)	2,091
Direct installment	3	—	—	3	60	—	63
Residential mortgages	8	4	—	12	382	(15)	379
Consumer lines of credit	7	2	1	10	357	(8)	359
Total consumer loans	18	6	1	25	799	(23)	801
Total loans acquired in a business combination	$ 32	$ 37	$ 4	$ 73	$ 3,000	$ (181)	$ 2,892

(1) Prior to the adoption of CECL on January 1, 2020, loans acquired in a business combination were considered performing upon acquisition, regardless of whether the customer was contractually delinquent, if we could reasonably estimate the timing and amount of expected cash flows on such loans. In these instances, we did not consider acquired contractually delinquent loans to be non-accrual or non-performing and continued to recognize interest income on these loans using the accretion method. After the adoption of CECL on January 1, 2020 loans acquired in a business combination are considered non-accrual or non-performing when, due to credit deterioration or other factors, we determine we are no longer able to reasonably estimate the timing and amount of expected cash flows on such loans. We do not recognize interest income on loans acquired in a business combination considered non-accrual or non-performing.

(2) Past due information for loans acquired in a business combination is based on the contractual balance outstanding at December 31, 2019.

Following is a summary of non-performing assets:

TABLE 5.9

December 31 (dollars in millions)	2020	2019
Non-accrual loans	**$ 170**	$ 81
Troubled debt restructurings	**—**	22
Total non-performing loans	**170**	103
Other real estate owned	**10**	26
Total non-performing assets	**$ 180**	$ 129
Asset quality ratios:		
Non-performing loans / total loans and leases	**0.67 %**	0.44 %
Non-performing loans assets + 90 days past due + OREO / total loans and leases + OREO	**0.77**	0.73

The carrying value of residential-secured consumer OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure amounted to $2.5 million at December 31, 2020 and $3.3 million at December 31, 2019. The recorded investment of residential-secured consumer OREO for which formal foreclosure proceedings are in process at December 31, 2020 and December 31, 2019 totaled $8.2 million and $9.2 million, respectively. During 2020, we extended the residential mortgage foreclosure moratorium beyond the requirements for government-backed loans, under the CARES Act, to all residential mortgage loan customers.

Approximately $91.4 million of commercial loans are collateral dependent at December 31, 2020. Repayment is expected to be substantially through the operation or sale of the collateral on the loan. These loans are primarily secured by business assets or commercial real estate.

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. Consistent with the CARES Act and interagency bank regulatory guidance which allows temporary relief for current borrowers affected by COVID-19, we are working with borrowers and granting certain modifications through programs related to COVID-19 relief. As of December 31, 2020, we had $397 million in loans that have been granted short-term modifications as a result of financial disruptions associated with the COVID-19 pandemic. Also, consistent with the CARES Act and the interagency bank regulatory guidelines, such modifications are not included in our TDR totals.

Following is a summary of the composition of total TDRs:

TABLE 5.10

December 31 (in millions)	**2020**	2019
Accruing	**$ 58**	$ 41
Non-accrual	**33**	15
Total TDRs	**$ 91**	$ 56

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 2020, we returned to accruing status $7.7 million in restructured residential mortgage loans that have consistently met their modified obligations for more than six months. 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 ACL.

Commercial loans over $1.0 million whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured based on the fair value of the underlying collateral. Our ACL includes specific reserves for commercial TDRs of $2.8 million at December 31, 2020, compared to less than $0.5 million at December 31, 2019, and pooled reserves for individual loans of $2.5 million and $0.8 million for those same periods, respectively, based on loan segment LGD. 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 ACL.

All other classes of loans whose terms have been modified in a TDR are pooled and measured based on the loan segment LGD. Our ACL included pooled reserves for these classes of loans of $4.1 million for both December 31, 2020 and 2019. Upon default of an individual loan, our charge-off policy is followed for that class of loan.

Following is a summary of TDR loans, by class, for loans that were modified during the periods indicated:

TABLE 5.11

Year Ended December 31	2020			2019		
(dollars in millions)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	**30**	**$ 18**	**$ 8**	20	$ 5	$ 5
Commercial and industrial	**19**	**2**	**1**	23	5	3
Other	**1**	**—**	**—**	—	—	—
Total commercial loans	**50**	**20**	**9**	43	10	8
Direct installment	**68**	**4**	**4**	65	3	3
Residential mortgages	**24**	**3**	**3**	18	3	3
Consumer lines of credit	**45**	**2**	**1**	27	2	1
Total consumer loans	**137**	**9**	**8**	110	8	7
Total	**187**	**$ 29**	**$ 17**	153	$ 18	$ 15

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

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

TABLE 5.12

Year Ended December 31	2020	
(dollars in millions)	Number of Contracts	Recorded Investment
Commercial real estate	**8**	**$ 3**
Commercial and industrial	**2**	**—**
Total commercial loans	**10**	**3**
Direct installment	**12**	**—**
Residential mortgages	**4**	**—**
Consumer lines of credit	**4**	**—**
Total consumer loans	**20**	**—**
Total	**30**	**$ 3**

Following is a summary of originated TDRs, by class, for which there was a payment default, excluding loans that have been paid off and/or sold.

TABLE 5.13

Year Ended December 31	2019	
(dollars in millions)	Number of Contracts	Recorded Investment
Commercial real estate	5	$ 1
Commercial and industrial	1	—
Total commercial loans	6	1
Direct installment	5	—
Residential mortgages	2	—
Consumer lines of credit	1	—
Total consumer loans	8	—
Total	14	$ 1

Loans Acquired in a Business Combination

Prior to January 1, 2020, all loans acquired in a business combination were initially recorded at fair value at the acquisition date with no associated ACL. Refer to the Loans Acquired in a Business Combination section in Note 1 to the Consolidated Financial Statements.

NOTE 6. ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LEASES

Beginning January 1, 2020, the former incurred loss method was replaced with the CECL method to calculate estimated loan loss. The ACL addresses credit losses expected in the existing loan and lease portfolio and is presented as a reserve against loans and leases on the Consolidated Balance Sheets. Loan and lease losses are charged off against the ACL, with recoveries of amounts previously charged off credited to the ACL. Provisions for credit losses are charged to operations based on management's periodic evaluation of the appropriate level of the ACL. Included in Table 6.1 is the impact to the ACL from our CECL (ASC 326) adoption on January 1, 2020. All prior periods are presented using the incurred loss method which was the accounting method in place at the time of the respective financial statements.

Following is a summary of changes in the ACL, by loan and lease class:

TABLE 6.1

(in millions)	Balance at Beginning of Year	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	ASC 326 Adoption Impact	Initial ACL on PCD Loans	Balance at End of Year
Year Ended December 31, 2020								
Commercial real estate	$ 60	$ (31)	$ 7	$ (24)	$ 67	$ 38	$ 40	$ 181
Commercial and industrial	53	(32)	7	(25)	41	8	4	81
Commercial leases	11	(1)	—	(1)	7	—	—	17
Other	9	(4)	1	(3)	4	(9)	—	1
Total commercial loans and leases	133	(68)	15	(53)	119	37	44	280
Direct installment	13	(1)	1	—	2	10	1	26
Residential mortgages	22	(2)	1	(1)	3	6	4	34
Indirect installment	19	(8)	4	(4)	(6)	2	—	11
Consumer lines of credit	9	(2)	—	(2)	4	—	1	12
Total consumer loans	63	(13)	6	(7)	3	18	6	83
Total allowance for credit losses on loans and leases	$ 196	$ (81)	$ 21	$ (60)	$ 122	$ 55	$ 50	$ 363
Allowance for unfunded loan commitments	3	—	—	—	1	10	—	14
Total allowance for credit losses on loans and leases and allowance for unfunded loan commitments	$ 199	$ (81)	$ 21	$ (60)	$ 123	$ 65	$ 50	$ 377

Following is a summary of changes in the AULC by portfolio segment:

TABLE 6.2

Year Ended December 31	**2020**
(in millions)	
Balance at beginning of period	$ 3
Provision for unfunded loan commitments and letters of credit:	
Commercial portfolio	1
Consumer portfolio	—
ASC 326 adoption impact:	
Commercial portfolio	8
Consumer portfolio	2
Balance at end of period	$ 14

This expected loss model takes into consideration the expected credit losses over the expected life of the loan compared to the incurred loss model under the prior standard. At the time of CECL adoption, we recorded a one-time cumulative-effect adjustment of $50.6 million as a reduction to Retained Earnings. The ACL balance increased by $105 million and included a “gross-up" to PCI loan balances and the ACL of $50 million. Included in the CECL adoption impact was a Day 1 increase to our AULC of $10 million.

The model used to calculate the ACL is dependent on the portfolio composition and credit quality, as well as historical experience, current conditions and forecasts of economic conditions and interest rates. Specifically, the following considerations are incorporated into the ACL calculation:

- a third-party macroeconomic forecast scenario;
- a 24-month R&S forecast period for macroeconomic factors with a reversion to the historical mean on a straight-line basis over a 12-month period; and
- the historical through the cycle mean was calculated using an expanded period to include a prior recessionary period.

COVID-19 Impacts on the ACL

Beginning in March 2020, the broader economy experienced a significant deterioration in the macroeconomic environment driven by the COVID-19 pandemic resulting in notable adverse changes to forecasted economic variables utilized in our ACL modeling process. Based on these changes, we utilized a third-party pandemic recessionary scenario through September 30, 2020 for ACL modeling purposes. For December 31, 2020, we utilized a third-party consensus macroeconomic forecast due to the improving macroeconomic environment. This scenario captures forecasted macroeconomic variables as of mid-December to ensure our ACL calculation considers the most recently available macroeconomic data in a quickly evolving environment at quarter-end. Macroeconomic variables that we utilized from this scenario for our ACL calculation as of December 31, 2020 included but were not limited to: (i) gross domestic product, which reflects growth of 4% in 2021, (ii) the Dow Jones Total Stock Market Index, which grows steadily throughout the R&S forecast period, (iii) unemployment, which steadily declines and averages 6% over the R&S forecast period and (iv) the Volatility Index, which remains stable over the R&S.

The ACL of $363.1 million at December 31, 2020 increased $167.2 million, or 85.4%, from December 31, 2019 and reflects the Day 1 CECL adoption increase to the ACL of $105.3 million on January 1, 2020. The additional increase was primarily attributed to qualitative adjustments such as economic modeling uncertainty given the COVID-related environment and loan deferral activity as prescribed in the CARES Act and by the banking regulators. Our ending ACL coverage ratio at December 31, 2020 was 1.43%. Total provision for credit losses for the year ended December 31, 2020 was $122.8 million. Net charge-offs were $59.8 million during 2020, compared to $28.3 million during 2019, with the increase primarily due to commercial charge-offs within portfolios and industries most impacted by COVID-19 such as retail or hospitality-related commercial real estate. While elevated from 2019, net charge-offs of 24 basis points of average loans for 2020 remained at historically reasonable levels.

