FNB CORP/FL/
Form 10-K
February 28, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**25-1255406**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One F.N.B. Boulevard, Hermitage, PA	**16148**
(Address of principal executive offices)	(Zip Code)
Registrant s telephone number, including area code:	**724-981-6000**

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

Title of Each Class	Name of Exchange on which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

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

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

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

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 x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated Filer ¨	Non-accelerated Filer ¨	Smaller Reporting Company ¨
		(Do not check if a 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 x

The aggregate market value of the registrant s outstanding voting common stock held by non-affiliates on June 30, 2012, determined using a per share closing price on that date of $10.87, as quoted on the New York Stock Exchange, was $1,436,880,288.

As of January 31, 2013, the registrant had outstanding 139,849,559 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of F.N.B. Corporation s definitive proxy statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on May 15, 2013 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14, of this Annual Report on Form 10-K. F.N.B. Corporation will file its definitive proxy statement with the Securities and Exchange Commission on or before April 15, 2013.

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PART I

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

ITEM 1. BUSINESS
Overview

The Corporation was formed in 1974 as a bank holding company. In 2000, the Corporation elected to become and remains a financial holding company under the Gramm-Leach-Bliley Act of 1999 (GLB Act). The Corporation has four reportable business segments: Community Banking, Wealth Management, Insurance and Consumer Finance. As of December 31, 2012, the Corporation had 247 Community Banking offices in Pennsylvania, eastern Ohio and northern West Virginia and 71 Consumer Finance offices in Pennsylvania, Ohio, Tennessee and Kentucky.

The Corporation, through its subsidiaries, provides a full range of financial services, principally to consumers and small- to medium-sized businesses in its market areas. The Corporation s business strategy focuses primarily on providing quality, community-based financial services adapted to the needs of each of the markets it serves. The Corporation seeks to maintain its community orientation by providing local management with certain autonomy in decision making, enabling them to respond to customer requests more quickly and to concentrate on transactions within their market areas. However, while the Corporation seeks to preserve some decision making at a local level, it has centralized legal, loan review and underwriting, accounting, investment, audit, loan operations, deposit operations and data processing functions. The centralization of these processes enables the Corporation to maintain consistent quality of these functions and to achieve certain economies of scale.

As of December 31, 2012, the Corporation had total assets of $12.0 billion, loans of $8.1 billion and deposits of $9.1 billion. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data, of this Report.

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 $1.8 billion in assets, which included $937.4 million in loans, and $1.5 billion in deposits. The acquisition, net of equity offering costs, was valued at $140.9 million 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.

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 $625.6 million in assets, which included $445.3 million in loans, and $561.8 million in deposits. The transaction, valued at $75.5 million, resulted in the Corporation paying $17.2 million in cash and issuing 5,941,287 shares of its common stock in exchange for 1,719,978 shares of CBI common stock.

For more detailed information concerning these acquisitions, see the Mergers and Acquisitions footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

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Pending Acquisitions

On October 22, 2012, the Corporation announced the signing of a definitive merger agreement to acquire Annapolis Bancorp, Inc. (ANNB), a bank holding company with approximately $437.0 million in total assets based in Annapolis, Maryland. The transaction is valued at approximately $51.0 million. Under the terms of the merger agreement, ANNB shareholders will be entitled to receive 1.143 shares of the Corporation s common stock for each share of ANNB common stock. In addition to the stock consideration, ANNB shareholders may receive up to $0.36 per share in cash for each share of ANNB common stock they own, dependent upon ANNB s ability to resolve a credit-related matter. The transaction is expected to be completed in the second quarter of 2013, pending regulatory approvals, the approval of shareholders of ANNB and the satisfaction of other closing conditions.

ANNB issued Fixed Rate Cumulative Perpetual Preferred Stock, Series A, to the U.S. Treasury Department (UST) on January 30, 2009. The preferred stock, with a liquidation value of $4.1 million, plus accrued and unpaid dividends, is scheduled to be redeemed in March 2013.

On February 19, 2013, the Corporation announced the signing of a definitive merger agreement to acquire PVF Capital Corp. (PVF), a bank holding company with approximately $782.0 million in total assets based in Solon, Ohio. The transaction is valued at approximately $106.3 million. Under the terms of the merger agreement, PVF shareholders will be entitled to receive 0.3405 shares of the Corporation s common stock for each share of PVF common stock. The transaction is expected to be completed in the third quarter of 2013, pending regulatory approvals, the approval of shareholders of PVF and the satisfaction of other closing conditions.

The foregoing descriptions of the pending acquisitions do not purport to be complete and are qualified in their entirety by reference to the Merger Agreements, which are filed as Exhibits 2.2 and 2.3 hereto and incorporated by reference herein. The Corporation cannot assure you that the mergers will be consummated as scheduled, or at all. See Item 1A, Risk Factors, for a description of risks relating to the mergers.

Branch Consolidation

As part of its branch optimization strategy, during the fourth quarter of 2012, the Corporation consolidated 20 banking locations and reduced services at three banking locations to drive-up services only. The Corporation incurred one-time costs of $1.8 million on a pre-tax basis as a result of the branch consolidation project and estimates annual costs savings of approximately $4.0 million on a pre-tax basis. In February 2012, the former Parkvale systems conversion occurred with a simultaneous branch consolidation of 17 banking locations. The costs of this process were reflected as merger-related expenses with the cost savings realized as part of the merger business plan.

Business Segments

In addition to the following information relating to the Corporation s business segments, more detailed information is contained in the Business Segments footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. As of December 31, 2012, the Corporation had four business segments, with the largest being the Community Banking segment consisting of a regional community bank. The Wealth Management segment consisted of a trust company, a registered investment advisor and a subsidiary that offered broker-dealer services through a third party networking arrangement with a non-affiliated licensed broker-dealer entity. The Insurance segment consisted of an insurance agency and a reinsurer. The Consumer Finance segment consisted of a multi-state consumer finance company.

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Community Banking

The Corporation s Community Banking segment consists of First National Bank of Pennsylvania (FNBPA), which offers 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.

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

As of December 31, 2012, the Corporation operated its Community Banking business through a network of 247 branches in Pennsylvania, eastern Ohio and northern West Virginia. The Community Banking segment also has commercial real estate loans in Florida, which were originated from 2005 through 2009.

