

FNB CORP/FL/  
Form 10-Q  
August 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2012

**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)

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**Florida**  
(State or other jurisdiction of  
incorporation or organization)

**25-1255406**  
(I.R.S. Employer  
Identification No.)

**One F.N.B. Boulevard, Hermitage, PA**  
(Address of principal executive offices)

**16148**  
(Zip Code)

**Registrant's telephone number, including area code: 724-981-6000**

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

| Class                          | Outstanding at July 31, 2012 |
|--------------------------------|------------------------------|
| Common Stock, \$0.01 Par Value | 139,714,572 Shares           |

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**F.N.B. CORPORATION**

**FORM 10-Q**

June 30, 2012

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

Dollars in thousands, except par value

|   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
|   | (Unaudited)              |                              |
| <b>Assets</b>   |                          |                              |
| Cash and due from banks   | \$ 197,317               | \$ 197,349                   |
| Interest bearing deposits with banks                                  | 25,441                   | 11,604                       |
| <b>Cash and Cash Equivalents</b>                                      | 222,758                  | 208,953                      |
| Securities available for sale   | 1,071,924                | 640,571                      |
| Securities held to maturity (fair value of \$1,240,956 and \$952,033) | 1,203,240                | 917,212                      |
| Residential mortgage loans held for sale                              | 17,000                   | 14,275                       |
| Loans, net of unearned income of \$52,114 and \$47,110                | 7,860,856                | 6,856,667                    |
| Allowance for loan losses   | (101,647)                | (100,662)                    |
| <b>Net Loans</b>  | 7,759,209                | 6,756,005                    |
| Premises and equipment, net   | 148,806                  | 130,043                      |
| Goodwill  | 673,094                  | 568,462                      |
| Core deposit and other intangible assets, net                         | 42,337                   | 30,953                       |
| Bank owned life insurance   | 237,871                  | 208,927                      |
| Other assets  | 374,500                  | 311,082                      |
| <b>Total Assets</b>   | \$ 11,750,739            | \$ 9,786,483                 |
| <b>Liabilities</b>  |                          |                              |
| Deposits:   |                          |                              |
| Non-interest bearing demand   | \$ 1,614,476             | \$ 1,340,465                 |
| Savings and NOW   | 4,686,599                | 3,790,863                    |
| Certificates and other time deposits                                  | 2,685,225                | 2,158,440                    |
| <b>Total Deposits</b>   | 8,986,300                | 7,289,768                    |
| Other liabilities   | 162,786                  | 143,239                      |
| Short-term borrowings   | 934,510                  | 851,294                      |
| Long-term debt  | 90,654                   | 88,016                       |
| Junior subordinated debt  | 203,993                  | 203,967                      |
| <b>Total Liabilities</b>  | 10,378,243               | 8,576,284                    |
| <b>Stockholders Equity</b>  |                          |                              |
| Common stock \$0.01 par value   |                          |                              |
| Authorized 500,000,000 shares   |                          |                              |
| Issued 140,080,637 and 127,436,261 shares                             | 1,396                    | 1,268                        |
| Additional paid-in capital  | 1,367,855                | 1,224,572                    |
| Retained earnings   | 49,485                   | 32,925                       |

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|   |                      |                     |
|---|----------------------|---------------------|
| Accumulated other comprehensive loss              | (41,361)             | (45,148)            |
| Treasury stock 371,335 and 215,502 shares at cost | (4,879)              | (3,418)             |
| <b>Total Stockholders Equity</b>                  | <b>1,372,496</b>     | <b>1,210,199</b>    |
| <b>Total Liabilities and Stockholders Equity</b>  | <b>\$ 11,750,739</b> | <b>\$ 9,786,483</b> |

See accompanying Notes to Consolidated Financial Statements

**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Dollars in thousands, except per share data

Unaudited

|  | <b>Three Months Ended<br/>June 30,</b> |               | <b>Six Months Ended<br/>June 30,</b> |                |
|--|--|---------------|--------------------------------------|----------------|
|  | <b>2012</b>                            | <b>2011</b>   | <b>2012</b>                          | <b>2011</b>    |
| <b>Interest Income</b>                                     |  |               |                                      |                |
| Loans, including fees                                      | \$ 95,037                              | \$ 85,189     | \$ 188,175                           | \$ 169,899     |
| Securities:  |  |               |                                      |                |
| Taxable  | 12,515                                 | 10,975        | 24,552                               | 21,489         |
| Nontaxable   | 1,680                                  | 1,882         | 3,401                                | 3,829          |
| Dividends  | 14                                     | 12            | 349                                  | 131            |
| Other  | 39                                     | 97            | 95                                   | 178            |
| <b>Total Interest Income</b>                               | <b>109,285</b>                         | <b>98,155</b> | <b>216,572</b>                       | <b>195,526</b> |
| <b>Interest Expense</b>                                    |  |               |                                      |                |
| Deposits   | 10,613                                 | 14,054        | 22,571                               | 28,649         |
| Short-term borrowings                                      | 1,335                                  | 1,634         | 2,779                                | 3,467          |
| Long-term debt   | 889                                    | 1,655         | 1,842                                | 3,283          |
| Junior subordinated debt                                   | 1,967                                  | 2,118         | 3,978                                | 4,150          |
| <b>Total Interest Expense</b>                              | <b>14,804</b>                          | <b>19,461</b> | <b>31,170</b>                        | <b>39,549</b>  |
| <b>Net Interest Income</b>                                 | <b>94,481</b>                          | <b>78,694</b> | <b>185,402</b>                       | <b>155,977</b> |
| Provision for loan losses                                  | 7,027                                  | 8,551         | 13,599                               | 16,779         |
| <b>Net Interest Income After Provision for Loan Losses</b> | <b>87,454</b>                          | <b>70,143</b> | <b>171,803</b>                       | <b>139,198</b> |
| <b>Non-Interest Income</b>                                 |  |               |                                      |                |
| Service charges  | 17,588                                 | 15,666        | 34,753                               | 30,001         |
| Insurance commissions and fees                             | 3,882                                  | 3,664         | 8,054                                | 7,810          |
| Securities commissions and fees                            | 2,030                                  | 2,130         | 4,041                                | 4,102          |
| Trust fees   | 3,842                                  | 3,947         | 7,576                                | 7,657          |
| Net securities gains                                       | 260                                    | 38            | 368                                  | 92             |
| Gain on sale of residential mortgage loans                 | 711                                    | 376           | 1,520                                | 1,143          |
| Bank owned life insurance                                  | 1,579                                  | 1,372         | 3,138                                | 2,604          |
| Other  | 2,886                                  | 2,065         | 5,073                                | 4,281          |
| <b>Total Non-Interest Income</b>                           | <b>32,778</b>                          | <b>29,258</b> | <b>64,523</b>                        | <b>57,690</b>  |
| <b>Non-Interest Expense</b>                                |  |               |                                      |                |
| Salaries and employee benefits                             | 41,070                                 | 36,528        | 85,676                               | 74,910         |
| Net occupancy  | 6,178                                  | 5,060         | 12,784                               | 10,970         |
| Equipment  | 5,684                                  | 4,925         | 10,870                               | 9,400          |
| Amortization of intangibles                                | 2,369                                  | 1,805         | 4,650                                | 3,601          |
| Outside services   | 7,310                                  | 5,377         | 13,677                               | 10,577         |
| FDIC insurance   | 2,187                                  | 1,870         | 4,158                                | 4,589          |
| State taxes  | 1,953                                  | 2,019         | 3,453                                | 3,955          |
| Merger related   | 317                                    | 161           | 7,311                                | 4,307          |
| Other  | 11,414                                 | 10,624        | 22,576                               | 20,617         |

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|                                     |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|
| <b>Total Non-Interest Expense</b>   | 78,482    | 68,369    | 165,155   | 142,926   |
| <b>Income Before Income Taxes</b>   | 41,750    | 31,032    | 71,171    | 53,962    |
| Income taxes                        | 12,620    | 8,670     | 20,459    | 14,425    |
| <b>Net Income</b>                   | \$ 29,130 | \$ 22,362 | \$ 50,712 | \$ 39,537 |
| <b>Net Income per Share Basic</b>   | \$ 0.21   | \$ 0.18   | \$ 0.36   | \$ 0.32   |
| <b>Net Income per Share Diluted</b> | 0.21      | 0.18      | 0.36      | 0.32      |
| <b>Cash Dividends per Share</b>     | 0.12      | 0.12      | 0.24      | 0.24      |
| <b>Comprehensive Income</b>         | \$ 31,504 | \$ 25,325 | \$ 54,499 | \$ 42,553 |

See accompanying Notes to Consolidated Financial Statements

**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Dollars in thousands, except per share data

Unaudited

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total        |
|--|-----------------|----------------------------------|----------------------|---|-------------------|--------------|
| <b>Balance at January 1, 2012</b>                | \$ 1,268        | \$ 1,224,572                     | \$ 32,925            | \$ (45,148)                                   | \$ (3,418)        | \$ 1,210,199 |
| Net income                                       |                 |                                  | 50,712               |   |                   | 50,712       |
| Change in other comprehensive income, net of tax |                 |                                  |                      | 3,787   |                   | 3,787        |
| Common stock dividends (\$0.24/share)            |                 |                                  | (33,775)             |   |                   | (33,775)     |
| Issuance of common stock                         | 128             | 140,704                          | (377)                |   | (1,461)           | 138,994      |
| Restricted stock compensation                    |                 | 2,206                            |                      |   |                   | 2,206        |
| Tax expense of stock-based compensation          |                 | 373                              |                      |   |                   | 373          |
| <b>Balance at June 30, 2012</b>                  | \$ 1,396        | \$ 1,367,855                     | \$ 49,485            | \$ (41,361)                                   | \$ (4,879)        | \$ 1,372,496 |
| <b>Balance at January 1, 2011</b>                | \$ 1,143        | \$ 1,094,713                     | \$ 6,564             | \$ (33,732)                                   | \$ (2,564)        | \$ 1,066,124 |
| Net income                                       |                 |                                  | 39,537               |   |                   | 39,537       |
| Change in other comprehensive income, net of tax |                 |                                  |                      | 3,016   |                   | 3,016        |
| Common stock dividends (\$0.24/share)            |                 |                                  | (29,753)             |   |                   | (29,753)     |
| Issuance of common stock                         | 124             | 123,180                          |                      |   | (848)             | 122,456      |
| Restricted stock compensation                    |                 | 1,832                            |                      |   |                   | 1,832        |
| Tax expense of stock-based compensation          |                 | (62)                             |                      |   |                   | (62)         |
| <b>Balance at June 30, 2011</b>                  | \$ 1,267        | \$ 1,219,663                     | \$ 16,348            | \$ (30,716)                                   | \$ (3,412)        | \$ 1,203,150 |

See accompanying Notes to Consolidated Financial Statements



**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in thousands

Unaudited

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2012</b>                          | <b>2011</b> |
| <b>Operating Activities</b>   |                                      |             |
| Net income  | \$ 50,712                            | \$ 39,537   |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |                                      |             |
| Depreciation, amortization and accretion  | 13,644                               | 11,867      |
| Provision for loan losses   | 13,599                               | 16,779      |
| Deferred taxes  | 9,149                                | 2,183       |
| Net securities gains  | (368)                                | (92)        |
| Tax (benefit) expense of stock-based compensation                                       | (373)                                | 62          |
| Net change in:  |                                      |             |
| Interest receivable   | 348                                  | 1,312       |
| Interest payable  | (3,153)                              | (620)       |
| Trading securities  | 331,972                              | 110,490     |
| Residential mortgage loans held for sale  | (2,726)                              | 2,778       |
| Bank owned life insurance   | (2,733)                              | (638)       |
| Other, net  | 15,901                               | 17,588      |
| Net cash flows provided by operating activities   | 425,972                              | 201,246     |
| <b>Investing Activities</b>   |                                      |             |
| Net change in loans   | (107,351)                            | (226,196)   |
| Securities available for sale:  |                                      |             |
| Purchases   | (610,783)                            | (138,672)   |
| Sales   | 63,082                               | 10,883      |
| Maturities  | 259,981                              | 162,150     |
| Securities held to maturity:  |                                      |             |
| Purchases   | (427,756)                            | (299,545)   |
| Sales   | 2,903                                |             |
| Maturities  | 150,069                              | 117,207     |
| Purchase of bank owned life insurance   | (20,023)                             | (26)        |
| Withdrawal/surrender of bank owned life insurance                                       | 20,701                               |             |
| Increase in premises and equipment  | (8,104)                              | (6,843)     |
| Net cash received in business combinations  | 203,538                              | 23,375      |
| Net cash flows used in investing activities   | (473,743)                            | (357,667)   |
| <b>Financing Activities</b>   |                                      |             |
| Net change in:  |                                      |             |
| Non-interest bearing deposits, savings and NOW accounts                                 | 368,857                              | 288,317     |
| Time deposits   | (192,535)                            | (79,887)    |
| Short-term borrowings   | 70,276                               | (50,414)    |
| Increase in long-term debt  | 13,591                               | 37,592      |
| Decrease in long-term debt  | (169,618)                            | (17,864)    |
| Increase (decrease) in junior subordinated debt   | 26                                   | (95)        |

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|  |                   |                   |
|--|-------------------|-------------------|
| Net proceeds from issuance of common stock             | 4,381             | 66,148            |
| Tax benefit (expense) of stock-based compensation      | 373               | (62)              |
| Cash dividends paid                                    | (33,775)          | (29,752)          |
| <b>Net cash flows provided by financing activities</b> | <b>61,576</b>     | <b>213,983</b>    |
| <b>Net Increase in Cash and Cash Equivalents</b>       | <b>13,805</b>     | <b>57,562</b>     |
| Cash and cash equivalents at beginning of period       | 208,953           | 131,571           |
| <b>Cash and Cash Equivalents at End of Period</b>      | <b>\$ 222,758</b> | <b>\$ 189,133</b> |

See accompanying Notes to Consolidated Financial Statements

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### **F.N.B. CORPORATION AND SUBSIDIARIES**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Dollars in thousands, except share data

(Unaudited)

June 30, 2012

#### **BUSINESS**

F.N.B. Corporation (the Corporation) is a diversified financial services company headquartered in Hermitage, Pennsylvania. Its primary businesses include community banking, consumer finance, wealth management and insurance. The Corporation also conducts commercial leasing and merchant banking activities. The Corporation operates its community banking business through a full service branch network in Pennsylvania, Ohio and West Virginia. The Corporation operates its wealth management and insurance businesses within the existing branch network. It also conducts selected consumer finance business in Pennsylvania, Ohio, Tennessee and Kentucky.

#### **BASIS OF PRESENTATION**

The Corporation's accompanying consolidated financial statements and these notes to the financial statements include subsidiaries in which the Corporation has a controlling financial interest. The Corporation owns and operates First National Bank of Pennsylvania (FNBPA), First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC, Regency Finance Company (Regency), F.N.B. Capital Corporation, LLC and Bank Capital Services, LLC, and includes results for each of these entities in the accompanying consolidated financial statements.

The accompanying consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the filing of the consolidated financial statements with the Securities and Exchange Commission (SEC).

Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The interim operating results are not necessarily indicative of operating results the Corporation expects for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K filed with the SEC on February 28, 2012.

#### **USE OF ESTIMATES**

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

#### **COMMON STOCK**

On May 18, 2011, the Corporation completed a public offering of 6,037,500 shares of common stock at a price of \$10.70 per share, including 787,500 shares of common stock purchased by the underwriters pursuant to an over-allotment option, which the underwriters exercised in full. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were \$62,803.

**Table of Contents****MERGERS AND ACQUISITIONS**

On January 1, 2012, the Corporation completed its acquisition of Parkvale Financial Corporation (Parkvale), a unitary savings and loan holding company based in Monroeville, Pennsylvania. On the acquisition date, Parkvale had \$1,815,663 in assets, which included \$937,350 in loans, and \$1,505,671 in deposits. The acquisition, net of equity offering costs, was valued at \$136,818 and resulted in the Corporation issuing 12,159,312 shares of its common stock in exchange for 5,582,846 shares of Parkvale common stock. The assets and liabilities of Parkvale were recorded on the Corporation's balance sheet at their preliminary estimated fair values as of January 1, 2012, the acquisition date, and Parkvale's results of operations have been included in the Corporation's consolidated statement of comprehensive income since that date. Parkvale's banking affiliate, Parkvale Bank, was merged into FNBPA on January 1, 2012. In conjunction with the completion of this acquisition, the Corporation fully repaid the \$31,762 of Parkvale preferred stock previously issued to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). The warrant issued by Parkvale to the UST has been converted into a warrant to purchase up to 819,640 shares of the Corporation's common stock. The warrant expires December 23, 2018 and has an exercise price of \$5.81. Based on a preliminary purchase price allocation, the Corporation recorded \$104,142 in goodwill and \$16,033 in core deposit intangible as a result of the acquisition. The Corporation has recorded estimates of the fair values of acquired assets and liabilities. The fair values for loans, goodwill and other intangible assets, other assets and other liabilities are provisional amounts based on third party valuations that are currently under review. None of the goodwill is deductible for income tax purposes.

During the first six months of 2012, the Corporation recorded merger and integration charges of \$7,301 associated with the Parkvale acquisition.

The following table shows the calculation of the purchase price and the resulting goodwill relating to the Parkvale acquisition:

|   |              |            |
|---|--------------|------------|
| Fair value of stock issued, net of offering costs |              | \$ 136,818 |
| Fair value of:                                    |              |            |
| Tangible assets acquired                          | \$ 1,522,449 |            |
| Core deposit and other intangible assets acquired | 16,033       |            |
| Liabilities assumed                               | (1,709,147)  |            |
| Net cash received in the acquisition              | 203,341      |            |
| Fair value of net assets acquired                 |              | 32,676     |
| Goodwill recognized                               |              | \$ 104,142 |

The following table summarizes the fair value of the net assets that the Corporation acquired from Parkvale:

|  |            |
|--|------------|
| Assets                                 |            |
| Cash and due from banks                | \$ 203,538 |
| Securities                             | 486,186    |
| Loans                                  | 919,609    |
| Goodwill and other intangible assets   | 120,175    |
| Accrued income and other assets        | 116,457    |
| Total assets                           | 1,845,965  |
| Liabilities                            |            |
| Deposits                               | 1,525,253  |
| Borrowings                             | 171,606    |
| Accrued expenses and other liabilities | 12,288     |
| Total liabilities                      | 1,709,147  |
| Purchase price                         | \$ 136,818 |

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On January 1, 2011, the Corporation completed its acquisition of Comm Bancorp, Inc. (CBI), a bank holding company based in Clarks Summit, Pennsylvania. On the acquisition date, CBI had \$625,570 in assets, which included \$445,271 in loans, and \$561,775 in deposits. The transaction, valued at \$75,547, resulted in the Corporation paying \$17,203 in cash and issuing 5,941,287 shares of its common stock in exchange for 1,719,978 shares of CBI common stock. The assets and liabilities of CBI were recorded on the Corporation's balance sheet at their fair values as of January

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1, 2011, the acquisition date, and CBI's results of operations have been included in the Corporation's consolidated statement of comprehensive income since that date. CBI's banking affiliate, Community Bank and Trust Company, was merged into FNBPA on January 1, 2011. Based on the purchase price allocation, the Corporation recorded \$40,232 in goodwill and \$4,785 in core deposit intangible as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

**NEW ACCOUNTING STANDARDS***Comprehensive Income*

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income*, with the intention of increasing the prominence of other comprehensive income in the financial statements. The FASB has eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, in annual periods, companies are required to present components of net income and other comprehensive income and a total for comprehensive income in a single continuous statement of comprehensive income or two separate but consecutive statements. In interim periods, companies are required to present a total for comprehensive income in a single continuous statement of comprehensive income or two separate but consecutive statements. These requirements, which were applied retrospectively, were effective January 1, 2012. For interim periods, the Corporation has adopted the single continuous statement of comprehensive income approach. Adoption of this standard did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Amendments to Fair Value Measurements*

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurements*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards (IFRS). The amendments explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The amendments result in common fair value measurement and disclosure requirements in GAAP and IFRS. Some of the amendments clarify the application of existing fair value measurement requirements and others change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Many of the previous fair value requirements are not changed by this standard. The amendments in this standard, which were applied prospectively, were effective January 1, 2012. Adoption of this standard did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

**SECURITIES**

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

## Securities Available For Sale:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
|---|-------------------|------------------------------|-------------------------------|--------------|
| <b>June 30, 2012</b>  |                   |                              |                               |              |
| U.S. Treasury and other U.S. government agencies and corporations | \$ 353,522        | \$ 1,315                     | \$                            | \$ 354,837   |
| Residential mortgage-backed securities:                           |                   |                              |                               |              |
| Agency mortgage-backed securities                                 | 321,892           | 7,451                        | (17)                          | 329,326      |
| Agency collateralized mortgage obligations                        | 306,733           | 3,784                        |                               | 310,517      |
| Non-agency collateralized mortgage obligations                    | 3,267             | 1                            | (14)                          | 3,254        |
| States of the U.S. and political subdivisions                     | 27,060            | 1,420                        |                               | 28,480       |
| Collateralized debt obligations                                   | 34,556            | 178                          | (14,290)                      | 20,444       |
| Other debt securities   | 23,826            | 564                          | (1,275)                       | 23,115       |
| Total debt securities   | 1,070,856         | 14,713                       | (15,596)                      | 1,069,973    |
| Equity securities   | 1,555             | 420                          | (24)                          | 1,951        |
|   | \$ 1,072,411      | \$ 15,133                    | \$ (15,620)                   | \$ 1,071,924 |



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|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| <b>December 31, 2011</b>  |                   |                              |                               |               |
| U.S. Treasury and other U.S. government agencies and corporations | \$ 231,187        | \$ 642                       | \$                            | \$ 231,829    |
| Residential mortgage-backed securities:                           |                   |                              |                               |               |
| Agency mortgage-backed securities                                 | 166,758           | 4,853                        |                               | 171,611       |
| Agency collateralized mortgage obligations                        | 181,493           | 2,236                        |                               | 183,729       |
| Non-agency collateralized mortgage obligations                    | 31                |                              | (1)                           | 30            |
| States of the U.S. and political subdivisions                     | 38,509            | 1,841                        |                               | 40,350        |
| Collateralized debt obligations                                   | 19,224            |                              | (13,226)                      | 5,998         |
| Other debt securities   | 6,863             |                              | (1,666)                       | 5,197         |
| <br>  |                   |                              |                               |               |
| Total debt securities   | 644,065           | 9,572                        | (14,893)                      | 638,744       |
| Equity securities   | 1,593             | 257                          | (23)                          | 1,827         |
|   | \$ 645,658        | \$ 9,829                     | \$ (14,916)                   | \$ 640,571    |

## Securities Held To Maturity:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value   |
|---|-------------------|------------------------------|-------------------------------|--------------|
| <b>June 30, 2012</b>  |                   |                              |                               |              |
| U.S. Treasury and other U.S. government agencies and corporations | \$ 4,399          | \$ 413                       | \$                            | \$ 4,812     |
| Residential mortgage-backed securities:                           |                   |                              |                               |              |
| Agency mortgage-backed securities                                 | 915,239           | 31,300                       | (16)                          | 946,523      |
| Agency collateralized mortgage obligations                        | 109,107           | 967                          |                               | 110,074      |
| Non-agency collateralized mortgage obligations                    | 17,814            | 97                           | (940)                         | 16,971       |
| Commercial mortgage-backed securities                             | 1,025             | 13                           |                               | 1,038        |
| States of the U.S. and political subdivisions                     | 153,525           | 6,127                        | (116)                         | 159,536      |
| Collateralized debt obligations                                   | 808               |                              | (108)                         | 700          |
| Other debt securities   | 1,323             |                              | (21)                          | 1,302        |
|   | \$ 1,203,240      | \$ 38,917                    | \$ (1,201)                    | \$ 1,240,956 |
| <br>  |                   |                              |                               |              |
| <b>December 31, 2011</b>  |                   |                              |                               |              |
| U.S. Treasury and other U.S. government agencies and corporations | \$ 4,523          | \$ 360                       | \$                            | \$ 4,883     |
| Residential mortgage-backed securities:                           |                   |                              |                               |              |
| Agency mortgage-backed securities                                 | 683,100           | 28,722                       |                               | 711,822      |
| Agency collateralized mortgage obligations                        | 54,319            | 573                          | (11)                          | 54,881       |
| Non-agency collateralized mortgage obligations                    | 24,348            | 143                          | (1,373)                       | 23,118       |
| States of the U.S. and political subdivisions                     | 147,748           | 6,877                        |                               | 154,625      |
| Collateralized debt obligations                                   | 1,592             |                              | (314)                         | 1,278        |
| Other debt securities   | 1,582             | 25                           | (181)                         | 1,426        |
|   | \$ 917,212        | \$ 36,700                    | \$ (1,879)                    | \$ 952,033   |

The Corporation classifies securities as trading securities when management intends to sell such securities in the near term. Such securities are carried at fair value, with unrealized gains (losses) reflected through the consolidated statements of comprehensive income. The Corporation classified certain securities acquired in conjunction with the Parkvale and CBI acquisitions as trading securities. The Corporation both acquired and sold these trading securities during the quarters in which each of these acquisitions occurred. As of June 30, 2012 and December 31, 2011, the Corporation did not hold any trading securities.