Following is a summary of changes in the ACL, by loan and lease class:

TABLE 6.3

(in millions)	Balance at Beginning of Period	Charge-Offs	Recoveries	Net Charge-Offs	Provision for Credit Losses	Balance at End of Period
Year Ended December 31, 2019						
Commercial real estate	$ 55	$ (4)	$ 4	$ —	$ 5	$ 60
Commercial and industrial	49	(10)	4	(6)	10	53
Commercial leases	8	—	—	—	3	11
Other	2	(3)	—	(3)	3	2
Total commercial loans and leases	114	(17)	8	(9)	21	126
Direct installment	14	(1)	—	(1)	—	13
Residential mortgages	20	(2)	—	(2)	4	22
Indirect installment	15	(11)	4	(7)	11	19
Consumer lines of credit	10	(2)	—	(2)	1	9
Total consumer loans	59	(16)	4	(12)	16	63
Total allowance on originated loans and leases	173	(33)	12	(21)	37	189
Loans acquired in a business combination	7	(9)	2	(7)	7	7
Total allowance for credit losses	$ 180	$ (42)	$ 14	$ (28)	$ 44	$ 196
Year Ended December 31, 2018						
Commercial real estate	$ 50	$ (7)	$ 3	$ (4)	$ 9	$ 55
Commercial and industrial	52	(20)	2	(18)	15	49
Commercial leases	5	(3)	—	(3)	6	8
Other	2	(4)	—	(4)	4	2
Total commercial loans and leases	109	(34)	5	(29)	34	114
Direct installment	21	(17)	2	(15)	8	14
Residential mortgages	16	—	—	—	4	20
Indirect installment	12	(9)	4	(5)	8	15
Consumer lines of credit	10	(3)	—	(3)	3	10
Total consumer loans	59	(29)	6	(23)	23	59
Total allowance on originated loans and leases	168	(63)	11	(52)	57	173
Loans acquired in a business combination	7	(7)	3	(4)	4	7
Total allowance for credit losses	$ 175	$ (70)	$ 14	$ (56)	$ 61	$ 180

Following is a summary of the individual and collective ACL and corresponding loan and lease balances by class:

TABLE 6.4

	Allowance for Credit Losses		Loans and Leases Outstanding		
(in millions)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
December 31, 2019					
Commercial real estate	$ 2	$ 58	$ 7,114	$ 13	$ 7,101
Commercial and industrial	2	51	5,063	17	5,046
Commercial leases	—	11	432	—	432
Other	—	2	21	—	21
Total commercial loans and leases	4	122	12,630	30	12,600
Direct installment	—	13	1,758	—	1,758
Residential mortgages	—	22	2,995	—	2,995
Indirect installment	—	19	1,922	—	1,922
Consumer lines of credit	—	9	1,092	—	1,092
Total consumer loans	—	63	7,767	—	7,767
Total	$ 4	$ 185	$ 20,397	$ 30	$ 20,367

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

NOTE 7. LOAN SERVICING

Mortgage Loan Servicing

We retain the servicing rights on certain mortgage loans sold. The unpaid principal balance of mortgage loans serviced for others is listed below:

TABLE 7.1

December 31	**2020**	**2019**
(in millions)		
Mortgage loans sold with servicing retained	**$ 4,653**	$ 4,686

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

TABLE 7.2

Year Ended December 31	**2020**	**2019**	**2018**
(in millions)			
Mortgage loans sold with servicing retained	**$ 1,636**	$ 1,381	$ 1,060
Pretax gains resulting from above loan sales [(1)]	**70**	32	19
Mortgage servicing fees [(1)]	**12**	11	9

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

Following is a summary activity relating to MSRs:

TABLE 7.3

Year Ended December 31	**2020**	2019	2018
(in millions)			
Balance at beginning of period	**$ 42.6**	$ 36.8	$ 29.1
Additions	**16.0**	14.3	12.5
Payoffs and curtailments	**(14.8)**	(5.0)	(1.8)
(Impairment) charge / recovery	**(5.8)**	(1.0)	(0.5)
Amortization	**(2.4)**	(2.5)	(2.5)
Balance at end of period	**$ 35.6**	$ 42.6	$ 36.8
Fair value, beginning of period	**$ 45.2**	$ 41.1	$ 32.4
Fair value, end of period	**35.6**	45.2	41.1

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

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

TABLE 7.4

December 31	**2020**	2019
(dollars in millions)		
Weighted average life (months)	**66.6**	78.9
Constant prepayment rate (annualized)	**13.4 %**	10.6 %
Discount rate	**9.5 %**	9.7 %
Effect on fair value due to change in interest rates:		
+0.25%	**$ 2**	$ 3
+0.50%	**4**	5
-0.25%	**(2)**	(3)
-0.50%	**(3)**	(5)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the changes in assumptions to fair value may not be linear. Also, in this table, the effects of an adverse variation in a particular assumption on the fair value of MSRs is calculated without changing any other assumptions, while in reality, changes in one factor may result in changing another, which may magnify or contract the effect of the change. We had a $7.3 million valuation allowance for MSRs as of December 31, 2020, compared to $1.5 million at December 31, 2019.

SBA-Guaranteed Loan Servicing

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

TABLE 7.5

December 31	**2020**	**2019**
(in millions)		
SBA loans sold to investors with servicing retained	**$ 217**	$ 225

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

TABLE 7.6

Year Ended December 31	**2020**	**2019**	**2018**
(in millions)			
SBA loans sold with servicing retained	**$ 33**	$ 23	$ 41
Pretax gains resulting from above loan sales (1)	**3**	2	4
SBA servicing fees (1)	**2**	2	3

(1) Recorded in non-interest income.

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

TABLE 7.7

Year Ended December 31	**2020**	**2019**	**2018**
(in millions)			
Balance at beginning of period	**$ 3**	$ 4	$ 5
Additions	**1**	—	1
Payoffs, curtailments and amortization	**(1)**	(1)	(1)
Impairment charge	**—**	—	(1)
Balance at end of period	**$ 3**	$ 3	$ 4
Fair value, beginning of period	**$ 3**	$ 4	$ 5
Fair value, end of period	**3**	3	4

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

TABLE 7.8

December 31	2020	2019
(dollars in millions)		
Weighted average life (months)	**38**	42
Constant prepayment rate	**17.8 %**	16.8 %
Discount rate	**13.2**	16.2
Decline in fair value due to change in interest rates:		
1% adverse change	**$ (0.1)**	$ (0.1)
2% adverse change	**(0.1)**	(0.1)
Decline in fair value due to change in constant prepayment rates:		
10% adverse change	**(0.1)**	(0.1)
20% adverse change	**(0.1)**	(0.3)

We had a valuation allowance for SBA servicing rights as of December 31, 2020 of $1.1 million, compared to $1.2 million at December 31, 2019.

Other Loan Servicing

During the fourth quarter of 2020, we sold $0.5 billion in indirect auto loans with servicing retained. The servicing asset totaled $0.7 million at December 31, 2020.

NOTE 8.   PREMISES AND EQUIPMENT

Following is a summary of premises and equipment:

TABLE 8.1

December 31	2020	2019
(in millions)		
Land	**$ 57**	$ 62
Premises	**231**	233
Equipment	**311**	276
	599	571
Accumulated depreciation	**(267)**	(238)
Total premises and equipment, net	**$ 332**	$ 333

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

TABLE 8.2

December 31	2020	2019	2018
(in millions)			
Depreciation expense for premises and equipment	**$ 43**	$ 42	$ 39

NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS

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

TABLE 9.1

(in millions)	Community Banking	Wealth Manage-ment	Insurance	Total
Balance at January 1, 2019	$ 2,231	$ 8	$ 16	$ 2,255
Goodwill (deductions) additions	—	—	7	7
Balance at December 31, 2019	2,231	8	23	2,262
Goodwill (deductions) additions	—	—	—	—
Balance at December 31, 2020	**$ 2,231**	**$ 8**	**$ 23**	**$ 2,262**

There were no changes to goodwill during 2020. The addition of goodwill for the Insurance segment in 2019 was the result of the FNIA acquisitions of a Maryland-based insurance agency on December 17, 2018 and a North Carolina-based insurance agency on June 17, 2019.

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

TABLE 9.2

(in millions)	Core Deposit Intangibles	Customer Renewal Lists	Total
December 31, 2020			
Gross carrying amount	**$ 197**	**$ 18**	**$ 215**
Accumulated amortization	**(149)**	**(12)**	**(161)**
Net carrying amount	**$ 48**	**$ 6**	**$ 54**
December 31, 2019			
Gross carrying amount	$ 196	$ 18	$ 214
Accumulated amortization	(136)	(11)	(147)
Net carrying amount	$ 60	$ 7	$ 67

Core deposit intangibles are being amortized primarily over 10 years using accelerated methods. Customer renewal lists are being amortized over their estimated useful lives, which range from eight to thirteen years.

The following table summarizes amortization expense recognized:

TABLE 9.3

December 31 (in millions)	2020	2019	2018
Amortization expense	**$ 13**	$ 14	$ 16

Following is a summary of the expected amortization expense on finite-lived intangible assets, assuming no new additions, for each of the five years following December 31, 2020:

TABLE 9.4

(in millions)		
2021	$	12
2022		10
2023		10
2024		8
2025		7
Total	$	47

Goodwill and other intangible assets are tested annually for impairment, and more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. We completed this test in 2020 and 2019 and determined that our intangible assets are not impaired.

NOTE 10. OPERATING LEASES

We have operating leases primarily for certain branches, office space, land, and office equipment. Our operating leases expire at various dates through the year 2046 and generally include one or more options to renew. The exercise of lease renewal options is at our sole discretion. As of December 31, 2020, we had operating lease right-of-use assets and operating lease liabilities of $126.7 million and $134.4 million, respectively.

Our operating lease agreements do not contain any material residual value guarantees or material restrictive covenants. As of December 31, 2020, we have certain operating lease agreements, primarily for administrative office space, that have not yet commenced. At commencement, it is expected that these leases will add approximately $18.2 million in right-of-use assets and other liabilities. These operating leases are currently expected to commence in 2021 with lease terms of 16 years.

The components of lease expense were as follows:

TABLE 10.1

	Twelve Months Ended December 31,	
(dollars in millions)	**2020**	**2019**
Operating lease cost	**$ 27**	$ 27
Short-term lease cost	**1**	1
Variable lease cost	**3**	4
Total lease cost	**$ 31**	$ 32

Rental expense totaled $33.2 million for 2018.

Other information related to leases is as follows:

TABLE 10.2

(dollars in millions)	Twelve Months Ended December 31, 2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 26**	$ 26
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**20**	25
Weighted average remaining lease term (years):		
Operating leases	**9.45**	9.61
Weighted average discount rate:		
Operating leases	**2.6 %**	3.0 %

Maturities of operating lease liabilities were as follows:

TABLE 10.3

(in millions)	December 31, 2020
2021	**$ 25**
2022	**21**
2023	**17**
2024	**15**
2025	**12**
Later years	**64**
Total lease payments	**154**
Less: imputed interest	**(20)**
Present value of lease liabilities	**$ 134**

As a lessor we offer commercial leasing services to customers in need of new or used equipment primarily within our market areas of Pennsylvania, Ohio, Maryland, North Carolina, South Carolina and West Virginia. Additional information relating to commercial leasing is provided in Note 5, "Loans and Leases" in the Notes to Consolidated Financial Statements.

NOTE 11. VARIABLE INTEREST ENTITIES

We evaluate our interest in certain entities to determine if these entities meet the definition of a VIE and whether we are the primary beneficiary and required to consolidate the entity based on the variable interest we held both at inception and when there is a change in circumstances that requires a reconsideration.

Unconsolidated VIEs

The following tables provide a summary of the assets and liabilities included in our Consolidated Financial Statements, as well as the maximum exposure to losses, associated with our interests related to VIEs for which we hold an interest, but are not the primary beneficiary, at December 31, 2020 and December 31, 2019.

TABLE 11.1

(in millions)	Total Assets	Total Liabilities	Maximum Exposure to Loss
December 31, 2020			
Trust preferred securities [1]	**$ 1**	**$ 66**	**$ —**
Affordable housing tax credit partnerships	**119**	**45**	**119**
Other investments	**26**	**8**	**26**
Total	**$ 146**	**$ 119**	**$ 145**
December 31, 2019			
Trust preferred securities [1]	$ 1	$ 66	$ —
Affordable housing tax credit partnerships	120	60	120
Other investments	33	10	33
Total	$ 154	$ 136	$ 153

(1) Represents our investment in unconsolidated subsidiaries.