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

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

Wealth Management

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

The Corporation s Wealth Management operations are conducted through three subsidiaries of FNBPA. First National Trust Company (FNTC) provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. As of December 31, 2012, the fair value of trust assets under management was approximately $2.8 billion. FNTC is required to maintain certain minimum capitalization levels in accordance with regulatory requirements. FNTC periodically measures its capital position to ensure all minimum capitalization levels are maintained.

The Corporation s Wealth Management segment also includes two other subsidiaries. First National Investment Services Company, LLC (FNIS) offers a broad array of investment products and services for customers of Wealth Management through a networking relationship with a third-party licensed brokerage firm. F.N.B. Investment Advisors, Inc. (FNBIA), an investment advisor registered with the Securities and Exchange Commission (SEC), offers customers of Wealth Management comprehensive investment programs featuring mutual funds, annuities, stocks and bonds.

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

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Insurance

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

The Corporation s Insurance segment also includes a reinsurance subsidiary, Penn-Ohio Life Insurance Company (Penn-Ohio). Penn-Ohio underwrites, as a reinsurer, credit life and accident and health insurance sold by the Corporation s lending subsidiaries. Additionally, FNBPA owns a direct subsidiary, First National Corporation, which offers title insurance products.

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

Consumer Finance

The Corporation s Consumer Finance segment operates through its subsidiary, Regency Finance Company (Regency), which is involved principally in making personal installment loans to individuals and purchasing installment sales finance contracts from retail merchants. Such activity is primarily funded through the sale of the Corporation s subordinated notes at Regency s branch offices. The Consumer Finance segment operates in Pennsylvania, Ohio, Tennessee and Kentucky.

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

Other

The Corporation also has seven other subsidiaries. F.N.B. Capital Corporation, LLC (FNBCC), a merchant banking subsidiary, offers mezzanine financing options for small- to medium-sized businesses that need financial assistance beyond the parameters of typical commercial bank lending products. F.N.B. Statutory Trust I, F.N.B. Statutory Trust II, Omega Financial Capital Trust I and Sun Bancorp Statutory Trust I issue trust preferred securities (TPS) to third-party investors. Regency Consumer Financial Services, Inc. and FNB Consumer Financial Services, Inc. are the general partner and limited partner, respectively, of FNB Financial Services, LP, a company established to issue, administer and repay the subordinated notes through which loans in the Consumer Finance segment are funded. Additionally, Bank Capital Services, LLC, a subsidiary of FNBPA, offers commercial leasing services to customers in need of new or used equipment. Certain financial information concerning these subsidiaries, along with the parent company and intercompany eliminations, are included in the Parent and Other category in the Business Segments footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Market Area and Competition

The Corporation primarily operates in Pennsylvania, northeastern Ohio and northern West Virginia, which are areas with relatively stable markets and modest growth. Consummation of the ANNB merger will extend the Corporation s operations into Maryland. In addition to Pennsylvania and Ohio, the Corporation s Consumer Finance segment also operates in northern and central Tennessee and western and central Kentucky.

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The Corporation s subsidiaries compete for deposits, loans and financial services business with a large number of other financial institutions, such as commercial banks, savings banks, savings and loan associations, credit life insurance companies, mortgage banking companies, consumer finance companies, credit unions and commercial finance and leasing companies, many of which have greater resources than the Corporation. In providing wealth and asset management services, as well as insurance brokerage and merchant banking products and services, the Corporation s subsidiaries compete with many other financial services firms, brokerage firms, mutual fund complexes, investment management firms, merchant and investment banking firms, trust and fiduciary service providers and insurance agencies.

In Regency s market areas of Pennsylvania, Ohio, Tennessee and Kentucky, its active competitors include banks, credit unions and national, regional and local consumer finance companies, some of which have substantially greater resources than that of Regency. The ready availability of consumer credit through charge accounts and credit cards constitutes additional competition. In this market area, competition is based on the rates of interest charged for loans, the rates of interest paid to obtain funds and the availability of customer services.

The ability to access and use technology is an increasingly important competitive factor in the financial services industry. Technology is not only important with respect to delivery of financial services and protection of the security of customer information, but also in processing information. The Corporation and each of its subsidiaries must continually make technological investments to remain competitive in the financial services industry.

Underwriting

Commercial Loans

The Corporation s Credit Policy Manual requires, among other things, that all commercial loans be underwritten to document the borrower s financial capacity to support the cash flow required to repay the loan. As part of this underwriting, the Corporation requires clear and concise documentation of the borrower s ability to repay the loan based on current financial statements and/or tax returns, plus pro-forma financial statements, as appropriate. Specific guidelines for loan terms and conditions are outlined in the Corporation s Credit Policy Manual. The guidelines also detail the collateral requirements for various loan types. It is the Corporation s general practice to obtain personal guarantees, supported by current personal financial statements and/or tax returns, to reduce the credit risk, as appropriate.

For loans secured by commercial real estate, the Corporation obtains current and independent appraisals from licensed or certified appraisers to assess the value of the underlying collateral. The Corporation s general policy for commercial real estate loans is to limit the terms of the loans to not more than 15 years and to have loan-to-value (LTV) ratios not exceeding 80%. For non-owner occupied commercial real estate loans, the loan terms are generally aligned with the property s lease terms. The Corporation s Credit Policy Manual also delineates similar guidelines for maximum terms and acceptable advance rates for loans that are not secured by real estate.

Consumer Loans

The Corporation s revolving home equity lines of credit (HELOC) are generally variable rate loans underwritten based on fully indexed rates. For home equity loans, the Corporation s policy is to generally require a LTV ratio not in excess of 85% and FICO scores of not less than 660. In certain circumstances, the Corporation will extend credit to borrowers with a LTV over 85% on a limited and closely monitored basis. The Corporation s underwriters evaluate a borrower s debt service capacity on all line of credit applications by utilizing an interest shock rate of 3% over the prevailing variable interest rate at origination. The borrower s debt-to-income ratio must remain within the Corporation s guidelines under the shock rate repayment formula.