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

|              | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|--------------|--------------------------------|-------|------------------------------|--------|
|              | 2012                           | 2011  | 2012                         | 2011   |
| Gross gains  | \$ 447                         | \$ 38 | \$ 796                       | \$ 288 |
| Gross losses | (187)                          |       | (428)                        | (196)  |
|              | \$ 260                         | \$ 38 | \$ 368                       | \$ 92  |

As of June 30, 2012, the amortized cost and fair value of securities, by contractual maturities, were as follows:

|  | Available for Sale |               | Held to Maturity  |               |
|--|--------------------|---------------|-------------------|---------------|
|  | Amortized<br>Cost  | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Due in one year or less                        | \$ 19,598          | \$ 19,641     | \$ 6,696          | \$ 6,813      |
| Due from one to five years                     | 346,533            | 348,008       | 10,901            | 11,336        |
| Due from five to ten years                     | 16,700             | 17,734        | 47,742            | 49,836        |
| Due after ten years                            | 56,133             | 41,493        | 94,716            | 98,365        |
|  | 438,964            | 426,876       | 160,055           | 166,350       |
| Residential mortgage-backed securities:        |                    |               |                   |               |
| Agency mortgage-backed securities              | 321,892            | 329,326       | 915,239           | 946,523       |
| Agency collateralized mortgage obligations     | 306,733            | 310,517       | 109,107           | 110,074       |
| Non-agency collateralized mortgage obligations | 3,267              | 3,254         | 17,814            | 16,971        |
| Commercial mortgage-backed securities          |                    |               | 1,025             | 1,038         |
| Equity securities                              | 1,555              | 1,951         |                   |               |
|  | \$ 1,072,411       | \$ 1,071,924  | \$ 1,203,240      | \$ 1,240,956  |

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

At June 30, 2012 and December 31, 2011, securities with a carrying value of \$632,074 and \$547,727, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of \$780,941 and \$680,212 at June 30, 2012 and December 31, 2011, respectively, were pledged as collateral for short-term borrowings.

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

Securities available for sale:

|  | Less than 12 Months |                      | 12 Months or More |                      | Total         |                      |
|--|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|  | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| <b>June 30, 2012</b>                           |                     |                      |                   |                      |               |                      |
| Residential mortgage-backed securities:        |                     |                      |                   |                      |               |                      |
| Agency mortgage-backed securities              | \$ 5,197            | \$ (17)              | \$                | \$                   | \$ 5,197      | \$ (17)              |
| Non-agency collateralized mortgage obligations | 3,226               | (14)                 |                   |                      | 3,226         | (14)                 |
| Collateralized debt obligations                | 11,290              | (1,130)              | 5,242             | (13,160)             | 16,532        | (14,290)             |

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|                       |           |            |           |             |           |             |
|-----------------------|-----------|------------|-----------|-------------|-----------|-------------|
| Other debt securities |           |            | 5,593     | (1,275)     | 5,593     | (1,275)     |
| Equity securities     | 720       | (24)       |           |             | 720       | (24)        |
|                       | \$ 20,433 | \$ (1,185) | \$ 10,835 | \$ (14,435) | \$ 31,268 | \$ (15,620) |

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|  | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>December 31, 2011</b>                       |                     |                   |                   |                   |            |                   |
| Residential mortgage-backed securities:        |                     |                   |                   |                   |            |                   |
| Non-agency collateralized mortgage obligations | \$ 30               | \$ (1)            | \$                | \$                | \$ 30      | \$ (1)            |
| Collateralized debt obligations                |                     |                   | 5,998             | (13,226)          | 5,998      | (13,226)          |
| Other debt securities                          |                     |                   | 5,197             | (1,666)           | 5,197      | (1,666)           |
| Equity securities                              | 100                 | (9)               | 659               | (14)              | 759        | (23)              |
|  | \$ 130              | \$ (10)           | \$ 11,854         | \$ (14,906)       | \$ 11,984  | \$ (14,916)       |

Securities held to maturity:

|  | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>June 30, 2012</b>                           |                     |                   |                   |                   |            |                   |
| Residential mortgage-backed securities:        |                     |                   |                   |                   |            |                   |
| Agency mortgage-backed securities              | \$ 20,407           | \$ (16)           | \$                | \$                | \$ 20,407  | \$ (16)           |
| Non-agency collateralized mortgage obligations | 2,974               | (18)              | 3,917             | (922)             | 6,891      | (940)             |
| States of the U.S. and political subdivisions  | 13,194              | (116)             |                   |                   | 13,194     | (116)             |
| Collateralized debt obligations                |                     |                   | 700               | (108)             | 700        | (108)             |
| Other debt securities                          |                     |                   | 1,301             | (21)              | 1,301      | (21)              |
|  | \$ 36,575           | \$ (150)          | \$ 5,918          | \$ (1,051)        | \$ 42,493  | \$ (1,201)        |

**December 31, 2011**

|  |           |         |          |            |           |            |
|--|-----------|---------|----------|------------|-----------|------------|
| Residential mortgage-backed securities:        |           |         |          |            |           |            |
| Agency collateralized mortgage obligations     | \$ 12,911 | \$ (11) | \$       | \$         | \$ 12,911 | \$ (11)    |
| Non-agency collateralized mortgage obligations | 5,374     | (64)    | 4,351    | (1,309)    | 9,725     | (1,373)    |
| Collateralized debt obligations                |           |         | 1,278    | (314)      | 1,278     | (314)      |
| Other debt securities                          |           |         | 1,144    | (181)      | 1,144     | (181)      |
|  | \$ 18,285 | \$ (75) | \$ 6,773 | \$ (1,804) | \$ 25,058 | \$ (1,879) |

As of June 30, 2012, securities with unrealized losses for less than 12 months included 4 investments in residential mortgage-backed securities (2 investments in agency mortgage-backed securities and 2 investments in non-agency collateralized mortgage obligations (CMOs)), 11 investments in states of the U.S. and political subdivisions, 11 investments in collateralized debt obligations (CDOs) and 2 investments in equity securities. Securities with unrealized losses of 12 months or more included 1 investment in a residential mortgage-backed security (non-agency CMO), 12 investments in CDOs, and 5 investments in other debt securities as of June 30, 2012. The Corporation does not intend to sell the debt securities and it is not more likely than not the Corporation will be required to sell the securities before recovery of their amortized cost basis.

The Corporation's unrealized losses on CDOs relate to investments in trust preferred securities (TPS). The Corporation's portfolio of TPS consists of single-issuer and pooled securities. The single-issuer securities are primarily from money-center and large regional banks. The pooled securities consist of securities issued primarily by banks and thrifts, with some of the pools including a limited number of insurance companies. Investments in pooled securities are all in mezzanine tranches except for one investment in a senior tranche, and are secured by over-collateralization or default protection provided by subordinated tranches. The non-credit portion of unrealized losses on investments in TPS is attributable to temporary illiquidity and the uncertainty affecting these markets, as well as changes in interest rates.

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*Other-Than-Temporary Impairment*

The Corporation evaluates its investment securities portfolio for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is assessed at the individual security level. The Corporation considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis.

When impairment of an equity security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded as a loss within non-interest income in the consolidated statement of comprehensive income. When impairment of a debt security is considered to be other-than-temporary, the amount of the OTTI recorded as a loss within non-interest income and thereby recognized in earnings depends on whether the Corporation intends to sell the security or whether it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis.

If the Corporation intends to sell the debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value.

If the Corporation does not intend to sell the debt security and it is not more likely than not the Corporation will be required to sell the security before recovery of its amortized cost basis, OTTI shall be separated into the amount representing credit loss and the amount related to all other market factors. The amount related to credit loss shall be recognized in earnings. The amount related to other market factors shall be recognized in other comprehensive income, net of applicable taxes.

The Corporation performs its OTTI evaluation process in a consistent and systematic manner and includes an evaluation of all available evidence. Documentation of the process is as extensive as necessary to support a conclusion as to whether a decline in fair value below cost or amortized cost is temporary or other-than-temporary and includes documentation supporting both observable and unobservable inputs and a rationale for conclusions reached. In making these determinations for pooled TPS, the Corporation consults with third-party advisory firms to provide additional valuation assistance.

This process considers factors such as the severity, length of time and anticipated recovery period of the impairment, recoveries or additional declines in fair value subsequent to the balance sheet date, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions in its industry, and the issuer's financial condition, repayment capacity, capital strength and near-term prospects.

For debt securities, the Corporation also considers the payment structure of the debt security, the likelihood of the issuer being able to make future payments, failure of the issuer of the security to make scheduled interest and principal payments, whether the Corporation has made a decision to sell the security and whether the Corporation's cash or working capital requirements or contractual or regulatory obligations indicate that the debt security will be required to be sold before a forecasted recovery occurs. For equity securities, the Corporation also considers its intent and ability to retain the security for a period of time sufficient to allow for a recovery in fair value. Among the factors that the Corporation considers in determining its intent and ability to retain the security is a review of its capital adequacy, interest rate risk position and liquidity. The assessment of a security's ability to recover any decline in fair value, the ability of the issuer to meet contractual obligations, the Corporation's intent and ability to retain the security, and whether it is more likely than not the Corporation will be required to sell the security before recovery of its amortized cost basis require considerable judgment.

Debt securities with credit ratings below AA at the time of purchase that are repayment-sensitive securities are evaluated using the guidance of ASC 325, *Investments - Other*. All other securities are required to be evaluated under ASC 320, *Investments - Debt Securities*.

The Corporation invested in TPS issued by special purpose vehicles (SPVs) which hold pools of collateral consisting of trust preferred and subordinated debt securities issued by banks, bank holding companies, thrifts and insurance companies. The securities issued by the SPVs are generally segregated into several classes known as tranches. Typically, the structure includes senior, mezzanine and equity tranches. The equity tranche represents the first loss position. The Corporation generally holds interests in mezzanine tranches. Interest and principal collected from the collateral held by the SPVs are distributed with a priority that provides the highest level of protection to the senior-most

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tranches. In order to provide a high level of protection to the senior tranches, cash flows are diverted to higher-level tranches if the principal and interest coverage tests are not met.

The Corporation prices its holdings of TPS using Level 3 inputs in accordance with ASC 820, *Fair Value Measurements and Disclosures*, and guidance issued by the SEC. In this regard, the Corporation evaluates current available information in estimating the future cash flows of these securities and determines whether there have been favorable or adverse changes in estimated cash flows from the cash flows previously projected. The Corporation considers the structure and term of the pool and the financial condition of the underlying issuers. Specifically, the evaluation incorporates factors such as over-collateralization and interest coverage tests, interest rates and appropriate risk premiums, the timing and amount of interest and principal payments and the allocation of payments to the various tranches. Current estimates of cash flows are based on the most recent trustee reports, announcements of deferrals or defaults, and assumptions regarding expected future default rates, prepayment and recovery rates and other relevant information. In constructing these assumptions, the Corporation considers the following:

that current defaults would have no recovery;

that some individually analyzed deferrals will cure at rates varying from 10% to 90% after the deferral period ends;

recent historical performance metrics, including profitability, capital ratios, loan charge-offs and loan reserve ratios, for the underlying institutions that would indicate a higher probability of default by the institution;

that institutions identified as possessing a higher probability of default would recover at a rate of 10% for banks and 15% for insurance companies;

that financial performance of the financial sector continues to be affected by the economic environment resulting in an expectation of additional deferrals and defaults in the future;

whether the security is currently deferring interest; and

the external rating of the security and recent changes to its external rating.

The primary evidence utilized by the Corporation is the level of current deferrals and defaults, the level of excess subordination that allows for receipt of full principal and interest, the credit rating for each security and the likelihood that future deferrals and defaults will occur at a level that will fully erode the excess subordination based on an assessment of the underlying collateral. The Corporation combines the results of these factors considered in estimating the future cash flows of these securities to determine whether there has been an adverse change in estimated cash flows from the cash flows previously projected.

The Corporation's portfolio of TPS consists of 26 pooled issues and six single-issuer securities. One of the pooled issues is a senior tranche; the remaining 25 are mezzanine tranches. At June 30, 2012, the 26 pooled TPS had an estimated fair value of \$21,144 while the single-issuer TPS had an estimated fair value of \$7,899. The Corporation has concluded from the analysis performed at June 30, 2012 that it is probable that the Corporation will collect all contractual principal and interest payments on all of its single-issuer and pooled TPS sufficient to recover the amortized cost basis of the securities.

The Corporation did not recognize any impairment losses on securities for the six months ended June 30, 2012 and 2011.

At June 30, 2012, all six single-issuer TPS are current in regards to their principal and interest payments. Of the 26 pooled TPS, four are accruing interest based on the coupon rate, fourteen are accreting income based on future expected cash flows and the remaining eight are on nonaccrual status. Income of \$1,544 was recognized on pooled TPS for the first six months of 2012. Included in this amount was \$34 recognized on two pooled TPS which were sold in the second quarter of 2012.



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The following table presents a summary of the cumulative credit-related OTTI charges recognized as components of earnings for securities for which a portion of an OTTI is recognized in other comprehensive income:

|  | <b>Collateralized<br/>Debt<br/>Obligations</b> | <b>Residential<br/>Non-Agency<br/>CMOs</b> | <b>Total</b> |
|--|--|--|--------------|
| <b>For the Six Months Ended June 30, 2012</b>              |  |  |              |
| Beginning balance  | \$ (18,369)                                    | \$ (29)                                    | \$ (18,398)  |
| Loss where impairment was not previously recognized        |  |  |              |
| Additional loss where impairment was previously recognized |  |  |              |
| Reduction due to credit impaired securities sold           | 1,056  | 29   | 1,085        |
| Ending balance   | \$ (17,313)                                    | \$   | \$ (17,313)  |
| <b>For the Six Months Ended June 30, 2011</b>              |  |  |              |
| Beginning balance  | \$ (18,332)                                    | \$   | \$ (18,332)  |
| Loss where impairment was not previously recognized        |  |  |              |
| Additional loss where impairment was previously recognized |  |  |              |
| Reduction due to credit impaired securities sold           |  |  |              |
| Ending balance   | \$ (18,332)                                    | \$   | \$ (18,332)  |

TPS continue to experience price volatility as the secondary market for such securities remains limited. Write-downs, when required, are based on an individual security's credit performance and its ability to make its contractual principal and interest payments. Should credit quality deteriorate to a greater extent than projected, it is possible that additional write-downs may be required. The Corporation monitors actual deferrals and defaults as well as expected future deferrals and defaults to determine if there is a high probability for expected losses and contractual shortfalls of interest or principal, which could warrant further impairment. The Corporation evaluates its entire TPS portfolio each quarter to determine if additional write-downs are warranted.



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The following table provides information relating to the Corporation's TPS as of June 30, 2012:

| Deal Name               | Class | Current Par Value | Amortized Cost   | Fair Value       | Unrealized Loss    | Lowest Credit Ratings | Number of Issuers Currently Performing | Actual Defaults as a percent of original collateral | Actual Deferrals as a percent of original collateral | Projected Recovery Rates on Current Deferrals (1) | Expected Defaults (%) (2) | Excess Subordination (as a percent of current collateral) (3) |
|-------------------------|-------|-------------------|------------------|------------------|--------------------|-----------------------|--|---|--|---|---------------------------|---|
| <b>Pooled TPS:</b>      |       |                   |                  |                  |                    |                       |  |   |  |   |                           |   |
| P1                      | C1    | \$ 5,500          | \$ 2,355         | \$ 906           | \$ (1,449)         | C                     | 42                                     | 21  | 13   | 38  | 11                        | 0.00  |
| P2                      | C1    | 4,889             | 2,840            | 781              | (2,059)            | C                     | 43                                     | 17  | 15   | 37  | 17                        | 0.00  |
| P3                      | C1    | 5,561             | 4,218            | 1,060            | (3,158)            | C                     | 47                                     | 13  | 9  | 34  | 12                        | 0.00  |
| P4                      | C1    | 3,994             | 2,931            | 745              | (2,186)            | C                     | 51                                     | 15  | 9  | 39  | 13                        | 0.00  |
| P5                      | MEZ   | 474               | 296              | 214              | (82)               | C                     | 14                                     | 19  | 7  | 75  | 8                         | 0.00  |
| P6                      | B3    | 2,000             | 726              | 333              | (393)              | C                     | 19                                     | 29  | 13   | 48  | 10                        | 0.00  |
| P7                      | B1    | 3,028             | 2,386            | 652              | (1,734)            | C                     | 49                                     | 14  | 21   | 41  | 12                        | 0.00  |
| P8                      | C     | 5,048             | 756              | 238              | (518)              | C                     | 33                                     | 14  | 32   | 43  | 11                        | 0.00  |
| P9                      | C     | 507               | 461              | 60               | (401)              | C                     | 47                                     | 13  | 19   | 37  | 11                        | 0.00  |
| P10                     | C     | 2,010             | 788              | 84               | (704)              | C                     | 39                                     | 16  | 16   | 39  | 12                        | 0.00  |
| P11                     | A4L   | 2,000             | 645              | 169              | (476)              | C                     | 23                                     | 16  | 23   | 43  | 12                        | 0.00  |
| <b>Total OTTI</b>       |       | <b>35,011</b>     | <b>18,402</b>    | <b>5,242</b>     | <b>(13,160)</b>    |                       | <b>407</b>                             | <b>17</b>   | <b>16</b>  | <b>41</b>   | <b>12</b>                 |   |
| P12                     | SNR   | 760               | 808              | 700              | (108)              | BBB                   | 11                                     | 15  | 14   | 43  | 10                        | 77.27   |
| P13                     | C1    | 5,219             | 902              | 860              | (42)               | C                     | 42                                     | 21  | 13   | 38  | 11                        | 0.00  |
| P14                     | A2A   | 5,000             | 2,027            | 1,814            | (213)              | B                     | 43                                     | 17  | 15   | 37  | 17                        | 45.76   |
| P15                     | C1    | 4,781             | 1,104            | 912              | (192)              | C                     | 47                                     | 13  | 9  | 34  | 12                        | 0.00  |
| P16                     | C1    | 5,260             | 1,052            | 980              | (72)               | C                     | 51                                     | 15  | 9  | 39  | 13                        | 0.00  |
| P17                     | C1    | 5,190             | 870              | 706              | (164)              | C                     | 56                                     | 14  | 18   | 33  | 14                        | 0.00  |
| P18                     | C1    | 3,206             | 331              | 174              | (157)              | C                     | 42                                     | 19  | 12   | 22  | 13                        | 0.00  |
| P19                     | C     | 3,339             | 527              | 618              | 91                 | C                     | 35                                     | 15  | 16   | 24  | 14                        | 0.00  |
| P20                     | B     | 2,069             | 577              | 549              | (28)               | C                     | 34                                     | 12  | 25   | 33  | 16                        | 20.04   |
| P21                     | B2    | 5,000             | 2,158            | 2,176            | 18                 | CCC                   | 21                                     | 0   | 8  | 10  | 10                        | 41.76   |
| P22                     | B     | 4,019             | 906              | 832              | (74)               | C                     | 39                                     | 16  | 16   | 39  | 12                        | 10.42   |
| P23                     | A1    | 3,887             | 2,278            | 2,247            | (31)               | BB-                   | 50                                     | 21  | 7  | 40  | 12                        | 48.61   |
| P24                     | B     | 5,000             | 1,211            | 1,202            | (9)                | C                     | 17                                     | 18  | 6  | 7   | 11                        | 0.00  |
| P25                     | C1    | 5,531             | 1,162            | 1,014            | (148)              | C                     | 27                                     | 15  | 12   | 40  | 10                        | 0.00  |
| P26                     | C1    | 5,606             | 1,049            | 1,118            | 69                 | C                     | 26                                     | 16  | 13   | 48  | 11                        | 0.00  |
| <b>Total Not OTTI</b>   |       | <b>63,867</b>     | <b>16,962</b>    | <b>15,902</b>    | <b>(1,060)</b>     |                       | <b>541</b>                             | <b>16</b>   | <b>12</b>  | <b>33</b>   | <b>13</b>                 |   |
| <b>Total Pooled TPS</b> |       | <b>\$ 98,878</b>  | <b>\$ 35,364</b> | <b>\$ 21,144</b> | <b>\$ (14,220)</b> |                       | <b>948</b>                             | <b>16</b>   | <b>14</b>  | <b>37</b>   | <b>12</b>                 |   |

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| Deal Name                 | Class | Current Par Value | Amortized Cost | Fair Value | Unrealized Loss | Lowest Credit Rating | Number of Issuers Currently Performing | Actual Defaults (as a percent of original collateral) | Actual Deferrals (as a percent of original collateral) | Projected Recovery Rates on Current Deferrals (1) | Expected Defaults (%) (2) | Excess Subordination (as a percent of current collateral) (3) |
|---------------------------|-------|-------------------|----------------|------------|-----------------|----------------------|--|---|--|---|---------------------------|---|
| <b>Single Issuer TPS:</b> |       |                   |                |            |                 |                      |  |   |  |   |                           |   |
| S1                        |       | \$ 2,000          | \$ 1,951       | \$ 1,553   | \$ (398)        | BB                   | 1                                      |   |  |   |                           |   |
| S2                        |       | 2,000             | 1,917          | 1,427      | (490)           | BBB                  | 1                                      |   |  |   |                           |   |
| S3                        |       | 1,000             | 954            | 1,005      | 51              | BB-                  | 1                                      |   |  |   |                           |   |
| S4                        |       | 2,000             | 2,000          | 1,827      | (173)           | BB-                  | 1                                      |   |  |   |                           |   |
| S5                        |       | 1,000             | 999            | 785        | (214)           | BB                   | 1                                      |   |  |   |                           |   |
| S6                        |       | 1,300             | 1,323          | 1,302      | (21)            | BB                   | 1                                      |   |  |   |                           |   |
| Total Single Issuer TPS   |       | \$ 9,300          | \$ 9,144       | \$ 7,899   | \$ (1,245)      |                      | 6                                      |   |  |   |                           |   |
| Total TPS                 |       | \$ 108,178        | \$ 44,508      | \$ 29,043  | \$ (15,465)     |                      | 954                                    |   |  |   |                           |   |

- (1) Some current deferrals will cure at rates varying from 10% to 90% after five years.
- (2) Expected future defaults as a percent of remaining performing collateral.
- (3) Excess subordination represents the additional defaults in excess of both current and projected defaults that the CDO can absorb before the bond experiences any credit impairment.

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*States of the U.S. and Political Subdivisions*

The Corporation's municipal bond portfolio of \$182,005 as of June 30, 2012 is highly rated with an average entity specific rating of AA and 99.4% of the portfolio rated A or better. General obligation bonds comprise 99.5% of the portfolio. Geographically, the municipal bonds support the Corporation's footprint as 77.7% of the securities are from municipalities located throughout Pennsylvania. The average holding size of the securities in the municipal bond portfolio is \$1,000. In addition to the strong stand-alone ratings, over 75% of the municipalities have purchased credit enhancement insurance to strengthen the creditworthiness of their issue.

*Non-Agency CMOs*

The Corporation purchased \$161,151 of non-agency CMOs from 2003 through 2005. At the time of purchase, these securities were all rated AAA, with an original average loan-to-value (LTV) ratio of 66.1% and original credit score of 724. At origination, the credit support, or the amount of loss the collateral pool could absorb before the AAA securities would incur a credit loss, ranged from 2.0% to 7.0%. Since the time of these original purchases, all of which are classified as held to maturity, two holdings have been sold and one holding has paid off. The Corporation acquired and retained \$60 of non-agency CMOs from the acquisition of Omega Financial Corporation in 2008 and acquired \$42,810 and retained \$4,238 of non-agency CMOs from the Parkvale acquisition. These acquired and retained securities are classified as available for sale. Non-agency CMOs have a book value of \$21,081 at June 30, 2012. Paydowns during the first six months of 2012 amounted to \$5,090, an annualized paydown rate of 35.5%. The credit support range at June 30, 2012 was 3.0% to 20.6%, due to paydowns, continued good credit performance and the sale of one non-agency CMO having a book value of \$2,848 during the first quarter of 2012. National delinquencies, an early warning sign of potential default, have been increasing for the past five years. The slight upward trend of the rate of delinquencies throughout 2011 appears to have flattened off during the second quarter of 2012. All non-agency CMO holdings are current with regards to principal and interest.

The rating agencies monitor the underlying collateral performance of these non-agency CMOs for delinquencies, foreclosures and defaults. They also factor in trends in bankruptcies and housing values to ultimately arrive at an expected loss for a given piece of defaulted collateral. Since 2008, the collateral performance on many of these types of securities has deteriorated, resulting in downgrades by the rating agencies. For the Corporation's portfolio, six of the eleven non-agency CMOs have been downgraded since their original purchase date.

The Corporation determines its credit-related losses by running scenario analysis on the underlying collateral. This analysis applies default assumptions to delinquencies already in the pipeline, projects future defaults based in part on the historical trends for the collateral, applies a rate of severity and estimates prepayment rates. Because of the limited historical trends for the collateral, multiple default scenarios were analyzed including scenarios that significantly elevate defaults over the next 12-18 months. Based on the results of the analysis, the Corporation's management has concluded that there are currently no credit-related losses in its non-agency CMO portfolio. The one non-agency CMO that incurred a credit-related loss in 2011 was sold in March 2012 and resulted in a net loss on sale of \$226, which was recognized in first quarter 2012 earnings.