Trust-Preferred Securities

We have certain wholly-owned trusts whose assets, liabilities, equity, income and expenses are not included within our Consolidated Financial Statements. These trusts have been formed for the sole purpose of issuing TPS, from which the proceeds are then invested in our junior subordinated debentures, which are reflected in our Consolidated Balance Sheets as subordinated notes. The TPS are the obligations of the trusts, and as such, are not consolidated within our Consolidated Financial Statements. See the Borrowings footnote for additional information relating to our TPS.

Each issue of the junior subordinated debentures has an interest rate equal to the corresponding TPS distribution rate. We have the right to defer payment of interest on the debentures at any time, or from time-to-time for a period not exceeding five years provided that no extension period may extend beyond the stated maturity of the related debentures. During any such extension period, distributions to the TPS will also be deferred and our ability to pay dividends on our common stock will be restricted. Periodic cash payments and payments upon liquidation or redemption with respect to TPS are guaranteed by us to the extent of funds held by the trusts. The guarantee ranks subordinate and junior in right of payment to all of our indebtedness to the same extent as the junior subordinated debt. The guarantee does not place a limitation on the amount of additional indebtedness that may be incurred by us.

Affordable Housing Tax Credit Partnerships

We make equity investments as a limited partner in various partnerships that sponsor affordable housing projects utilizing the LIHTC pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to support initiatives associated with the CRA while earning a satisfactory return. The activities of these LIHTC partnerships include the development and operation of multi-family housing that is leased to qualifying residential tenants. These partnerships are generally located in communities where we have a banking presence and meet the definition of a VIE; however, we are not the primary beneficiary of the entities, as the general partner or managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses beyond our own equity investment. We record our investment in LIHTC partnerships as a component of other assets.

We use the proportional amortization method to account for a majority of our investments in LIHTC partnerships. Investments that do not meet the requirements of the proportional amortization method are recognized using the equity method. Amortization related to investments under the proportional amortization method are recorded on a net basis as a component of the provision of income taxes on the Consolidated Statements of Income, while write-downs and losses related to investments under the equity method are included in non-interest expense.

The following table presents the balances of our affordable housing tax credit investments and related unfunded commitments:

TABLE 11.2

December 31 (in millions)	2020	2019
Proportional amortization method investments included in other assets	**$ 71**	$ 55
Equity method investments included in other assets	**3**	5
Total LIHTC investments included in other assets	**$ 74**	$ 60
Unfunded LIHTC commitments	**$ 45**	$ 60

The following table summarizes the impact of these LIHTC investments on specific line items of our Consolidated Statements of Income:

TABLE 11.3

	Year Ended December 31		
(in millions)	2020	2019	2018
Non-interest income:			
Amortization of tax credit investments under equity method, net of tax benefit	**$ 1**	$ 1	$ 2
Provision for income taxes:			
Amortization of LIHTC investments under proportional method	**$ 11**	$ 8	$ 5
Low-income housing tax credits	**(12)**	(9)	(6)
Other tax benefits related to tax credit investments	**(2)**	(2)	(1)
Total provision for income taxes	**$ (3)**	$ (3)	$ (2)

Other Investments

Other investments we also consider to be unconsolidated VIE's include investments in Small Business Investment Companies, Historic Tax Credit Investments, and other equity method investments.

NOTE 12. DEPOSITS

Following is a summary of deposits:

TABLE 12.1

December 31 (in millions)	**2020**	2019
Non-interest-bearing demand	**$ 9,042**	$ 6,384
Interest-bearing demand	**13,157**	11,049
Savings	**3,261**	2,625
Certificates and other time deposits:		
Less than $100,000	**1,895**	2,262
$100,000 through $250,000	**1,173**	1,494
Greater than $250,000	**594**	972
Total certificates and other time deposits	**3,662**	4,728
Total deposits	**$ 29,122**	$ 24,786

Following is a summary of the scheduled maturities of certificates and other time deposits for the years following December 31, 2020:

TABLE 12.2

(in millions)	
2021	$ 2,464
2022	683
2023	236
2024	124
2025	99
Later years	56
Total	$ 3,662

NOTE 13. SHORT-TERM BORROWINGS

Following is a summary of short-term borrowings:

TABLE 13.1

December 31 (in millions)	**2020**	2019
Securities sold under repurchase agreements	**$ 403**	$ 278
Federal Home Loan Bank advances	**1,280**	2,255
Federal funds purchased	**—**	575
Subordinated notes	**121**	108
Total short-term borrowings	**$ 1,804**	$ 3,216

Borrowings with original maturities of one year or less are classified as short-term. Securities sold under repurchase agreements are comprised of customer repurchase agreements, which are sweep accounts with next-day maturities utilized by larger commercial customers to earn interest on their funds. Securities are pledged to these customers in an amount at least equal to the outstanding balance. We did not have any short-term FHLB advances with overnight maturities as of December 31, 2020 or December 31, 2019. At December 31, 2020, $1.3 billion, or 100.0%, of the short-term FHLB advances were swapped to a fixed rate with maturities in 2021. This compares to $1.5 billion, or 64.5%, as of December 31, 2019.

During the second half of 2020, we terminated hedges related to $225.0 million of higher-rate short-term FHLB borrowings, which resulted in hedge termination costs of $8.9 million reported in other non-interest income on the Consolidated Statements of Income.

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

TABLE 13.2

December 31	2020	2019	2018
Year-to-date average	**1.53 %**	2.24 %	1.89 %
Period-end	**1.57**	1.76	2.49

NOTE 14. LONG-TERM BORROWINGS

Following is a summary of long-term borrowings:

TABLE 14.1

December 31	2020	2019
(in millions)		
Federal Home Loan Bank advances	**$ 400**	$ 935
Senior notes	**299**	—
Subordinated notes	**81**	90
Junior subordinated debt	**66**	66
Other subordinated debt	**249**	249
Total long-term borrowings	**$ 1,095**	$ 1,340

Scheduled annual maturities for the long-term borrowings for the years following December 31, 2020 are as follows:

TABLE 14.2

(in millions)	
2021	$ 427
2022	16
2023	334
2024	1
2025	104
Later years	213
Total	$ 1,095

Federal Home Loan Bank advances

Our banking affiliate has available credit with the FHLB of $8.3 billion, of which $1.7 billion was utilized as of December 31, 2020. These advances are secured by loans collateralized by residential mortgages, home equity lines of credit, commercial real estate and FHLB stock and are scheduled to mature in various amounts periodically through the year 2021. Effective interest rates paid on the long-term advances ranged from 0.30% to 0.34% for the year ended December 31, 2020 and 1.62% to 2.71% for the year ended December 31, 2019.

During the second half of 2020, we reduced higher-rate outstanding long-term FHLB borrowings by $490.0 million, which resulted in a loss on early debt extinguishment of $16.7 million reported in other non-interest income on the Consolidated Statements of Income.

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Subordinated notes

Subordinated notes are unsecured and subordinated to our other indebtedness. The subordinated notes mature in various amounts periodically through the year 2029. At December 31, 2020, all of the subordinated notes are redeemable by the holders prior to maturity at a discount equal to three to 12 months of interest, depending on the term of the note. We may require the holder to give 30 days prior written notice. No sinking fund is required and none has been established to retire the notes. The weighted average interest rate on the subordinated notes are presented in the following table:

TABLE 14.3

December 31	2020	2019	2018
Subordinated notes weighted average interest rate	**3.23 %**	3.33 %	3.08 %

Junior subordinated debt

The junior subordinated debt is comprised of the debt securities issued by FNB in relation to our three unconsolidated subsidiary trusts (collectively, the Trusts), which are unconsolidated VIEs and are included on the Consolidated Balance Sheets in long-term borrowings. One hundred percent of the common equity of each Trust is owned by FNB. The Trusts were formed for the purpose of issuing FNB-obligated mandatorily redeemable capital securities, or TPS to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities issued by FNB, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in our Financial Statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by us on the junior subordinated debt held by the Trusts. F.N.B. Statutory Trust II was formed by us, and the other two statutory trusts were assumed through acquisitions. The acquired statutory trusts were adjusted to fair value in conjunction with the various acquisitions.

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

The following table provides information relating to the Trusts as of December 31, 2020:

TABLE 14.4

(dollars in millions)	Trust Preferred Securities	Common Securities	Junior Subordinated Debt	Stated Maturity Date	Interest Rate	Rate Reset Factor
F.N.B. Statutory Trust II	$ 22	$ 1	$ 22	6/15/2036	1.87 %	LIBOR + 165 basis points (bps)
Yadkin Valley Statutory Trust I	25	1	22	12/15/2037	1.54 %	LIBOR + 132 bps
FNB Financial Services Capital Trust I	25	1	22	9/30/2035	1.70 %	LIBOR + 146 bps
Total	$ 72	$ 3	$ 66			

During the first half of 2019, we redeemed $44.0 million of TPS that we previously assumed through various acquisitions.

Other senior and subordinated debt

During the first quarter of 2020, we completed a debt offering in which we issued $300 million aggregate principal amount of senior notes due in 2023. The net proceeds of the debt offering after deducting underwriting discounts and commissions and offering costs were $297.9 million. These proceeds were used for general corporate purposes, which included investments at the holding company level, capital to support the growth of FNBPA, repurchase of our common shares and refinancing of outstanding indebtedness.

The following table provides information relating to our senior debt and other subordinated debt as of December 31, 2020. These debt issuances are fixed-rate, with the exception of the debt offering in 2019, which is fixed-to-floating rate after February 14, 2024, at which time the floating rate will be LIBOR plus 240 basis points, or an alternative rate that may replace LIBOR, as specified in the prospectus for this offering. The subordinated notes are eligible for treatment as tier 2 capital for regulatory capital purposes.

TABLE 14.5

(dollars in millions)	Aggregate Principal Amount Issued	Net Proceeds (2)	Carrying Value	Stated Maturity Date	Interest Rate
2.20% Senior Notes due February 24, 2023	$ 300	$ 298	$ 299	2/24/2023	2.20 %
4.95% Fixed-To-Floating Rate Subordinated Notes due 2029	120	118	119	2/14/2029	4.95 %
4.875% Subordinated Notes due 2025	100	98	99	10/2/2025	4.875 %
7.625% Subordinated Notes due August 12, 2023 (1)	38	46	31	8/12/2023	7.625 %
Total	$ 558	$ 560	$ 548		

(1) Assumed from YDKN and adjusted to fair value at the time of acquisition.

(2) After deducting underwriting discounts and commissions and offering costs. For the debt assumed from YDKN, this is the fair value of the debt at the time of the acquisition.

During the first half of 2019, we repurchased and retired $9.5 million and redeemed $15.5 million in higher interest rate other subordinated debt assumed in the 2017 YDKN acquisition.

NOTE 15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate risk, primarily by managing the amount, source, and duration of our assets and liabilities, and through the use of derivative instruments. Derivative instruments are used to reduce the effects that changes in interest rates may have on net income and cash flows. We also use derivative instruments to facilitate transactions on behalf of our customers.

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

The following table presents notional amounts and gross fair values of our derivative assets and derivative liabilities which are not offset in the Consolidated Balance Sheets:

TABLE 15.1

December 31	**2020**			**2019**		
	Notional Amount	**Fair Value**		**Notional Amount**	**Fair Value**	
(in millions)		**Asset**	**Liability**		**Asset**	**Liability**
Gross Derivatives						
Subject to master netting arrangements:						
Interest rate contracts – designated	**$ 1,430**	**$ 3**	**$ —**	$ 1,655	$ 1	$ —
Interest rate swaps – not designated	**4,791**	**—**	**37**	3,640	—	23
Total subject to master netting arrangements	**6,221**	**3**	**37**	5,295	1	23
Not subject to master netting arrangements:						
Interest rate swaps – not designated	**4,791**	**349**	**—**	3,640	149	1
Interest rate lock commitments – not designated	**531**	**24**	**—**	163	3	—
Forward delivery commitments – not designated	**500**	**—**	**2**	195	1	1
Credit risk contracts – not designated	**437**	**—**	**1**	265	—	—
Total not subject to master netting arrangements	**6,259**	**373**	**3**	4,263	153	2
Total	**$ 12,480**	**$ 376**	**$ 40**	$ 9,558	$ 154	$ 25

Certain derivative exchanges have enacted a rule change which in effect results in the legal characterization of variation margin payments for certain derivative contracts as settlement of the derivatives mark-to-market exposure and not collateral. Accordingly, we have changed our reporting of certain derivatives to record variation margin on trades cleared through these exchanges as settled. The daily settlement of the derivative exposure does not change or reset the contractual terms of the instrument. The fair value of interest rate swaps - not designated has increased from December 31, 2019 primarily due to the significantly lower interest rate environment since year-end.

