

**F.N.B. Corporation & First National Bank of Pennsylvania**

**Capital Stress Test Results Disclosure**

Capital Stress Testing Results covering January 1, 2017 through March 31,

2019 for F.N.B. Corporation and First National Bank of Pennsylvania under a

Hypothetical Severely Adverse Economic Scenario.

Released October 16, 2017

*When we refer to “FNB,” “we,” “our,” and “us” in this report, we mean F.N.B. Corporation (including First National Bank of Pennsylvania). When we refer to “FNBPA” or “Bank” in this report, we mean our only bank subsidiary, First National Bank of Pennsylvania, and its subsidiaries.*

**About F.N.B. Corporation**

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

On March 11, 2017, we completed our acquisition of Yadkin Financial Corporation (YDKN), a bank holding company based in Raleigh, North Carolina. YDKN’s banking affiliate, Yadkin Bank, was also merged into FNBPA on March 11, 2017. The company’s stress test methodology included the YDKN acquisition. On the acquisition date, the preliminary estimated fair values of YDKN included $6.8 billion in assets, $5.1 billion in loans and $5.2 billion in deposits. The acquisition was valued at $1.8 billion.

As of June 30, 2017, FNB had total assets of $30.8 billion and FNBPA had total assets of $30.6 billion. As such, FNBPA accounts for approximately 99 percent of FNB’s assets and a majority of the variance in the stress tests. Therefore, separate explanations will not be provided.

**Background**

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) requires national banks and federal savings associations with total consolidated assets of $10 billion - $50 billion to conduct the annual Dodd-Frank Act Stress Test (DFAST). This disclosure specifically addresses provisions of DFA requiring that company‐run stress test results be made publicly available.

The results of the company-run stress tests provide the Federal Reserve Bank (Fed) and the Office of the Comptroller of the Currency (OCC) with forward-looking information that will be used in bank supervision and will assist the agencies in assessing the companies’ risk profile and capital adequacy. The objective of the annual company-run stress test is to ensure that banking institutions have robust, forward-looking stress testing processes that account for their unique risks, and to help ensure that institutions have sufficient capital to continue operations throughout times of economic and financial stress. The Fed and OCC intend to use the data to assess the reasonableness of the stress test results and determine whether additional analytical techniques are needed to identify, measure and monitor risk. These stress test results are also expected to support ongoing improvement in a covered institution’s stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

**Considerations**

DFA sets forth specific parameters and assumptions for all institutions to use regarding capital actions. For this and other reasons noted below, results contained herein may differ materially from other publications made by us or by regulatory agencies. To better understand the context of these results, the following should be considered:

1. Results are based on a hypothetical Severely Adverse economic projection that was provided by the Federal Reserve with the specific intention of assessing the strength and resilience of capital in stressed economic and financial market environments. The Federal Reserve’s Baseline (expected) economic projection yields significantly different results.
2. DFA requires we consider our actual capital actions as of the quarter‐end for the first quarter in the planning horizon (i.e., first quarter of 2017). FNB assumed that (1) for remaining quarters, common stock cash dividends are held constant at twelve cents per share (based on the quarterly average dollar amount paid in 2016); (2) payments on any other instrument that are eligible for inclusion in the numerator of a regulatory capital ratio equal the stated dividend, interest, or principal due on such instrument during the quarter; and (3) there is no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. If a severely adverse economic environment comes to fruition, our capital actions could be different than those assumed for this analysis. Potential capital actions are outlined in FNB’s Capital Planning Policy.
3. Loan portfolios follow regulatory‐defined classifications and, in some cases, are different than how we internally manage and report via SEC filings and other public disclosures.

**Risks included in the Stress Test**

FNB has established a robust risk management framework that supports ongoing enterprise-wide risk management, as well as the risk surrounding stress testing. The objective of risk management is not to eliminate risk, but to identify risk, and subsequently manage this risk effectively to preserve capital and optimize shareholder value.