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The Corporation s policy for its indirect installment loans, which third parties (primarily auto dealers) originate, is to require a minimum FICO score of 640 for the borrower, the age of the vehicle not to exceed 7 years or 85,000 miles and an appropriate LTV ratio, not to exceed 95%, based on the year and make of the vehicle financed.

The Corporation structures its consumer loan products to meet the diverse credit needs of consumers in the Corporation s market for personal and household purposes. These loan products are on a fixed amount or revolving basis depending on customer need and borrowing capacity. The Corporation s loans and lines of credit attempt to balance borrower budgeting sensitivities with realistic repayment maturities within a philosophy that encourages consumer financial responsibility, sound credit risk management and development of strong customer relationships.

The Corporation s consumer loan policies and procedures require prospective borrowers to provide appropriate and accurate financial information that will enable the Corporation s loan underwriting personnel to make credit decisions. Specific information requirements vary based on loan type, risk profile and secondary investor requirements where applicable. In all extensions of credit, however, the Corporation insists on evidence of capacity as well as an independent credit report to assess the prospective borrower s willingness and ability to repay the debt. If any information submitted by the prospective borrower raises reasonable doubts with respect to the willingness and ability of the borrower to repay the loan, the Corporation denies the credit. The Corporation does not provide loans in which there is no verification of the prospective borrower s income. The Corporation does not make interest-only or similar type residential mortgage loans.

The Corporation often takes collateral to support an extension of credit and to provide additional protection should the primary source of repayment fail. Consequently, the Corporation limits unsecured extensions of credit in amount and only grants them to borrowers with adequate capacity and above-average credit profiles. The Corporation expressly discourages unsecured credit lines for debt consolidation unless there is compelling evidence that the borrower has sufficient liquidity and net worth to repay the loan from alternative sources in the event of income disruption.

The Corporation generally obtains full independent appraisals of residential real estate collateral values on residential mortgage applications of $100,000 and greater. The Corporation may use algorithm-based valuation models for residential mortgages under $100,000. The Corporation recognizes the limitations as well as the benefits of these valuation products. The Corporation s policy is to be conservative in their use but fluid and flexible in interpreting reasonable collateral values when obtained.

The Corporation monitors consumer loans with exceptions to its policy including, but not limited to, LTV ratios, FICO scores and debt-to-income ratios. Management routinely evaluates the type, nature, trend and scope of these exceptions and reacts through policy changes, lender counseling, adjustment of loan authorities and similar prerogatives to assure that the retail assets generated meet acceptable credit quality standards. As an added precaution, the Corporation s risk management personnel conduct periodic reviews of loan files.

Regency Finance Company Loans

Regency originates three general types of loans: direct real estate, direct non-real estate and indirect sales finance. Regency has written policies and procedures that it distributes to each Regency branch office defining underwriting, pricing and loan servicing guidelines. Regency issues written credit authority limits based upon the individual loan underwriter s capability. On a monthly basis, Regency evaluates specific metrics relating to Regency s origination and servicing of its loan portfolio. Regency also uses a quality control program to review, in an independent manner, loan origination and servicing on a monthly basis to ensure adherence with compliance and credit criteria standards.

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Regency evaluates each applicant for credit on an individual basis measuring attributes derived from the review of credit reports, income verification and collateral, if applicable, with product-specific underwriting standards. Regency utilizes a prospective borrower s reported income to derive debt-to-income ratios that permit Regency to follow a conservative approach in evaluating a potential borrower s ability to pay debt service.

Regency underwrites direct real estate loans utilizing a risk-based pricing matrix that evaluates the applicants by FICO score, credit criteria and LTV ratio. First lien general LTV standards permit a maximum of 85% of appraised value. Regency may grant second lien home equity loans up to 100% of the LTV ratio. Home equity loans below $10,000 are not LTV ratio specific. Regency does not offer variable rate real estate secured loans. Regency does not offer unverified or no documentation loans.

Regency underwrites direct financing for automobile secured loans utilizing a risk-based pricing matrix that evaluates the applicants by FICO score, credit criteria and advance rate as a percentage of the book value of the vehicle. Regency will only grant credit secured by an automobile at the current (time of application) National Automobile Dealers Association Book retail price.

Regency generates indirect sales finance applications and subsequent loans through dealers that Regency approves for the purpose of the customer s finance of a purchase such as furniture or windows. Regency grants credit in a similar manner as set forth above for direct real estate loans. Pricing parameters are generally dealer and geographic specific. Regency underwrites direct non-real estate personal and secured loans represented above with the exception that this product does not rely on FICO scores. Specific analysis of the applicant s credit report and income verification are the principal elements of Regency s credit decision with respect to direct non-real estate personal and secured loans.

Employees

As of January 31, 2013, the Corporation and its subsidiaries had 2,474 full-time and 501 part-time employees. Management of the Corporation considers its relationship with its employees to be satisfactory.

Government Supervision and Regulation

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and financial holding companies and their subsidiaries and to companies engaged in securities and insurance activities and provides certain specific information about the Corporation. The bank regulatory framework is intended primarily for the protection of depositors through the federal deposit insurance guarantee, and not for the protection of security holders. Numerous laws and regulations govern the operations of financial services institutions and their holding companies. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Corporation.

Many aspects of the Corporation s business are subject to rigorous regulation by the U.S. federal and state regulatory agencies and securities exchanges and by non-government agencies or regulatory bodies. Certain of the Corporation s public disclosure, internal control environment and corporate governance principles are subject to the Sarbanes-Oxley Act of 2002 (SOX), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and related regulations and rules of the SEC and the New York Stock Exchange, Inc. (NYSE). New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect the Corporation s financial condition or results of operations. As a financial institution, to the extent that different regulatory systems impose overlapping or inconsistent requirements on the conduct of the Corporation s business, it faces increased complexity and additional costs in its compliance efforts.

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General

The Corporation is a legal entity separate and distinct from its subsidiaries. As a financial holding company and a bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956, as amended (BHC Act), and is subject to regulation, inspection, examination and supervision by the Board of Governors of the Federal Reserve System (FRB). The Corporation is also subject to regulation by the SEC as a result of the Corporation s status as a public company and due to the nature of the business activities of certain of the Corporation s subsidiaries. The Corporation s common stock is listed on the NYSE under the trading symbol FNB and the Corporation is subject to the listed company rules of the NYSE.