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The following table provides information relating to the Corporation's non-agency CMOs as of June 30, 2012:

| Security | Original Year | Book Value (1) | Credit Rating |       | Credit Support % |         | Delinquency % |        |        | Subordination Data |        |            |               | Original LTV % | Original Credit Score |
|----------|---------------|----------------|---------------|-------|------------------|---------|---------------|--------|--------|--------------------|--------|------------|---------------|----------------|-----------------------|
|          |               |                | S&P           | Moody | Original         | Current | 30 Day        | 60 Day | 90 Day | Foreclosure %      | OREO % | Bankrupt % | Delinquency % |                |                       |
| 1        | 2003          | \$ 2,100       | AAA           | n/a   | 2.5              | 6.4     | 1.3           | 0.7    | 1.0    | 0.5                | 0.0    | 1.7        | 5.2           | 51.1           | 736                   |
| 2        | 2003          | 1,616          | AAA           | n/a   | 4.3              | 17.2    | 3.3           | 0.9    | 3.2    | 4.2                | 0.7    | 1.7        | 14.0          | 55.1           | 709                   |
| 3        | 2003          | 957            | AAA           | n/a   | 2.0              | 7.3     | 1.6           | 0.5    | 0.6    | 3.3                | 0.3    | 0.5        | 6.7           | 46.8           | 740                   |
| 4        | 2003          | 974            | AAA           | n/a   | 2.7              | 19.9    | 0.0           | 1.1    | 0.0    | 2.9                | 0.4    | 2.0        | 6.4           | 48.3           | n/a                   |
| 5        | 2003          | 3,240          | AAA           | n/a   | 2.5              | 5.2     | 0.9           | 0.6    | 0.5    | 2.3                | 0.1    | 0.8        | 5.3           | 50.5           | 731                   |
| 6        | 2004          | 2,993          | AAA           | Ba3   | 7.0              | 20.6    | 2.4           | 0.5    | 3.0    | 10.8               | 0.2    | 1.4        | 18.2          | 54.9           | 690                   |
| 7        | 2004          | 1,978          | AA+           | n/a   | 5.3              | 10.4    | 0.0           | 0.6    | 3.1    | 5.0                | 0.0    | 1.2        | 10.0          | 45.6           | 732                   |
| 8        | 2004          | 928            | n/a           | A1    | 2.5              | 10.0    | 0.0           | 0.0    | 1.4    | 5.2                | 0.0    | 0.0        | 6.6           | 54.3           | 733                   |
| 9        | 2004          | 1,429          | AAA           | Baa2  | 4.4              | 9.5     | 1.2           | 0.6    | 1.0    | 2.8                | 0.3    | 1.5        | 7.4           | 54.2           | 733                   |
| 10       | 2005          | 4,839          | CCC           | Caa1  | 5.1              | 3.0     | 2.8           | 1.8    | 7.3    | 10.0               | 0.7    | 3.3        | 25.9          | 65.1           | 705                   |
|          |               | \$ 21,054      |               |       | 4.0              | 9.7     |               |        |        |                    |        |            | 54.6          | 718            |                       |

- (1) One acquired available for sale non-agency CMO with a June 30, 2012 book value of \$27 is not included in the above table. The bond rating at acquisition was AAA and is now Baa2. This non-agency CMO is current with regards to principal and interest.

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**FEDERAL HOME LOAN BANK STOCK**

The Corporation is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. The FHLB requires members to purchase and hold a specified minimum level of FHLB stock based upon their level of borrowings, collateral balances and participation in other programs offered by the FHLB. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Both cash and stock dividends on FHLB stock are reported as income.

Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the low-cost products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value.

At June 30, 2012 and December 31, 2011, the Corporation's FHLB stock totaled \$31,250 and \$23,516, respectively, and is included in other assets on the balance sheet. The increase is a result of the Parkvale acquisition. The Corporation accounts for the stock in accordance with ASC 325, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

The Corporation periodically evaluates its FHLB investment for possible impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The Federal Housing Finance Agency, the regulator of the FHLB, requires it to maintain a total capital-to-assets ratio of at least 4.0%. At March 31, 2012, the FHLB's capital ratio of 7.0% exceeded the regulatory requirement. Failure by the FHLB to meet this regulatory capital requirement would require an in-depth analysis of other factors including:

the member's ability to access liquidity from the FHLB;

the member's funding cost advantage with the FHLB compared to alternative sources of funds;

a decline in the market value of FHLB's net assets relative to book value which may or may not affect future financial performance or cash flow;

the FHLB's ability to obtain credit and source liquidity, for which one indicator is the credit rating of the FHLB;

the FHLB's commitment to make payments taking into account its ability to meet statutory and regulatory payment obligations and the level of such payments in relation to the FHLB's operating performance; and

the prospects of amendments to laws that affect the rights and obligations of the FHLB.

At June 30, 2012, the Corporation believes its holdings in the stock are ultimately recoverable at par value and, therefore, determined that FHLB stock was not other-than-temporarily impaired. In addition, the Corporation has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

**LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

| June 30,<br>2012 | December 31,<br>2011 |
|------------------|----------------------|
|------------------|----------------------|

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|  |                     |                     |
|--|---------------------|---------------------|
| Commercial real estate                   | \$ 2,532,116        | \$ 2,341,646        |
| Commercial real estate FL                | 84,642              | 154,081             |
| Commercial and industrial                | 1,493,378           | 1,363,692           |
| Commercial leases                        | 125,293             | 110,795             |
| <b>Total commercial loans and leases</b> | <b>4,235,429</b>    | <b>3,970,214</b>    |
| Direct installment                       | 1,109,676           | 1,029,187           |
| Residential mortgages                    | 1,158,377           | 670,936             |
| Indirect installment                     | 577,903             | 540,789             |
| Consumer lines of credit                 | 741,509             | 607,280             |
| Other                                    | 37,962              | 38,261              |
|  | <b>\$ 7,860,856</b> | <b>\$ 6,856,667</b> |

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Commercial loans include both owner occupied and non-owner occupied loans secured by commercial properties, as well as commercial and industrial loans. Commercial leases consist of loans for new or used equipment. Direct installment is comprised of fixed-rate, closed-end consumer loans for personal, family or household use, such as home equity loans and automobile loans. Residential mortgages consist of conventional and jumbo mortgage loans for non-commercial properties. Indirect installment is comprised of loans written by third parties, primarily automobile loans. Consumer lines of credit include home equity lines of credit (HELOC) and consumer lines of credit that are either unsecured or secured by collateral other than home equity. Other is comprised primarily of mezzanine loans and student loans.

The loan portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation's primary market area of Pennsylvania and northeastern Ohio. The portfolio also includes commercial real estate loans in Florida, of which 33% were land-related as of June 30, 2012. Additionally, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky, which totaled \$162,678 or 2.1% of total loans as of June 30, 2012, compared to \$163,856 or 2.4% of total loans as of December 31, 2011. Due to the relative size of the consumer finance loan portfolio and the lower risk profile relative to the Florida loans, they are not segregated from other consumer loans.

As of June 30, 2012, approximately 46% of the commercial real estate loans, including those in Florida, were owner-occupied, while the remaining 54% were non-owner-occupied. As of June 30, 2012 and December 31, 2011, the Corporation had commercial construction loans of \$177,027 and \$210,098, respectively, representing 2.3% and 3.1% of total loans, respectively.

For each reporting period, total cash flows (both principal and interest) expected to be collected over the remaining life of the loan incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments, the value of underlying collateral based on independent appraisals that the Corporation reviews for acceptability and considering the time and costs of foreclosure and disposition of the collateral and other factors that reflect then-current market conditions. The Corporation modifies, updates and refines assumptions as circumstances change. Contractual cash flows at each reporting period are determined utilizing the amortized cost method of loan accounting after recognition of contractual interest.

*Purchased Credit-Impaired (PCI) Loans*

The Corporation has acquired loans for which there was evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected.

Following are provisional amounts recognized for PCI loans identified in the Corporation's acquisition of Parkvale:

|   | <b>At<br/>Acquisition</b> |
|---|---------------------------|
| Contractually required principal and interest at acquisition                    | \$ 8,989                  |
| Contractual cash flows not expected to be collected (non-accretable difference) | 2,835                     |
| Expected cash flows at acquisition  | 6,154                     |
| Interest component of expected cash flows (accretable difference)               | 589                       |
| Fair value at acquisition   | \$ 5,565                  |

Following is additional information about PCI loans identified in the Corporation's acquisition of Parkvale:

|   | <b>At<br/>Acquisition</b> | <b>June 30,<br/>2012</b> |
|---|---------------------------|--------------------------|
| Outstanding balance                     | \$ 8,989                  | \$ 9,184                 |
| Carrying amount                         | 5,565                     | 5,470                    |
| Allowance for loan losses               | n/a                       |                          |
| Impairment recognized since acquisition | n/a                       |                          |

Allowance reduction recognized since acquisition

n/a



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Following is information about the Corporation's PCI loans:

|   | <b>Contractual<br/>Receivable</b> | <b>Non-Accrutable<br/>Difference</b> | <b>Expected<br/>Cash Flows</b> | <b>Accrutable<br/>Yield</b> | <b>Carrying<br/>Amount</b> |
|---|-----------------------------------|--------------------------------------|--------------------------------|-----------------------------|----------------------------|
| <b>For the Six Months Ended June 30, 2012</b> |                                   |                                      |                                |                             |                            |
| Balance at beginning of period                | \$ 51,693                         | \$ (33,377)                          | \$ 18,316                      | \$ (2,477)                  | \$ 15,839                  |
| Acquisitions                                  | 8,989                             | (2,835)                              | 6,154                          | (589)                       | 5,565                      |
| Accretion                                     |                                   |                                      |                                | 2,704                       | 2,704                      |
| Payments received                             | (2,745)                           |                                      | (2,745)                        |                             | (2,745)                    |
| Reclass from non-accrutable difference        |                                   | 1,017                                | 1,017                          | (1,017)                     |                            |
| Disposals/transfers                           | (1,045)                           | 842                                  | (203)                          |                             | (203)                      |
| Contractual interest                          | 1,330                             | (1,330)                              |                                |                             |                            |
| Balance at end of period                      | \$ 58,222                         | \$ (35,683)                          | \$ 22,539                      | \$ (1,379)                  | \$ 21,160                  |
| <b>For the Year Ended December 31, 2011</b>   |                                   |                                      |                                |                             |                            |
| Balance at beginning of period                | \$ 20,356                         | \$ (15,589)                          | \$ 4,767                       | \$ (791)                    | \$ 3,976                   |
| Acquisitions                                  | 38,890                            | (19,401)                             | 19,489                         | (2,025)                     | 17,464                     |
| Accretion                                     |                                   |                                      |                                | 903                         | 194                        |
| Payments received                             | (4,784)                           |                                      | (4,784)                        |                             | (4,075)                    |
| Reclass from non-accrutable difference        |                                   | 709                                  | 709                            | (709)                       |                            |
| Disposals/transfers                           | (6,128)                           | 4,263                                | (1,865)                        | 145                         | (1,720)                    |
| Contractual interest                          | 3,359                             | (3,359)                              |                                |                             |                            |
| Balance at end of period                      | \$ 51,693                         | \$ (33,377)                          | \$ 18,316                      | \$ (2,477)                  | \$ 15,839                  |

The accretion in the table above includes \$1,017 in 2012 and \$709 in 2011 that primarily represents payoffs received on certain loans in excess of expected cash flows. This accretion was recorded as interest income in the Consolidated Statements of Comprehensive Income.

*Credit Quality*

Management monitors the credit quality of the Corporation's loan portfolio on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan.

Non-performing loans include non-accrual loans and non-performing troubled debt restructurings (TDRs). Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The Corporation places a loan on non-accrual status and discontinues interest accruals generally when principal or interest is due and has remained unpaid for 90 to 180 days depending on the loan type. When a loan is placed on non-accrual status, all unpaid interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate collectability of 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. Non-performing assets also include debt securities on which OTTI has been taken in the current or prior periods that have not been returned to accrual status.

Following is a summary of non-performing assets:

|                                   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|-----------------------------------|--------------------------|------------------------------|
| Non-accrual loans                 | \$ 84,322                | \$ 94,335                    |
| Troubled debt restructurings      | 11,842                   | 11,893                       |
| <b>Total non-performing loans</b> | <b>96,164</b>            | <b>106,228</b>               |
| Other real estate owned (OREO)    | 35,647                   | 34,719                       |

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|                                     |            |            |
|-------------------------------------|------------|------------|
| Total non-performing loans and OREO | 131,811    | 140,947    |
| Non-performing investments          | 2,811      | 8,972      |
| Total non-performing assets         | \$ 134,622 | \$ 149,919 |

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|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Asset quality ratios:  |                  |                      |
| Non-performing loans as a percent of total loans               | 1.22%            | 1.55%                |
| Non-performing loans + OREO as a percent of total loans + OREO | 1.67%            | 2.05%                |
| Non-performing assets as a percent of total assets             | 1.15%            | 1.53%                |

Following is an age analysis of the Corporation's past due loans, by class:

|  | 30-89 Days<br>Past Due | >90 Days<br>Past Due<br>and<br>Still Accruing | Non-Accrual      | Total<br>Past Due | Current             | Total<br>Loans      |
|--|------------------------|---|------------------|-------------------|---------------------|---------------------|
| <b>June 30, 2012</b>                     |                        |   |                  |                   |                     |                     |
| Commercial real estate                   | \$ 14,814              | \$ 13,746                                     | \$ 39,192        | \$ 67,752         | \$ 2,464,364        | \$ 2,532,116        |
| Commercial real estate - FL              |                        |   | 23,668           | 23,668            | 60,974              | 84,642              |
| Commercial and industrial                | 2,579                  | 960   | 9,515            | 13,054            | 1,480,324           | 1,493,378           |
| Commercial leases                        | 939                    | 43  | 1,262            | 2,244             | 123,049             | 125,293             |
| <b>Total commercial loans and leases</b> | <b>18,332</b>          | <b>14,749</b>                                 | <b>73,637</b>    | <b>106,718</b>    | <b>4,128,711</b>    | <b>4,235,429</b>    |
| Direct installment                       | 8,804                  | 3,175   | 3,057            | 15,036            | 1,094,640           | 1,109,676           |
| Residential mortgages                    | 19,104                 | 23,004  | 2,722            | 44,830            | 1,113,547           | 1,158,377           |
| Indirect installment                     | 4,063                  | 451   | 1,027            | 5,541             | 572,362             | 577,903             |
| Consumer lines of credit                 | 1,663                  | 624   | 379              | 2,666             | 738,843             | 741,509             |
| Other                                    | 19                     | 13  | 3,500            | 3,532             | 34,430              | 37,962              |
|  | <b>\$ 51,985</b>       | <b>\$ 42,016</b>                              | <b>\$ 84,322</b> | <b>\$ 178,323</b> | <b>\$ 7,682,533</b> | <b>\$ 7,860,856</b> |
| <b>December 31, 2011</b>                 |                        |   |                  |                   |                     |                     |
| Commercial real estate                   | \$ 13,868              | \$ 9,612                                      | \$ 37,134        | \$ 60,614         | \$ 2,281,032        | \$ 2,341,646        |
| Commercial real estate - FL              |                        |   | 39,122           | 39,122            | 114,959             | 154,081             |
| Commercial and industrial                | 2,164                  | 690   | 6,956            | 9,810             | 1,353,882           | 1,363,692           |
| Commercial leases                        | 1,102                  | 5   | 1,084            | 2,191             | 108,604             | 110,795             |
| <b>Total commercial loans and leases</b> | <b>17,134</b>          | <b>10,307</b>                                 | <b>84,296</b>    | <b>111,737</b>    | <b>3,858,477</b>    | <b>3,970,214</b>    |
| Direct installment                       | 8,228                  | 3,614   | 2,525            | 14,367            | 1,014,820           | 1,029,187           |
| Residential mortgages                    | 14,492                 | 3,342   | 2,443            | 20,277            | 650,659             | 670,936             |
| Indirect installment                     | 5,031                  | 282   | 918              | 6,231             | 534,558             | 540,789             |
| Consumer lines of credit                 | 1,253                  | 586   | 653              | 2,492             | 604,788             | 607,280             |
| Other                                    | 36                     |   | 3,500            | 3,536             | 34,725              | 38,261              |
|  | <b>\$ 46,174</b>       | <b>\$ 18,131</b>                              | <b>\$ 94,335</b> | <b>\$ 158,640</b> | <b>\$ 6,698,027</b> | <b>\$ 6,856,667</b> |

The Corporation utilizes the following categories to monitor credit quality within its commercial loan portfolio:

| 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 although the loan performs as agreed  |
| 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        |  |

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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

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The use of these internally assigned credit quality categories within the commercial loan portfolio permits management's use of migration and roll rate analysis to estimate a quantitative portion of credit risk. The Corporation's internal credit risk grading system is based on past experiences with similarly graded loans and conforms with regulatory categories. In general, loan risk ratings within each category are reviewed on an ongoing basis according to the Corporation's policy for each class of loans. 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 portfolio. Loans that migrate toward the Pass credit category or within the Pass credit category generally have a lower risk of loss and; therefore, a lower risk factor compared to loans that migrate toward the Substandard or Doubtful credit categories, which generally have a higher risk of loss and; therefore, a higher risk factor is applied to those related loan balances.

Following is a table showing commercial loans by credit quality category:

|                           | Commercial Loan Credit Quality Categories |                    |             |           | Total        |
|---------------------------|---|--------------------|-------------|-----------|--------------|
|                           | Pass                                      | Special<br>Mention | Substandard | Doubtful  |              |
| <b>June 30, 2012</b>      |   |                    |             |           |              |
| Commercial real estate    | \$ 2,317,580                              | \$ 63,685          | \$ 143,750  | \$ 7,101  | \$ 2,532,116 |
| Commercial real estate FL | 44,065                                    | 12,811             | 25,377      | 2,389     | 84,642       |
| Commercial and industrial | 1,422,591                                 | 23,495             | 43,746      | 3,546     | 1,493,378    |
| Commercial leases         | 123,237                                   | 302                | 1,754       |           | 125,293      |
|                           | \$ 3,907,473                              | \$ 100,293         | \$ 214,627  | \$ 13,036 | \$ 4,235,429 |
| <b>December 31, 2011</b>  |   |                    |             |           |              |
| Commercial real estate    | \$ 2,127,334                              | \$ 73,701          | \$ 139,578  | \$ 1,033  | \$ 2,341,646 |
| Commercial real estate FL | 70,802                                    | 16,002             | 67,277      |           | 154,081      |
| Commercial and industrial | 1,275,230                                 | 49,282             | 38,171      | 1,009     | 1,363,692    |
| Commercial leases         | 105,631                                   | 3,362              | 1,802       |           | 110,795      |
|                           | \$ 3,578,997                              | \$ 142,347         | \$ 246,828  | \$ 2,042  | \$ 3,970,214 |

The Corporation uses payment status and delinquency migration analysis within the consumer and other loan classes to enable management to estimate a quantitative portion of credit risk. Each month, management analyzes payment and volume activity, as well as other external statistics and factors such as unemployment, to determine how consumer loans are performing.

Following is a table showing consumer and other loans by payment status:

|                          | Consumer and Other Loan Credit Quality<br>by Payment Status |                    |              |
|--------------------------|---|--------------------|--------------|
|                          | Performing  | Non-<br>Performing | Total        |
| <b>June 30, 2012</b>     |   |                    |              |
| Direct installment       | \$ 1,102,467  | \$ 7,209           | \$ 1,109,676 |
| Residential mortgages    | 1,148,257   | 10,120             | 1,158,377    |
| Indirect installment     | 576,767   | 1,136              | 577,903      |
| Consumer lines of credit | 741,078   | 431                | 741,509      |
| Other                    | 34,462  | 3,500              | 37,962       |
| <b>December 31, 2011</b> |   |                    |              |
| Direct installment       | \$ 1,022,025  | \$ 7,162           | \$ 1,029,187 |
| Residential mortgages    | 661,392   | 9,544              | 670,936      |
| Indirect installment     | 539,810   | 979                | 540,789      |
| Consumer lines of credit | 606,533   | 747                | 607,280      |

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Other

34,761

3,500

38,261

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, the Corporation does not consider loans for impairment unless a sustained period of delinquency (i.e., 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e., negative financial trends, bankruptcy filings, imminent foreclosure proceedings, etc.). Impairment is evaluated in the aggregate for consumer installment

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loans, residential mortgages, consumer lines of credit, commercial leases and commercial loan relationships less than \$500. For loan relationships greater than or equal to \$500, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using a market interest rate or at the fair value of collateral if repayment is expected solely from the collateral. Consistent with the Corporation's existing method of income recognition for loans, interest on impaired loans, except those classified as non-accrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Following is a summary of information pertaining to loans considered to be impaired, by class of loans:

|   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Specific<br>Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|---|------------------------|--------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>At or For the Six Months Ended June 30, 2012</b> |                        |                                |                                  |                                   |                                  |
| <b><u>With no specific allowance recorded:</u></b>  |                        |                                |                                  |                                   |                                  |
| Commercial real estate                              | \$ 30,448              | \$ 37,579                      | \$                               | \$ 32,059                         | \$ 101                           |
| Commercial real estate FL                           | 13,267                 | 29,538                         |                                  | 13,762                            |                                  |
| Commercial and industrial                           | 6,404                  | 9,739                          |                                  | 7,054                             | 22                               |
| Commercial leases                                   | 1,262                  | 1,262                          |                                  | 1,219                             |                                  |
| <b>Total commercial loans and leases</b>            | <b>51,381</b>          | <b>78,118</b>                  |                                  | <b>54,094</b>                     | <b>123</b>                       |
| Direct installment                                  | 7,209                  | 7,435                          |                                  | 7,110                             | 69                               |
| Residential mortgages                               | 10,113                 | 10,648                         |                                  | 9,832                             | 106                              |
| Indirect installment                                | 1,136                  | 1,319                          |                                  | 1,091                             | 4                                |
| Consumer lines of credit                            | 431                    | 456                            |                                  | 583                               |                                  |
| Other   | 3,500                  | 3,500                          |                                  | 3,500                             |                                  |
| Purchased credit-impaired loans                     | 21,160                 | 36,377                         |                                  | 18,588                            |                                  |
| <b><u>With a specific allowance recorded:</u></b>   |                        |                                |                                  |                                   |                                  |
| Commercial real estate                              | 7,938                  | 7,938                          | 2,768                            | 6,176                             | 109                              |
| Commercial real estate FL                           | 10,403                 | 18,197                         | 2,391                            | 17,584                            |                                  |
| Commercial and industrial                           | 3,226                  | 3,226                          | 2,539                            | 1,942                             | 7                                |
| Commercial leases                                   |                        |                                |                                  |                                   |                                  |
| <b>Total commercial loans and leases</b>            | <b>21,567</b>          | <b>29,361</b>                  | <b>7,698</b>                     | <b>25,702</b>                     | <b>116</b>                       |
| Direct installment                                  |                        |                                |                                  |                                   |                                  |
| Residential mortgages                               |                        |                                |                                  |                                   |                                  |
| Indirect installment                                |                        |                                |                                  |                                   |                                  |
| Consumer lines of credit                            |                        |                                |                                  |                                   |                                  |
| Other   |                        |                                |                                  |                                   |                                  |
| Purchased credit-impaired loans                     |                        |                                |                                  |                                   |                                  |
| <b><u>Total:</u></b>                                |                        |                                |                                  |                                   |                                  |
| Commercial real estate                              | 38,386                 | 45,517                         | 2,768                            | 38,235                            | 210                              |
| Commercial real estate FL                           | 23,670                 | 47,735                         | 2,391                            | 31,346                            |                                  |
| Commercial and industrial                           | 9,630                  | 12,965                         | 2,539                            | 8,996                             | 29                               |
| Commercial leases                                   | 1,262                  | 1,262                          |                                  | 1,219                             |                                  |
| <b>Total commercial loans and leases</b>            | <b>72,948</b>          | <b>107,479</b>                 | <b>7,698</b>                     | <b>79,796</b>                     | <b>239</b>                       |
| Direct installment                                  | 7,209                  | 7,435                          |                                  | 7,110                             | 69                               |
| Residential mortgages                               | 10,113                 | 10,648                         |                                  | 9,832                             | 106                              |
| Indirect installment                                | 1,136                  | 1,319                          |                                  | 1,091                             | 4                                |
| Consumer lines of credit                            | 431                    | 456                            |                                  | 583                               |                                  |
| Other   | 3,500                  | 3,500                          |                                  | 3,500                             |                                  |
| Purchased credit-impaired loans                     | 21,160                 | 36,377                         |                                  | 18,588                            |                                  |





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|  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Specific<br>Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--|------------------------|--------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <b>At or For the Year Ended December 31, 2011</b>  |                        |                                |                                  |                                   |                                  |
| <b><u>With no specific allowance recorded:</u></b> |                        |                                |                                  |                                   |                                  |
| Commercial real estate                             | \$ 28,163              | \$ 32,476                      | \$                               | \$ 31,432                         | \$ 151                           |
| Commercial real estate FL                          | 28,721                 | 46,162                         |                                  | 29,630                            | 33                               |
| Commercial and industrial                          | 4,228                  | 4,971                          |                                  | 4,610                             | 17                               |
| Commercial leases                                  | 1,084                  | 1,084                          |                                  | 1,217                             |                                  |
| <b>Total commercial loans and leases</b>           | <b>62,196</b>          | <b>84,693</b>                  |                                  | <b>66,889</b>                     | <b>201</b>                       |
| Direct installment                                 | 7,162                  | 7,522                          |                                  | 7,530                             | 207                              |
| Residential mortgages                              | 9,544                  | 9,839                          |                                  | 10,278                            | 175                              |
| Indirect installment                               | 979                    | 1,071                          |                                  | 973                               | 24                               |
| Consumer lines of credit                           | 747                    | 761                            |                                  | 947                               | 8                                |
| Other  | 3,500                  | 3,500                          |                                  | 1,750                             |                                  |
| Purchased credit-impaired loans                    | 15,839                 | 18,743                         |                                  | 15,326                            |                                  |
| <b><u>With a specific allowance recorded:</u></b>  |                        |                                |                                  |                                   |                                  |
| Commercial real estate                             | 8,403                  | 8,423                          | 2,482                            | 8,875                             | 32                               |
| Commercial real estate FL                          | 10,401                 | 18,195                         | 2,389                            | 16,559                            | 21                               |
| Commercial and industrial                          | 3,588                  | 3,750                          | 2,276                            | 3,603                             | 20                               |
| Commercial leases                                  |                        |                                |                                  |                                   |                                  |
| <b>Total commercial loans and leases</b>           | <b>22,392</b>          | <b>30,368</b>                  | <b>7,147</b>                     | <b>29,037</b>                     | <b>73</b>                        |
| Direct installment                                 |                        |                                |                                  |                                   |                                  |
| Residential mortgages                              |                        |                                |                                  |                                   |                                  |
| Indirect installment                               |                        |                                |                                  |                                   |                                  |
| Consumer lines of credit                           |                        |                                |                                  |                                   |                                  |
| Other  |                        |                                |                                  |                                   |                                  |
| Purchased credit-impaired loans                    |                        |                                |                                  |                                   |                                  |
| <b><u>Total:</u></b>                               |                        |                                |                                  |                                   |                                  |
| Commercial real estate                             | 36,566                 | 40,899                         | 2,482                            | 40,307                            | 183                              |
| Commercial real estate FL                          | 39,122                 | 64,357                         | 2,389                            | 46,189                            | 54                               |
| Commercial and industrial                          | 7,816                  | 8,721                          | 2,276                            | 8,213                             | 37                               |
| Commercial leases                                  | 1,084                  | 1,084                          |                                  | 1,217                             |                                  |
| <b>Total commercial loans and leases</b>           | <b>84,588</b>          | <b>115,061</b>                 | <b>7,147</b>                     | <b>95,926</b>                     | <b>274</b>                       |
| Direct installment                                 | 7,162                  | 7,522                          |                                  | 7,530                             | 207                              |
| Residential mortgages                              | 9,544                  | 9,839                          |                                  | 10,278                            | 175                              |
| Indirect installment                               | 979                    | 1,071                          |                                  | 973                               | 24                               |
| Consumer lines of credit                           | 747                    | 761                            |                                  | 947                               | 8                                |
| Other  | 3,500                  | 3,500                          |                                  | 1,750                             |                                  |
| Purchased credit-impaired loans                    | 15,839                 | 18,743                         |                                  | 15,326                            |                                  |
| <i>Troubled Debt Restructurings</i>                |                        |                                |                                  |                                   |                                  |

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.