Through an analysis of FNB’s business units and business activities, FNB’s enterprise-wide risk management (ERM) process works to identify risks inherent in our businesses. The risks identified are catalogued in a series of business risk assessments, which are stored in a database managed by ERM. FNB used this information to decide which risks should be considered material and are therefore integral to stress testing.

Through this process, FNB has identified five major categories of risk: credit risk, market risk, liquidity risk, operational risk, and compliance risk.

1. Credit risk refers to the risk that a borrower will default on any type of debt by failing to make required payments. As in many financial institutions, credit risk is a broad category and was further analyzed to determine the portfolios that would be reviewed for materiality and potential risk drivers, and ultimately modeled for credit losses. In addition, given the unique accounting treatment on loans acquired through the purchase of other financial institutions, FNB has decided to model its “acquired” loans separately when assessing potential credit losses.
2. Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, and commodity prices. FNB is primarily exposed to interest rate risk inherent in its lending and deposit-taking activities as a financial intermediary. Market risk is considered in the stress test through an analysis of the macro-economic factors (mainly interest rates) and the impact the changes in those factors would have on FNB’s balance sheet and income statement.
3. Liquidity risk refers to the ability of FNB to meet its financial obligations to its customers, debt-holders, and other stakeholders. Pledging requirements are monitored for the stress test. Unpledged securities and unused capacity for wholesale borrowings are maintained at acceptable levels.
4. Operational risk refers to potential losses due to the failure of people, processes, or technology. FNB has included an assessment of its operational risk exposure and potential related losses in its stress testing submission. Our operational risk assessment includes Compliance Risk, given related historical losses are included in the historical operational risk loss estimates.
5. Compliance risk refers to the risk to earnings and capital arising from violations or non-conformance with laws, rules or regulations and ethical standards. This includes legal risk arising from potential unenforceable contracts, lawsuits and adverse judgments or disruptions negatively affecting the earnings or capital of the company. The effects of adverse impacts resulting from compliance risk are captured within the operational risk component of the stress tests.

**Summary of Stress Test Methodologies**

To support the assessments and create the DFAST projections, FNB utilized multiple forms of quantitative and qualitative analysis to forecast balance sheets, income statements and capital. Business analyses, statistical modeling, and expert judgment, subject to review and challenge by the appropriate internal governing committees, were used to develop these projections as required by the regulatory bodies.

FNB subscribes to the macroeconomic data services of a leading analytics firm which supplements the national macroeconomic and market variables provided by the regulators with estimations of variables at the state level. In addition, FNB estimates certain interest rates that are not provided by the regulators and are important to the modeling of its net interest income. FNB developed several statistical models which, given the regulatory scenario variables, predict future behavior based on historical relationships between business activity and the scenario variables. In other cases, driver-based equations were used to express certain income statement items in relation to a related financial statement item based on historical proportions. Additionally, certain noninterest income and expense items were forecasted using management judgment and not deemed to vary between the regulatory scenarios. Model development included the consideration of multiple models, a review and challenge by subject matter experts, and an independent model validation process.

To promote comprehensive scenario and projection development, FNB established a thorough and appropriately governed process, including an extensive challenge process. Challenges are designed to foster candid, informed, and effective discussion regarding projection methodologies and results. They occur throughout the projection development process and at multiple organizational levels, including the Board of Directors. The challenge process may result in adjustments to modeled output to ensure appropriate consideration of FNB-specific factors and to mitigate limitations in estimations.

**Description of the Severely Adverse Economic Scenario**

The Severely Adverse scenario is characterized by a substantial weakening in economic activity in 2017 (-5.1 percent to -7.5 percent growth rates), followed by a recovery in mid-2018 to 2019 (+3.0 percent to +3.9 percent growth rates). The unemployment rate reverses its 2009-2016 trend and begins to sharply increase to a peak of 10.0 percent in Q3 2018, before slowly improving for the remainder of the forecast period. Global growth, inflation and interest rates follow a similar path as the U.S. with notable economic weakness experienced in Japan, but notable relative strength in the “Developing Asia” region.