The FRB is the umbrella regulator of a financial holding company. In addition, a financial holding company s operating entities, such as its subsidiary broker-dealers, investment managers, merchant banking operations, investment companies, insurance companies and banks, are subject to the jurisdiction of various federal and state functional regulators.

The Corporation s subsidiary bank (FNBPA) and FNBPA s subsidiary trust company (FNTC) are organized as national banking associations, which are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC), which is a bureau of the UST. FNBPA is also subject to certain regulatory requirements of the Federal Deposit Insurance Corporation (FDIC), the FRB and other federal and state regulatory agencies, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, inter-affiliate transactions, limitations on the types of investments that may be made, activities that may be engaged in and types of services that may be offered. In addition to banking laws, regulations and regulatory agencies, the Corporation and its subsidiaries are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of the Corporation and its ability to make distributions to its stockholders. If the Corporation fails to comply with these or other applicable laws and regulations, it may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain cases, criminal penalties.

Pursuant to the GLB Act, bank holding companies such as the Corporation that have qualified as financial holding companies have broad authority to engage in activities that are financial in nature or incidental to such financial activity, including insurance underwriting and brokerage, merchant banking, securities underwriting, dealing and market-making; and such additional activities as the FRB in consultation with the Secretary of the UST determines to be financial in nature, incidental thereto or complementary to a financial activity. The GLB Act repealed or modified a number of significant statutory provisions, including those of the Glass-Steagall Act and the BHC Act, which had previously restricted banking organizations ability to engage in certain types of business activities. As a result of the GLB Act, a bank holding company may engage in those activities directly or through subsidiaries by qualifying as a financial holding company. A financial holding company may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, provided the financial holding company continues such status and gives the FRB after-the-fact notice of the new activities. The GLB Act also permits national banks, such as FNBPA, to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC.

As a regulated financial holding company, the Corporation s relationships and good standing with its regulators are of fundamental importance to the continuation and growth of the Corporation s businesses. The FRB, OCC, FDIC, Consumer Financial Protection Bureau (CFPB) and SEC have broad enforcement powers and authority to approve, deny or refuse to act upon applications or notices of the Corporation or its subsidiaries to open new or close existing offices, conduct new activities, acquire or divest businesses or assets or reconfigure existing operations. In addition, the Corporation, FNBPA and FNTC are subject to examination by the various regulators, which results in examination reports (which are not publicly available) and ratings that can impact the

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conduct and growth of the Corporation s businesses. These examinations consider not only safety and soundness principles, but also compliance with applicable laws and regulations, including bank secrecy and anti-money laundering requirements, loan quality and administration, capital levels, asset quality and risk management ability and performance, earnings, liquidity, consumer compliance and various other factors, including, but not limited to, community reinvestment. An examination downgrade by any of the Corporation s federal bank regulators could potentially result in the imposition of significant limitations on the activities and growth of the Corporation and its subsidiaries.

There are numerous laws, regulations and rules governing the activities of financial institutions, financial holding companies and bank holding companies. The following discussion is general in nature and seeks to highlight some of the more significant of these regulatory requirements, but does not purport to be complete or to describe all of the laws and regulations that apply to the Corporation and its subsidiaries.

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

On July 21, 2010, the Dodd-Frank Act became law. Implementation of the Dodd-Frank Act will have a broad impact on the financial services industry by introducing significant regulatory and compliance changes including, among other things,

- enhanced authority over troubled and failing banks and their holding companies;
- increased capital and liquidity requirements;
- increased regulatory examination fees;
- increases to the assessments banks must pay the FDIC for federal deposit insurance; and
- specific provisions designed to improve supervision and oversight of, and strengthening safety and soundness by imposing restrictions and limitations on the scope and type of banking and financial activities.

In addition, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system that is enforced by new and existing federal regulatory agencies and authorities, including the Financial Stability Oversight Council (FSOC), FRB, OCC, FDIC and CFPB. The following description briefly summarizes certain impacts of the Dodd-Frank Act on the operations and activities, both currently and prospectively, of the Corporation and its subsidiaries.

Deposit Insurance. The Dodd-Frank Act made permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revised the assessment base against which an insured depository institution s deposit insurance premiums paid to the FDIC s Deposit Insurance Fund (DIF) are calculated. Under the amendments, the FDIC assessment base is no longer the institution s deposit base, but rather its average consolidated total assets less its average equity. The Dodd-Frank Act also changed the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds by September 30, 2020. Several of these provisions may increase the FDIC deposit insurance premiums FNBPA pays.

Interest on Demand Deposits. The Dodd-Frank Act also provided that effective July 21, 2011, depository institutions may pay interest on demand deposits, at which time the Corporation began paying interest on certain classes of commercial demand deposits.

Trust Preferred Securities. The Dodd-Frank Act prohibits bank holding companies from including in their regulatory Tier 1 capital hybrid debt and equity securities issued on or after May 19, 2010. Among the hybrid debt and equity securities included in this prohibition are TPS, which the Corporation has issued in the past in order to raise additional Tier 1 capital and otherwise improve its regulatory capital ratios. Although the Corporation may continue to include its existing TPS as Tier 1 capital, the prohibition on the use of these securities as Tier 1 capital may limit the Corporation s ability to raise capital in the future.

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The Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent CFPB within the FRB. The CFPB s responsibility is to establish, implement and enforce rules and regulations under certain federal consumer protection laws with respect to the conduct of both bank and non-bank providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes that govern products and services banks offer to consumers. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB, and state attorneys general will have the authority to enforce consumer protection rules that the CFPB adopts against state-chartered institutions and, with respect to certain non-preempted laws, national banks. Compliance with any such new regulations established by the CFPB and/or states could reduce the Corporation s revenue, increase its cost of operations, and could limit its ability to expand into certain products and services.

Debit Card Interchange Fees. 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. Following completion of the Corporation s acquisition of Parkvale on January 1, 2012, the Corporation s assets exceeded the $10 billion threshold. As a result, the Corporation will become subject to the new rules regarding debit card interchange fees as of July 1, 2013. The Corporation expects that its revenue earned from debit card interchange fees, which were equal to $20.9 million for 2012, could decrease by $9.0 million or more per year on an annualized basis.