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Following is a summary of the composition of total TDRs:

|                | June 30,<br>2012 | December 31,<br>2011 |
|----------------|------------------|----------------------|
| Accruing:      |                  |                      |
| Performing     | \$ 11,234        | \$ 10,130            |
| Non-performing | 11,842           | 11,893               |
| Non-accrual    | 11,126           | 10,827               |
|                | \$ 34,202        | \$ 32,850            |

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which the Corporation can reasonably estimate the timing and amount of the expected cash flows on such loans and for which the Corporation expects to fully collect the new carrying value of the loans. During the first six months of 2012, the Corporation returned to performing status \$1,608 in restructured loans, all of which were secured by residential mortgages that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of loans that have not demonstrated a consistent repayment pattern for more than six months. TDRs that are on non-accrual are comprised of loans that have been 90 days or more past due at some point in time. These loans 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 as evidenced by a period of satisfactory performance of greater than six months. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses which are factored into the allowance for loan losses estimate.

Excluding purchased impaired loans, commercial loans over \$500 whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured for estimated impairment based on the fair value of the underlying collateral. The Corporation's allowance for loan losses included specific reserves for commercial TDRs of \$5 and \$41 at June 30, 2012 and December 31, 2011, respectively and pooled reserves for individual loans under \$500 of \$318 and \$0 for those same periods, based on historical loss experience. Upon default, the amount of the recorded investment in the TDR in excess of the fair value of the collateral less estimated selling costs is generally considered a confirmed loss and is charged-off against the allowance for loan losses.

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. The Corporation's allowance for loan losses included pooled reserves for these classes of loans of \$1,098 and \$847 at June 30, 2012 and December 31, 2011, respectively. Upon default of an individual loan, the Corporation's charge-off policy is followed accordingly for that class of loan.

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

|  | Three Months Ended<br>June 30, 2012 |   |  | Six Months Ended<br>June 30, 2012 |   |  |
|--|-------------------------------------|---|--|-----------------------------------|---|--|
|  | Number<br>of<br>Contracts           | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment | Number<br>of<br>Contracts         | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-<br>Modification<br>Outstanding<br>Recorded<br>Investment |
| Commercial real estate                   | 3                                   | \$ 760  | \$ 751   | 3                                 | \$ 760  | \$ 751   |
| Commercial real estate FL                |                                     |   |  |                                   |   |  |
| Commercial and industrial                | 2                                   | 80  | 78   | 3                                 | 203   | 124  |
| Commercial leases                        |                                     |   |  |                                   |   |  |
| <b>Total commercial loans and leases</b> | <b>5</b>                            | <b>840</b>  | <b>829</b>   | <b>6</b>                          | <b>963</b>  | <b>875</b>   |
| Direct installment                       | 86                                  | 320   | 300  | 180                               | 1,367   | 1,349  |
| Residential mortgages                    | 13                                  | 815   | 862  | 26                                | 1,194   | 1,276  |
| Indirect installment                     | 7                                   | 58  | 57   | 13                                | 67  | 66   |
| Consumer lines of credit                 |                                     |   |  | 2                                 | 3   | 3  |
| Other                                    |                                     |   |  |                                   |   |  |
|  | 111                                 | \$ 2,033  | \$ 2,048   | 227                               | \$ 3,594  | \$ 3,569   |

Following is a summary of TDRs, by class of loans, for which there was a payment default during the periods indicated. Default occurs when a loan is 90 days or more past due and is within 12 months of restructuring.

|  | Three Months Ended<br>June 30, 2012 (1) |                        | Six Months Ended<br>June 30, 2012 (1) |                        |
|--|---|------------------------|---------------------------------------|------------------------|
|  | Number of<br>Contracts                  | Recorded<br>Investment | Number of<br>Contracts                | Recorded<br>Investment |
| Commercial real estate                   |   | \$                     |                                       | \$                     |
| Commercial real estate FL                |   |                        |                                       |                        |
| Commercial and industrial                |   |                        |                                       |                        |
| Commercial leases                        |   |                        |                                       |                        |
| <b>Total commercial loans and leases</b> |   |                        |                                       |                        |
| Direct installment                       | 26                                      | 79                     | 29                                    | 83                     |
| Residential mortgages                    | 1                                       | 35                     | 2                                     | 182                    |
| Indirect installment                     | 2                                       | 1                      | 3                                     | 3                      |
| Consumer lines of credit                 | 1                                       | 1                      | 1                                     | 1                      |
| Other                                    |   |                        |                                       |                        |
|  | 30                                      | \$ 116                 | 35                                    | \$ 269                 |

(1) Excludes loans that were either charged-off or cured by period end. The recorded investment is as of June 30, 2012.  
*Allowance for Loan Losses*

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The allowance for loan losses is maintained at a level that, in management's judgment, is believed adequate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio at the balance sheet date. The allowance for loan losses is based on management's evaluation of potential loan losses in the loan portfolio, which includes an assessment of past experience, current economic conditions in specific industries and geographic areas, general economic conditions, known and inherent risks in the loan portfolio, the estimated value of underlying collateral and residuals and changes in the composition of the loan portfolio. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans

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based on historical loss experience and consideration of current environmental factors and economic trends, all of which are susceptible to significant change. Loan losses are charged off against the allowance when the loss actually occurs or when a determination is made that a loss is probable, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management's periodic evaluation of the factors previously mentioned as well as other pertinent factors. Evaluations are conducted at least quarterly and more often as deemed necessary.

Management estimates the allowance for loan losses pursuant to ASC 450, *Contingencies*, and ASC 310, *Receivables*. ASC 310 is applied to commercial loans that are individually evaluated for impairment. Under ASC 310, a loan is impaired when, based upon current information and events, it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest. Management performs individual assessments of impaired commercial loan relationships greater than or equal to \$500 to determine the existence of loss exposure and, where applicable, the extent of loss exposure based upon the present value of expected future cash flows available to pay the loan, or based upon the fair value of the collateral less estimated selling costs where a loan is collateral dependent. Commercial loans excluded from individual assessment, as well as smaller balance homogeneous loans, such as consumer installment, residential mortgages, consumer lines of credit and commercial leases, are evaluated for loss exposure under ASC 450 based upon historical loss rates for each of these categories of loans.

During the first quarter of 2012, the Corporation adjusted its methodology for calculating the allowance for loan losses to refine the supporting calculations. The minimum threshold for individual commercial relationships evaluated for impairment and specific valuation under ASC 310 is now \$500. The historical loss period for commercial loan loss rate analysis was adjusted to utilize a full 3-year period migration model. These changes along with related higher loss rates for commercial loans under \$500 resulted in a slight increase in the overall allowance for loan losses. The changes appropriately reflect inherent loss in the portfolio during this recovery stage of the current economic cycle. The 3-year period captures both a steep economic decline and a moderate recovery, which best reflects losses inherent in the portfolio.

Management also evaluates the impact of various qualitative factors which pose additional risks that may not adequately be addressed in the analyses described above. Historical loss rates for each loan category may be adjusted for levels of and trends in loan volumes, large exposures, charge-offs, recoveries, delinquency, non-performing and other impaired loans. In addition, management takes into consideration the impact of changes to lending policies; the experience and depth of lending management and staff; the results of internal loan reviews; concentrations of credit; mergers and acquisitions; weighted average risk ratings; competition, legal and regulatory risk; market uncertainty and collateral illiquidity; national and local economic trends; or any other common risk factor that might affect loss experience across one or more components of the portfolio. The assessment of relevant economic factors indicates that the Corporation's primary markets historically tend to lag the national economy, with local economies in the Corporation's primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends. Regional economic factors influencing management's estimate of reserves include uncertainty of the labor markets in the regions the Corporation serves and a contracting labor force due, in part, to productivity growth and industry consolidations. The determination of this component of the allowance is particularly dependent on the judgment of management.

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Following are summaries of changes in the allowance for loan losses by loan class for the periods indicated:

|   | Balance<br>at<br>Beginning<br>of Period | Charge-<br>Offs | Recoveries | Net<br>Charge-<br>Offs | Provision<br>for Loan<br>Losses | Balance<br>at<br>End of<br>Period |
|---|---|-----------------|------------|------------------------|---------------------------------|-----------------------------------|
| <b>Three Months Ended June 30, 2012</b> |   |                 |            |                        |                                 |                                   |
| Commercial real estate                  | \$ 31,442                               | \$ (1,083)      | \$ 100     | \$ (983)               | \$ (470)                        | \$ 29,989                         |
| Commercial real estate FL               | 12,955                                  | (812)           |            | (812)                  | (3,652)                         | 8,491                             |
| Commercial and industrial               | 26,874                                  | (2,260)         | 259        | (2,001)                | 5,906                           | 30,779                            |
| Commercial leases                       | 1,669                                   | (158)           | 33         | (125)                  | 130                             | 1,674                             |
| Total commercial loans and leases       | 72,940                                  | (4,313)         | 392        | (3,921)                | 1,914                           | 70,933                            |
| Direct installment                      | 13,750                                  | (1,799)         | 229        | (1,570)                | 2,356                           | 14,536                            |
| Residential mortgages                   | 4,499                                   | (494)           | 46         | (448)                  | 208                             | 4,259                             |
| Indirect installment                    | 5,385                                   | (715)           | 143        | (572)                  | 853                             | 5,666                             |
| Consumer lines of credit                | 5,361                                   | (455)           | 34         | (421)                  | 326                             | 5,266                             |
| Other                                   | 158                                     | (287)           |            | (287)                  | 1,116                           | 987                               |
| Purchased credit-impaired loans         |   | (254)           |            | (254)                  | 254                             |                                   |
|   | \$ 102,093                              | \$ (8,317)      | \$ 844     | \$ (7,473)             | \$ 7,027                        | \$ 101,647                        |
| <b>Three Months Ended June 30, 2011</b> |   |                 |            |                        |                                 |                                   |
| Commercial real estate                  | \$ 34,343                               | \$ (2,245)      | \$ 112     | \$ (2,133)             | \$ 2,005                        | \$ 34,215                         |
| Commercial real estate FL               | 17,937                                  | (133)           |            | (133)                  | 2,214                           | 20,018                            |
| Commercial and industrial               | 24,128                                  | (1,361)         | 77         | (1,284)                | 881                             | 23,725                            |
| Commercial leases                       | 1,254                                   | (120)           | 13         | (107)                  | 126                             | 1,273                             |
| Total commercial loans and leases       | 77,662                                  | (3,859)         | 202        | (3,657)                | 5,226                           | 79,231                            |
| Direct installment                      | 14,767                                  | (2,274)         | 205        | (2,069)                | 2,217                           | 14,915                            |
| Residential mortgages                   | 4,514                                   | (169)           | 23         | (146)                  | 112                             | 4,480                             |
| Indirect installment                    | 5,761                                   | (604)           | 156        | (448)                  | 392                             | 5,705                             |
| Consumer lines of credit                | 4,612                                   | (422)           | 44         | (378)                  | 562                             | 4,796                             |
| Other                                   | 296                                     | (242)           | 1          | (241)                  | 42                              | 97                                |
| Purchased credit-impaired loans         |   |                 |            |                        |                                 |                                   |
|   | \$ 107,612                              | \$ (7,570)      | \$ 631     | \$ (6,939)             | \$ 8,551                        | \$ 109,224                        |
| <b>Six Months Ended June 30, 2012</b>   |   |                 |            |                        |                                 |                                   |
| Commercial real estate                  | \$ 30,337                               | \$ (2,440)      | \$ 250     | \$ (2,190)             | \$ 1,842                        | \$ 29,989                         |
| Commercial real estate FL               | 12,946                                  | (812)           | 9          | (803)                  | (3,652)                         | 8,491                             |
| Commercial and industrial               | 25,476                                  | (3,340)         | 368        | (2,972)                | 8,275                           | 30,779                            |
| Commercial leases                       | 1,556                                   | (293)           | 99         | (194)                  | 312                             | 1,674                             |
| Total commercial loans and leases       | 70,315                                  | (6,885)         | 726        | (6,159)                | 6,777                           | 70,933                            |
| Direct installment                      | 14,814                                  | (3,923)         | 496        | (3,427)                | 3,149                           | 14,536                            |
| Residential mortgages                   | 4,437                                   | (641)           | 123        | (518)                  | 340                             | 4,259                             |
| Indirect installment                    | 5,503                                   | (1,440)         | 275        | (1,165)                | 1,328                           | 5,666                             |
| Consumer lines of credit                | 5,447                                   | (754)           | 109        | (645)                  | 464                             | 5,266                             |
| Other                                   | 146                                     | (446)           |            | (446)                  | 1,287                           | 987                               |
| Purchased credit-impaired loans         |   | (254)           |            | (254)                  | 254                             |                                   |
|   | \$ 100,662                              | \$ (14,343)     | \$ 1,729   | \$ (12,614)            | \$ 13,599                       | \$ 101,647                        |



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|                                       | Balance<br>at<br>Beginning<br>of Period | Charge-<br>Offs | Recoveries | Net<br>Charge-<br>Offs | Provision<br>for Loan<br>Losses | Balance<br>at<br>End of<br>Period |
|---------------------------------------|---|-----------------|------------|------------------------|---------------------------------|-----------------------------------|
| <b>Six Months Ended June 30, 2011</b> |   |                 |            |                        |                                 |                                   |
| Commercial real estate                | \$ 32,439                               | \$ (3,426)      | \$ 194     | \$ (3,232)             | \$ 5,008                        | \$ 34,215                         |
| Commercial real estate FL             | 17,485                                  | (1,280)         |            | (1,280)                | 3,813                           | 20,018                            |
| Commercial and industrial             | 24,682                                  | (2,322)         | 135        | (2,187)                | 1,230                           | 23,725                            |
| Commercial leases                     | 1,070                                   | (205)           | 30         | (175)                  | 378                             | 1,273                             |
| Total commercial loans and leases     | 75,676                                  | (7,233)         | 359        | (6,874)                | 10,429                          | 79,231                            |
| Direct installment                    | 14,941                                  | (4,502)         | 434        | (4,068)                | 4,042                           | 14,915                            |
| Residential mortgages                 | 4,578                                   | (407)           | 31         | (376)                  | 278                             | 4,480                             |
| Indirect installment                  | 5,941                                   | (1,537)         | 294        | (1,243)                | 1,007                           | 5,705                             |
| Consumer lines of credit              | 4,743                                   | (818)           | 87         | (731)                  | 784                             | 4,796                             |
| Other                                 | 241                                     | (406)           | 23         | (383)                  | 239                             | 97                                |
| Purchased credit-impaired loans       |   |                 |            |                        |                                 |                                   |
|                                       | \$ 106,120                              | \$ (14,903)     | \$ 1,228   | \$ (13,675)            | \$ 16,779                       | \$ 109,224                        |

Following are summaries of the individual and collective allowance for loan losses and corresponding loan balances by class for the periods indicated:

|                                   | Allowance                                      |  |   | Loans Outstanding                              |  |   |
|-----------------------------------|--|--|---|--|--|---|
|                                   | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | Purchased<br>Credit-<br>Impaired<br>Loans | Individually<br>Evaluated<br>for<br>Impairment | Collectively<br>Evaluated<br>for<br>Impairment | Purchased<br>Credit-<br>Impaired<br>Loans |
| <b>June 30, 2012</b>              |  |  |   |  |  |   |
| Commercial real estate            | \$ 2,768                                       | \$ 27,221                                      | \$ 2,532,116                              | \$ 24,142                                      | \$ 2,486,814                                   | \$ 21,160                                 |
| Commercial real estate FL         | 2,391  | 6,100  | 84,642                                    | 23,670   | 60,972   |   |
| Commercial and industrial         | 2,539  | 28,240   | 1,493,378                                 | 3,823  | 1,489,555                                      |   |
| Commercial leases                 |  | 1,674  | 125,293                                   |  | 125,293  |   |
| Total commercial loans and leases | 7,698  | 63,235   | 4,235,429                                 | 51,635   | 4,162,634                                      | 21,160                                    |
| Direct installment                |  | 14,536   | 1,109,676                                 |  | 1,109,676                                      |   |
| Residential mortgages             |  | 4,259  | 1,158,377                                 |  | 1,158,377                                      |   |
| Indirect installment              |  | 5,666  | 577,903                                   |  | 577,903  |   |
| Consumer lines of credit          |  | 5,266  | 741,509                                   |  | 741,509  |   |
| Other                             |  | 987  | 37,962                                    |  | 37,962   |   |
|                                   | \$ 7,698                                       | \$ 93,949                                      | \$ 7,860,856                              | \$ 51,635                                      | \$ 7,788,061                                   | \$ 21,160                                 |
| <b>December 31, 2011</b>          |  |  |   |  |  |   |
| Commercial real estate            | \$ 2,482                                       | \$ 27,855                                      | \$ 2,341,646                              | \$ 36,566                                      | \$ 2,289,241                                   | \$ 15,839                                 |
| Commercial real estate FL         | 2,389  | 10,557   | 154,081                                   | 39,122   | 114,959  |   |
| Commercial and industrial         | 2,276  | 23,200   | 1,363,692                                 | 7,816  | 1,355,876                                      |   |
| Commercial leases                 |  | 1,556  | 110,795                                   |  | 110,795  |   |
| Total commercial loans and leases | 7,147  | 63,168   | 3,970,214                                 | 83,504   | 3,870,871                                      | 15,839                                    |
| Direct installment                |  | 14,814   | 1,029,187                                 |  | 1,029,187                                      |   |
| Residential mortgages             |  | 4,437  | 670,936                                   |  | 670,936  |   |
| Indirect installment              |  | 5,503  | 540,789                                   |  | 540,789  |   |
| Consumer lines of credit          |  | 5,447  | 607,280                                   |  | 607,280  |   |



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|       |          |           |              |           |              |           |
|-------|----------|-----------|--------------|-----------|--------------|-----------|
| Other | 146      | 38,261    | 38,261       |           |              |           |
|       | \$ 7,147 | \$ 93,515 | \$ 6,856,667 | \$ 83,504 | \$ 6,757,324 | \$ 15,839 |

**Table of Contents****BORROWINGS**

Following is a summary of short-term borrowings:

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Securities sold under repurchase agreements | \$ 768,114       | \$ 646,660           |
| Federal funds purchased                     | 30,000           | 60,000               |
| Subordinated notes                          | 136,396          | 134,634              |
| Other short-term borrowings                 |                  | 10,000               |
|   | \$ 934,510       | \$ 851,294           |

Securities sold under repurchase agreements is comprised of customer repurchase agreements, which are sweep accounts with next day maturities utilized by larger commercial customers to earn interest on their funds. Securities are pledged to these customers in an amount equal to the outstanding balance.

Following is a summary of long-term debt:

|                                 | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------|------------------|----------------------|
| Federal Home Loan Bank advances | \$ 94            | \$ 100               |
| Subordinated notes              | 81,014           | 78,246               |
| Other subordinated debt         | 8,956            | 9,062                |
| Convertible debt                | 590              | 608                  |
|                                 | \$ 90,654        | \$ 88,016            |

The Corporation's banking affiliate has available credit with the FHLB of \$2,717,117 of which \$94 was used as of June 30, 2012. These advances are secured by loans collateralized by 1-4 family mortgages and FHLB stock and are scheduled to mature in various amounts periodically through the year 2019. Effective interest rates paid on these advances range from 3.78% to 4.19% for the six months ended June 30, 2012 and 0.99% to 4.79% for the year ended December 31, 2011.

**JUNIOR SUBORDINATED DEBT**

The Corporation has four unconsolidated subsidiary trusts (collectively, the Trusts): F.N.B. Statutory Trust I, F.N.B. Statutory Trust II, Omega Financial Capital Trust I and Sun Bancorp Statutory Trust I. One hundred percent of the common equity of each Trust is owned by the Corporation. The Trusts were formed for the purpose of issuing Corporation-obligated mandatorily redeemable capital securities (TPS) to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities (subordinated debt) issued by the Corporation, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in the Corporation's financial statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by the Corporation on the junior subordinated debt held by the Trusts. Omega Financial Capital Trust I and Sun Bancorp Statutory Trust I were acquired as a result of a previous acquisition.

Distributions on the subordinated debt issued to the Trusts are recorded as interest expense by the Corporation. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The TPS are eligible for redemption, at any time, at the Corporation's discretion. The subordinated debt, net of the Corporation's investment in the Trusts, qualifies as Tier 1 capital under the Board of Governors of the Federal Reserve System (FRB) guidelines. The Corporation has 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.



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The following table provides information relating to the Trusts as of June 30, 2012:

|                            | F.N.B.<br>Statutory<br>Trust I | F.N.B.<br>Statutory<br>Trust II | Omega<br>Financial<br>Capital Trust I | Sun<br>Bancorp<br>Statutory<br>Trust I |
|----------------------------|--------------------------------|---------------------------------|---------------------------------------|--|
| Trust preferred securities | \$ 125,000                     | \$ 21,500                       | \$ 36,000                             | \$ 16,500                              |
| Common securities          | 3,866                          | 665                             | 1,114                                 | 511                                    |
| Junior subordinated debt   | 128,866                        | 22,165                          | 35,951                                | 17,011                                 |
| Stated maturity date       | 3/31/33                        | 6/15/36                         | 10/18/34                              | 2/22/31                                |
| Interest rate              | 3.72%                          | 2.12%                           | 2.66%                                 | 10.20%                                 |
|                            | variable;                      | variable;                       | variable;                             |  |
|                            | LIBOR plus                     | LIBOR plus                      | LIBOR plus                            |  |
|                            | 325 basis points               | 165 basis points                | 219 basis points                      |  |

**DERIVATIVE INSTRUMENTS**

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. The Corporation's existing interest rate derivatives result from a service provided to certain qualifying customers. The Corporation manages its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

The Corporation periodically enters into interest rate swap agreements to meet the financing, interest rate and equity risk management needs of its commercial loan customers. These agreements provide the customer the ability to convert from variable to fixed interest rates. The Corporation then enters into positions with a derivative counterparty in order to offset its exposure on the fixed components of the customer agreements. These agreements meet the definition of derivatives, but are not designated as hedging instruments under ASC 815, *Derivatives and Hedging*. 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 sheet with any resulting gain or loss recorded in current period earnings as other income.

In accordance with the requirements of ASU No. 2011-04, the Corporation made an accounting policy election to use the portfolio exception with respect to measuring derivative instruments, consistent with the guidance in ASC 820. The Corporation further documents that it meets the criteria for this exception as follows:

The Corporation manages credit risk for its derivative positions on a counterparty-by-counterparty basis (on the basis of its net portfolio exposure with each counterparty), consistent with its risk management strategy for such transactions. The Corporation manages credit risk by considering indicators of risk such as credit ratings, and by negotiating terms in its master netting arrangements and credit support annex documentation with each individual counterparty. Credit risk plays a central role in the decision of which counterparties to consider for such relationships and when deciding with whom it will enter into derivative transactions.

Since the effective date of ASC 820, the Corporation's management has monitored and measured credit risk and calculated credit valuation adjustments (CVAs) for its derivative transactions on the basis of its relationships at the counterparty portfolio/master netting arrangement level. Management receives reports from an independent third-party valuation specialist on a monthly basis providing CVAs at the counterparty portfolio level for purposes of reviewing and managing its credit risk exposures. Since the portfolio exception applies only to the fair value measurement and not to the financial statement presentation, the portfolio-level adjustments are then allocated in a reasonable and consistent manner each period to the individual assets or liabilities that make up the group, in accordance with the Corporation's accounting policy elections.