We adopted RRR on October 1, 2020, and the guidance will be followed until the Update terminates on December 31, 2022. As of October 16, 2020, we changed our valuation methodology to reflect changes made by central clearinghouses that changed the discounting methodology and interest calculation of cash migration from overnight index swap (OIS) to SOFR for U.S. dollar cleared interest rate swaps to better reflect prices obtainable in the markets in which we transact. Certain of these valuation methodology changes were applied to eligible hedging relationships. Accordingly, we have updated our hedge documentation to reflect the election of certain expedients and exceptions related to our cash flow hedging programs. The change in valuation methodology was applied prospectively as a change in accounting estimate and did not have a material impact on our consolidated financial position or results of operations.

Derivatives Designated as Hedging Instruments under GAAP

Interest Rate Contracts. We entered into interest rate derivative agreements to modify the interest rate characteristics of certain commercial loans and certain of our FHLB advances from variable rate to fixed rate in order to reduce the impact of changes in future cash flows due to market interest rate changes. These agreements are designated as cash flow hedges, hedging the exposure to variability in expected future cash flows. The derivative's gain or loss, including any ineffectiveness, is initially reported as a component of OCI and subsequently reclassified into earnings in the same line item associated with the forecasted transaction when the forecasted transaction affects earnings. Prior to 2019, any ineffective portion of the gain or loss was reported in earnings immediately.

The following table shows amounts reclassified from AOCI:

TABLE 15.2

(in millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives — Year Ended December 31, 2020	2019	2018	Location of Gain (Loss) Reclassified from AOCI into Income	Amount of Gain (Loss) Reclassified from AOCI into Income — Year Ended December 31, 2020	2019	2018
Derivatives in cash flow hedging relationships:							
Interest rate contracts	**$ (51)**	$ (22)	$ (3)	Interest income (expense)	**$ (14)**	$ 2	$ 2
				Other income	**(9)**	—	—

The following table represents gains (losses) recognized in the Consolidated Statements of Income on cash flow hedging relationships:

TABLE 15.3

	Year Ended December 31,					
	2020		2019		2018	
(in millions)	Interest Income - Loans and Leases	Interest Expense - Short-Term Borrowings	Interest Income - Loans and Leases	Interest Expense - Short-Term Borrowings	Interest Income - Loans and Leases	Interest Expense - Short-Term Borrowings
Total amounts of income and expense line items presented in the Consolidated Statements of Income (the effects of cash flow hedges are included in these line items)	**$ 990**	**$ 38**	$ 1,085	$ 80	$ 1,022	$ 75
The effects of cash flow hedging:						
Gain (loss) on cash flow hedging relationships:						
Interest rate contracts:						
Amount of gain (loss) reclassified from AOCI into net income [(1)]	**(7)**	**(16)**	(1)	3	(1)	3
Amount of gain (loss) reclassified from AOCI into income as a result that a forecasted transaction is no longer probable of occurring	**—**	**—**	—	—	—	—

(1) For 2020, the amount of loss reclassified from AOCI into net income relating to interest income on loans and leases included an $8.9 million loss reflected in other non-interest income.

As of December 31, 2020, the maximum length of time over which forecasted interest cash flows are hedged is 3.9 years. In the twelve months that follow December 31, 2020, we expect to reclassify from the amount currently reported in AOCI net derivative losses of $18.8 million ($14.7 million net of tax), in association with interest on the hedged loans and FHLB advances. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to December 31, 2020. During the third quarter of 2020, we voluntarily terminated $225.0 million of interest rate contracts associated with cash flow hedge programs to take advantage of strong deposit growth and reduce higher-cost debt.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to these cash flow hedges. Also, during the years ended December 31, 2020 and 2019, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transactions would not occur.

Derivatives Not Designated as Hedging Instruments under GAAP

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

We enter into positions with a derivative counterparty in order to offset our exposure on the fixed components of the customer interest rate swap agreements. We seek to minimize counterparty credit risk by entering into transactions only with high-quality financial dealer institutions.

Interest rate swap agreements with loan customers and with the offsetting counterparties are reported at fair value in other assets and other liabilities on the Consolidated Balance Sheets with any resulting gain or loss recorded in current period earnings as other income or other expense.

Interest Rate Lock Commitments. IRLCs an agreement to extend credit to a mortgage loan borrower, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to funding. We are bound to fund the loan at a specified rate, regardless of whether interest rates have changed between the commitment date and the loan funding date, subject to the loan approval process. The borrower is not obligated to perform under the commitment. As such, outstanding IRLCs subject us to interest rate risk and related price risk during the period from the commitment to the borrower through the loan funding date, or commitment expiration. The IRLCs generally range between 30 to 270 days. The IRLCs are reported at fair value in other assets and other liabilities on the Consolidated Balance Sheets with any resulting gain or loss recorded in current period earnings as mortgage banking operations non-interest income.

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

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

Risk participation agreements sold with notional amounts totaling $294.4 million as of December 31, 2020 have remaining terms ranging from one month to twenty years. Under these agreements, our maximum exposure assuming a customer defaults on their obligation to perform under certain derivative swap contracts with third parties would be $0.6 million and $0.3 million at December 31, 2020 and 2019, respectively. The fair values of risk participation agreements purchased and sold were $0.2 million and $0.6 million, respectively, at December 31, 2020 and $0.1 million and $0.3 million, respectively, at December 31, 2019.

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

TABLE 15.4

(in millions)	Consolidated Statements of Income Location	Year Ended December 31, 2020	2019	2018
Interest rate swaps	Non-interest income - other	**$ —**	$ —	$ 1
Interest rate lock commitments	Mortgage banking operations	**—**	—	—
Forward delivery contracts	Mortgage banking operations	**(2)**	(1)	1
Credit risk contracts	Non-interest income - other	**—**	—	—

Counterparty Credit Risk

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

Certain master netting agreements contain provisions that, if violated, could cause the counterparties to request immediate settlement or demand full collateralization under the derivative instrument. If we had breached our agreements with our derivative counterparties we would be required to settle our obligations under the agreements at the termination value and would be required to pay an additional $0.3 million and $0.1 million as of December 31, 2020 and 2019, respectively, in excess of amounts previously posted as collateral with the respective counterparty.

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

TABLE 15.5

(in millions)	Net Amount Presented in the Consolidated Balance Sheets	Amount Not Offset in the Consolidated Balance Sheets: Financial Instruments	Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral	Net Amount
December 31, 2020				
Derivative Assets				
Interest rate contracts:				
Designated	**$ 3**	**$ —**	**$ 3**	**$ —**
Total	**$ 3**	**$ —**	**$ 3**	**$ —**
Derivative Liabilities				
Interest rate contracts:				
Not designated	**$ 37**	**$ —**	**$ 37**	**$ —**
Total	**$ 37**	**$ —**	**$ 37**	**$ —**
December 31, 2019				
Derivative Assets				
Interest rate contracts:				
Designated	$ 1	$ 1	$ —	$ —
Total	$ 1	$ 1	$ —	$ —
Derivative Liabilities				
Interest rate contracts:				
Not designated	$ 23	$ 23	$ —	$ —
Total	$ 23	$ 23	$ —	$ —

NOTE 16. COMMITMENTS, CREDIT RISK AND CONTINGENCIES

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

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

TABLE 16.1

December 31 (in millions)	**2020**	**2019**
Commitments to extend credit	**$ 9,285**	$ 8,089
Standby letters of credit	**158**	150

At December 31, 2020, funding of 75.2% of the commitments to extend credit was dependent on the financial condition of the customer. We have the ability to withdraw such commitments at our discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

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

Our AULC for commitments that are not unconditionally cancellable, which is included in other liabilities on the Consolidated Balance Sheets was $13.7 million at December 31, 2020.

In addition to the above commitments, subordinated notes issued by FNB Financial Services, LP, a wholly-owned finance subsidiary, are fully and unconditionally guaranteed by FNB. These subordinated notes are included in the summaries of short-term borrowings and long-term borrowings in Notes 13 and 14.

Other Legal Proceedings

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

In view of the inherent unpredictability of outcomes in litigation and governmental and regulatory matters, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course, there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and governmental and regulatory matters, including a possible eventual loss, fine, penalty, business or adverse reputational impact, if any, associated with each such matter. In accordance with applicable accounting guidance, we establish accruals for litigation and governmental and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. We will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. We believe that our accruals for legal proceedings are appropriate and, in the aggregate, are not material to our consolidated financial position, although future accruals could have a material effect on net income in a given period.

NOTE 17. STOCK INCENTIVE PLANS

Restricted Stock

We issue restricted stock awards to key employees under our Incentive Compensation Plan (Plan). We issue time-based awards and performance-based awards under this Plan, both of which are based on a three-year vesting period. The grant date fair value of the time-based awards is equal to the price of our common stock on the grant date. The fair value of the performance-based awards is based on a Monte-Carlo simulation valuation of our common stock as of the grant date. The assumptions used for this valuation include stock price volatility, risk-free interest rate and dividend yield. We issued 2,004,895 and 1,182,197 restricted stock units during 2020 and 2019, respectively, including 571,932 and 353,656 performance-based restricted stock units during those same periods, respectively. As of December 31, 2020, we had available up to 5,504,721 shares of common stock to issue under this Plan, which includes 4,640,000 additional shares registered during the third quarter of 2020.

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

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

TABLE 17.1

	2020		2019		2018	
	Units	Weighted Average Grant Price per Share	Units	Weighted Average Grant Price per Share	Units	Weighted Average Grant Price per Share
Unvested units outstanding at beginning of year	**2,858,357**	**$ 12.56**	2,556,174	$ 13.51	1,975,862	$ 13.64
Granted	**2,004,895**	**6.95**	1,182,197	10.94	962,799	13.21
Net adjustment due to performance	**47,290**	**13.00**	—	—	—	—
Vested	**(613,581)**	**14.41**	(655,208)	13.15	(258,031)	13.19
Forfeited/expired	**(203,058)**	**12.54**	(332,814)	12.72	(214,743)	13.39
Dividend reinvestment	**228,212**	**8.14**	108,008	11.84	90,287	12.61
Unvested units outstanding at end of year	**4,322,115**	**9.46**	2,858,357	12.56	2,556,174	13.51

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

TABLE 17.2

Year Ended December 31	**2020**	**2019**	**2018**
(in millions)			
Stock-based compensation expense	**$ 16**	$ 12	$ 10
Tax benefit related to stock-based compensation expense	**3**	2	2
Fair value of units vested	**5**	7	3

As of December 31, 2020, there was $11.0 million of unrecognized compensation cost related to unvested restricted stock units including $0.6 million that is subject to accelerated vesting under the Plan's immediate vesting upon retirement. Stock-based compensation expense increased $5.0 million, or 44%, compared to 2019 as we made a change to long-term stock-based compensation retirement vesting that resulted in accelerated grant date expense recognition for certain 2020 awards, with full expense recognition on grant date instead of recognizing the same expense amount over a 36-month vesting period. These awards are not released until the three-year service period is complete or the specified performance criteria is met over the three-year period.