Increased Capital Standards and Enhanced Supervision. The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for banks and bank and financial holding companies. These new standards will be no less strict than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, become higher once the agencies promulgate the new standards. Compliance with heightened capital standards may reduce the Corporation s ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations.

Transactions with Affiliates. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions to include the borrowing or lending of securities or derivative transactions, and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain transactions (including loans and credit extensions from FNBPA) between FNBPA and the Corporation and/or its affiliates and subsidiaries are subject to quantitative and qualitative limitations, collateral requirements, and other restrictions imposed by statute and FRB regulation. Transactions subject to these restrictions are generally required to be made on an arm s-length basis. These restrictions generally do not apply to transactions between FNBPA and its direct wholly-owned subsidiaries.

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

Enhanced Lending Limits. The Dodd-Frank Act strengthens the existing limits on a depository institution s credit exposure to one borrower. Federal banking law currently limits a national bank s ability to extend credit to one person or group of related persons to an amount that does not exceed certain thresholds.

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Among other things, the Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements and securities lending and borrowing transactions.

Corporate Governance. The Dodd-Frank Act addresses many corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including the Corporation. The Dodd-Frank Act:

- grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation;
- enhances independence requirements for compensation committee members; and
- requires companies listed on national securities exchanges to adopt clawback policies for incentive-based compensation plans applicable to executive officers.

Many of the requirements the Dodd-Frank Act authorizes will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the federal banking agencies may implement the provisions of the Dodd-Frank Act, the full extent of the impact such requirements may have on the Corporation s operations and the financial services markets is unclear at this time. The changes resulting from the Dodd-Frank Act may impact the Corporation s profitability, require changes to certain of the Corporation s business practices, including limitations on fee income opportunities, impose more stringent capital, liquidity and leverage requirements upon the Corporation or otherwise adversely affect the Corporation s business. These changes may also require the Corporation to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. The Corporation cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on the Corporation.

Capital and Operational Requirements

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

The FRB s risk-based guidelines are based on a three-tier capital framework. Tier 1 capital includes common stockholders equity and qualifying preferred stock, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses of up to 1.25 percent of risk-weighted assets. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the FRB and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank s risk-based capital ratio to fall or remain below the required minimum.

The Corporation, like other bank holding companies, currently is required to maintain tier 1 capital and total capital (the sum of tier 1, tier 2 and tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items). Risk-based capital ratios are calculated by dividing tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. At December 31, 2012, the Corporation s tier 1 and total capital ratios under

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these guidelines were 10.7% and 12.2%, respectively. At December 31, 2012, the Corporation had $199.0 million of capital securities that qualified as tier 1 capital and $28.2 million of subordinated debt that qualified as tier 2 capital.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines currently provide for a minimum ratio of tier 1 capital to average total assets, less goodwill and certain other intangible assets (the leverage ratio), of 3.0% for bank holding companies that meet certain specified criteria, including the highest regulatory rating. All other bank holding companies generally are required to maintain a leverage ratio of at least 4.0%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Further, the FRB has indicated that it will consider a tangible tier 1 capital leverage ratio (deducting all intangibles) and all other indicators of capital strength in evaluating proposals for expansion or new activities. The Corporation s leverage ratio at December 31, 2012 was 8.3%.

Increased Capital Standards and Enhanced Supervision

The Dodd-Frank Act imposes a series of more onerous capital requirements on financial companies and other companies, including swap dealers and non-bank financial companies that are determined to be of systemic risk. Compliance with heightened capital standards may reduce the Corporation s ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations.

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

The Dodd-Frank Act requires that, at a minimum, regulators apply to bank holding companies and other systemically significant non-bank financial companies the same capital and risk standards that such regulators apply to banks insured by the FDIC. An important consequence of this requirement is that hybrid capital instruments, such as TPS, will no longer be included in the definition of tier 1 capital. Tier 1 capital includes common stock, retained earnings, certain types of preferred stock and TPS. Since TPS are not currently counted as tier 1 capital for insured banks, the effect of the Dodd-Frank Act is that such securities will no longer be included as tier 1 capital for bank holding companies or financial holding companies. Excluding TPS from tier 1 capital could significantly decrease regulatory capital levels of holding companies that have traditionally relied on TPS to meet capital requirements. The Dodd-Frank Act capital requirements may force bank holding companies to raise other forms of tier 1 capital, for example, by issuing perpetual non-cumulative preferred stock. Since common stock must typically constitute at least 50 percent of tier 1 capital, many bank holding companies and systemically significant non-bank companies may also be forced to consider dilutive follow-on offerings of common stock.

In order to ease the compliance burden associated with the new capital requirements, the Dodd-Frank Act provides a number of exceptions and phase-in periods. For bank holding companies and systemically important non-bank financial companies, any regulatory capital deductions for debt or equity issued before May 19, 2010 will be phased in incrementally from January 1, 2013 to January 1, 2016. The term regulatory capital deductions refers to the exclusion of hybrid capital from Tier 1 capital. The ultimate impact of these new capital and liquidity standards on the Corporation cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, classifies insured depository institutions into five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective

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

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well-capitalized institution must have a tier 1 risk-based capital ratio of at least 6.0%, a total risk-based capital ratio of at least 10.0% and a leverage ratio of at least 5.0% and not be subject to a capital directive order. Under these guidelines, FNBPA was considered well-capitalized as of December 31, 2012.

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

Expanded FDIC Powers Upon Insolvency of Insured Depository Institutions

The Dodd-Frank Act provides a mechanism for appointing the FDIC as receiver for a financial company if the failure of the company and its liquidation under the Bankruptcy Code or other insolvency procedures would pose a significant risk to the financial stability of the U.S.

If appointed as receiver for a failing financial company for which a systemic risk determination has been made, the FDIC has broad authority under the Dodd-Frank Act and the Orderly Liquidation Authority it created to operate or liquidate the business, sell the assets, and resolve the liabilities of the company immediately after its appointment as receiver or as soon as conditions make this appropriate. This authority will enable the FDIC to act immediately to sell assets of the company to another entity or, if that is not possible, to create a bridge financial company to maintain critical functions as the entity is wound down. In receiverships of insured depository institutions, the ability to act quickly and decisively has been found to reduce losses to creditors while maintaining key banking services for depositors and businesses. The FDIC will similarly be able to act quickly in resolving non-bank financial companies under the Dodd-Frank Act.