Equity prices decline sharply in 2017 (-50 percent) before recovering throughout the remaining forecast period. The equity market volatility index spikes up in early 2017 to near levels seen in 2008, before moderating to near pre-forecast levels by the end of 2019. Residential housing and commercial real estate prices exhibit annual declines of -13 percent and -18 percent, respectively, in both 2017 and 2018 and then recover modestly in 2019.

Short-term interest rates decrease to near zero and remain there throughout the remaining forecast period, but do not enter negative territory. Long-term interest rates decline dramatically in early 2017 and very slowly begin to increase throughout the remaining forecast period, which causes the yield curve to steepen from 2Q 2017 forward. Corporate and mortgage spreads widen materially in 2017 before slowly narrowing throughout 2018-2019 to near pre-forecast levels.

These and other economic variables were transformed into usable inputs for our revenue, expense, and loss models, and into estimates that underlie our capital projections. A full list of economic variables and their values, along with a more detailed description of the Severely Adverse economic scenario, can be found on the Fed’s website.

**Results for the Severely Adverse Scenario for January 1, 2017 – March 31, 2019**

Consistent with DFAST disclosure instructions, results in this section are based on the Severely Adverse economic scenario as provided to us by the Fed. As noted in the “Considerations” section of this disclosure, we assume that common stock cash dividends are held constant with per share levels paid in 2016 of $0.12 per quarter, and further assume there is no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. Unless otherwise specified, results are cumulative for the nine‐quarter planning horizon beginning January 1, 2017 and ending March 31, 2019.

***Capital Ratios***

Consistent with assumed capital actions described earlier in this disclosure, Table 1 depicts beginning (December 31, 2016) and ending (March 31, 2019) capital ratios observed through the nine‐quarter horizon of the Severely Adverse economic scenario compared to regulatory minimum and well-capitalized requirements. Key drivers of changes to capital levels are illustrated below.

**Table 1. Capital Ratios: Beginning, Ending, and Minimum Values**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Actual** | **Stress Projection** | **Regulatory** | **Well-Capitalized** | |
| **(%)** |  |  |  | **12/31/2016** | **3/31/2019 (1)** | **Minimums** | **Requirements** | |
| **FNB** | | |  |  |  |  | |  | |
| Common Equity Tier 1 RBC (2) | | |  | 9.23 | 7.57 | 4.50 | | 6.50 | |
| Tier 1 RBC | | |  | 9.90 | 8.03 | 6.00 | | 8.00 | |
| Total Risk-Based Capital | | |  | 12.00 | 10.56 | 8.00 | | 10.00 | |
| Tier 1 Leverage Capital | | |  | 7.70 | 6.41 | 4.00 | | 5.00 | |
| **FNBPA** | | | |  |  |  | |  | |
| Common Equity Tier 1 RBC | | |  | 9.66 | 8.44 | 4.50 | | 6.50 | |
| Tier 1 RBC | | |  | 10.16 | 8.79 | 6.00 | | 8.00 | |
| Total Risk-Based Capital | | |  | 11.13 | 10.05 | 8.00 | | 10.00 | |
| Tier 1 Leverage Capital | | |  | 7.92 | 7.00 | 4.00 | | 5.00 | |

1. These ratios are the ending and minimum values expressed in the projection.
2. RBC stands for risk-based capital.

***Revenue, Loss, and Net Income***

Table 2 depicts cumulative results for January 1, 2017 through March 31, 2019, for the Severely Adverse economic scenario.

**Table 2. Net Income after Taxes**

|  |  |  |  |
| --- | --- | --- | --- |
| **($ thousands)** | **FNB** | **FNBPA** | |
| Pre-Provision Net Revenue (PPNR) (1) | 839,326 | | 845,054 |
| Provision for Loan Losses | 674,076 | | 644,820 |
| Net Income after Taxes | 112,494 | | 131,779 |

1. PPNR includes realized gains (losses) on held-to-maturity investment securities.

***Loan and Lease Losses***

Table 3 depicts cumulative nine‐quarter losses for loan and lease categories for the Severely Adverse economic scenario.