The components of the restricted stock units as of December 31, 2020 are as follows:

TABLE 17.3

(dollars in millions)	Service-Based Units	Performance-Based Units	Total
Unvested restricted stock units	2,983,059	1,339,056	4,322,115
Unrecognized compensation expense	$ 9	$ 2	$ 11
Intrinsic value	$ 28	$ 13	$ 41
Weighted average remaining life (in years)	1.72	1.16	1.54

Stock Options

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

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

TABLE 17.4

	2020	Weighted Average Exercise Price per Share	2019	Weighted Average Exercise Price per Share	2018	Weighted Average Exercise Price per Share
Options outstanding at beginning of year	**246,084**	**$ 8.14**	458,354	$ 7.99	722,650	$ 7.96
Exercised	**(33,945)**	**5.74**	(183,566)	7.86	(253,899)	7.77
Forfeited/expired	**(16,053)**	**7.38**	(28,704)	7.65	(10,397)	11.98
Options outstanding and exercisable at end of year	**196,086**	**8.61**	246,084	8.14	458,354	7.99

The following table summarizes information about stock options outstanding at December 31, 2020:

TABLE 17.5

Range of Exercise Prices	Options Outstanding and Exercisable	Weighted Average Remaining Contractual Years	Weighted Average Exercise Price
$3.57 - $5.36	26,216	0.72	$ 4.93
$5.37 - $8.05	39,667	2.12	6.91
$8.06 - $11.37	130,203	3.80	9.87
	196,086		

The intrinsic value of outstanding and exercisable stock options at December 31, 2020 was $0.3 million. The aggregate intrinsic value represents the amount by which the fair value of underlying stock exceeds the option exercise price.

Warrants

As of December 31, 2020, there were no longer any outstanding warrants. The warrants that were previously issued have been exercised or expired in 2018 and 2019.

NOTE 18. RETIREMENT PLANS

We sponsor the Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan that has been frozen. The RIP covered employees who satisfied minimum age and length of service requirements. Although not required, during 2020, we made a $5.0 million contribution to the RIP.

We also sponsor two supplemental non-qualified retirement plans that have been frozen. The ERISA Excess Retirement Plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would be provided under the RIP, if no limits were applied. The Basic Retirement Plan (BRP) is applicable to certain officers whom the Board of Directors designates. Officers participating in the BRP receive a benefit based on a target benefit percentage based on years of service at retirement and a designated tier as determined by the Board of Directors. When a participant retires, the benefit under the BRP is a monthly benefit equal to the participant's aggregate target benefit percentage multiplied by the participant’s highest average monthly cash compensation, including bonuses, during five consecutive calendar years within the last ten calendar years of employment before 2009. This monthly benefit is reduced by the monthly benefit the participant receives from the Social Security Administration, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the automatic contributions paid to participants under the qualified 401(k) defined contribution plan and the ERISA Excess Lost Match Plan.

The following tables provide information relating to the accumulated benefit obligation, change in benefit obligation, change in plan assets, the plans' funded status and the amount included in the Consolidated Balance Sheets for the qualified and non-qualified plans described above (collectively, the Plans):

TABLE 18.1

December 31	**2020**			**2019**		
	Qualified	**Non-Qualified**	**Total**	**Qualified**	**Non-Qualified**	**Total**
(in millions)						
Accumulated benefit obligation	**$ 167**	**$ 20**	**$ 187**	$ 156	$ 19	$ 175
Projected benefit obligation at beginning of year	**$ 156**	**$ 19**	**$ 175**	$ 145	$ 18	$ 163
Interest cost	**5**	**1**	**6**	6	1	7
Actuarial loss (gain)	**15**	**2**	**17**	15	2	17
Benefits paid	**(9)**	**(2)**	**(11)**	(10)	(2)	(12)
Projected benefit obligation at end of year	**$ 167**	**$ 20**	**$ 187**	$ 156	$ 19	$ 175
Fair value of plan assets at beginning of year	**$ 173**	**$ —**	**$ 173**	$ 150	$ —	$ 150
Actual return on plan assets	**20**	**—**	**20**	28	—	28
Corporation contribution	**5**	**2**	**7**	5	2	7
Benefits paid	**(9)**	**(2)**	**(11)**	(10)	(2)	(12)
Fair value of plan assets at end of year	**$ 189**	**$ —**	**$ 189**	$ 173	$ —	$ 173
Funded status of plans	**$ 22**	**$ (20)**	**$ 2**	$ 17	$ (19)	$ (2)

The unrecognized actuarial loss, prior service cost and net transition obligation are required to be recognized into earnings over the average remaining participant life due to the freezing of the RIP, which may, on a net basis reduce future earnings.

Actuarial assumptions used in the determination of the projected benefit obligation in the Plans are as follows:

TABLE 18.2

Assumptions at December 31	**2020**	**2019**
Weighted average discount rate	**2.31 %**	3.17 %
Rates of average increase in compensation levels	**3.50**	3.50

The discount rate assumption at December 31, 2020 and 2019 was determined using a yield-curve based approach. A yield curve was produced for a universe containing the majority of U.S.-issued Aa-graded corporate bonds, all of which were non-callable (or callable with make-whole provisions), and after excluding the 10% of the bonds with the highest and lowest yields. The discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The net periodic pension cost and OCI for the Plans included the following components:

TABLE 18.3

Year Ended December 31	2020	2019	2018
(in millions)			
Interest cost	**$ 6**	$ 7	$ 6
Expected return on plan assets	**(13)**	(11)	(11)
Actuarial loss amortization	**3**	2	2
Total pension income	**(4)**	(2)	(3)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial loss	**10**	1	6
Amortization of actuarial loss	**(3)**	(2)	(2)
Total amount recognized in other comprehensive income	**7**	(1)	4
Total amount recognized in net periodic benefit cost and other comprehensive income	**$ 3**	$ (3)	$ 1

The plans have an actuarial measurement date of December 31. Actuarial assumptions used in the determination of the net periodic pension cost in the Plans are as follows:

TABLE 18.4

Assumptions for the Year Ended December 31	2020	2019	2018
Weighted average discount rate	**3.17 %**	4.16 %	4.19 %
Rates of increase in compensation levels	**3.50**	3.50	3.50
Expected long-term rate of return on assets	**7.25**	7.25	7.25

The expected long-term rate of return on plan assets has been established by considering historical and anticipated expected returns on the asset classes invested in by the pension trust and the allocation strategy currently in place among those classes. The expected long-term rate of return on plan assets was reduced to 6.75% effective January 1, 2021.

The change in plan assets reflects benefits paid from the qualified pension plans of $10.0 million and $10.0 million for 2020 and 2019, respectively. We made contributions to the RIP of $5.0 million, $5.0 million and $4.0 million during 2020, 2019 and 2018, respectively . For the non-qualified pension plans, the change in plan assets reflects benefits paid from and contributions made to the plans in the same amount. This amount represents the actual benefit payments paid from general assets of $1.5 million for 2020 and $1.5 million for 2019.

The following table provides information regarding estimated future cash flows relating to the Plans at December 31, 2020:

TABLE 18.5

(in millions)		
Expected employer contributions:	2021	$ 1
Expected benefit payments:	2021	10
	2022	10
	2023	11
	2024	11
	2025	11
	2026 – 2030	52

The qualified pension plan contributions are deposited into a trust and the qualified benefit payments are made from trust assets. For the non-qualified plans, the contributions and the benefit payments are the same and reflect expected benefit amounts, which we pay from general assets.

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

TABLE 18.6

Year Ended December 31	**2020**	**2019**	**2018**
(in millions)			
401(k) contribution expense	**$ 17**	$ 15	$ 15

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

Pension Plan Investment Policy and Strategy

Our investment strategy for the RIP is to diversify plan assets between a wide mix of securities within the equity and debt markets to allow the account the opportunity to meet the expected long-term rate of return requirements while minimizing short-term volatility. In this regard, the plan has targeted allocations within the equity securities category for domestic large cap, domestic mid cap, domestic small cap, real estate investment trusts, emerging market and international securities. Within the debt securities category, the plan has targeted allocation levels for U.S. Treasury, U.S. agency, domestic investment-grade bonds, high-yield bonds, inflation-protected securities and international bonds.

The following table presents asset allocations for our pension plans as of December 31, 2020 and 2019, and the target allocation for 2021, by asset category:

TABLE 18.7

	Target Allocation	**Percentage of Plan Assets**	
December 31	**2021**	**2020**	**2019**
Asset Category			
Equity securities	45 - 65	63 %	60 %
Debt securities	30 - 50	36	37
Cash equivalents	0 - 10	1	3

At December 31, 2020 and 2019, equity securities included 450,000 and 469,000 shares, respectively, of our common stock, representing 2.1% and 3.5% of total plan assets at December 31, 2020 and 2019, respectively. Dividends received on our common stock held by the Plan were $0.2 million for both 2020 and 2019.

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

TABLE 18.8

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2020				
Asset Class				
Cash	$ 2	$ —	$ —	$ 2
Equity securities:				
F.N.B. Corporation	4	—	—	4
Other large-cap U.S. financial services companies	3	—	—	3
Other large-cap U.S. companies	60	—	—	60
Other equity	1	—	—	1
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. large-cap equity index funds	—	—	—	—
U.S. small-cap equity index funds	5	—	—	5
U.S. mid-cap equity index funds	6	—	—	6
Non-U.S. equities growth fund	16	—	—	16
U.S. equity funds:				
U.S. mid-cap	13	—	—	13
U.S. small-cap	5	—	—	5
Other	5	—	—	5
Fixed income securities:				
U.S. government agencies	—	45	—	45
Corporate bonds	—	—	—	—
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	24	—	—	24
Total	$ 144	$ 45	$ —	$ 189

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2019				
Asset Class				
Cash	$ 5	$ —	$ —	$ 5
Equity securities:				
F.N.B. Corporation	6	—	—	6
Other large-cap U.S. financial services companies	4	—	—	4
Other large-cap U.S. companies	54	—	—	54
Other equity	1	—	—	1
Mutual fund equity investments:				
U.S. equity index funds:				
U.S. large-cap equity index funds	1	—	—	1
U.S. small-cap equity index funds	3	—	—	3
U.S. mid-cap equity index funds	5	—	—	5
Non-U.S. equities growth fund	9	—	—	9
U.S. equity funds:				
U.S. mid-cap	12	—	—	12
U.S. small-cap	4	—	—	4
Other	5	—	—	5
Fixed income securities:				
U.S. government agencies	—	51	—	51
Corporate bonds	—	1	—	1
Fixed income mutual funds:				
U.S. investment-grade fixed income securities	12	—	—	12
Total	$ 121	$ 52	$ —	$ 173

The classifications for Level 1, Level 2 and Level 3 are discussed in Note 25, “Fair Value Measurements.”