On August 10, 2010, the FDIC created the new Office of Complex Financial Institutions to help implement its expanded responsibilities. Over the course of 2011, the FDIC adopted five major rules for the implementation of its new receivership authority.

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Subject to these new rules, if the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power to:

- transfer any of the depository institution s assets and liabilities to a new obligor without the approval of the depository institution s creditors;
- enforce the terms of the depository institution s contracts pursuant to their terms; and
- repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution. Also, under applicable law, the claims of a receiver of an insured depository institution for administrative expense and claims of holders of U.S. deposit liabilities (including the FDIC, as subrogee of the depositors) have priority over the claims of other unsecured creditors of the institution in the event of the liquidation or other resolution of the institution. As a result, whether or not the FDIC would ever seek to repudiate any obligations held by public note holders, such persons would be treated differently from, and could receive, if anything, substantially less than the depositors of the depository institution.

Interstate Banking

Under the BHC Act, bank holding companies, including those that are also financial holding companies, are required to obtain the prior approval of the FRB (unless waived by the FRB) before acquiring more than five percent of any class of voting stock of any non-affiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking Act), a bank holding company may acquire banks located in states other than its home state without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the U.S. and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state.

The Dodd-Frank Act confers on state and national banks the ability to branch de novo into any state, provided that the law of that state permits a bank chartered in that state to establish a branch at that same location.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow

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consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (USA Patriot Act) substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the U.S. The UST has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as FNBPA. These regulations require financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

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

Consumer Protection Statutes and Regulations

In addition to the consumer regulations that may be issued by the CFPB pursuant to its authority under the Dodd-Frank Act, FNBPA is subject to various federal consumer protection statutes and regulations including the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act and Home Mortgage Disclosure Act. Among other things, these acts:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

On November 17, 2009, the FRB published a final rule amending Regulation E, which implements the Electronic Fund Transfer Act. The final rule limits the ability of a financial institution to assess an overdraft fee

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for paying automated teller machine transactions and one-time debit card transactions that overdraw a customer s account, unless the customer affirmatively consents, or opts in, to the institution s payment of overdrafts for these transactions.

Dividend Restrictions

The Corporation s primary source of funds for cash distributions to its stockholders, and funds used to pay principal and interest on its indebtedness, is dividends received from FNBPA. FNBPA is subject to federal laws and regulations governing its ability to pay dividends to the Corporation, including requirements to maintain capital above regulatory minimums. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of its net income for the current year combined with its retained net income for the two preceding years. The OCC has the authority to prohibit the payment of dividends by a national bank if it determines such payment would be an unsafe or unsound banking practice. In addition to dividends from FNBPA, other sources of parent company liquidity for the Corporation include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries.

In addition, the ability of the Corporation and FNBPA to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA, as described above. The right of the Corporation, its stockholders and its creditors to participate in any distribution of the assets or earnings of the Corporation s subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

Source of Strength

According to the Dodd-Frank Act and FRB policy, a financial or bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such subsidiary. Consistent with the source of strength policy, the FRB has stated that, as a matter of prudent banking, a bank or financial holding company generally should not maintain a rate of cash dividends unless its net income has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the Corporation s capital needs, asset quality and overall financial condition. This support may be required at times when the parent holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default, the other banks that are members of the FDIC may be assessed for the FDIC s loss, subject to certain exceptions.

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

Financial Holding Company Status and Activities

Under the BHC Act, an eligible bank holding company may elect to be a financial holding company and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. The financial holding company may engage directly or through a subsidiary in certain statutorily authorized activities (subject to certain restrictions and limitations imposed by the Dodd-Frank Act). A financial holding company may also engage in any activity that has been determined by rule or order to be financial in nature, incidental to such financial activity, or (with prior FRB

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approval) complementary to a financial activity and that does not pose substantial risk to the safety and soundness of an institution or to the financial system generally. In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company.

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

Activities and Acquisitions

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

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

The Interstate Banking Act generally permits bank holding companies to acquire banks in any state, and preempts all state laws restricting the ownership by a holding company of banks in more than one state. The Interstate Banking Act also permits:

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

Bank or financial holding companies and banks seeking to engage in transactions authorized by the Interstate Banking Act must be well-capitalized and managed.

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

Securities and Exchange Commission

The Corporation is also subject to regulation by the SEC by virtue of the Corporation s status as a public company and due to the nature of the business activities of certain subsidiaries. The Dodd-Frank Act significantly expanded the SEC s jurisdiction over hedge funds, credit ratings agencies and governance of public companies, among other areas, and enhanced the SEC s enforcement powers. Several of the provisions could lead to significant changes in SEC enforcement practice and may have long-term implications for public companies, their officers and employees, accountants, brokerage firms, investment advisers and persons associated with them. For example, these provisions (1) authorize new rewards to and provide expanded protections of whistleblowers; (2) provide the SEC authority to impose substantial civil penalties on all persons subject to cease-and-desist proceedings, not merely securities brokers, investment advisers and their associated persons; (3) broaden standards for the imposition of secondary liability; (4) confer on the SEC extraterritorial jurisdiction over alleged fraud violations involving conduct abroad and enhancing the ability of the SEC and the Public Company Accounting Oversight Board to regulate foreign public accounting firms; and (5) expand the applicability of collateral bars.

SOX contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with section 302(a) of SOX, written certifications by the Corporation s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required with respect to each of the Corporation s quarterly and annual reports filed with the SEC. These certifications attest that the applicable report does not contain any untrue statement of a material fact. The Corporation also maintains a program designed to comply with Section 404 of SOX, which includes identification of significant processes and accounts, documentation of the design of process and entity level controls and testing of the operating effectiveness of key controls. See Item 9A, Controls and Procedures, of this Report for the Corporation s evaluation of its disclosure controls and procedures.