**Table 3. Cumulative Credit Losses for Loan and Lease Portfolios**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **($ millions)** | **FNB** | | **FNBPA** | |
| **$** | **% (1)** | **$** | **% (1)** |
| Commercial and industrial | 141,635 | 3.93 | 141,635 | 3.87 |
| Commercial real estate | 236,718 | 2.91 | 236,718 | 2.91 |
| Closed-end first lien mortgage | 35,843 | 0.83 | 35,584 | 0.83 |
| Junior lien mortgage and home equity line of credit | 32,427 | 1.44 | 32,584 | 1.44 |
| Other consumer (2) | 56,248 | 3.22 | 31,807 | 2.00 |
| Other loans and leases (3) | 16,250 | 3.49 | 16,250 | 3.49 |
| Total loans and leases | 519,120 | 2.53 | 494,337 | 2.42 |

1. The loss rate is calculated by dividing the cumulative losses by the average balances.
2. Other consumer includes auto loans and leases, student loans, and other miscellaneous consumer-purpose loans.
3. Other loans and leases primarily consists of equipment leases, overdraft losses and credit cards.

***Additional Capital Ratio Components***

Table 4 discloses the change in risk-weighted assets from the beginning (December 31, 2016) to the ending (March 31, 2019) of the nine‐quarter stress test horizon of the Severely Adverse economic scenario.

**Table 4. Risk-Weighted Assets to Assets, Beginning (December 31, 2016) and Ending (March 31, 2019) Values**

|  |  |  |
| --- | --- | --- |
|  | **Actual 12/31/16** | **Ending 3/31/19** |
| FNB | 73.2% | 73.4% |
| FNBPA | 73.4% | 73.3% |

**Table 5. Drivers of Change in Capital Ratios, December 31, 2016 to March 31, 2019**

**FNB**

**FNBPA**



1. Other includes $1.9B increase in additional paid-in-capital and $1.3B increase in intangibles due to the Yadkin acquisition. It also includes taxes and stock compensation.

**Explanation of the Most Significant Causes for Changes in Regulatory Capital Ratios**

The Fed’s Severely Adverse scenario as applied to FNB and FNBPA results in meaningful declines in the regulatory capital ratios. However, the lowest capital levels across the nine‐quarter planning horizon remain above regulatory‐defined, minimum and well‐capitalized thresholds.

Table 5 above reconciles the primary drivers of the change in the common equity tier 1 risk-based capital ratio from December 31, 2016 to March 31, 2019. The following factors account for much of the projected change in the regulatory capital ratios.

* The hypothetical, stressed credit market conditions set forth by the Fed drive the heightened expected losses contained in Table 3 and, correspondingly, the elevated provision for loan losses (in Table 2). The stress test also includes other-than-temporary impairment losses of $3.1 million.
* The common dividend levels are held at $0.12 per share per quarter which is equal to the 2016 level. This dividend assumption reduces capital levels below what might result in such an economic environment where dividend levels could be reduced if necessary.
* Pre-provision net revenue (PPNR) helps boost capital levels but is negatively impacted in the Severely Adverse scenario due to lower loan volumes and lower interest rates. Lower interest rates narrow the net interest margin because asset yields decline more than liability yields. There is presently a limited ability to decrease certain liability rates further. PPNR is also negatively impacted by expectations of lower non-interest income and higher non-interest expense.
* Risk weighted assets (RWAs) as a percentage of Total Assets (in Table 4) decrease initially due to lower loan volumes and then rebound later in the scenario as the economy improves and loan volumes increase accordingly. Since loans generally have higher risk weights than securities, there is a direct relationship between loan growth and the RWAs to Total Assets ratio. The RWA bar in Table 5 reflects additional assets from the YDKN acquisition and the Other bar reflects the capital that was added due to that acquisition.
* FNB’s disclosures of projected results, risks and assumptions are hypothetical and made pursuant to the requirements of the Fed and the OCC DFAST guidelines and related instructions. These projections are based on stress test rules and assumptions that do not necessarily reflect FNB’s future expectations or actions.