NOTE 19. INCOME TAXES

Income Tax Expense

Federal and state income tax expense consist of the following:

TABLE 19.1

Year Ended December 31	**2020**	2019	2018
(in millions)			
Current income taxes:			
Federal taxes	**$ 71**	$ 47	$ 41
State taxes	**5**	4	6
Total current income taxes	**76**	51	47
Deferred income taxes:			
Federal taxes	**(20)**	30	32
State taxes	**1**	3	—
Total deferred income taxes	**(19)**	33	32
Total income taxes	**$ 57**	$ 84	$ 79

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

TABLE 19.2

Year Ended December 31	**2020**	2019	2018
Statutory federal tax rate	**21.0 %**	21.0 %	21.0 %
State taxes, net of federal benefit	**1.6**	1.1	1.1
Tax-exempt interest	**(2.8)**	(2.2)	(2.1)
Cash surrender value on BOLI	**(0.8)**	(0.5)	(0.5)
Tax credits	**(6.3)**	(4.2)	(2.8)
Affordable housing cost amortization, net of tax benefits	**2.5**	1.4	0.7
Tax Cuts and Jobs Act revaluation of net deferred tax assets	**—**	—	(0.4)
Other items	**1.5**	1.1	0.6
Effective tax rate	**16.7 %**	17.7 %	17.6 %

The effective tax rates in 2020, 2019 and 2018, respectively, were lower than the 21% statutory federal tax rate primarily due to the tax benefits resulting from renewable energy investment and historic tax credits, tax-exempt income on investments and loans and income from BOLI. For the years ended December 31, 2020, 2019 and 2018, we recognized net investment tax credits of $8.3 million, $7.9 million and $6.5 million, respectively, using the flow-through method of accounting for income tax credits.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. DTAs and DTLs are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The following table presents the tax effects of significant temporary differences that give rise to federal and state DTAs and DTLs:

TABLE 19.3

December 31 (in millions)	2020	2019
Deferred tax assets:		
Allowance for credit losses	**$ 80**	$ 43
Discounts on loans acquired in a business combination	**16**	41
Net operating loss/tax credit carryforwards	**38**	38
Deferred compensation	**12**	11
Securities impairments	**1**	1
Pension and other defined benefit plans	**2**	3
Lease liability	**30**	29
Net unrealized securities losses	**—**	2
Other	**14**	8
Total	**193**	176
Valuation allowance	**(33)**	(28)
Total deferred tax assets	**160**	148
Deferred tax liabilities:		
Loan costs	**(6)**	(15)
Depreciation	**(12)**	(19)
Prepaid expenses	**(1)**	(1)
Amortizable intangibles	**(13)**	(15)
Lease financing	**(32)**	(35)
Mortgage servicing rights	**(8)**	(9)
Lease ROU asset	**(28)**	(27)
Net unrealized securities gains	**(7)**	—
Other	**(2)**	(2)
Total deferred tax liabilities	**(109)**	(123)
Net deferred tax assets	**$ 51**	$ 25

We establish a valuation allowance when it is more likely than not that we will not be able to realize the benefit of the DTAs or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessment of realizable DTAs. As of December 31, 2020, the valuation allowance of $32.6 million primarily includes unused federal and state net operating loss carryforwards expiring from 2021 to 2040 and $3.3 million of state tax credit carryforwards. We anticipate that neither the state net operating loss and state tax credit carryforwards nor the other net DTAs at certain of our subsidiaries will be utilized and, as such, have recorded a valuation allowance against the DTAs related to these items.

As of December 31, 2020, we had approximately $22.0 million of federal net operating loss and built-in loss carryforwards and $3.5 million of state tax credit carryforwards, net of valuation allowances. The utilization of these tax attributes is subject to annual limitations under Section 382 of the Internal Revenue Code, or a similar state-level statute, which will cause the utilization of these attributes to be deferred over a number of years, not to exceed beyond 2036. We have determined that we will likely have sufficient taxable income in the years during which these tax attributes are available to be utilized and, consequently, have determined that no additional valuation allowance against the recorded DTA is warranted.

Uncertain Tax Positions

We account for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. At December 31, 2020 and 2019, we have approximately $2.0 million and $1.6 million, respectively, of unrecognized tax benefits related to uncertain tax positions. As of December 31, 2020, $1.8 million of these tax benefits would affect the effective tax rate if recognized. We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest is not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

We file numerous income tax returns in the U.S. federal jurisdiction and in several state jurisdictions. We are no longer subject to U.S. federal income tax examinations for years prior to 2017. With limited exception, we are no longer subject to state income tax examinations for years prior to 2017. We anticipate that a reduction in the unrecognized tax benefit of up to $0.07 million may occur in the next twelve months from the expiration of statutes of limitations which would result in a reduction in income taxes.

NOTE 20. OTHER COMPREHENSIVE INCOME

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

TABLE 20.1

(in millions)	Unrealized Net Gains (Losses) on Debt Securities Available for Sale	Unrealized Net Gains (Losses) on Derivative Instruments	Unrecognized Pension and Postretirement Obligations	Total
Year Ended December 31, 2020				
Balance at beginning of period	$ 11	$ (18)	$ (58)	$ (65)
Other comprehensive (loss) income before reclassifications	54	(40)	(6)	8
Amounts reclassified from AOCI	—	18	—	18
Net current period other comprehensive (loss) income	54	(22)	(6)	26
Balance at end of period	$ 65	$ (40)	$ (64)	$ (39)

The amounts reclassified from AOCI related to debt securities AFS are included in net securities gains on the Consolidated Statements of Income, while the amounts reclassified from AOCI related to derivative instruments in cash flow hedge programs are generally included in interest income on loans and leases on the Consolidated Statements of Income. However, due to the voluntary termination of a few cash flow hedges in 2020, a portion of the amount reclassified from AOCI is included in non-interest income on the Consolidated Statements of Income.

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

NOTE 21. EARNINGS PER COMMON SHARE

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

TABLE 21.1

Year Ended December 31	**2020**	**2019**	**2018**
(dollars in millions, except per share data)			
Net income	**$ 286**	$ 387	$ 373
Less: Preferred stock dividends	**8**	8	8
Net income available to common stockholders	**$ 278**	$ 379	$ 365
Basic weighted average common shares outstanding	**323,368,639**	324,938,720	324,207,198
Net effect of dilutive stock options, warrants and restricted stock	**2,119,325**	1,122,418	1,416,405
Diluted weighted average common shares outstanding	**325,487,964**	326,061,138	325,623,603
Earnings per common share:			
Basic	**$ 0.86**	$ 1.17	$ 1.13
Diluted	**$ 0.85**	$ 1.16	$ 1.12

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

TABLE 21.2

Year Ended December 31	**2020**	**2019**	**2018**
Average shares excluded from the diluted earnings per common share calculation	**22,375**	—	81

NOTE 22. REGULATORY MATTERS

FNB and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies. Quantitative measures established by regulators to ensure capital adequacy require FNB and FNBPA to maintain minimum amounts and ratios of total, tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of leverage ratio (as defined). Failure to meet minimum capital requirements could lead to initiation of certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our Consolidated Financial Statements, dividends and future business and corporate strategies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FNB and FNBPA must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. FNB's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 2020, the most recent notification from the federal banking agencies categorized FNB and FNBPA as "well-capitalized" under the respective regulatory frameworks. There are no conditions or events since the notification which management believes have changed this categorization.

Following are the capital ratios for FNB and FNBPA:

TABLE 22.1

	Actual		Well-Capitalized Requirements (1)		Minimum Capital Requirements plus Capital Conservation Buffer	
(dollars in millions)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
F.N.B. Corporation:						
Total capital	**$ 3,324**	**12.33 %**	**$ 2,695**	**10.00 %**	**$ 2,830**	**10.50 %**
Tier 1 capital	**2,759**	**10.24**	**1,617**	**6.00**	**2,291**	**8.50**
Common equity tier 1	**2,652**	**9.84**	**n/a**	**n/a**	**1,886**	**7.00**
Leverage	**2,759**	**7.83**	**n/a**	**n/a**	**1,410**	**4.00**
Risk-weighted assets	**26,948**					
FNBPA:						
Total capital	**3,400**	**12.64**	**2,690**	**10.00**	**2,825**	**10.50**
Tier 1 capital	**2,882**	**10.71**	**2,152**	**8.00**	**2,287**	**8.50**
Common equity tier 1	**2,802**	**10.42**	**1,749**	**6.50**	**1,883**	**7.00**
Leverage	**2,882**	**8.19**	**1,760**	**5.00**	**1,408**	**4.00**
Risk-weighted assets	**26,902**					
As of December 31, 2019						
F.N.B. Corporation:						
Total capital	$ 3,174	11.81 %	$ 2,687	10.00 %	$ 2,821	10.50 %
Tier 1 capital	2,632	9.79	1,612	6.00	2,284	8.50
Common equity tier 1	2,525	9.40	n/a	n/a	1,881	7.00
Leverage	2,632	8.20	n/a	n/a	1,283	4.00
Risk-weighted assets	26,866					
FNBPA:						
Total capital	3,039	11.34	2,681	10.00	2,815	10.50
Tier 1 capital	2,841	10.60	2,144	8.00	2,279	8.50
Common equity tier 1	2,761	10.30	1,742	6.50	1,876	7.00
Leverage	2,841	8.87	1,601	5.00	1,281	4.00
Risk-weighted assets	26,806					

(1) Reflects the well-capitalized standard under Regulation Y for F.N.B. Corporation and the prompt corrective action framework for FNBPA.

Due to usable vault cash, FNBPA was not required to maintain aggregate cash reserves with the FRB at December 31, 2020. Although, we do maintain deposits for various services such as check clearing. Certain limitations exist under applicable law and regulations by regulatory agencies regarding dividend distributions to a parent by our subsidiaries. As of December 31, 2020, our subsidiaries had $477.6 million of retained earnings available for distribution to us without prior regulatory approval.

Under current FRB regulations, FNBPA is limited in the amount it may lend to non-bank affiliates, including FNB. Such loans must be secured by specified collateral. In addition, any such loans to a non-bank affiliate may not exceed 10% of FNBPA's capital and surplus and the aggregate of loans to all such affiliates may not exceed 20% of FNBPA's capital and surplus. The maximum amount that may be borrowed by FNB affiliates under these provisions was $677.4 million at December 31, 2020.

NOTE 23. CASH FLOW INFORMATION

Following is a summary of supplemental cash flow information:

TABLE 23.1

Year Ended December 31 (in millions)	2020	2019	2018
Interest paid on deposits and other borrowings	**$ 216**	$ 329	$ 230
Income taxes paid	**57**	40	19
Transfers of loans to other real estate owned	**3**	15	12
Loans transferred to held for sale from portfolio	**537**	389	—
Loans transferred to portfolio from held for sale	**—**	110	—

NOTE 24. BUSINESS SEGMENTS

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

- The Community Banking segment provides commercial and consumer banking services. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, business credit, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services.
- The Wealth Management segment provides a broad range of personal and corporate fiduciary services including the administration of decedent and trust estates. In addition, it offers various alternative products, including securities brokerage and investment advisory services, mutual funds and annuities.
- The Insurance segment includes a full-service insurance brokerage service offering all lines of commercial and personal insurance through major carriers. The Insurance segment also includes a reinsurer.

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

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

TABLE 24.1

(in millions)	Community Banking	Wealth Manage-ment	Insurance	Parent and Other	Consolidated
At or for the Year Ended December 31, 2020					
Interest income	**$ 1,129**	**$ —**	**$ —**	**$ 1**	**$ 1,130**
Interest expense	**188**	**—**	**—**	**20**	**208**
Net interest income	**941**	**—**	**—**	**(19)**	**922**
Provision for credit losses	**123**	**—**	**—**	**—**	**123**
Non-interest income	**233**	**49**	**22**	**(10)**	**294**
Non-interest expense [(1)]	**675**	**35**	**19**	**8**	**737**
Amortization of intangibles	**12**	**—**	**1**	**—**	**13**
Income tax expense (benefit)	**61**	**3**	**—**	**(7)**	**57**
Net income (loss)	**303**	**11**	**2**	**(30)**	**286**
Total assets	**37,245**	**38**	**35**	**36**	**37,354**
Total intangibles	**2,279**	**9**	**28**	**—**	**2,316**
At or for the Year Ended December 31, 2019					
Interest income	$ 1,245	$ —	$ —	$ 2	$ 1,247
Interest expense	310	—	—	20	330
Net interest income	935	—	—	(18)	917
Provision for credit losses	44	—	—	—	44
Non-interest income	237	46	20	(9)	294
Non-interest expense [(1)]	621	34	17	10	682
Amortization of intangibles	13	—	1	—	14
Income tax expense (benefit)	88	3	—	(7)	84
Net income (loss)	406	9	2	(30)	387
Total assets	34,491	32	35	57	34,615
Total intangibles	2,291	10	28	—	2,329

(in millions)	Community Banking	Wealth Manage-ment	Insurance	Consumer Finance	Parent and Other	Consolidated
At or for the Year Ended December 31, 2018						
Interest income	$ 1,145	$ —	$ —	$ 25	$ —	$ 1,170
Interest expense	219	—	—	2	17	238
Net interest income	926	—	—	23	(17)	932
Provision for credit losses	54	—	—	6	1	61
Non-interest income	213	44	16	2	1	276
Non-interest expense (1)	609	33	17	15	5	679
Amortization of intangibles	15	1	—	—	—	16
Income tax expense (benefit)	82	2	—	1	(6)	79
Net income (loss)	379	8	(1)	3	(16)	373
Total assets	32,997	26	25	—	54	33,102
Total intangibles	2,304	10	20	—	—	2,334

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

NOTE 25. FAIR VALUE MEASUREMENTS

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

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

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

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

TABLE 25.1

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

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

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

Securities Available For Sale

These securities are recorded at fair value on a recurring basis. At December 31, 2020, 100.0% of AFS securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value.