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

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

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

FNBIA also may be required to conduct its business in a manner that complies with rules and regulations promulgated by the U.S. Department of Labor under the Employee Retirement Income Security Act (ERISA), among others. The principal purpose of these regulations is the protection of clients and plan assets and beneficiaries, rather than the protection of stockholders and creditors.

Consumer Finance Subsidiary

Regency is subject to regulation under Pennsylvania, Tennessee, Ohio and Kentucky state laws that require, among other things, that it maintain licenses in effect for consumer finance operations for each of its offices. Representatives of the Pennsylvania Department of Banking, the Tennessee Department of Financial

Institutions, the Ohio Division of Consumer Finance and the Kentucky Department of Financial Institutions periodically visit Regency s offices and conduct extensive examinations in order to determine compliance with such laws and regulations. Additionally, the FRB, as umbrella regulator of the Corporation pursuant to the GLB Act, may conduct an examination of Regency s offices or operations. Such examinations include a review of loans and the collateral therefor, as well as a check of the procedures employed for making and collecting loans. Additionally, Regency is subject to certain federal consumer protection laws that require that certain information relating to credit terms be disclosed to customers and, in certain instances, afford customers the right to rescind transactions.

Insurance Agencies

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

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

Merchant Banking

FNBCC is subject to regulation and examination by the FRB as the umbrella regulator and is subject to rules and regulations issued by the FRB and SEC.

Governmental Policies

The operations of the Corporation and its subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the FRB regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. FRB monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future.

Available Information

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

ITEM 1A. RISK FACTORS

As a financial services organization, the Corporation takes on a certain amount of risk in every business decision and activity. For example, every time FNBPA opens an account or approves a loan for a customer, processes a payment, hires a new employee, or implements a new computer system, FNBPA and the Corporation incur a certain amount of risk. As an organization, the Corporation must balance revenue generation and profitability with the risks associated with its business activities. The objective of risk management is not to eliminate risk, but to identify and accept risk and then manage risk effectively so as to optimize total shareholder value.

The Corporation has identified five major categories of risk: credit risk, market risk, liquidity risk, operational risk and compliance risk. The Corporation more fully describes credit risk, market risk and liquidity risk, and the programs the Corporation s management has implemented to address these risks, in the Market Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report. Operational risk arises from inadequate information systems and technology, weak internal control systems or other failed internal processes or systems, human error, fraud or external events. Compliance risk relates to each of the other four major categories of risk listed above, but specifically addresses internal control failures that result in non-compliance with laws, rules, regulations or ethical standards.

The following discussion highlights specific risks that could affect the Corporation and its businesses. You should carefully consider each of the following risks and all of the other information set forth in this Report. Based on the information currently known, the Corporation believes that the following information identifies the most significant risk factors affecting the Corporation. However, the risks and uncertainties the Corporation faces are not limited to those described below. Additional risks and uncertainties not presently known or that the Corporation currently believes to be immaterial may also adversely affect its business.

If any of the following risks and uncertainties develop into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse affect on the Corporation s business, financial condition or results of operations. These events could also have a negative effect on the trading price of the Corporation s securities.

The Corporation s results of operations are significantly affected by the ability of its borrowers to repay their loans.

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

- credit risks of a particular borrower;
- changes in economic and industry conditions;
- the duration of the loan; and
- in the case of a collateralized loan, uncertainties as to the future value of the collateral.

Generally, commercial/industrial, construction and commercial real estate loans present a greater risk of non-payment by a borrower than other types of loans. For additional information, see the Lending Activity section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report. In addition, consumer loans typically have shorter terms and lower balances with higher yields compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

The Corporation s financial condition may be adversely affected if it is unable to attract sufficient deposits to fund its anticipated loan growth.

The Corporation funds its loan growth primarily through deposits. Deposits are a low cost and stable source of funding for the Corporation. However, the Corporation competes with banks and other financial services companies for deposits. To the extent that the Corporation is unable to attract and maintain sufficient

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levels of deposits to fund its loan growth, it would be required to raise additional funds through public or private financings. The Corporation can give no assurance that it would be able to obtain these funds on terms that are attractive to it.

The Corporation s financial condition and results of operations would be adversely affected if its allowance for loan losses is not sufficient to absorb actual losses.

There is no precise method of predicting loan losses. The Corporation can give no assurance that its allowance for loan losses will be sufficient to absorb actual loan losses. Excess loan losses could have a material adverse effect on the Corporation s financial condition and results of operations. The Corporation attempts to maintain an adequate allowance for loan losses to provide for estimated losses inherent in its loan portfolio as of the reporting date. The Corporation periodically determines the amount of its allowance for loan losses based upon consideration of several quantitative and qualitative factors including, but not limited to, the following:

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

The level of the allowance for loan losses reflects the judgment and estimates of management regarding the amount and timing of future cash flows, current fair value of the underlying collateral and other qualitative risk factors that may affect the loan. Determination of the allowance is inherently subjective and is based on factors that are susceptible to significant change. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation s control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation s allowance and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance. Any increases in the allowance will result in a decrease in net income and capital and may have a material adverse effect on the Corporation s financial condition and results of operations. For additional discussion relating to this matter, refer to the Allowance and Provision for Loan Losses section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report.

The Corporation s results of operations may be adversely affected if asset valuations cause other-than-temporary impairment (OTTI) or goodwill impairment charges.

The Corporation may be required to record future impairment charges on its investment securities if they suffer declines in value that are considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on the Corporation s investment portfolio in future periods. Goodwill is assessed annually for impairment and declines in value could result in a future non-cash charge to earnings. If an impairment charge is significant enough it could affect the ability of FNBPA to pay dividends to the Corporation, which could have a material adverse effect on the Corporation s liquidity and its ability to pay dividends to stockholders and could also negatively impact its regulatory capital ratios and result in FNBPA not being classified as well-capitalized for regulatory purposes.

Interest rate volatility could significantly harm the Corporation s business.

The Corporation s results of operations are affected by the monetary and fiscal policies of the federal government. A significant component of the Corporation s earnings consists of its net interest income, which is

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the difference between the income from interest-earning assets, such as loans and investments, and the expense of interest-bearing liabilities, such as deposits and borrowings. A change in market interest rates could adversely affect the Corporation s earnings if market interest rates change such that the interest the Corporation pays on deposits and borrowings increase at a faster rate or decrease at a slower rate than the interest it collects on loans and investments. Consequently, the Corporation, along with other financial institutions, generally will be sensitive to interest rate fluctuations.