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The Corporation notes that key market participants take into account the existence of such arrangements that mitigate credit risk exposure in the event of default. As such, the Corporation formally elects to apply the portfolio

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exception in ASC 820 with respect to measuring counterparty credit risk for all of its derivative transactions subject to master netting arrangements.

At June 30, 2012, the Corporation was party to 230 swaps with customers with notional amounts totaling \$734,224 and 230 swaps with derivative counterparties with notional amounts totaling \$734,224. The following table presents the fair value of the Corporation's derivative financial instruments as well as their classification on the balance sheet:

|                                | <b>Balance<br/>Sheet<br/>Location</b> | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--------------------------------|---------------------------------------|--------------------------|------------------------------|
| <b>Interest Rate Products:</b> |                                       |                          |                              |
| Asset derivatives              | Other assets                          | \$ 59,330                | \$ 52,857                    |
| Liability derivatives          | Other liabilities                     | 59,299                   | 52,904                       |

The following table presents the effect of the Corporation's derivative financial instruments on the income statement:

|                        | <b>Income<br/>Statement<br/>Location</b> | <b>Six Months Ended<br/>June 30,<br/>2012 2011</b> |          |
|------------------------|--|--|----------|
| Interest rate products | Other income                             | \$ (77)  | \$ (582) |

The Corporation has agreements with each of its derivative counterparties that contain a provision where if the Corporation defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Corporation could also be declared in default on its derivative obligations. The Corporation also has agreements with certain of its derivative counterparties that contain a provision if the Corporation fails to maintain its status as a well capitalized institution, then the counterparty could terminate the derivative positions and the Corporation would be required to settle its obligations under the agreements. Certain of the Corporation's agreements with its derivative counterparties contain provisions where if a material or adverse change occurs that materially changes the Corporation's creditworthiness in an adverse manner the Corporation may be required to fully collateralize its obligations under the derivative instrument.

Interest rate swap agreements generally require posting of collateral by either party under certain conditions. As of June 30, 2012, the fair value of counterparty derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk related to these agreements, was \$60,512. At June 30, 2012, the Corporation has posted collateral with derivative counterparties with a fair value of \$59,837, of which none is cash collateral. Additionally, if the Corporation had breached its agreements with its derivative counterparties it would be required to settle its obligations under the agreements at the termination value and would be required to pay an additional \$675 in excess of amounts previously posted as collateral with the respective counterparty.

The Corporation has entered into interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans to secondary market investors. These arrangements are considered derivative instruments. The fair values of the Corporation's rate lock commitments to customers and commitments with investors at June 30, 2012 are not material.

**COMMITMENTS, CREDIT RISK AND CONTINGENCIES**

The Corporation has 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 sheet. The Corporation's 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 loan commitments and standby letters of credit is essentially the same as that involved in extending loans 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.

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

|                              | June 30,<br>2012 | December 31,<br>2011 |
|------------------------------|------------------|----------------------|
| Commitments to extend credit | \$ 2,470,628     | \$ 1,943,889         |
| Standby letters of credit    | 114,509          | 113,268              |

At June 30, 2012, funding of 77.1% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its 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 the Corporation that may require payment at a future date. The credit risk involved in issuing letters of credit is quantified on a quarterly basis, through the review of historical performance of the Corporation's portfolios and allocated as a liability on the Corporation's balance sheet.

The Corporation and its subsidiaries are involved in various pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These actions include claims brought against the Corporation and its subsidiaries where the Corporation or a subsidiary acted as one or more of the following: a depository bank, lender, underwriter, fiduciary, financial advisor, broker or was engaged in other business activities. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, the Corporation believes that it and its subsidiaries have valid defenses for all asserted claims. Reserves are established for legal claims when losses associated with the claims are judged to be probable and the amount of the loss can be reasonably estimated.

Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Corporation does not anticipate, at the present time, that the aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation's consolidated financial position. However, the Corporation cannot determine whether or not any claims asserted against it will have a material adverse effect on its consolidated results of operations in any future reporting period.

**STOCK INCENTIVE PLANS***Restricted Stock*

The Corporation issues restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under its Incentive Compensation Plans (Plans). The grant date fair value of the restricted stock awards is equal to the price of the Corporation's common stock on the grant date. For the six months ended June 30, 2012 and 2011, the Corporation issued 275,674 and 384,847 restricted stock awards with aggregate weighted average grant date fair values of \$3,384 and \$3,887, respectively, under these Plans. As of June 30, 2012, the Corporation had available up to 3,206,008 shares of common stock to issue under these Plans.

Under the Plans, more than half of the restricted stock awards granted to management are earned if the Corporation meets or exceeds certain financial performance results when compared to its peers. These performance-related awards are expensed ratably from the date that the likelihood of meeting the performance measure is probable through the end of a four-year vesting period. The service-based awards are expensed ratably over a three-year vesting period. The Corporation also issues discretionary service-based awards to certain employees that vest over five years.

The invested restricted stock awards are eligible to receive cash dividends or dividend equivalents which are ultimately used to purchase additional shares of stock. Any additional shares of stock received as a result of cash dividends 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.

Share-based compensation expense related to restricted stock awards was \$1,614 and \$1,780 for the six months ended June 30, 2012 and 2011, the tax benefit of which was \$565 and \$623, respectively.





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The following table summarizes certain information concerning restricted stock awards:

|  | Six Months Ended June 30, |                                       |           |                                       |
|--|---------------------------|---------------------------------------|-----------|---------------------------------------|
|  | 2012                      | 2011                                  |           | 2011                                  |
|  | Awards                    | Weighted<br>Average<br>Grant<br>Price | Awards    | Weighted<br>Average<br>Grant<br>Price |
| Unvested awards outstanding at beginning of period | 1,846,115                 | \$ 8.44                               | 1,309,489 | \$ 8.52                               |
| Granted  | 275,674                   | 12.28                                 | 384,847   | 10.10                                 |
| Vested   | (166,150)                 | 8.02                                  | (171,446) | 13.59                                 |
| Forfeited  | (126,398)                 | 8.32                                  | (1,397)   | 9.20                                  |
| Dividend reinvestment                              | 36,867                    | 11.13                                 | 31,860    | 10.17                                 |
| Unvested awards outstanding at end of period       | 1,866,108                 | 9.10                                  | 1,553,353 | 8.39                                  |

The total fair value of awards vested was \$2,044 and \$1,761 for the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, there was \$6,999 of unrecognized compensation cost related to unvested restricted stock awards including \$86 that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC 718, *Compensation - Stock Compensation*. The components of the restricted stock awards as of June 30, 2012 are as follows:

|  | Service-<br>Based<br>Awards | Performance-<br>Based<br>Awards | Total     |
|--|-----------------------------|---------------------------------|-----------|
| Unvested awards                            | 494,630                     | 1,371,478                       | 1,866,108 |
| Unrecognized compensation expense          | \$ 2,092                    | \$ 4,907                        | \$ 6,999  |
| Intrinsic value                            | \$ 5,377                    | \$ 14,908                       | \$ 20,285 |
| Weighted average remaining life (in years) | 2.21                        | 2.46                            | 2.39      |

*Stock Options*

The Corporation did not grant stock options during the six months ended June 30, 2012 or 2011. All outstanding stock options were granted at prices equal to the fair market value at the date of the grant, are primarily exercisable within ten years from the date of the grant and are fully vested. The Corporation issues shares of treasury stock or authorized but unissued shares to satisfy stock options exercised. Shares issued upon the exercise of stock options were 159,442 and 8,389 for the six months ended June 30, 2012 and 2011, respectively.

The following table summarizes certain information concerning stock option awards:

|  | Six Months Ended June 30, |  |           |  |
|--|---------------------------|--|-----------|--|
|  | 2012                      | 2011                                     |           | 2011                                     |
|  | Shares                    | Weighted<br>Average<br>Exercise<br>Price | Shares    | Weighted<br>Average<br>Exercise<br>Price |
| Options outstanding at beginning of period | 586,020                   | \$ 14.93                                 | 770,610   | \$ 14.28                                 |
| Acquired from Parkvale                     | 627,808                   | 10.41                                    |           |  |
| Exercised                                  | (159,442)                 | 8.85                                     | (8,389)   | 2.68                                     |
| Forfeited                                  | (310,955)                 | 13.84                                    | (157,296) | 12.18                                    |

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|  |         |       |         |       |
|--|---------|-------|---------|-------|
| Options outstanding and exercisable at end of period | 743,431 | 12.87 | 604,925 | 14.99 |
|--|---------|-------|---------|-------|

The intrinsic value of outstanding and exercisable stock options at June 30, 2012 was \$(1,751), since the fair value of the stock subject to the options was less than the exercise price.

**Table of Contents***Warrants*

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

In connection with the Parkvale acquisition, the warrant issued by Parkvale to the UST under the CPP has been converted into a warrant to purchase up to 819,640 shares of the Corporation's common stock. This warrant, which was recorded at a provisional fair value, expires in 2018 and has an exercise price of \$5.81 per share.

**RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Corporation sponsors the Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan that covered substantially all salaried employees hired prior to January 1, 2008. The RIP covers employees who satisfy minimum age and length of service requirements. During 2006, the Corporation amended the RIP such that effective January 1, 2007 benefits were earned based on the employee's compensation each year. The plan amendment resulted in a remeasurement that produced a net unrecognized service credit of \$14,079, which had been amortized over the average period of future service of active employees of 13.5 years. The Corporation's funding guideline has been to make annual contributions to the RIP each year, if necessary, such that minimum funding requirements have been met. The Corporation amended the RIP on October 20, 2010 to be frozen effective December 31, 2010, at which time the Corporation recognized the remaining previously unrecognized prior service credit of \$10,543 as a reduction to expense.

The Corporation also sponsors two supplemental non-qualified retirement plans. 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 basic benefit under the BRP is a monthly benefit equal to the target benefit percentage times the participant's highest average monthly cash compensation during five consecutive calendar years within the last ten calendar years of employment. This monthly benefit was reduced by the monthly benefit the participant receives from Social Security, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the three percent automatic contributions to the qualified 401(k) defined contribution plan and the ERISA Excess Lost Match Plan. The BRP was frozen as of December 31, 2008. The ERISA Excess Retirement Plan was frozen as of December 31, 2010.

The net periodic benefit cost for the defined benefit plans includes the following components:

|  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--|--------------------------------|---------|------------------------------|---------|
|  | 2012                           | 2011    | 2012                         | 2011    |
| Service cost                             | \$ 17                          | \$ 14   | \$ 34                        | \$ 21   |
| Interest cost                            | 1,541                          | 1,585   | 3,082                        | 3,284   |
| Expected return on plan assets           | (1,934)                        | (1,764) | (3,868)                      | (3,655) |
| Amortization:                            |                                |         |                              |         |
| Unrecognized net transition asset        | (23)                           | (22)    | (46)                         | (45)    |
| Unrecognized prior service cost (credit) | 2                              | 2       | 4                            | 3       |
| Unrecognized loss                        | 447                            | 264     | 894                          | 558     |
| Net periodic pension benefit cost        | \$ 50                          | \$ 79   | \$ 100                       | \$ 166  |

The Corporation's 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, the Corporation matches 100% of the first four percent that the employee defers.



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Additionally, substantially all employees receive an automatic contribution of three percent of compensation at the end of the year and the Corporation may make an additional contribution of up to two percent depending on the Corporation achieving its performance goals for the plan year. The Corporation's contribution expense was \$4,093 and \$4,069 for the six months ended June 30, 2012 and 2011, respectively.

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

The Corporation sponsors a postretirement medical and life insurance plan for a closed group of retirees who are currently receiving medical benefits and are eligible for retiree life insurance benefits. The Corporation has no plan assets attributable to this plan and funds the benefits as claims arise. Benefit costs are primarily related to interest cost obligations due to the passage of time. The Corporation reserves the right to terminate the plan or make plan changes at any time.

The net periodic postretirement benefit cost includes the following components:

|  | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|--|--------------------------------|-------|------------------------------|-------|
|  | 2012                           | 2011  | 2012                         | 2011  |
| Interest cost                            | \$ 12                          | \$ 14 | \$ 24                        | \$ 29 |
| Amortization of unrecognized loss        | 3                              | 2     | 6                            | 2     |
| Net periodic postretirement benefit cost | \$ 15                          | \$ 16 | \$ 30                        | \$ 31 |

**INCOME TAXES**

The Corporation bases its provision for income taxes upon income before income taxes, adjusted for the effect of certain tax-exempt income and non-deductible expenses. In addition, the Corporation reports certain items of income and expense in different periods for financial reporting and tax return purposes. The Corporation recognizes the tax effects of these temporary differences currently in the deferred income tax provision or benefit. The Corporation computes deferred tax assets or liabilities based upon the differences between the financial statement and income tax bases of assets and liabilities using the applicable marginal tax rate.

The Corporation must evaluate the probability that it will ultimately realize the full value of its deferred tax assets. Realization of the Corporation's deferred tax assets is dependent upon a number of factors including the existence of any cumulative losses in prior periods, the amount of taxes paid in available carry-back periods, expectations for future earnings, applicable tax planning strategies and assessment of current and future economic and business conditions. The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize a benefit from its deferred tax assets, or when future deductibility is uncertain.

At June 30, 2012, the Corporation anticipates that it will not utilize state net operating loss carryforwards and other net deferred tax assets at certain of its subsidiaries and has recorded a valuation allowance against the state deferred tax assets. The Corporation believes that, except for the portion which is covered by the valuation allowance, it is more likely than not the Corporation will realize the benefits of its deferred tax assets, net of the valuation allowance, at June 30, 2012 based on the level of historical taxable income and taxes paid in available carry-back periods.

**Table of Contents****COMPREHENSIVE INCOME**

The components of comprehensive income, net of related tax, are as follows:

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2012                           | 2011      | 2012                         | 2011      |
| Net income  | \$ 29,130                      | \$ 22,362 | \$ 50,712                    | \$ 39,537 |
| Other comprehensive income:   |                                |           |                              |           |
| Unrealized gains on securities:   |                                |           |                              |           |
| Arising during the period, net of tax expense of \$1,279, \$1,523, \$1,928 and \$1,476                                | 2,376                          | 2,830     | 3,580                        | 2,741     |
| Less: reclassification adjustment for gains included in net income, net of tax expense of \$151, \$22, \$188 and \$41 | (280)                          | (41)      | (350)                        | (76)      |
| Pension and postretirement amortization, net of tax expense of \$150, \$94, \$300 and \$189                           | 278                            | 174       | 557                          | 351       |
| Other comprehensive income  | 2,374                          | 2,963     | 3,787                        | 3,016     |
| Comprehensive income  | \$ 31,504                      | \$ 25,325 | \$ 54,499                    | \$ 42,553 |

For 2011, the amount of the reclassification adjustment for losses included in net income differs from the amount shown in the consolidated statement of comprehensive income because it does not include gains or losses realized on securities that were both purchased and then sold during the same period.

The accumulated balances related to each component of other comprehensive income (loss), net of tax are as follows:

| June 30  | 2012        | 2011        |
|--|-------------|-------------|
| Non-credit related loss on debt securities not expected to be sold | \$ (8,554)  | \$ (8,244)  |
| Unrealized net gain on other available for sale securities         | 8,288       | 7,022       |
| Unrecognized pension and postretirement obligations                | (41,095)    | (29,494)    |
| Accumulated other comprehensive loss                               | \$ (41,361) | \$ (30,716) |

**EARNINGS PER SHARE**

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

Diluted earnings per share is calculated by dividing net income adjusted for interest expense on convertible debt 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, restricted shares and convertible debt, as calculated using the treasury stock method. Adjustments to the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

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

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2012                           | 2011        | 2012                         | 2011        |
| Net income basic earnings per share   | \$ 29,130                      | \$ 22,362   | \$ 50,712                    | \$ 39,537   |
| Interest expense on convertible debt  | 5                              | 5           | 10                           | 10          |
| Net income after assumed conversion<br>diluted earnings per share                           | \$ 29,135                      | \$ 22,367   | \$ 50,722                    | \$ 39,547   |
| Basic weighted average common shares<br>outstanding   | 139,093,641                    | 123,254,895 | 138,996,110                  | 121,732,522 |
| Net effect of dilutive stock options,<br>warrants, restricted stock and convertible<br>debt | 1,440,391                      | 839,894     | 1,446,214                    | 800,164     |
| Diluted weighted average common shares<br>outstanding                                       | 140,534,032                    | 124,094,789 | 140,442,324                  | 122,532,686 |
| Basic earnings per share  | \$ 0.21                        | \$ 0.18     | \$ 0.36                      | \$ 0.32     |
| Diluted earnings per share  | \$ 0.21                        | \$ 0.18     | \$ 0.36                      | \$ 0.32     |

For the three months ended June 30, 2012 and 2011, 212,737 and 336,573 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be antidilutive. For the six months ended June 30, 2012 and 2011, 150,972 and 356,393 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be antidilutive.

**CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information:

| Six Months Ended June 30                       | 2012      | 2011      |
|--|-----------|-----------|
| Interest paid on deposits and other borrowings | \$ 27,649 | \$ 39,128 |
| Income taxes paid                              | 7,250     | 2,000     |
| Transfers of loans to other real estate owned  | 8,139     | 14,608    |
| Financing of other real estate owned sold      | 635       | 281       |

**BUSINESS SEGMENTS**

The Corporation operates in four reportable segments: Community Banking, Wealth Management, Insurance and Consumer Finance.

The Community Banking segment provides services traditionally offered by full-service commercial banks, including commercial and individual demand, savings and time deposit accounts and commercial, mortgage and individual installment loans.

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

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



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The Consumer Finance segment primarily makes installment loans to individuals and purchases installment sales finance contracts from retail merchants. The Consumer Finance segment activity is funded through the sale of the Corporation's subordinated notes at the finance company's branch offices.

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

|   | Community<br>Banking | Wealth<br>Management | Insurance | Consumer<br>Finance | Parent<br>and<br>Other | Consolidated |
|---|----------------------|----------------------|-----------|---------------------|------------------------|--------------|
| <b>At or for the Three Months Ended June 30, 2012</b> |                      |                      |           |                     |                        |              |
| Interest income                                       | \$ 98,965            | \$ 2                 | \$ 28     | \$ 8,672            | \$ 1,618               | \$ 109,285   |
| Interest expense                                      | 11,394               |                      |           | 896                 | 2,514                  | 14,804       |
| Net interest income                                   | 87,571               | 2                    | 28        | 7,776               | (896)                  | 94,481       |
| Provision for loan losses                             | 5,151                |                      |           | 1,631               | 245                    | 7,027        |
| Non-interest income                                   | 24,409               | 6,001                | 2,967     | 587                 | (1,186)                | 32,778       |
| Non-interest expense                                  | 62,897               | 5,054                | 2,774     | 4,582               | 806                    | 76,113       |
| Intangible amortization                               | 2,183                | 80                   | 106       |                     |                        | 2,369        |
| Income tax expense (benefit)                          | 12,692               | 318                  | 42        | 834                 | (1,266)                | 12,620       |
| Net income (loss)                                     | 29,057               | 551                  | 73        | 1,316               | (1,867)                | 29,130       |
| Total assets  | 11,562,365           | 18,287               | 20,574    | 169,838             | (20,325)               | 11,750,739   |
| Total intangibles                                     | 691,011              | 11,472               | 11,139    | 1,809               |                        | 715,431      |
| <b>At or for the Three Months Ended June 30, 2011</b> |                      |                      |           |                     |                        |              |
| Interest income                                       | \$ 88,207            | \$ 3                 | \$ 33     | \$ 8,492            | \$ 1,420               | \$ 98,155    |
| Interest expense                                      | 15,718               |                      |           | 1,064               | 2,679                  | 19,461       |
| Net interest income                                   | 72,489               | 3                    | 33        | 7,428               | (1,259)                | 78,694       |
| Provision for loan losses                             | 6,812                |                      |           | 1,656               | 83                     | 8,551        |
| Non-interest income                                   | 20,726               | 6,368                | 3,001     | 549                 | (1,386)                | 29,258       |
| Non-interest expense                                  | 54,319               | 4,649                | 2,772     | 4,381               | 443                    | 66,564       |
| Intangible amortization                               | 1,615                | 83                   | 107       |                     |                        | 1,805        |
| Income tax expense (benefit)                          | 8,495                | 585                  | 56        | 769                 | (1,235)                | 8,670        |
| Net income (loss)                                     | 21,974               | 1,054                | 99        | 1,171               | (1,936)                | 22,362       |
| Total assets  | 9,657,270            | 20,485               | 19,366    | 169,765             | (9,723)                | 9,857,163    |
| Total intangibles                                     | 576,786              | 11,799               | 11,564    | 1,809               |                        | 601,958      |
| <b>At or for the Six Months Ended June 30, 2012</b>   |                      |                      |           |                     |                        |              |
| Interest income                                       | \$ 196,392           | \$ 4                 | \$ 58     | \$ 17,028           | \$ 3,090               | \$ 216,572   |
| Interest expense                                      | 24,218               |                      |           | 1,867               | 5,085                  | 31,170       |
| Net interest income                                   | 172,174              | 4                    | 58        | 15,161              | (1,995)                | 185,402      |
| Provision for loan losses                             | 10,389               |                      |           | 2,797               | 413                    | 13,599       |
| Non-interest income                                   | 47,856               | 11,883               | 6,470     | 1,084               | (2,770)                | 64,523       |
| Non-interest expense                                  | 134,690              | 9,743                | 5,711     | 9,187               | 1,174                  | 160,505      |
| Intangible amortization                               | 4,278                | 160                  | 212       |                     |                        | 4,650        |
| Income tax expense (benefit)                          | 20,426               | 721                  | 216       | 1,642               | (2,546)                | 20,459       |
| Net income (loss)                                     | 50,247               | 1,263                | 389       | 2,619               | (3,806)                | 50,712       |
| Total assets  | 11,562,365           | 18,287               | 20,574    | 169,838             | (20,325)               | 11,750,739   |
| Total intangibles                                     | 691,011              | 11,472               | 11,139    | 1,809               |                        | 715,431      |

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|   | Community<br>Banking | Wealth<br>Management | Insurance | Consumer<br>Finance | Parent<br>and<br>Other | Consolidated |
|---|----------------------|----------------------|-----------|---------------------|------------------------|--------------|
| <b>At or for the Six Months Ended June 30, 2011</b> |                      |                      |           |                     |                        |              |
| Interest income                                     | \$ 175,990           | \$ 6                 | \$ 66     | \$ 16,562           | \$ 2,902               | \$ 195,526   |
| Interest expense                                    | 32,112               |                      |           | 2,181               | 5,256                  | 39,549       |
| Net interest income                                 | 143,878              | 6                    | 66        | 14,381              | (2,354)                | 155,977      |
| Provision for loan losses                           | 13,648               |                      |           | 2,984               | 147                    | 16,779       |
| Non-interest income                                 | 40,807               | 12,306               | 6,559     | 1,071               | (3,053)                | 57,690       |
| Non-interest expense                                | 114,376              | 9,582                | 6,063     | 8,705               | 599                    | 139,325      |
| Intangible amortization                             | 3,221                | 167                  | 213       |                     |                        | 3,601        |
| Income tax expense (benefit)                        | 14,331               | 918                  | 126       | 1,452               | (2,402)                | 14,425       |
| Net income (loss)                                   | 39,109               | 1,645                | 223       | 2,311               | (3,751)                | 39,537       |
| Total assets  | 9,657,270            | 20,485               | 19,366    | 169,765             | (9,723)                | 9,857,163    |
| Total intangibles                                   | 576,786              | 11,799               | 11,564    | 1,809               |                        | 601,958      |

**FAIR VALUE MEASUREMENTS**

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

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

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

| 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.                             |

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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 the Corporation uses for financial instruments recorded at fair value on either a recurring or nonrecurring basis:

### *Securities Available For Sale*

Securities available for sale consists of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At June 30, 2012, 97% of these securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value. The remaining 3% of these securities were measured using model-based techniques, with primarily unobservable (Level 3) inputs.

The Corporation closely monitors 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.

The Corporation uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of investment securities. The Corporation validates 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 by Corporate personnel familiar with market liquidity and other market-related conditions.

The Corporation determines the valuation of its investments in trust preferred debt securities with the assistance of a third-party independent financial consulting firm that specializes in advisory services related to illiquid financial investments. The consulting firm provides the Corporation appropriate valuation methodology, performance assumptions, modeling techniques, discounted cash flows, discount rates using the underlying index plus 15-20%, and sensitivity analyses with respect to levels of defaults and deferrals necessary to produce losses. Additionally, the Corporation utilizes the firm's expertise to reassess assumptions to reflect actual conditions. See the Securities footnote in the Notes to Consolidated Financial Statements section of this Report for information on how the Corporation reassesses assumptions to determine the valuation of its trust preferred debt securities. Accessing the services of a financial consulting firm with a focus on financial instruments assists the Corporation in accurately valuing these complex financial instruments and facilitates informed decision-making with respect to such instruments.

### *Derivative Financial Instruments*

The Corporation determines its 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.

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

Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2012, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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### *Residential Mortgage Loans Held For Sale*

These loans are carried at the lower of cost or fair value. Under lower of cost or fair value accounting, periodically, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is based on independent quoted market prices and is classified as Level 2.

### *Impaired Loans*

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

The Corporation determines the 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 its 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. The Corporation 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, the Corporation classifies these nonrecurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

The Corporation reviews and evaluates impaired loans no less frequently than quarterly for additional impairment based on the same factors identified above.