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

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

Derivative Financial Instruments

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

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

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives and IRLCs utilize Level 3 inputs. Credit valuation estimates of current credit spreads are used to evaluate the likelihood of our default and the default of our counterparties. However, as of December 31, 2020 and 2019, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our non-IRLC derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The fair value of IRLCs is based upon the estimated fair value of the underlying mortgage loan, including the expected cash flows related to MSRs and the estimated percentage of IRLCs that will result in a closed mortgage loan, and is classified as Level 3.

Loans Held For Sale

Residential mortgage loans held for sale are carried at fair value under the FVO. Fair value for residential mortgage loans held for sale, when recorded, is based on independent quoted market prices and is classified as Level 2.

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

Collateral Dependent Loans

For commercial loans in default which are greater than or equal to $1.0 million, individual reserves are determined based on an analysis of the present value of the loan's expected future cash flows, the loan's observable market value, or the fair value of the collateral less costs to sell. For commercial and consumer loans in default which are below $1.0 million, an established LGD percentage is multiplied by the loan balance and the results are aggregated for purposes of measuring specific reserve. Collateral may be real estate and/or business assets including equipment, inventory and accounts receivable.

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

We review and evaluate these loans no less frequently than quarterly for additional write-down based on the same factors identified above.

Other Real Estate Owned

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

Other Assets - MSRs and SBA Servicing Assets

We carry MSRs at the lower of cost or fair value, and therefore, they are subject to fair value measurements on a non-recurring basis. Since sales of MSRs tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of MSRs. As such we rely primarily on a discounted cash flow model, incorporating assumptions about loan prepayment rates, discount rates, servicing costs and other economic factors, to estimate the fair value of our MSRs. We utilize a third-party vendor to perform the modeling to estimate the fair value of our MSRs. Since the valuation model uses significant unobservable inputs, we classify MSRs within Level 3.

We retain the servicing rights on SBA-guaranteed loans sold to investors. The standard sale structure under the SBA Secondary Participation Guaranty Agreement provides for us to retain a portion of the cash flow from the interest payment received on the SBA guaranteed portion of the loan, which is commonly known as a servicing spread. We utilize a third-party vendor to perform the modeling to estimate the fair value of our SBA servicing asset. Since the valuation model uses significant unobservable inputs, we classify SBA servicing assets within Level 3.

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

TABLE 25.2

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2020				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. Treasury	$ 600	$ —	$ —	$ 600
U.S. government agencies	—	172	—	172
U.S. government-sponsored entities	—	161	—	161
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	994	—	994
Agency collateralized mortgage obligations	—	1,124	—	1,124
Commercial mortgage-backed securities	—	378	—	378
States of the U.S. and political subdivisions (municipals)	—	32	—	32
Other debt securities	—	2	—	2
Total debt securities available for sale	600	2,863	—	3,463
Loans held for sale	—	144	—	144
Derivative financial instruments				
Trading	—	349	—	349
Not for trading	—	3	24	27
Total derivative financial instruments	—	352	24	376
Total assets measured at fair value on a recurring basis	$ 600	$ 3,359	$ 24	$ 3,983
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$ 37	$ —	$ 37
Not for trading	—	3	—	3
Total derivative financial instruments	—	40	—	40
Total liabilities measured at fair value on a recurring basis	$ —	$ 40	$ —	$ 40

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2019				
Assets Measured at Fair Value				
Debt securities available for sale				
U.S. government agencies	$ —	$ 151	$ —	$ 151
U.S. government-sponsored entities	—	226	—	226
Residential mortgage-backed securities				
Agency mortgage-backed securities	—	1,314	—	1,314
Agency collateralized mortgage obligations	—	1,240	—	1,240
Commercial mortgage-backed securities	—	345	—	345
States of the U.S. and political subdivisions (municipals)	—	11	—	11
Other debt securities	—	2	—	2
Total debt securities available for sale	—	3,289	—	3,289
Loans held for sale	—	41	—	41
Derivative financial instruments				
Trading	—	149	—	149
Not for trading	—	2	3	5
Total derivative financial instruments	—	151	3	154
Total assets measured at fair value on a recurring basis	$ —	$ 3,481	$ 3	$ 3,484
Liabilities Measured at Fair Value				
Derivative financial instruments				
Trading	$ —	$ 24	$ —	$ 24
Not for trading	—	1	—	1
Total derivative financial instruments	—	25	—	25
Total liabilities measured at fair value on a recurring basis	$ —	$ 25	$ —	$ 25

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

TABLE 25.3

(in millions)	Interest Rate Lock Commitments	Total
Year Ended December 31, 2020		
Balance at beginning of period	**$ 3**	**$ 3**
Purchases, issuances, sales and settlements:		
Issuances	**24**	**24**
Settlements	**(3)**	**(3)**
Balance at end of period	**$ 24**	**$ 24**
Year Ended December 31, 2019		
Balance at beginning of period	$ 1	$ 1
Purchases, issuances, sales and settlements:		
Issuances	3	3
Settlements	(1)	(1)
Balance at end of period	$ 3	$ 3

We review fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. See the "Securities Available for Sale" discussion within this footnote for information relating to determining Level 3 fair values. There were no transfers of assets or liabilities between the hierarchy levels during 2020 or 2019.

From time to time, we measure certain assets at fair value on a non-recurring basis. These adjustments to fair value usually result from the application of the lower of cost or fair value accounting or write-downs of individual assets. Valuation methodologies used to measure these fair value adjustments were previously described. For assets measured at fair value on a non-recurring basis still held at the Balance Sheet date, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

TABLE 25.4

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2020				
Collateral dependent loans	**$ —**	**$ —**	**$ 45**	**$ 45**
Other real estate owned	**—**	**—**	**3**	**3**
Other assets - SBA servicing asset	**—**	**—**	**3**	**3**
Other assets - MSRs	**—**	**—**	**36**	**36**
December 31, 2019				
Impaired loans	$ —	$ —	$ 5	$ 5
Other real estate owned	—	—	4	4
Other assets - SBA servicing asset	—	—	3	3
Other assets - MSRs	—	—	30	30

The fair value amounts for collateral dependent loans and OREO in the table above were estimated at a date during the twelve months ended December 31, 2020 and 2019. Consequently, the fair value information presented is not necessarily as of the period's end. MSRs measured at fair value on a non-recurring basis of $42.9 million had a valuation allowance of $7.3 million, bringing the December 31, 2020 carrying value to $35.6 million. The valuation allowance includes a provision expense included in 2020 earnings of $5.8 million. SBA servicing assets measured at fair value on a non-recurring basis of $4.0 million had a valuation allowance of $1.1 million, bringing the December 31, 2020 carrying value to $2.9 million. The valuation allowance includes provision income included in 2020 earnings of $0.1 million.

Collateral dependent loans measured or re-measured at fair value on a non-recurring basis during 2020 had a carrying amount of $44.9 million which includes an allocated ACL of $13.2 million. The ACL includes a provision applicable to the current period fair value measurements of $36.0 million, which was included in provision for credit losses for 2020.

OREO measured at fair value on a non-recurring basis during 2020 had a carrying amount of $4.4 million and was written down to $2.8 million, resulting in a loss of $1.6 million, which was included in earnings for 2020.

Fair Value of Financial Instruments

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

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

Securities. For both securities AFS and securities HTM, fair value equals the quoted market price from an active market, if available, and is classified within Level 1. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or pricing models, and is classified as Level 2. Where there is limited market activity or significant valuation inputs are unobservable, securities are classified within Level 3. Under current market conditions, assumptions used to determine the fair value of Level 3 securities have greater subjectivity due to the lack of observable market transactions.

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

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

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

Deposits. The estimated fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date because of the customers’ ability to withdraw funds immediately. The fair value of fixed-maturity deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

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

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

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

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

The fair values of our financial instruments are as follows:

TABLE 25.5

(in millions)	Carrying Amount	Fair Value	Fair Value Measurements Level 1	Level 2	Level 3
December 31, 2020					
Financial Assets					
Cash and cash equivalents	**$ 1,383**	**$ 1,383**	**$ 1,383**	**$ —**	**$ —**
Debt securities available for sale	**3,463**	**3,463**	**600**	**2,863**	**—**
Debt securities held to maturity	**2,868**	**2,973**	**—**	**2,973**	**—**
Net loans and leases, including loans held for sale	**25,250**	**25,012**	**—**	**144**	**24,868**
Loan servicing rights	**39**	**39**	**—**	**—**	**39**
Derivative assets	**376**	**376**	**—**	**352**	**24**
Accrued interest receivable	**90**	**90**	**90**	**—**	**—**
Financial Liabilities					
Deposits	**29,122**	**29,158**	**25,460**	**3,698**	**—**
Short-term borrowings	**1,804**	**1,809**	**1,809**	**—**	**—**
Long-term borrowings	**1,095**	**1,068**	**—**	**—**	**1,068**
Derivative liabilities	**40**	**40**	**—**	**40**	**—**
Accrued interest payable	**13**	**13**	**13**	**—**	**—**
December 31, 2019					
Financial Assets					
Cash and cash equivalents	$ 599	$ 599	$ 599	$ —	$ —
Debt securities available for sale	3,289	3,289	—	3,289	—
Debt securities held to maturity	3,275	3,305	—	3,305	—
Net loans and leases, including loans held for sale	23,144	22,930	—	41	22,889
Loan servicing rights	46	48	—	—	48
Derivative assets	154	154	—	151	3
Accrued interest receivable	109	109	109	—	—
Financial Liabilities					
Deposits	24,786	24,797	20,058	4,739	—
Short-term borrowings	3,216	3,219	3,219	—	—
Long-term borrowings	1,340	1,355	—	—	1,355
Derivative liabilities	25	25	—	25	—
Accrued interest payable	21	21	21	—	—

NOTE 26. PARENT COMPANY FINANCIAL STATEMENTS

The following is condensed financial information of F.N.B. Corporation (parent company only). In this information, the parent company's investments in subsidiaries are stated at cost plus equity in undistributed earnings of subsidiaries since acquisition. This information should be read in conjunction with the Consolidated Financial Statements.

TABLE 26.1

Balance Sheets (in millions) **December 31**	**2020**	**2019**
Assets		
Cash and cash equivalents	**$ 380**	$ 251
Other assets	**10**	18
Investment in bank subsidiary	**5,064**	5,072
Investments in and advances to non-bank subsidiaries	**371**	104
Total Assets	**$ 5,825**	$ 5,445
Liabilities		
Other liabilities	**$ 40**	$ 34
Advances from affiliates	**197**	197
Long-term borrowings	**621**	323
Subordinated notes:		
Short-term	**7**	7
Long-term	**1**	1
Total Liabilities	**866**	562
Stockholders' Equity	**4,959**	4,883
Total Liabilities and Stockholders' Equity	**$ 5,825**	$ 5,445

TABLE 26.2

Statements of Income (in millions) **Year Ended December 31**	**2020**	**2019**	**2018**
Income			
Dividend income from subsidiaries:			
Bank	**$ 300**	$ 179	$ 162
Non-bank	**4**	2	8
	304	181	170
Interest income	**6**	—	4
Other income	**—**	—	5
Total Income	**310**	181	179
Expenses			
Interest expense	**25**	19	20
Other expenses	**18**	18	15
Total Expenses	**43**	37	35
Income Before Taxes and Equity in Undistributed Income of Subsidiaries	**267**	144	144
Income tax benefit	**7**	7	6
	274	151	150
Equity in undistributed income (loss) of subsidiaries:			
Bank	**15**	236	225
Non-bank	**(3)**	—	(2)
Net Income	**$ 286**	$ 387	$ 373

TABLE 26.3

Statements of Cash Flows (in millions) **Year Ended December 31**	**2020**	2019	2018
Operating Activities			
Net income	**$ 286**	$ 387	$ 373
Adjustments to reconcile net income to net cash flows from operating activities:			
Undistributed earnings from subsidiaries	**(12)**	(236)	(222)
Other, net	**13**	2	(13)
Net cash flows provided by operating activities	**287**	153	138
Investing Activities			
Proceeds from sale of securities available for sale	**—**	—	1
Net decrease in advances to subsidiaries	**—**	—	20
Payment for further investment in subsidiaries	**(270)**	(47)	(22)
Net cash received in business combinations	**—**	—	123
Net cash flows (used in) provided by investing activities	**(270)**	(47)	122
Financing Activities			
Net decrease in advance from affiliate	**—**	—	(19)
Net decrease in short-term borrowings	**—**	—	(1)
Decrease in long-term debt	**(4)**	(77)	(2)
Increase in long-term debt	**302**	121	1
Other, net	**(21)**	12	14
Cash dividends paid:			
Preferred stock	**(8)**	(8)	(8)
Common stock	**(157)**	(157)	(157)
Net cash flows provided by (used in) financing activities	**112**	(109)	(172)
Net Increase (Decrease) in Cash and Cash Equivalents	**129**	(3)	88
Cash and cash equivalents at beginning of year	**251**	254	166
Cash and Cash Equivalents at End of Year	**$ 380**	$ 251	$ 254
Cash paid during the year for:			
Interest	**$ 26**	$ 20	$ 17

NOTE 27. QUARTERLY EARNINGS SUMMARY (UNAUDITED)

TABLE 27.1

(Dollars in millions, except per share data)

Quarter Ended 2020	Dec. 31	Sept. 30	June 30	Mar. 31
Total interest income	$ 270	$ 273	$ 281	$ 306
Total interest expense	36	46	52	74
Net interest income	234	227	229	232
Provision for credit losses	18	27	30	48
Total non-interest income	68	80	77	69
Total non-interest expense	199	180	176	195
Net income	72	83	84	47
Net income available to common stockholders	70	81	82	45
Per Common Share				
Basic earnings per share	$ 0.22	$ 0.25	$ 0.25	$ 0.14
Diluted earnings per share	0.22	0.25	0.25	0.14
Quarter Ended 2019				
Total interest income	$ 306	$ 314	$ 317	$ 310
Total interest expense	80	84	87	79
Net interest income	226	230	230	231
Provision for credit losses	7	12	11	14
Other non-interest income	74	80	75	65
Total non-interest expense	177	178	175	166
Net income	95	103	95	94
Net income available to common stockholders	93	101	93	92
Per Common Share				
Basic earnings per share	$ 0.29	$ 0.31	$ 0.29	$ 0.28
Diluted earnings per share	0.29	0.31	0.29	0.28

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES. We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. FNB's management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of FNB's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, FNB's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING. Information required by this item is set forth in "Report of Management on F.N.B. Corporation's Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm."

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a – 15(f) and 15d –15(f) under the Securities Exchange Act of 1934) during the quarter ended December 31, 2020 to which this report relates that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

NONE.

PART III

ITEM 10. DIRECTORS, EXECUTIVES OFFICERS AND CORPORATE GOVERNANCE

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 11, 2021. Such information is incorporated herein by reference. Certain information regarding executive officers is included under the caption “Information About Our Executive Officers after Part I, Item 4, of this Report.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to this item is provided in FNB’s definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 11, 2021. Such information is incorporated herein by reference. Neither the Report of the Compensation Committee nor the Report of the Audit Committee shall be deemed filed with the SEC, but shall be deemed furnished to the SEC in this Report, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act of 1934, except to the extent that FNB specifically incorporates it by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

With the exception of the equity compensation plan information provided below, the information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 11, 2021. Such information is incorporated herein by reference.

The following table provides information related to equity compensation plans as of December 31, 2020:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Stock Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Stock Options, Warrants and Rights	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	4,322,115 (1)	n/a	5,504,721 (2)
Equity compensation plans not approved by security holders	196,086 (3)	$ 8.61	n/a

(1) Restricted common stock awards subject to forfeiture. The shares of restricted stock vest over periods ranging from three to five years from the award date.

(2) Represents shares of common stock registered with the SEC which are eligible for issuance pursuant to stock option or restricted stock awards granted under various plans.

(3) Represents the securities to be issued upon exercise of stock options that we assumed in various acquisitions. We do not intend to grant any new awards under these plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 11, 2021. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information relating to this item is provided in our definitive proxy statement to be filed with the SEC in connection with our annual meeting of stockholders to be held May 11, 2021. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) **FINANCIAL STATEMENTS**

The Consolidated Financial Statements of F.N.B. Corporation and subsidiaries required in response to this item are incorporated by reference to Item 8 of this Report.

(b) **EXHIBITS**

The following exhibits are filed or incorporated by reference as part of this report:

Exhibit Number	Description
2.1.	Plan of Conversion of F.N.B. Corporation (incorporated by reference to Exhibit 2.1. to FNB's Current Report on Form 8-K filed on August 30, 2016).
3.1.	Articles of Incorporation of F.N.B. Corporation, effective as of August 30, 2016 (Incorporated by reference to Exhibit 3.1. of FNB's Current Report on Form 8-K filed on August 30, 2016).
3.2.	Bylaws of F.N.B. Corporation, effective as of February 26, 2020 (Incorporated by reference to Exhibit 3.2 of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 2019).
4.3.	Deposit Agreement, dated as of November 1, 2013, by and between F.N.B. Corporation and Computershare Limited (successor in interest to Registrar and Transfer Company), as Depositary (incorporated by reference to Exhibit 4.1. of FNB's Current Report on Form 8-K filed on November 1, 2013).
4.4.	Specimen Stock Certificate for Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E (incorporated by reference to Exhibit 4.5. of FNB's Amendment No. 1 to Form 8-A filed on August 30, 2016).
4.5.	Form of Depositary Receipt (included as Exhibit A to Exhibit 4.3. above).
4.6.	Assignment and Assumption Agreement between and among FNB, Computershare Trust Company, N.A., as successor-in-interest to Registrar and Transfer Company, and The Bank of New York Mellon, dated May 10, 2017 (Incorporated by reference to Exhibit 4.1 of FNB'S Current Report on Form 8-K filed on May 15, 2017).
4.7.	Amendment to Deposit Agreement made on May 10, 2017 between FNB and The Bank of New York Mellon (Incorporated by reference to Exhibit 4.2 of FNB's Current Report on Form 8-K filed on May 15, 2017).
4.8	Description of the Registrants securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended. (Incorporated by reference to Exhibit 4.8 of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.)
4.9.	There are no instruments with respect to long-term debt of FNB and its subsidiaries that involve securities authorized under the instrument in an amount exceeding 10 percent of the total assets of FNB and its subsidiaries on a consolidated basis. FNB agrees to provide the SEC with a copy of instruments defining the rights of holders of long-term debt of FNB and its subsidiaries upon request.
10.1. (P)	Form of Deferred Compensation Agreement by and between First National Bank of Pennsylvania and four of our executive officers. (Incorporated by reference to Exhibit 10.3. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 000-08144)). *
10.3.	Amendment to Deferred Compensation Agreement of Stephen J. Gurgovits. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on December 22, 2008). *
10.4. (P)	Basic Retirement Plan (formerly the Supplemental Executive Retirement Plan) of F.N.B. Corporation effective January 1, 1992. (Incorporated by reference to Exhibit 10.9. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 000-08144)). *
10.6.	F.N.B. Corporation Incentive Compensation Plan. (Incorporated by reference to Annex B of FNB's 2020 Proxy Statement filed on March 27, 2020). *
10.10.	Form of Indemnification Agreement for directors. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on September 23, 2008). *

Exhibit Number	Description
10.11.	Form of Indemnification Agreement for officers. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on September 23, 2008). *
10.12.	Employment Agreement between F.N.B. Corporation, First National Bank of Pennsylvania and Vincent J. Delie, Jr. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on December 21, 2010). *
10.13.	Employment Agreement between F.N.B. Corporation and Vincent J. Calabrese. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on February 26, 2013). *
10.15.	Form of Performance-Based Restricted Stock Unit Award Agreement. (Incorporated by reference to Exhibit 10.1. of FNB's Current Report on Form 8-K filed on April 6, 2018).*
10.16.	Form of Time-Based Restricted Stock Unit Award Agreement. (Incorporated by reference to Exhibit 10.2. of FNB's Current Report on Form 8-K filed on April 6, 2018).*
14.	Code of Ethics. (Incorporated by reference to Exhibit 99.3. of FNB's Annual Report on Form 10-K for the fiscal year ended December 31, 2009). *
21.	Subsidiaries of the Registrant. (filed herewith).
23.	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. (filed herewith).
31.1.	Certification of Chief Executive Officer Sarbanes-Oxley Act Section 302. (filed herewith).
31.2.	Certification of Chief Financial Officer Sarbanes-Oxley Act Section 302. (filed herewith).
32.1.	Certification of Chief Executive Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
32.2.	Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document).
*	Management contracts and compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(a)(3) of this Report.

(c) SCHEDULES

No financial statement schedules are being filed because of the absence of conditions under which they are required or because the required information is included in the Consolidated Financial Statements and related notes thereto.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F.N.B. CORPORATION

By /s/ Vincent J. Delie, Jr.
Vincent J. Delie, Jr.
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Vincent J. Delie, Jr.	Chairman, President and Chief Executive Officer	February 25, 2021
Vincent J. Delie, Jr.	(Principal Executive Officer)	
/s/ Vincent J. Calabrese, Jr.	Chief Financial Officer	February 25, 2021
Vincent J. Calabrese, Jr.	(Principal Financial Officer)	
/s/ James L. Dutey	Corporate Controller and Senior Vice President	February 25, 2021
James L. Dutey	(Principal Accounting Officer)	
/s/ Pamela A. Bena	Director	February 25, 2021
Pamela A. Bena		
/s/ William B. Campbell	Director	February 25, 2021
William B. Campbell		
/s/ James D. Chiafullo	Director	February 25, 2021
James D. Chiafullo		
/s/ Mary Jo Dively	Director	February 25, 2021
Mary Jo Dively		
/s/ Robert A. Hormell	Director	February 25, 2021
Robert A. Hormell		
/s/ David J. Malone	Director	February 25, 2021
David J. Malone		
/s/ Frank C. Mencini	Director	February 25, 2021
Frank C. Mencini		
/s/ David L. Motley	Director	February 25, 2021
David L. Motley		
/s/ Heidi A. Nicholas	Director	February 25, 2021
Heidi A. Nicholas		

/s/ John S. Stanik John S. Stanik	Director	February 25, 2021
/s/ William J. Strimbu William J. Strimbu	Director	February 25, 2021