### *Other Real Estate Owned*

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

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

|   | Level 1 | Level 2      | Level 3   | Total        |
|---|---------|--------------|-----------|--------------|
| <b>June 30, 2012</b>  |         |              |           |              |
| Assets measured at fair value:                                    |         |              |           |              |
| Available for sale debt securities:                               |         |              |           |              |
| U.S. Treasury and other U.S. government agencies and corporations | \$      | \$ 354,837   | \$        | \$ 354,837   |
| Residential mortgage-backed securities:                           |         |              |           |              |
| Agency mortgage-backed securities                                 |         | 329,326      |           | 329,326      |
| Agency collateralized mortgage obligations                        |         | 310,517      |           | 310,517      |
| Non-agency collateralized mortgage obligations                    |         | 28           | 3,226     | 3,254        |
| States of the U.S. and political subdivisions                     |         | 28,480       |           | 28,480       |
| Collateralized debt obligations                                   |         |              | 20,444    | 20,444       |
| Other debt securities   |         | 16,518       | 6,597     | 23,115       |
|   |         | 1,039,706    | 30,267    | 1,069,973    |
| Available for sale equity securities:                             |         |              |           |              |
| Financial services industry                                       | 363     | 1,062        | 481       | 1,906        |
| Insurance services industry                                       | 45      |              |           | 45           |
|   | 408     | 1,062        | 481       | 1,951        |
|   | 408     | 1,040,768    | 30,748    | 1,071,924    |
| Derivative financial instruments                                  |         | 59,330       |           | 59,330       |
|   | \$ 408  | \$ 1,100,098 | \$ 30,748 | \$ 1,131,254 |
| Liabilities measured at fair value:                               |         |              |           |              |
| Derivative financial instruments                                  |         | \$ 59,299    |           | \$ 59,299    |
|   |         | \$ 59,299    |           | \$ 59,299    |

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|   | Level 1 | Level 2    | Level 3   | Total      |
|---|---------|------------|-----------|------------|
| <b>December 31, 2011</b>  |         |            |           |            |
| Assets measured at fair value:                                    |         |            |           |            |
| Available for sale debt securities:                               |         |            |           |            |
| U.S. Treasury and other U.S. government agencies and corporations | \$      | \$ 231,829 | \$        | \$ 231,829 |
| Residential mortgage-backed securities:                           |         |            |           |            |
| Agency mortgage-backed securities                                 |         | 171,611    |           | 171,611    |
| Agency collateralized mortgage obligations                        |         | 183,729    |           | 183,729    |
| Non-agency collateralized mortgage obligations                    |         | 30         |           | 30         |
| States of the U.S. and political subdivisions                     |         | 40,350     |           | 40,350     |
| Collateralized debt obligations                                   |         |            | 5,998     | 5,998      |
| Other debt securities   |         |            | 5,197     | 5,197      |
|   |         | 627,549    | 11,195    | 638,744    |
| Available for sale equity securities:                             |         |            |           |            |
| Financial services industry                                       | 378     | 1,004      | 408       | 1,790      |
| Insurance services industry                                       | 37      |            |           | 37         |
|   | 415     | 1,004      | 408       | 1,827      |
|   | 415     | 628,553    | 11,603    | 640,571    |
| Derivative financial instruments                                  |         | 52,857     |           | 52,857     |
|   | \$ 415  | \$ 681,410 | \$ 11,603 | \$ 693,428 |
| Liabilities measured at fair value:                               |         |            |           |            |
| Derivative financial instruments                                  |         | \$ 52,904  |           | \$ 52,904  |
|   |         | \$ 52,904  |           | \$ 52,904  |

During the first six months of 2012 and 2011, there were no transfers of assets or liabilities between the hierarchy levels.

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

|  | Pooled<br>Trust<br>Preferred<br>Collateralized<br>Debt<br>Obligations | Other<br>Debt<br>Securities | Equity<br>Securities | Residential<br>Non-Agency<br>Collateralized<br>Mortgage<br>Obligations | Total     |
|--|---|-----------------------------|----------------------|--|-----------|
| <b>Six Months Ended June 30, 2012</b>        |   |                             |                      |  |           |
| Balance at beginning of period               | \$ 5,998  | \$ 5,197                    | \$ 408               | \$   | \$ 11,603 |
| Total gains (losses) realized/unrealized:    |   |                             |                      |  |           |
| Included in earnings                         |   |                             |                      |  |           |
| Included in other comprehensive income       | (886)   | 442                         | 73                   | (14)   | (385)     |
| Accretion included in earnings               | 1,422   | 4                           |                      | 13   | 1,439     |
| Purchases, issuances, sales and settlements: |   |                             |                      |  |           |
| Purchases in Parkvale acquisition            | 16,569  | 954                         |                      | 4,230  | 21,753    |
| Issuances                                    | 24  |                             |                      |  | 24        |
| Sales/redemptions                            | (1,829)   |                             |                      |  | (1,829)   |
| Settlements                                  | (854)   |                             |                      | (1,003)  | (1,857)   |
| Transfers from Level 3                       |   |                             |                      |  |           |
| Transfers into Level 3                       |   |                             |                      |  |           |
| Balance at end of period                     | \$ 20,444   | \$ 6,597                    | \$ 481               | \$ 3,226   | \$ 30,748 |
| <b>Year Ended December 31, 2011</b>          |   |                             |                      |  |           |
| Balance at beginning of period               | \$ 5,974  | \$ 11,245                   | \$ 375               | \$   | \$ 17,594 |
| Total gains (losses) realized/unrealized:    |   |                             |                      |  |           |
| Included in earnings                         | (37)  | (48)                        |                      |  | (85)      |
| Included in other comprehensive income       | 61  | 94                          | 33                   |  | 188       |
| Accretion included in earnings               |   |                             |                      |  |           |
| Purchases, issuances, sales and settlements: |   |                             |                      |  |           |
| Purchases                                    |   |                             |                      |  |           |
| Issuances                                    |   |                             |                      |  |           |
| Sales/redemptions                            |   | (6,094)                     |                      |  | (6,094)   |
| Settlements                                  |   |                             |                      |  |           |
| Transfers from Level 3                       |   |                             |                      |  |           |
| Transfers into Level 3                       |   |                             |                      |  |           |
| Balance at end of period                     | \$ 5,998  | \$ 5,197                    | \$ 408               | \$   | \$ 11,603 |

The Corporation reviews 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 footnote in the Notes to Consolidated Financial Statements section of this Report for information relating to significant unobservable inputs used in determining Level 3 fair values.

For the six months ended June 30, 2012 and 2011, there were no gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of those dates. For 2011, the amount of total losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of year-end was \$37. These losses are included in net impairment losses on securities reported as a component of non-interest income.

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In accordance with GAAP, from time to time, the Corporation measures certain assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of 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 nonrecurring basis still held in the balance sheet, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

|                          | Level 1 | Level 2  | Level 3  | Total    |
|--------------------------|---------|----------|----------|----------|
| <b>June 30, 2012</b>     |         |          |          |          |
| Impaired loans           | \$      | \$ 3,427 | \$ 2,560 | \$ 5,987 |
| Other real estate owned  |         | 6,042    | 604      | 6,646    |
| <b>December 31, 2011</b> |         |          |          |          |
| Impaired loans           |         | 5,034    | 12,293   | 17,327   |
| Other real estate owned  |         | 3,118    | 16,261   | 19,379   |

Impaired loans measured or re-measured at fair value on a non-recurring basis during the six months ended June 30, 2012 had a carrying amount of \$10,052 and an allocated allowance for loan losses of \$4,701 at June 30, 2012. The allocated allowance is based on fair value of \$5,987 less estimated costs to sell of \$636. The allowance for loan losses includes a provision applicable to the current period fair value measurements of \$4,359 which was included in the provision for loan losses for the six months ended June 30, 2012.

OREO with a carrying amount of \$8,995 was written down to \$5,795 (fair value of \$6,646 less estimated costs to sell of \$851), resulting in a loss of \$3,200, which was included in earnings for the six months ended June 30, 2012.



**Table of Contents***Fair Value of Financial Instruments*

The estimated fair values of the Corporation's financial instruments are as follows:

|  | Carrying<br>Amount | Fair<br>Value | Fair Value Measurements |           |           |
|--|--------------------|---------------|-------------------------|-----------|-----------|
|  |                    |               | Level 1                 | Level 2   | Level 3   |
| <b>June 30, 2012</b>                     |                    |               |                         |           |           |
| <b>Financial Assets</b>                  |                    |               |                         |           |           |
| Cash and cash equivalents                | \$ 222,758         | \$ 222,758    | \$ 222,758              | \$        | \$        |
| Securities available for sale            | 1,071,924          | 1,071,924     | 408                     | 1,040,768 | 30,748    |
| Securities held to maturity              | 1,203,240          | 1,240,956     |                         | 1,221,983 | 18,973    |
| Net loans, including loans held for sale | 7,776,209          | 7,669,469     |                         |           | 7,669,469 |
| Bank owned life insurance                | 237,871            | 237,871       | 237,871                 |           |           |
| Accrued interest receivable              | 28,293             | 28,293        | 28,293                  |           |           |
| <b>Financial Liabilities</b>             |                    |               |                         |           |           |
| Deposits                                 | 8,986,300          | 9,028,381     | 6,301,075               | 2,727,306 |           |
| Short-term borrowings                    | 934,510            | 934,510       | 934,510                 |           |           |
| Long-term debt                           | 90,654             | 93,075        |                         |           | 93,075    |
| Junior subordinated debt                 | 203,993            | 167,949       |                         |           | 1647,949  |
| Accrued interest payable                 | 9,826              | 9,826         | 9,826                   |           |           |
| <b>December 31, 2011</b>                 |                    |               |                         |           |           |
| <b>Financial Assets</b>                  |                    |               |                         |           |           |
| Cash and cash equivalents                | \$ 208,953         | \$ 208,953    |                         |           |           |
| Securities available for sale            | 640,571            | 640,571       |                         |           |           |
| Securities held to maturity              | 917,212            | 952,033       |                         |           |           |
| Net loans, including loans held for sale | 6,770,280          | 6,829,830     |                         |           |           |
| Bank owned life insurance                | 208,927            | 208,927       |                         |           |           |
| Accrued interest receivable              | 25,930             | 25,930        |                         |           |           |
| <b>Financial Liabilities</b>             |                    |               |                         |           |           |
| Deposits                                 | 7,289,768          | 7,315,948     |                         |           |           |
| Short-term borrowings                    | 851,294            | 851,294       |                         |           |           |
| Long-term debt                           | 88,016             | 90,632        |                         |           |           |
| Junior subordinated debt                 | 203,967            | 167,608       |                         |           |           |
| Accrued interest payable                 | 6,305              | 6,305         |                         |           |           |

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

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

*Securities.* For both securities available for sale and securities held to maturity, fair value equals the quoted market price from an active market, if available, and is classified within Level 1. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or pricing models, and is classified as Level 2. Where there is limited market activity or significant valuation inputs are unobservable, securities are classified within Level 3. Under current market conditions, assumptions used to determine the fair value of Level 3 securities have greater subjectivity due to the lack of observable market transactions.

*Loans.* The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities less

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an illiquidity discount. The fair value of variable and adjustable rate loans approximates the carrying amount. Due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

*Bank Owned Life Insurance.* The Corporation owns both general account and separate account bank owned life insurance (BOLI). The fair value of general account BOLI is based on the insurance contract cash surrender value. The fair value of separate account BOLI equals the quoted market price of the underlying securities, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. In connection with the separate account BOLI, the Corporation has purchased a stable value protection product that mitigates the impact of market value fluctuations of the underlying separate account assets.

*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 and Junior Subordinated Debt.* The fair value of long-term and junior subordinated debt 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 the Corporation for debt of the same remaining maturities.

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

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

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

Management's Discussion and Analysis represents an overview of the consolidated results of operations and financial condition of the Corporation and highlights material changes to the financial condition and results of operations at and for the three-month and six-month periods ended June 30, 2012. This Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto contained herein and the Corporation's consolidated financial statements and notes thereto and Management's Discussion and Analysis included in its 2011 Annual Report on Form 10-K filed with the SEC on February 28, 2012. The Corporation's results of operations for the six months ended June 30, 2012 are not necessarily indicative of results to be expected for the year ending December 31, 2012.

**IMPORTANT CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

The Corporation makes statements in this Report, and may from time to time make other statements, regarding its outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset levels, asset quality and other matters regarding or affecting F.N.B. Corporation and its future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, see, look, intend, project, forecast, estimate, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time.

Forward-looking statements speak only as of the date made. The Corporation does not assume any duty and does not undertake to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance.

The Corporation's forward-looking statements are subject to the following principal risks and uncertainties:

The Corporation's businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:

Changes in interest rates and valuations in debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of U.S. and global financial markets.

Actions by the Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.

Changes in customers', suppliers' and other counterparties' performance and creditworthiness which adversely affect loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.

Slowing or failure of the current moderate economic recovery.

Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.

Legal and regulatory developments could affect the Corporation's ability to operate its businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These

developments could include:

Changes resulting from legislative and regulatory reforms, including broad-based restructuring of financial industry regulation and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies and principles. The Corporation will continue to be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on the Corporation, remains uncertain.

Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel III initiatives.

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Impact on business and operating results of any costs associated with obtaining rights in intellectual property, the adequacy of the Corporation's intellectual property protection in general and rapid technological developments and changes. The Corporation's ability to anticipate and respond to technological changes can also impact its ability to respond to customer needs and meet competitive demands.

Business and operating results are affected by the Corporation's ability to identify and effectively manage risks inherent in its businesses, including, where appropriate, through effective use of third-party insurance, derivatives, swaps, and capital management techniques, and to meet evolving regulatory capital standards.

Increased competition, whether due to consolidation among financial institutions; realignments or consolidation of branch offices, legal and regulatory developments, industry restructuring or other causes, can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. As demonstrated by the Parkvale acquisition, the Corporation grows its business in part by acquiring from time to time other financial services companies, financial services assets and related deposits. These other acquisitions often present risks and uncertainties, including, the possibility that the transaction cannot be consummated; regulatory issues; cost, or difficulties, involved in integration and conversion of the acquired businesses after closing; inability to realize expected cost savings, efficiencies and strategic advantages; the extent of credit losses in acquired loan portfolios and extent of deposit attrition; and the potential dilutive effect to current shareholders.

Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Industry restructuring in the current environment could also impact the Corporation's business and financial performance through changes in counterparty creditworthiness and performance and the competitive and regulatory landscape. The Corporation's ability to anticipate and respond to technological changes can also impact its ability to respond to customer needs and meet competitive demands.

Business and operating results can also be affected by widespread disasters, dislocations, terrorist activities or international hostilities through impacts on the economy and financial markets.

The Corporation provides greater detail regarding some of these factors in its 2011 Annual Report on Form 10-K filed with the SEC on February 28, 2012, including the Risk Factors section of that report, and its subsequent SEC filings. The Corporation's forward-looking statements may also be subject to other risks and uncertainties, including those that may be discussed elsewhere in this Report, accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the Corporation's website at [www.fnbcorporation.com](http://www.fnbcorporation.com). The Corporation has included these web addresses as inactive textual references only. Information on these websites is not part of this document.

## **CRITICAL ACCOUNTING POLICIES**

A description of the Corporation's critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Corporation's 2011 Annual Report on Form 10-K filed with the SEC on February 28, 2012 under the heading Application of Critical Accounting Policies. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since the year ended December 31, 2011.

## **OVERVIEW**

The Corporation is a diversified financial services company headquartered in Hermitage, Pennsylvania. Its primary businesses include community banking, consumer finance, wealth management and insurance. The Corporation also conducts leasing and merchant banking activities. The Corporation operates its community banking business through a full service branch network with offices in Pennsylvania, Ohio and West Virginia. The Corporation operates its wealth management and insurance businesses within the community banking branch network. It also conducts selected consumer finance business in Pennsylvania, Ohio, Tennessee and Kentucky.

**Table of Contents****RESULTS OF OPERATIONS*****Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011***

Net income for the three months ended June 30, 2012 was \$29.1 million or \$0.21 per diluted share, compared to net income for the three months ended June 30, 2011 of \$22.4 million or \$0.18 per diluted share. For the three months ended June 30, 2012, the Corporation's return on average equity was 8.57% and its return on average assets was 1.00%, compared to 7.69% and 0.91%, respectively, for the three months ended June 30, 2011.

In addition to evaluating its results of operations in accordance with GAAP, the Corporation routinely supplements its evaluation with an analysis of certain non-GAAP financial measures, such as return on average tangible equity and return on average tangible assets. The Corporation believes these non-GAAP financial measures provide information useful to investors in understanding the Corporation's operating performance and trends, and facilitate comparisons with the performance of the Corporation's peers. The non-GAAP financial measures used by the Corporation may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Corporation's reported results prepared in accordance with GAAP. The following tables summarize the Corporation's non-GAAP financial measures for the periods indicated derived from amounts reported in the Corporation's financial statements (dollars in thousands):

|  | <b>Three Months Ended<br/>June 30,</b> |              |
|--|--|--------------|
|  | <b>2012</b>                            | <b>2011</b>  |
| <b><u>Return on average tangible equity:</u></b>     |  |              |
| Net income (annualized)                              | \$ 117,162                             | \$ 89,695    |
| Amortization of intangibles, net of tax (annualized) | 6,194                                  | 4,707        |
|  | \$ 123,356                             | \$ 94,402    |
| Average total stockholders' equity                   | \$ 1,367,333                           | \$ 1,166,305 |
| Less: Average intangibles                            | (718,507)                              | (603,552)    |
|  | \$ 648,826                             | \$ 562,753   |
| Return on average tangible equity                    | 19.01%                                 | 16.78%       |
| <b><u>Return on average tangible assets:</u></b>     |  |              |
| Net income (annualized)                              | \$ 117,162                             | \$ 89,695    |
| Amortization of intangibles, net of tax (annualized) | 6,194                                  | 4,707        |
|  | \$ 123,356                             | \$ 94,402    |
| Average total assets                                 | \$ 11,734,221                          | \$ 9,866,025 |
| Less: Average intangibles                            | (718,507)                              | (603,552)    |
|  | \$ 11,015,714                          | \$ 9,262,473 |
| Return on average tangible assets                    | 1.12%                                  | 1.02%        |

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

|   | Three Months Ended June 30, |                                |                |                     |                                |                |
|---|-----------------------------|--------------------------------|----------------|---------------------|--------------------------------|----------------|
|   | 2012                        |                                |                | 2011                |                                |                |
|   | Average<br>Balance          | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance  | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| <b>Assets</b>   |                             |                                |                |                     |                                |                |
| Interest earning assets:  |                             |                                |                |                     |                                |                |
| Interest bearing deposits with banks                                | \$ 77,073                   | \$ 39                          | 0.20%          | \$ 167,924          | \$ 97                          | 0.23%          |
| Taxable investment securities (1)                                   | 2,072,052                   | 12,515                         | 2.36           | 1,566,447           | 10,975                         | 2.75           |
| Non-taxable investment securities (2)                               | 183,203                     | 2,579                          | 5.63           | 199,882             | 2,870                          | 5.74           |
| Loans (2) (3)   | 7,831,847                   | 95,983                         | 4.92           | 6,623,337           | 86,212                         | 5.22           |
| <b>Total interest earning assets (2)</b>                            | <b>10,164,175</b>           | <b>111,116</b>                 | <b>4.39</b>    | <b>8,557,590</b>    | <b>100,154</b>                 | <b>4.69</b>    |
| Cash and due from banks   | 178,331                     |                                |                | 166,216             |                                |                |
| Allowance for loan losses   | (103,618)                   |                                |                | (109,489)           |                                |                |
| Premises and equipment  | 148,335                     |                                |                | 126,527             |                                |                |
| Other assets  | 1,346,998                   |                                |                | 1,125,181           |                                |                |
| <b>Total Assets</b>   | <b>\$ 11,734,221</b>        |                                |                | <b>\$ 9,866,025</b> |                                |                |
| <b>Liabilities</b>  |                             |                                |                |                     |                                |                |
| Interest-bearing liabilities:                                       |                             |                                |                |                     |                                |                |
| Deposits:   |                             |                                |                |                     |                                |                |
| Interest bearing demand   | \$ 3,483,658                | 1,838                          | 0.21           | \$ 2,905,795        | 2,626                          | 0.36           |
| Savings   | 1,202,285                   | 243                            | 0.08           | 982,921             | 474                            | 0.19           |
| Certificates and other time   | 2,723,223                   | 8,532                          | 1.26           | 2,315,829           | 10,954                         | 1.90           |
| Customer repurchase agreements                                      | 772,595                     | 645                            | 0.33           | 588,564             | 758                            | 0.51           |
| Other short-term borrowings   | 166,502                     | 690                            | 1.64           | 144,301             | 876                            | 2.40           |
| Long-term debt  | 90,510                      | 889                            | 3.95           | 206,201             | 1,655                          | 3.22           |
| Junior subordinated debt  | 203,986                     | 1,967                          | 3.88           | 203,934             | 2,118                          | 4.16           |
| <b>Total interest-bearing liabilities (2)</b>                       | <b>8,642,759</b>            | <b>14,804</b>                  | <b>0.69</b>    | <b>7,347,545</b>    | <b>19,461</b>                  | <b>1.06</b>    |
| Non-interest bearing demand   | 1,569,047                   |                                |                | 1,249,029           |                                |                |
| Other liabilities   | 155,082                     |                                |                | 104,146             |                                |                |
| <b>Total Liabilities</b>  | <b>10,366,888</b>           |                                |                | <b>8,700,720</b>    |                                |                |
| <b>Stockholders equity</b>  | <b>1,367,333</b>            |                                |                | <b>1,166,305</b>    |                                |                |
| <b>Total Liabilities and Stockholders Equity</b>                    | <b>\$ 11,734,221</b>        |                                |                | <b>\$ 9,867,025</b> |                                |                |
| Excess of interest earning assets over interest-bearing liabilities |                             |                                |                |                     |                                |                |
|   | \$ 1,521,416                |                                |                | \$ 1,210,045        |                                |                |
| Fully tax-equivalent net interest income                            |                             | 96,312                         |                |                     | 80,693                         |                |
| Tax-equivalent adjustment   |                             | (1,831)                        |                |                     | (1,999)                        |                |
| Net interest income   |                             | \$ 94,481                      |                |                     | \$ 78,694                      |                |

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|                         |       |       |
|-------------------------|-------|-------|
| Net interest spread     | 3.70% | 3.63% |
| Net interest margin (2) | 3.80% | 3.78% |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on a fully taxable equivalent (FTE) basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes 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 consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.



**Table of Contents***Net Interest Income*

Net interest income, which is the Corporation's principal source of revenue, is the difference between interest income from earning assets (loans, securities, interest bearing deposits with banks and federal funds sold) and interest expense paid on liabilities (deposits, customer repurchase agreements and short- and long-term borrowings). For the three months ended June 30, 2012, net interest income, which comprised 74.2% of net revenue (net interest income plus non-interest income) compared to 72.9% for the same period in 2011, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest earning assets and interest-bearing liabilities.

Net interest income, on an FTE basis, increased \$15.6 million or 19.4% from \$80.7 million for the second quarter of 2011 to \$96.3 million for the second quarter of 2012. Average earning assets increased \$1.6 billion or 18.8% and average interest bearing liabilities increased \$1.3 billion or 17.6% from 2011 due to the acquisition of Parkvale combined with organic growth in loans, deposits and customer repurchase agreements. The Corporation's net interest margin was 3.80% for the second quarter of 2012 compared to 3.78% for the same period of 2011. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest earning assets and interest-bearing liabilities and changes in the rates for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 (in thousands):

|                                      | Volume    | Rate     | Net       |
|--------------------------------------|-----------|----------|-----------|
| <b>Interest Income</b>               |           |          |           |
| Interest bearing deposits with banks | \$ (47)   | \$ (11)  | \$ (58)   |
| Securities                           | 3,272     | (2,023)  | 1,249     |
| Loans                                | 14,255    | (4,484)  | 9,771     |
|                                      | 17,480    | (6,518)  | 10,962    |
| <b>Interest Expense</b>              |           |          |           |
| Deposits:                            |           |          |           |
| Interest bearing demand              | 339       | (1,127)  | (788)     |
| Savings                              | 91        | (322)    | (231)     |
| Certificates and other time          | 1,682     | (4,104)  | (2,422)   |
| Customer repurchase agreements       | 198       | (311)    | (113)     |
| Other short-term borrowings          | 29        | (215)    | (186)     |
| Long-term debt                       | (1,079)   | 313      | (766)     |
| Junior subordinated debt             | 1         | (152)    | (151)     |
|                                      | 1,261     | (5,918)  | (4,657)   |
| Net Change                           | \$ 16,219 | \$ (600) | \$ 15,619 |

- (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 which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes 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, of \$111.1 million for the second quarter of 2012 increased by \$11.0 million or 10.9% from 2011, primarily due to increased earning assets resulting from a combination of organic growth, the May 2011 capital raise and the Parkvale acquisition, partially offset by lower yields. Additionally, during the second quarter of 2012, the Corporation recognized \$2.5 million in net accretable yield as a result of improved cash flows on acquired portfolios compared to original estimates for both CBI and Parkvale. The increase in earning assets was primarily driven by a \$1.2 billion or 18.2% increase in average loans. Loans acquired from Parkvale totaled \$922.1 million on the

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acquisition date. The yield on earning assets decreased 30 basis points from the second quarter of 2011 to 4.39% for the second quarter of 2012, reflecting the decreases in market interest rates and competitive pressure along with the Parkvale acquired loans.

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Interest expense of \$14.8 million for the second quarter of 2012 decreased \$4.7 million or 23.9% from the same period of 2011 due to lower rates paid, partially offset by growth in interest bearing liabilities resulting from a combination of organic growth and the acquisition of Parkvale. The rate paid on interest bearing liabilities decreased 37 basis points to 0.69% during the second quarter of 2012, compared to the second quarter of 2011, reflecting changes in interest rates, the Parkvale acquisition and a favorable shift in mix. The growth in average interest bearing liabilities was primarily attributable to growth in deposits and customer repurchase agreements, which increased by \$1.7 billion or 21.3% for the second quarter of 2012 compared to the second quarter of 2011. Deposits acquired from Parkvale totaled \$1.5 billion on the acquisition date. This growth was partially offset by a \$115.7 million or 56.1% reduction in average long-term debt primarily associated with the prepayment of certain higher-cost borrowings during the fourth quarter of 2011.

*Provision for Loan Losses*

The provision for loan losses is determined based on management's estimates of the appropriate level of allowance for loan losses needed to absorb probable losses inherent in the existing loan portfolio, after giving consideration to charge-offs and recoveries for the period.

The provision for loan losses of \$7.0 million during the second quarter of 2012 decreased \$1.5 million from the same period of 2011. During the second quarter of 2012, net charge-offs increased \$0.5 million from the same period of 2011 as the Corporation recognized more net charge-offs in its Florida portfolio, which increased \$0.8 million compared to the second quarter of 2011. During the second quarter of 2012, net charge-offs were \$7.5 million or 0.38% (annualized) of average loans compared to \$6.9 million or 0.42% (annualized) of average loans for the same period of 2011. The net charge-offs for the second quarter of 2012 included \$1.4 million or 3.63% (annualized) of average loans relating to Regency, \$0.8 million or 2.81% (annualized) of average loans relating to FNBPA's Florida portfolio and \$5.2 million or 0.28% (annualized) of average loans relating to the remainder of the Corporation's portfolio. For additional information relating to the allowance and provision for loan losses, refer to the Allowance for Loan Losses section of this Management's Discussion and Analysis.

*Non-Interest Income*

Total non-interest income of \$32.8 million for the second quarter of 2012 increased \$3.5 million or 12.0% from the same period of 2011. This increase was primarily due to increases in service charges, insurance commissions and fees and income from BOLI. The variances in these and certain other non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$17.6 million for the second quarter of 2012 increased \$1.9 million or 12.3% from the same period of 2011, reflecting increases of \$0.9 million in income from interchange fees, \$0.5 million in overdraft fees and \$0.6 million in other service charges due to a combination of higher volume, organic growth and the expanded customer base due to the Parkvale acquisition. For information relating to the impact of the new regulations on the Corporation's income from interchange fees, refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act section of this Management's Discussion and Analysis.

Insurance commissions and fees of \$3.9 million for the three months ended June 30, 2012 increased \$0.2 million or 5.9% from the same period of 2011, primarily as a result of a large new account.

Trust fees of \$3.8 million for the three months ended June 30, 2012 decreased slightly from \$3.9 million from the same period of 2011. The market value of assets under management increased by \$183.9 million or 7.6% to \$2.6 billion over this same period.

Gain on sale of residential mortgage loans of \$0.7 million for the second quarter of 2012 increased \$0.3 million or 89.2% from the same period of 2011 due to additional sales volume. For the second quarter of 2012, the Corporation sold \$53.5 million of residential mortgage loans compared to \$28.2 million for the same period of 2011 as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

Income from BOLI of \$1.6 million for the three months ended June 30, 2012 increased by \$0.2 million or 15.2% from the same period of 2011, primarily as a result of the Parkvale acquisition.

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Other income of \$2.9 million for the second quarter of 2012 increased \$0.8 million or 39.8% from the same period of 2011 primarily due to higher swap-related revenue. The Corporation's interest rate swap program is designed for larger commercial customers who desire fixed rate loans while the Corporation benefits from a variable rate asset, thereby helping to reduce volatility in its net interest income.

*Non-Interest Expense*

Total non-interest expense of \$78.5 million for the second quarter of 2012 increased \$10.1 million or 14.8% from the same period of 2011. This increase was primarily attributable to increases in salaries and employee benefits, occupancy and equipment, amortization of intangibles, outside services, merger-related expenses and other non-interest expense, partially offset by decreases in Federal Deposit Insurance Corporation (FDIC) insurance and state taxes. These variances in non-interest expense items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the branch offices and operations acquired from Parkvale.

Salaries and employee benefits of \$41.1 million for the three months ended June 30, 2012 increased \$4.5 million or 12.4% from the same period of 2011. This increase was primarily attributable to the Parkvale acquisition as well as merit increases and higher profitability and performance-based accruals for incentive compensation.

Occupancy and equipment expense of \$11.9 million for the second quarter of 2012 increased \$1.9 million or 18.8% from the same period of 2011, resulting from higher expenses associated with the Parkvale acquisition.

Amortization of intangibles expense of \$2.4 million for the second quarter of 2012 increased \$0.6 million or 31.2% from the same period of 2011 due to additional intangible balances from the Parkvale acquisition.

Outside services expense of \$7.3 million for the three months ended June 30, 2012 increased \$1.9 million or 35.9% from the same period of 2011, primarily resulting from increases of \$0.7 million related to ATM services, \$0.3 million related to data processing services, \$0.3 million related to directors' fees, \$0.3 million related to legal expense and \$0.1 million related to consulting fees.

FDIC insurance of \$2.2 million for the second quarter of 2012 increased \$0.3 million or 17.0% from the same period of 2011 primarily due to the Parkvale acquisition.

The Corporation recorded \$0.3 million in merger-related costs associated with the Parkvale acquisition during the second quarter of 2012. Merger-related costs recorded during the same period of 2011 in conjunction with the CBI acquisition were \$0.2 million.

Other non-interest expense increased to \$11.4 million for the second quarter of 2012 from \$10.6 million for the second quarter of 2011, resulting from increases of \$0.4 million, \$0.1 million and \$0.6 million in supplies, postage and telephone expenses, respectively, primarily resulting from the Parkvale acquisition. Additionally, miscellaneous losses increased \$0.5 million due to check losses. These increases were partially offset by decreases of \$0.9 million in OREO expense due to lower Florida expenses and property sales with partial recoveries and \$0.2 million in marketing expense.

*Income Taxes*

The Corporation's income tax expense of \$12.6 million for the second quarter of 2012 increased \$4.0 million or 45.6% from the same period of 2011. The effective tax rate of 30.2% for the second quarter of 2012 increased from 27.9% for the same period of 2011, reflecting the impact of higher pre-tax income and a \$0.4 million effective rate adjustment due to lower projected tax benefits on certain items. Both periods' tax rates are lower than the 35.0% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments, loans and BOLI and tax credits.

**Table of Contents****Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011**

Net income for the six months ended June 30, 2012 was \$50.7 million or \$0.36 per diluted share, compared to net income for the six months ended June 30, 2011 of \$39.5 million or \$0.32 per diluted share. For the six months ended June 30, 2012, the Corporation's return on average equity was 7.50% and its return on average assets was 0.88%, compared to 6.94% and 0.82%, respectively, for the six months ended June 30, 2011.

The following tables summarize the Corporation's non-GAAP financial measures for the periods indicated derived from amounts reported in the Corporation's financial statements (dollars in thousands):

|  | Six Months Ended<br>June 30, |              |
|--|------------------------------|--------------|
|  | 2012                         | 2011         |
| <b><u>Return on average tangible equity:</u></b>     |                              |              |
| Net income (annualized)                              | \$ 101,982                   | \$ 79,729    |
| Amortization of intangibles, net of tax (annualized) | 6,078                        | 4,720        |
|  | \$ 108,060                   | \$ 84,449    |
| Average total stockholders' equity                   | \$ 1,359,951                 | \$ 1,148,065 |
| Less: Average intangibles                            | (718,851)                    | (599,516)    |
|  | \$ 641,100                   | \$ 548,549   |
| Return on average tangible equity                    | 16.86%                       | 15.40%       |
| <b><u>Return on average tangible assets:</u></b>     |                              |              |
| Net income (annualized)                              | \$ 101,982                   | \$ 79,729    |
| Amortization of intangibles, net of tax (annualized) | 6,078                        | 4,720        |
|  | \$ 108,060                   | \$ 84,449    |
| Average total assets                                 | \$ 11,648,943                | \$ 9,780,993 |
| Less: Average intangibles                            | (718,851)                    | (599,516)    |
|  | \$ 10,930,092                | \$ 9,181,477 |
| Return on average tangible assets                    | 0.99%                        | 0.92%        |

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

|   | Six Months Ended June 30, |                                |                |                     |                                |                |
|---|---------------------------|--------------------------------|----------------|---------------------|--------------------------------|----------------|
|   | 2012                      |                                |                | 2011                |                                |                |
|   | Average<br>Balance        | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance  | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| <b>Assets</b>   |                           |                                |                |                     |                                |                |
| Interest earning assets:  |                           |                                |                |                     |                                |                |
| Interest bearing deposits with banks                                | \$ 87,669                 | \$ 95                          | 0.22%          | \$ 152,687          | \$ 178                         | 0.24%          |
| Taxable investment securities (1)                                   | 1,990,339                 | 24,873                         | 2.45           | 1,546,078           | 21,594                         | 2.74           |
| Non-taxable investment securities (2)                               | 184,690                   | 5,218                          | 5.65           | 203,039             | 5,839                          | 5.75           |
| Loans (2) (3)   | 7,804,804                 | 190,118                        | 4.89           | 6,582,006           | 171,879                        | 5.26           |
| <b>Total interest earning assets (2)</b>                            | <b>10,067,502</b>         | <b>220,304</b>                 | <b>4.39</b>    | <b>8,483,810</b>    | <b>199,490</b>                 | <b>4.73</b>    |
| Cash and due from banks   | 183,244                   |                                |                | 154,453             |                                |                |
| Allowance for loan losses   | (103,068)                 |                                |                | (108,877)           |                                |                |
| Premises and equipment  | 148,019                   |                                |                | 126,915             |                                |                |
| Other assets  | 1,353,246                 |                                |                | 1,124,692           |                                |                |
| <b>Total Assets</b>   | <b>\$ 11,648,943</b>      |                                |                | <b>\$ 9,780,993</b> |                                |                |
| <b>Liabilities</b>  |                           |                                |                |                     |                                |                |
| Interest-bearing liabilities:                                       |                           |                                |                |                     |                                |                |
| Deposits:   |                           |                                |                |                     |                                |                |
| Interest bearing demand   | \$ 3,460,439              | 4,038                          | 0.23           | \$ 2,845,081        | 5,307                          | 0.38           |
| Savings   | 1,178,328                 | 619                            | 0.11           | 976,618             | 952                            | 0.20           |
| Certificates and other time   | 2,768,560                 | 17,914                         | 1.30           | 2,327,922           | 22,390                         | 1.94           |
| Customer repurchase agreements                                      | 748,338                   | 1,328                          | 0.35           | 617,088             | 1,677                          | 0.54           |
| Other short-term borrowings   | 159,740                   | 1,451                          | 1.80           | 143,918             | 1,790                          | 2.47           |
| Long-term debt  | 91,399                    | 1,842                          | 4.05           | 202,644             | 3,283                          | 3.27           |
| Junior subordinated debt  | 202,931                   | 3,978                          | 3.94           | 203,947             | 4,150                          | 4.10           |
| <b>Total interest-bearing liabilities (2)</b>                       | <b>8,609,735</b>          | <b>31,170</b>                  | <b>0.73</b>    | <b>7,317,218</b>    | <b>39,549</b>                  | <b>1.09</b>    |
| Non-interest bearing demand   | 1,519,847                 |                                |                | 1,212,229           |                                |                |
| Other liabilities   | 159,410                   |                                |                | 103,481             |                                |                |
| <b>Total Liabilities</b>  | <b>10,288,992</b>         |                                |                | <b>8,632,928</b>    |                                |                |
| <b>Stockholders equity</b>  | <b>1,359,951</b>          |                                |                | <b>1,148,065</b>    |                                |                |
| <b>Total Liabilities and Stockholders Equity</b>                    | <b>\$ 11,648,943</b>      |                                |                | <b>\$ 9,780,993</b> |                                |                |
| Excess of interest earning assets over interest-bearing liabilities |                           |                                |                |                     |                                |                |
|   | \$ 1,457,767              |                                |                | \$ 1,166,592        |                                |                |
| Fully tax-equivalent net interest income                            |                           | 189,134                        |                |                     | 159,941                        |                |
| Tax-equivalent adjustment   |                           | (3,732)                        |                |                     | (3,964)                        |                |
| Net interest income   |                           | \$ 185,402                     |                |                     | \$ 155,977                     |                |

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|                         |       |       |
|-------------------------|-------|-------|
| Net interest spread     | 3.67% | 3.64% |
| Net interest margin (2) | 3.77% | 3.79% |

- (1) The average balances and yields earned on taxable investment securities are based on historical cost.
- (2) The interest income amounts are reflected on a fully taxable equivalent (FTE) basis, a non-GAAP measure, which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized basis. The rates paid on interest-bearing liabilities are also presented on an annualized basis. The Corporation believes 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 consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

**Table of Contents***Net Interest Income*

For the six months ended June 30, 2012, net interest income, which comprised 74.2% of net revenue compared to 73.0% for the same period in 2011, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest earning assets and interest-bearing liabilities.

Net interest income, on an FTE basis, increased \$29.2 million or 18.3% from \$159.9 million for the first half of 2011 to \$189.1 million for the first half of 2012. Average earning assets increased \$1.6 billion or 18.7% and average interest bearing liabilities increased \$1.3 billion or 17.7% from 2011 due to the acquisition of Parkvale combined with organic growth in loans, deposits and customer repurchase agreements. The Corporation's net interest margin decreased slightly from 3.79% for the first half of 2011 to 3.77% for the first half of 2012 as loan yields declined faster than deposit rates primarily reflecting the acquisition of Parkvale as well as the impact of the current low interest rate environment. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest earning assets and interest-bearing liabilities and changes in the rates for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 (in thousands):

|                                      | Volume    | Rate       | Net       |
|--------------------------------------|-----------|------------|-----------|
| <b>Interest Income</b>               |           |            |           |
| Interest bearing deposits with banks | \$ (71)   | \$ (12)    | \$ (83)   |
| Securities                           | 6,084     | (3,426)    | 2,658     |
| Loans                                | 29,748    | (11,509)   | 18,239    |
|                                      | 35,761    | (14,947)   | 20,814    |
| <b>Interest Expense</b>              |           |            |           |
| Deposits:                            |           |            |           |
| Interest bearing demand              | 843       | (2,112)    | (1,269)   |
| Savings                              | 190       | (523)      | (333)     |
| Certificates and other time          | 3,742     | (8,218)    | (4,476)   |
| Customer repurchase agreements       | 314       | (663)      | (349)     |
| Other short-term borrowings          | 59        | (398)      | (339)     |
| Long-term debt                       | (2,102)   | 661        | (1,441)   |
| Junior subordinated debt             | (19)      | (153)      | (172)     |
|                                      | 3,027     | (11,406)   | (8,379)   |
| Net Change                           | \$ 32,734 | \$ (3,541) | \$ 29,193 |

- (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 which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes 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, of \$220.3 million for the first half of 2012 increased by \$20.8 million or 10.4% from 2011 primarily due to increased earning assets resulting from a combination of organic growth, the May 2011 capital raise and the Parkvale acquisition, partially offset by lower yields. Additionally, during the second quarter of 2012, the Corporation recognized \$2.5 million in net accretable yield as a result of improved cash flows on acquired portfolios compared to original estimates for both CBI and Parkvale. The increase in earning assets was primarily driven by a \$1.2 billion or 18.6% increase in average loans. Loans acquired from Parkvale totaled \$922.1 million on the acquisition date. The yield on earning assets decreased 34 basis points from the first half of 2011 to 4.39% for the first half of 2012 reflecting the decreases in market interest rates and competitive pressure along with the Parkvale acquired loans.



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Interest expense of \$31.2 million for the first half of 2012 decreased \$8.4 million or 21.2% from the same period of 2011 due to lower rates paid, partially offset by growth in interest bearing liabilities resulting from a

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combination of organic growth and the acquisition of Parkvale. The rate paid on interest bearing liabilities decreased 36 basis points to 0.73% during the first half of 2012 compared to the first half of 2011, reflecting changes in interest rates, the Parkvale acquisition and a favorable shift in mix. The growth in average interest bearing liabilities was primarily attributable to growth in deposits and customer repurchase agreements, which increased by \$1.4 billion or 20.5% for the first half of 2012 compared to the first half of 2011. Deposits acquired from Parkvale totaled \$1.5 billion on the acquisition date. This growth was partially offset by a \$111.2 million or 54.9% reduction in average long-term debt primarily associated with the prepayment of certain higher-cost borrowings during the fourth quarter of 2011.

### *Provision for Loan Losses*

The provision for loan losses of \$13.6 million during the first half of 2012 decreased \$3.2 million from the same period of 2011. During the first half of 2012, net charge-offs decreased \$1.1 million from the same period of 2011 as the Corporation recognized lower net charge-offs in FNBPA's portfolio which decreased \$0.9 million compared to the first half of 2011. During the first half of 2012, net charge-offs were \$12.6 million or 0.33% (annualized) of average loans compared to \$13.7 million or 0.42% (annualized) of average loans for the same period of 2011. The net charge-offs for the first half of 2012 included \$2.8 million or 3.59% (annualized) of average loans relating to Regency, \$0.8 million or 1.26% (annualized) of average loans relating to FNBPA's Florida portfolio and \$9.0 million or 0.24% (annualized) of average loans relating to the remainder of the Corporation's portfolio. For additional information relating to the allowance and provision for loan losses, refer to the Allowance for Loan Losses section of this Management's Discussion and Analysis.

### *Non-Interest Income*

Total non-interest income of \$64.5 million for the first half of 2012 increased \$6.8 million or 11.8% from the same period of 2011. This increase was primarily due to increases in service charges and income from BOLI. The variances in these and certain other non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$34.8 million for the first half of 2012 increased \$4.8 million or 15.8% from the same period of 2011, reflecting increases of \$2.0 million in income from interchange fees, \$1.3 million in overdraft fees and \$1.4 million in other service charges due to a combination of higher volume, organic growth and the expanded customer base due to the Parkvale acquisition. For information relating to the impact of the new regulations on the Corporation's income from interchange fees, refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act section of this Management's Discussion and Analysis.

Insurance commissions and fees of \$8.1 million for the six months ended June 30, 2012 increased slightly from \$7.8 million for the same period of 2011, primarily as a result of a large new account.

Trust fees of \$7.6 million for the six months ended June 30, 2012 remained unchanged from the same period of 2011. The market value of assets under management increased by \$189.9 million or 7.6% to \$2.6 billion over this same period.

Gain on sale of residential mortgage loans of \$1.5 million for the first half of 2012 increased slightly from the same period of 2011 due to additional sales volume. For the first half of 2012, the Corporation sold \$99.0 million of residential mortgage loans compared to \$70.9 million for the same period of 2011 as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

Income from BOLI of \$3.1 million for the six months ended June 30, 2012 increased by \$0.5 million or 20.5% from the same period of 2011 primarily as a result of the Parkvale acquisition.

Other income was \$5.1 million for the first half of 2012 compared to \$4.3 million for the first half of 2011. During the first half of 2012, the Corporation recognized \$0.6 million more swap-related revenue. The Corporation's interest rate swap program is designed for larger commercial customers who desire fixed rate loans while the Corporation benefits from a variable rate asset, thereby helping to reduce volatility in its net interest income. Additionally, during the first half of 2012, the Corporation recognized \$0.2 million more in dividends on non-marketable equity securities and \$0.2 million more in recoveries on impaired loans acquired in previous acquisitions. Partially offsetting these increases was \$0.2 million less in gains on the sale of repossessed assets.

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*Non-Interest Expense*

Total non-interest expense of \$165.2 million for the first half of 2012 increased \$22.2 million or 15.6% from the same period of 2011. This increase was primarily attributable to increases in salaries and employee benefits, occupancy and equipment, amortization of intangibles, outside services, merger-related expenses and other non-interest expense, partially offset by decreases in FDIC insurance and state taxes. These variances in non-interest expense items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the branch offices and operations acquired from Parkvale, as well as merger-related costs.

Salaries and employee benefits of \$85.7 million for the six months ended June 30, 2012 increased \$10.8 million or 14.4% from the same period of 2011. This increase was primarily attributable to the Parkvale acquisition as well as merit increases and higher profitability and performance-based accruals for incentive compensation. Additionally, the Corporation recorded a net charge of \$0.6 million for severance and other items relating to a former executive.

Occupancy and equipment expense of \$23.7 million for the first half of 2012 increased \$3.3 million or 16.1% from the same period of 2011, resulting from higher expenses associated with the Parkvale acquisition.

Amortization of intangibles expense of \$4.7 million for the first half of 2012 increased \$1.0 million or 29.1% from the same period of 2011 due to additional intangible balances from the Parkvale acquisition.

Outside services expense of \$13.7 million for the six months ended June 30, 2012 increased \$3.1 million or 29.3% from the same period of 2011, primarily resulting from increases of \$0.8 million related to check card expenses, \$0.6 related to data processing services, \$0.6 million related to legal expense, \$0.3 million related to director fees, \$0.2 million related to consulting fees and \$0.3 million relating to other services. These increases were primarily due to the Parkvale acquisition.

FDIC insurance of \$4.2 million for the first half of 2012 decreased \$0.4 million or 9.4% from the same period of 2011 primarily due to the new assessment methodology that became effective during the second quarter of 2011, partially offset by the impact of the Parkvale acquisition.

State tax expense of \$3.5 million for the first half of 2012 decreased \$0.5 million or 12.7% from the same period of 2011, primarily due to lower net worth based taxes during 2012.

The Corporation recorded \$7.3 million in merger-related costs associated with the Parkvale acquisition during the first half of 2012. Merger-related costs recorded during the same period of 2011 in conjunction with the CBI acquisition were \$4.3 million.

Other non-interest expense increased to \$22.6 million for the first half of 2012 from \$20.6 million for the first half of 2011, resulting from increases of \$0.7 million, \$0.3 million and \$0.7 million in supplies, postage and telephone expenses, respectively, primarily resulting from the Parkvale acquisition. Additionally, miscellaneous losses increased \$0.9 million due to check losses, donations increased \$0.2 million due to the timing of annual contributions to support corporate causes and business development expense increased \$0.2 million. Partially offsetting these increases were decreases of \$0.8 million in OREO related expense, \$0.6 million in loan-related expense and \$0.2 million in marketing expense.

*Income Taxes*

The Corporation's income tax expense of \$20.5 million for the first half of 2012 increased \$6.0 million or 41.8% from the same period of 2011. The effective tax rate of 28.8% for the first half of 2012 increased from 26.7% for the same period of 2011, reflecting the impact of higher pre-tax income and a \$0.4 million effective rate adjustment due to lower projected benefits on certain items. Both periods' tax rates are lower than the 35.0% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt income on investments, loans and BOLI and tax credits.

**Table of Contents****LIQUIDITY**

The Corporation's goal in liquidity management is to satisfy the cash flow requirements of customers and the operating cash needs of the Corporation with cost-effective funding. The Board of Directors of the Corporation has established an Asset/Liability Management Policy in order to achieve and maintain 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. The Board of Directors of the Corporation has also established a Contingency Funding Policy to address liquidity crisis conditions. These policies designate the Corporate Asset/Liability Committee (ALCO) as the body responsible for meeting these objectives. The ALCO, which includes members of executive management, reviews liquidity on a periodic basis and approves significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by the Corporation's 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. The Corporation also has access to reliable and cost-effective wholesale sources of liquidity. Short-term and long-term funds can be acquired to help fund normal business operations as well as serve as contingency funding in the event that the Corporation 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. Cash on hand at the parent at June 30, 2012 was \$102.4 million compared to \$166.1 million at December 31, 2011. This decrease is primarily the result of the Parkvale acquisition, as cash on hand at December 31, 2011 reflected the proceeds from the 2011 capital raise which was deployed in the acquisition in the first quarter of 2012. Management believes these are appropriate levels of cash for the Corporation given the current environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the Liquidity Coverage Ratio (LCR) and Months of Cash on Hand (MCH). The LCR is defined as the sum of cash on hand plus projected cash inflows over the next 12 months divided by cash outflows over the next 12 months. The LCR was 2.3 times on June 30, 2012 and 2.1 times on December 31, 2011. The internal guideline for LCR is for the ratio to be greater than 1 month. The MCH is defined as the number of months of corporate expenses that can be covered by the cash on hand. The MCH was 14.4 months on June 30, 2012 and 11.9 months on December 31, 2011. The internal guideline for MCH is for the ratio to be greater than 3 months. In addition, the Corporation issues subordinated notes through Regency on a regular basis. Subordinated notes increased \$4.5 million or 2.1% during the first half of 2012 to \$217.4 million at June 30, 2012.

The liquidity position of the Corporation continues to be strong as evidenced by its ability to generate strong growth in deposits and customer repurchase agreements. Average deposits and customer repurchase agreements increased \$150.6 million, or 6.3% annualized, for the second quarter of 2012 due to new customers and higher average balances. This growth was partially offset by a planned decline in time deposits. As of June 30, 2012, customer-based funding was 98.0% of total deposits and borrowings, compared to 96.8% as of December 31, 2011. FNBPA had unused wholesale credit availability of \$4.1 billion or 35.3% of bank assets at June 30, 2012 and \$3.4 billion or 35.3% of bank assets at December 31, 2011. The increase in availability is due to the Parkvale acquisition. These sources include the availability to borrow from the FHLB, the FRB, correspondent bank lines and access to certificates of deposit issued through brokers. FNBPA has identified certain liquid assets, including overnight cash, unpledged securities and loans, which could be sold to meet funding needs. Included in these liquid assets are overnight balances and unpledged government and agency securities which totaled 7.2% and 3.2% of bank assets as of June 30, 2012 and December 31, 2011, respectively. This ratio increased due to the additional unpledged securities resulting from the Parkvale acquisition.

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis (in thousands) for the Corporation as of June 30, 2012 compares the difference between cash flows from existing assets and liabilities over future time intervals. Management seeks to limit the size of the liquidity gaps so that sources and uses of funds are reasonably matched in the normal course of business. A reasonably matched position lays a better foundation for dealing with the additional funding needs during a potential liquidity crisis. The twelve-month cumulative gap to total assets was 1.6% as of June 30, 2012 and 3.4% as of December 31, 2011.

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|                                   | Within<br>1 Month | 2-3<br>Months | 4-6<br>Months | 7-12<br>Months | Total<br>1 Year |
|-----------------------------------|-------------------|---------------|---------------|----------------|-----------------|
| <b>Assets</b>                     |                   |               |               |                |                 |
| Loans                             | \$ 187,014        | \$ 365,633    | \$ 521,371    | \$ 874,878     | \$ 1,948,896    |
| Investments                       | 85,604            | 131,754       | 160,064       | 317,478        | 694,900         |
|                                   | 272,618           | 497,387       | 681,435       | 1,192,356      | 2,643,796       |
| <b>Liabilities</b>                |                   |               |               |                |                 |
| Non-maturity deposits             | 56,593            | 113,185       | 169,778       | 339,556        | 679,112         |
| Time deposits                     | 136,004           | 256,918       | 445,809       | 669,348        | 1,508,079       |
| Borrowings                        | 49,962            | 43,776        | 61,094        | 110,642        | 265,474         |
|                                   | 242,559           | 413,879       | 676,681       | 1,119,546      | 2,452,665       |
| Period Gap (Assets - Liabilities) | \$ 30,059         | \$ 83,508     | \$ 4,754      | \$ 72,810      | \$ 191,131      |
| Cumulative Gap                    | \$ 30,059         | \$ 113,567    | \$ 118,321    | \$ 191,131     |                 |
| Cumulative Gap to Total Assets    | 0.3%              | 1.0%          | 1.0%          | 1.6%           |                 |

In addition, the ALCO regularly monitors various liquidity ratios and stress scenarios of the Corporation's liquidity position. Management believes the Corporation has sufficient liquidity available to meet its normal operating and contingency funding cash needs.

**MARKET RISK**

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

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

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

The Corporation uses a sophisticated asset/liability model to measure its interest rate risk. Interest rate risk measures utilized by the Corporation include earnings simulation, economic value of equity (EVE) and gap analysis.

Gap analysis and EVE are static measures that do not incorporate assumptions regarding future business. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. EVE's long-term horizon helps identify changes in optionality and longer-term positions. However, EVE's liquidation perspective does not translate into the earnings-based measures that are the focus of managing and valuing a going concern. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. In these simulations, the Corporation's 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

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multiple years under various interest rate scenarios on a periodic basis. Reviewing these various measures provides the Corporation with a comprehensive view of its interest rate profile.

The following repricing gap analysis (in thousands) as of June 30, 2012 compares the difference between the amount of interest earning assets (IEA) and interest-bearing liabilities (IBL) subject to repricing over a period of time. A ratio of more than one indicates a higher level of repricing assets over repricing liabilities for the time period. Conversely, a ratio of less than one indicates a higher level of repricing liabilities over repricing assets for the time period.

|   | Within<br>1 Month | 2-3<br>Months | 4-6<br>Months | 7-12<br>Months | Total<br>1 Year |
|---|-------------------|---------------|---------------|----------------|-----------------|
| <b>Interest Earning Assets (IEA)</b>      |                   |               |               |                |                 |
| Loans                                     | \$ 2,568,395      | \$ 763,992    | \$ 482,780    | \$ 817,736     | \$ 4,632,903    |
| Investments                               | 85,606            | 172,252       | 192,843       | 377,261        | 827,962         |
|   | 2,654,001         | 936,244       | 675,623       | 1,194,997      | 5,460,865       |
| <b>Interest-Bearing Liabilities (IBL)</b> |                   |               |               |                |                 |
| Non-maturity deposits                     | 1,968,371         |               |               |                | 1,968,371       |
| Time deposits                             | 147,289           | 258,699       | 445,647       | 668,648        | 1,520,283       |
| Borrowings                                | 790,565           | 160,633       | 16,629        | 21,712         | 989,539         |
|   | 2,906,225         | 419,332       | 462,276       | 690,360        | 4,478,193       |
| Period Gap                                | \$ (252,224)      | \$ 516,912    | \$ 213,347    | \$ 504,637     | \$ 982,672      |
| Cumulative Gap                            | \$ (252,224)      | \$ 264,688    | \$ 478,035    | \$ 982,672     |                 |
| IEA/IBL (Cumulative)                      | 0.91              | 1.08          | 1.13          | 1.22           |                 |
| Cumulative Gap to IEA                     | (2.5)%            | 2.6%          | 4.7%          | 9.6%           |                 |

The cumulative twelve-month IEA to IBL ratio changed slightly to 1.22 for June 30, 2012 from 1.25 for December 31, 2011.

The allocation of non-maturity deposits to the one-month maturity category 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.

The following net interest income metrics were calculated using rate ramps which move market rates in a parallel fashion gradually over 12 months, whereas the EVE metrics utilized rate shocks which represent immediate rate changes that move all market rates by the same amount. The variance percentages represent the change between the net interest income or EVE calculated under the particular rate scenario versus the net interest income or EVE that was calculated assuming market rates as of June 30, 2012.

The following table presents an analysis of the potential sensitivity of the Corporation's net interest income and EVE to changes in interest rates.

|   | June 30,<br>2012 | December 31,<br>2011 | ALCO<br>Guidelines |
|---|------------------|----------------------|--------------------|
| Net interest income change (12 months): |                  |                      |                    |
| + 300 basis points                      | 5.0%             | 3.9%                 | n/a                |
| + 200 basis points                      | 3.7%             | 2.8%                 | +/-5.0%            |
| + 100 basis points                      | 2.2%             | 1.6%                 | +/-5.0%            |
| - 100 basis points                      | (2.9)%           | (1.6)%               | +/-5.0%            |

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Economic value of equity:

|                    |         |        |          |
|--------------------|---------|--------|----------|
| + 300 basis points | 2.9%    | 5.3%   | +/-25.0% |
| + 200 basis points | 3.1%    | 5.0%   | +/-15.0% |
| + 100 basis points | 2.4%    | 3.6%   | +/-10.0% |
| - 100 basis points | (10.8)% | (9.3)% | +/-10.0% |

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The Corporation's strategy is generally to manage to a neutral interest rate risk position. However, given the current interest rate environment, the interest rate risk position is asset-sensitive. Currently, rising rates are expected to have a modest, positive effect on net interest income versus net interest income if rates remained unchanged. The Corporation has maintained a relatively stable net interest margin over the last five years despite market rate volatility.

The ALCO utilized several tactics to manage the Corporation's current interest rate risk position. As mentioned earlier, the growth in deposits and repurchase agreements has been net of decreases in time deposits. The growth in these nonmaturity deposits provides funding that is less interest rate-sensitive than time deposits and wholesale borrowings. On the lending side, the Corporation regularly sells long-term fixed-rate residential mortgages to the secondary market and has been successful in the origination of consumer and commercial loans with short-term repricing characteristics. Total variable and adjustable-rate loans decreased slightly from 59.6% of total loans as of December 31, 2011 to 59.2% of total loans as of June 30, 2012. This reflects the Parkvale acquisition which has a higher concentration of fixed-rate loans. The investment portfolio is used, in part, to manage the Corporation's interest rate risk position. The duration of the investment portfolio is relatively low at 2.7 at June 30, 2012 and 2.2 at December 31, 2011. Finally, the Corporation has made use of interest rate swaps to manage its interest rate risk position as the swaps effectively increase adjustable-rate loans. The swaps currently total \$734.2 million of notional principal, with \$49.3 million in notional swap principal originated during the first half of 2012. For additional information regarding interest rate swaps, see the Derivative Instruments footnote in the Notes to Consolidated Financial Statements section of this Report.

The Corporation recognizes 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 pricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon the Corporation's experience, business plans and available industry data. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will be achieved. Furthermore, the metrics are based upon the balance sheet structure as of the valuation date and do not reflect the planned growth or management actions which could be taken.

**RISK MANAGEMENT**

The key to effective risk management is to be proactive in identifying, measuring, evaluating and monitoring risk on an ongoing basis. Risk management practices support decision-making, improve the success rate for new initiatives, and strengthen the market's confidence in the Corporation and its affiliates.

The Corporation supports its risk management process through a governance structure involving its Board of Directors and senior management. The Corporation's Risk Committee, which is comprised of various members of the Board of Directors, oversees management execution of business decisions within the Corporation's desired risk profile. The Risk Committee has the following key roles:

- assist management with the identification, assessment and evaluation of the types of risk to which the Corporation is exposed;

- monitor the effectiveness of risk functions throughout the Corporation's business and operations; and

- assist management with identifying and implementing risk management best practices, as appropriate, and review strategies, policies and procedures that are designed to identify and mitigate risks to the Corporation.

FNBPA has a Risk Management Committee comprised of senior management to provide day-to-day oversight to specific areas of risk with respect to the level of risk and risk management structure. FNBPA's Risk Management Committee reports on a regular basis to the Corporation's Risk Committee regarding the enterprise risk profile of the Corporation and other relevant risk management issues.

The Corporation's audit function performs an independent assessment of the internal control environment. Moreover, the Corporation's audit function plays a critical role in risk management, testing the operation of internal control systems and reporting findings to management and to the Corporation's Audit Committee. Both the



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Corporation's Risk Committee and FNBPA's Risk Management Committee regularly assess the Corporation's enterprise-wide risk profile and provide guidance to senior management on actions needed to address key risk issues.

**DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS**

Following is a summary of deposits and customer repurchase agreements (in thousands):

|   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| Non-interest bearing                                  | \$ 1,614,476             | \$ 1,340,465                 |
| Savings and NOW                                       | 4,686,599                | 3,790,863                    |
| Certificates of deposit and other time deposits       | 2,685,225                | 2,158,440                    |
| <br>Total deposits                                    | <br>8,986,300            | <br>7,289,768                |
| Customer repurchase agreements                        | 768,114                  | 646,660                      |
| <br>Total deposits and customer repurchase agreements | <br>\$ 9,754,414         | <br>\$ 7,936,428             |

Total deposits and customer repurchase agreements increased by \$1.8 billion, or 22.9%, to \$9.8 billion at June 30, 2012, compared to December 31, 2011, primarily as a result of the Parkvale acquisition combined with an organic increase in transaction accounts, which are comprised of non-interest bearing, savings and NOW accounts (which includes money market deposit accounts) and customer repurchase agreements. The increase in transaction accounts is a result of the Corporation's ongoing marketing campaigns designed to attract new customers to the Corporation's local approach to banking combined with higher balances being carried by existing customers.

**Table of Contents****NON-PERFORMING ASSETS**

Non-performing assets, which is comprised of non-performing loans, OREO and non-performing investments, totaled \$134.6 million at June 30, 2012, a decrease of \$15.3 million or 10.2% compared to \$149.9 million at December 31, 2011. The composition of non-performing loans and OREO changed during the first half of 2012 as non-accrual and restructured loans decreased \$10.0 million and \$0.1 million, respectively, while OREO increased \$0.9 million. Additionally, non-performing investments decreased \$6.2 million during this same period, primarily the result of three TPS returning to accruing status, combined with the sale of one CMO. The decrease in non-accrual loans was primarily driven by a decrease of \$15.5 million in non-accrual loans in the Corporation's Florida portfolio, partially offset by an increase of \$5.6 million in the Corporation's Pennsylvania portfolio. The decrease in restructured loans was primarily the result of \$1.6 million of accruing residential mortgage loans moving to performing status during the quarter following a period of sustained performance. The Corporation expects all contractual amounts under the restructured terms of these residential mortgage loans will be collected. The increase in OREO was primarily due to a \$2.3 million increase relating to the Corporation's Pennsylvania portfolio as a result of the Parkvale acquisition, partially offset by decreases of \$0.8 million and \$0.5 million relating to the Florida and Regency portfolios, respectively.

The following tables provide additional information relating to non-performing loans for the Corporation's lending affiliates, with FNBPA presented by its Pennsylvania and Florida markets (dollars in thousands):

|  | FNBPA (PA) | FNBPA (FL) | Regency  | Total      |
|--|------------|------------|----------|------------|
| <b>June 30, 2012</b>                           |            |            |          |            |
| Non-performing loans                           | \$ 65,828  | \$ 23,668  | \$ 6,668 | \$ 96,164  |
| Other real estate owned (OREO)                 | 15,531     | 19,082     | 1,034    | 35,647     |
| Non-performing loans/total loans               | 0.86%      | 27.96%     | 4.10%    | 1.22%      |
| Non-performing loans + OREO/total loans + OREO | 1.07%      | 41.22%     | 4.70%    | 1.67%      |
| <b>December 31, 2011</b>                       |            |            |          |            |
| Non-performing loans                           | \$ 60,720  | \$ 39,122  | \$ 6,386 | \$ 106,228 |
| Other real estate owned (OREO)                 | 13,216     | 19,921     | 1,582    | 34,719     |
| Non-performing loans/total loans               | 0.93%      | 25.39%     | 3.90%    | 1.55%      |
| Non-performing loans + OREO/total loans + OREO | 1.13%      | 33.93%     | 4.82%    | 2.05%      |

FNBPA (PA) reflects FNBPA's total portfolio excluding the Florida portfolio which is presented separately.

**Table of Contents****ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses at June 30, 2012 increased \$1.0 million or 1.0% from December 31, 2011. The provision for loan losses during the six months ended June 30, 2012 was \$13.6 million, while net charge-offs were \$12.6 million. During the first quarter of 2012, the Corporation adjusted its methodology for calculating the allowance for loan losses to refine the supporting calculations. The minimum threshold for individual commercial relationships evaluated for impairment and specific valuation under ASC 310 is now \$500. The historical loss period for commercial loan loss rate analysis was adjusted to utilize a full 3-year period migration model. These changes along with related higher loss rates for commercial loans under \$500 resulted in a slight increase in the overall allowance for loan losses. The changes appropriately reflect inherent loss in the portfolio during this recovery stage of the current economic cycle. The 3-year period captures both a steep economic decline and a moderate recovery.

The allowance for loan losses as a percentage of non-performing loans for the Corporation's total portfolio increased from 94.76% as of December 31, 2011 to 104.89% as of June 30, 2012 primarily due to a \$10.1 million decrease in non-performing loans.

The following tables provide additional information relating to the provision and allowance for loan losses for the Corporation's lending affiliates (dollars in thousands):

|   | FNBPA    | Regency  | Total    |
|---|----------|----------|----------|
| <b>At or for the Three Months Ended June 30, 2012</b>     |          |          |          |
| Provision for loan losses                                 | \$ 5,396 | \$ 1,631 | \$ 7,027 |
| Allowance for loan losses                                 | 94,814   | 6,833    | 101,647  |
| Net loan charge-offs                                      | 6,044    | 1,429    | 7,473    |
| Net loan charge-offs (annualized)/average loans           | 0.32%    | 3.63%    | 0.38%    |
| Allowance for loan losses/total loans                     | 1.23%    | 4.20%    | 1.29%    |
| Allowance for loan losses/non-performing loans            | 110.25%  | 102.47%  | 105.70%  |
| <b>At or for the Three Months Ended December 31, 2011</b> |          |          |          |
| Provision for loan losses                                 | \$ 6,474 | \$ 1,815 | \$ 8,289 |
| Allowance for loan losses                                 | 93,780   | 6,882    | 100,662  |
| Net loan charge-offs                                      | 14,710   | 1,730    | 16,440   |
| Net loan charge-offs (annualized)/average loans           | 0.88%    | 4.21%    | 0.95%    |
| Allowance for loan losses/total loans                     | 1.40%    | 4.20%    | 1.47%    |
| Allowance for loan losses/non-performing loans            | 97.34%   | 107.77%  | 94.76%   |
| <b>At or for the Three Months Ended June 30, 2011</b>     |          |          |          |
| Provision for loan losses                                 | \$ 6,895 | \$ 1,656 | \$ 8,551 |
| Allowance for loan losses                                 | 102,371  | 6,853    | 109,224  |
| Net loan charge-offs                                      | 5,506    | 1,433    | 6,939    |
| Net loan charge-offs (annualized)/average loans           | 0.34%    | 3.62%    | 0.42%    |
| Allowance for loan losses/total loans                     | 1.56%    | 4.20%    | 1.63%    |
| Allowance for loan losses/non-performing loans            | 84.75%   | 106.38%  | 85.84%   |

For information regarding the provision and allowance for loan losses for FNBPA's Florida market, see the Loans and Allowance for Loan Losses footnote in the Notes to Consolidated Financial Statements section of this Report.

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Following is a summary of supplemental statistical ratios pertaining to the Corporation's originated loan portfolio. The originated loan portfolio excludes loans acquired at fair value and accounted for in accordance with ASC 805, which was effective January 1, 2009.

|  | At or for the Three Months Ended |                      |                  |
|--|----------------------------------|----------------------|------------------|
|  | June 30,<br>2012                 | December 31,<br>2011 | June 30,<br>2011 |
| Non-performing loans/total originated loans  | 1.42%                            | 1.63%                | 2.02%            |
| Non-performing loans + OREO/total originated loans + OREO                            | 1.93%                            | 2.15%                | 2.57%            |
| Allowance for loan losses (originated loans)/total originated Loans                  | 1.49%                            | 1.54%                | 1.73%            |
| Net loan charge-offs on originated loans (annualized)/total average originated loans | 0.45%                            | 1.01%                | 0.45%            |

**CAPITAL RESOURCES AND REGULATORY MATTERS**

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

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. The Corporation seeks to maintain a strong capital base to support its growth and expansion activities, to provide stability to current operations and to promote public confidence.

The Corporation has an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, the Corporation may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities or TPS. During the first six months of 2012, the Corporation has not issued any such stock or securities under this shelf registration.

Capital management is a continuous process with capital plans for the Corporation and FNBPA updated annually. Both the Corporation and FNBPA are subject to various regulatory capital requirements administered by federal banking agencies. From time to time, the Corporation issues shares initially acquired by the Corporation as treasury stock under its various benefit plans. The Corporation may continue to grow through acquisitions, which can potentially impact its capital position. The Corporation may issue additional common stock in to order maintain its well-capitalized status.

The Corporation 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 the Corporation and FNBPA to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of leverage ratio (as defined). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation 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. The Corporation's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Corporation's management believes that, as of June 30, 2012 and December 31, 2011, the Corporation and FNBPA met all capital adequacy requirements to which either of them was subject.

As of June 30, 2012, the most recent notification from the federal banking agencies categorized the Corporation and FNBPA as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization.

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Following are the capital ratios as of June 30, 2012 and December 31, 2011 for the Corporation and FNBPA (dollars in thousands):

|  | Actual       |       | Well-Capitalized Requirements |       | Minimum Capital Requirements |       |
|--|--------------|-------|-------------------------------|-------|------------------------------|-------|
|  | Amount       | Ratio | Amount                        | Ratio | Amount                       | Ratio |
| <b>June 30, 2012</b>   |              |       |                               |       |                              |       |
| Total Capital (to risk-weighted assets):                         |              |       |                               |       |                              |       |
| F.N.B. Corporation   | \$ 1,016,378 | 12.0% | \$ 843,900                    | 10.0% | \$ 675,120                   | 8.0%  |
| FNBPA  | 966,640      | 11.7  | 825,221                       | 10.0  | 660,177                      | 8.0   |
| Tier 1 Capital (to risk-weighted assets):                        |              |       |                               |       |                              |       |
| F.N.B. Corporation   | 888,542      | 10.5  | 506,340                       | 6.0   | 337,560                      | 4.0   |
| FNBPA  | 862,713      | 10.5  | 495,133                       | 6.0   | 330,089                      | 4.0   |
| Leverage Ratio:  |              |       |                               |       |                              |       |
| F.N.B. Corporation   | 888,542      | 8.1   | 550,551                       | 5.0   | 440,441                      | 4.0   |
| FNBPA  | 862,713      | 8.0   | 541,423                       | 5.0   | 433,139                      | 4.0   |
| <b>December 31, 2011</b>   |              |       |                               |       |                              |       |
| Total Capital (to risk-weighted assets):                         |              |       |                               |       |                              |       |
| F.N.B. Corporation   | \$ 972,456   | 13.4% | \$ 727,663                    | 10.0% | \$ 582,130                   | 8.0%  |
| FNBPA  | 846,888      | 11.9  | 714,481                       | 10.0  | 571,585                      | 8.0   |
| Tier 1 Capital (to risk-weighted assets):                        |              |       |                               |       |                              |       |
| F.N.B. Corporation   | 855,677      | 11.8  | 436,598                       | 6.0   | 291,065                      | 4.0   |
| FNBPA  | 749,650      | 10.5  | 428,689                       | 6.0   | 285,792                      | 4.0   |
| Leverage Ratio:  |              |       |                               |       |                              |       |
| F.N.B. Corporation   | 855,677      | 9.2   | 467,587                       | 5.0   | 374,069                      | 4.0   |
| FNBPA  | 749,650      | 8.3   | 453,117                       | 5.0   | 362,493                      | 4.0   |
| <b>DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT</b> |              |       |                               |       |                              |       |

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority for institutions determined to be systemically important, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector and will fundamentally change the system of regulatory oversight as is described in more detail under Part I, Item 1, Business Government Supervision and Regulation included in the Corporation's 2011 Annual Report on Form 10-K as filed with the SEC on February 28, 2012. Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to the Corporation or across the financial services industry.

On June 29, 2011, the FRB, pursuant to its authority under the Dodd-Frank Act, 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 a 5-basis point fraud loss adjustment per transaction. The FRB deemed such fees reasonable and proportional to the actual cost of a transaction to the issuer. With the acquisition of Parkvale, the Corporation expects its total assets to exceed \$10 billion on December 31, 2012. As a result, the Corporation is expected to become subject to the new rules regarding debit card interchange fees as of July 1, 2013. Upon becoming subject to the new rules, the Corporation's revenue earned from debit card interchange fees, which were equal to \$10.8 million for the first six months of 2012, could decrease by \$9.0 million on an annual basis without mitigation strategies currently being evaluated.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this item is provided under the caption *Market Risk* in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference. There are no material changes in the information provided under Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk included in the Corporation's 2011 Annual Report on Form 10-K as filed with the SEC on February 28, 2012.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**CHANGES IN INTERNAL CONTROLS.** The CEO and the CFO have evaluated the changes to the Corporation's internal controls over financial reporting that occurred during the Corporation's fiscal quarter ended June 30, 2012, as required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**Overdraft Litigation**

On June 5, 2012, the Corporation was named as a defendant in an alleged class action lawsuit filed by two Pennsylvania customers of First National Bank of Pennsylvania in the U.S. District Court for the Western District of Pennsylvania. The suit challenges the manner in which checking account overdraft fees were charged and the policies related to the posting order of checking and debit card transactions. The plaintiffs seek relief under state law, including compensatory damages, pre- and post-judgment interest, reasonable attorneys' fees and injunctive relief. The Corporation intends to vigorously defend the plaintiff's claims and to oppose any effort to certify a class in this case. At this stage of the lawsuit, it is not yet possible for the Corporation to estimate potential losses, if any. Although it is not possible to predict the ultimate resolution or any potential financial liability with respect to this litigation, management after consultation with legal counsel, currently does not anticipate that the aggregate liability, if any, arising out of this proceeding will have a material adverse effect on the Corporation's financial position, or cash flows; although, at the present time, management is not in a position to determine whether such proceeding will have a material adverse effect on the Corporation's results of operations in any future quarterly reporting period.

**Other Legal Proceedings**

The Corporation and its subsidiaries are involved in various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. These actions include claims brought against the Corporation and its subsidiaries where the Corporation or a subsidiary acted as one or more of the following: a depository bank, lender, underwriter, fiduciary, financial advisor, broker or was engaged in other business activities. Although the ultimate outcome for any asserted claim cannot be predicted with certainty, the Corporation believes that it and its subsidiaries have valid defenses for all asserted claims. Reserves are established for legal claims when losses associated with the claims are judged to be probable and the amount of the loss can be reasonably estimated.

Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Corporation does not anticipate, at the present time, that the aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation's consolidated financial position. However, the Corporation cannot determine whether or not any claims asserted against it will have a material adverse effect on its consolidated results of operations in any future reporting period.

**ITEM 1A. RISK FACTORS**

There are no material changes from any of the risk factors previously disclosed in the Corporation's 2011 Annual Report on Form 10-K as filed with the SEC on February 28, 2012.

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

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

**Exhibit Index**

31.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 302. (filed herewith).

31.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 302. (filed herewith).

32.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 906. (furnished herewith).

32.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (furnished herewith).

101 The following materials from F.N.B. Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2012, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. \*

\* This information is deemed furnished, not filed.



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**SIGNATURES**

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

|                       |  |
|-----------------------|--|
|                       | F.N.B. Corporation   |
| Dated: August 8, 2012 | /s/ Vincent J. Delie, Jr.<br>Vincent J. Delie, Jr.<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Dated: August 8, 2012 | /s/ Vincent J. Calabrese, Jr.<br>Vincent J. Calabrese, Jr.<br>Chief Financial Officer<br>(Principal Financial Officer)       |
| Dated: August 8, 2012 | /s/ Timothy G. Rubritz<br>Timothy G. Rubritz<br>Corporate Controller<br>(Principal Accounting Officer)                       |