Changes in economic conditions and the composition of the Corporation s loan portfolio could lead to higher loan charge-offs or an increase in the Corporation s provision for loan losses and may reduce the Corporation s net income.

Changes in national and regional economic conditions continue to impact the loan portfolios of the Corporation. For example, an increase in unemployment, a decrease in real estate values or changes in interest rates, as well as other factors, have weakened the economies of the communities the Corporation serves. Weakness in the market areas served by the Corporation could depress its earnings and consequently its financial condition because customers may not want or need the Corporation s products or services; borrowers may not be able to repay their loans; the value of the collateral securing the Corporation s loans to borrowers may decline; and the quality of the Corporation s loan portfolio may decline. Any of the latter three scenarios could require the Corporation to charge-off a higher percentage of its loans and/or increase its provision for loan losses, which would reduce its net income.

The prolonged negative effect of the recession and weak economic recovery may adversely affect the Corporation s financial performance.

The Corporation s financial performance generally, and the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of the collateral securing those loans, is highly dependent upon the business and economic conditions in the markets in which the Corporation and its subsidiaries operate and in the U.S. as a whole. The severe recession and weak economic recovery have resulted in continued uncertainty in the financial and credit markets in general. There is also concern about the possibility of another economic downturn if government spending cuts resulting from budget sequestration under the Budget Controls Act of 2011 become effective. A prolonged weakness or further deterioration in the economy generally, and in the financial services industry in particular, could negatively affect the Corporation s operations by causing an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Corporation s products and services, among other things, any of which could have a material adverse impact on the Corporation s financial condition and results of operations.

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

The Corporation and its subsidiaries operate in a highly regulated environment and are subject to supervision and regulation by several governmental agencies, including the FRB, OCC and FDIC. Regulations are generally intended to provide protection for depositors, borrowers and other customers rather than for investors. The Corporation is subject to changes in federal and state law, regulations, governmental policies, tax laws and accounting principles. Changes in regulations or the regulatory environment could adversely affect the banking and financial services industry as a whole and could limit the Corporation s growth and the return to investors by restricting such activities as:

- the payment of dividends;
- mergers with or acquisitions of other institutions;
- investments;
- loans and interest rates;
- assessments of fees, such as overdraft and electronic transfer interchange fees;

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- the provision of securities, insurance or trust services; and
- the types of non-deposit activities in which the Corporation s financial institution subsidiaries may engage.

Under regulatory capital adequacy guidelines and other regulatory requirements, the Corporation and FNBPA must meet guidelines subject to qualitative judgments by regulators about components, risk weightings and other factors. From time to time, the regulators implement changes to those regulatory capital adequacy guidelines. Changes resulting from the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee on Banking Supervision and implemented by the FRB, when fully phased in, will likely require the Corporation to satisfy additional, more stringent capital adequacy standards.

In December 2010, the Basel Committee released its proposed final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. banking agencies beginning on January 1, 2013 and fully phased in on January 1, 2019, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III also provides for a countercyclical capital buffer, an additional capital requirement that generally is to be imposed when national regulators determine that excess aggregate credit growth has become associated with a buildup of systemic risk, in order to absorb losses during periods of economic stress. Banking institutions that maintain insufficient capital to comply with the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Additionally, the proposed Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests, including a liquidity coverage ratio (LCR) designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, and a net stable funding ratio (NSFR) designed to promote more medium- and long-term funding based on the liquidity characteristics of the assets and activities of banking entities over a one-year time horizon. The LCR and NSFR have proposed adoption dates beginning in 2015 and 2018, respectively.

On June 6, 2012, the OCC and the other federal bank regulatory agencies issued a series of proposed rules to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the Basel III framework. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies (banking organizations). Among other things, the proposed rules establish a new common equity tier 1 (CET1) minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum tier 1 capital requirement (from 4.0% to 6.0% of risk-weighted assets), and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

When fully phased in, Basel III requires financial institutions to maintain: (a) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (b) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (c) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (d) as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of Tier 1 capital balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter). In addition, the proposed rules also limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer .

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When issued, the proposed rules indicated that final rules would become effective on January 1, 2013, and that the changes set forth in the final rules would be phased in from January 1, 2013 through January 1, 2019. On November 9, 2012, pursuant to a joint release, the federal bank agencies announced that they did not expect that any of the proposed rules would become effective on January 1, 2013. As members of the Basel Committee on Banking Supervision, the U.S. agencies take seriously the internationally agreed timing commitments regarding the implementation of Basel III and are working as expeditiously as possible to complete the rulemaking process. As with any rule, the agencies will take operational and other considerations into account when determining appropriate implementation dates and associated transition periods. The Corporation expects that future risk weighted capital ratios determined pursuant to asset risk weightings as they may ultimately be structured under the prospective Basel III computational framework will differ unfavorably when compared to current computations. In light of the current uncertainty regarding the final structure of the computational framework, the Corporation cannot currently estimate the impact of the proposal on reported risk weighted capital ratios.

These changes to present capital and liquidity requirements could restrict the Corporation s activities and require it to maintain additional capital. Compliance with heightened capital standards may reduce its ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. If the Corporation fails to meet these minimum liquidity capital guidelines and other regulatory requirements, its financial condition would be materially and adversely affected.

The Dodd-Frank Act effects fundamental changes in the regulation of the financial services industry, some of which may adversely affect the Corporation s business.

The Dodd-Frank Act imposes new regulatory requirements and oversight over banks and other financial institutions in a number of ways, among which are: (i) creating the CFPB to regulate consumer financial products and services; (ii) creating the FSOC to identify and impose additional regulatory oversight on large financial firms; (iii) granting orderly liquidation authority to the FDIC for the liquidation of financial corporations that pose a risk to the financial system of the U.S.; (iv) limiting debit card interchange fees; (v) adopting certain changes to stockholder rights, including a stockholder say on pay vote on executive compensation; (vi) strengthening the SEC s powers to regulate securities markets; (vii) regulating OTC derivative markets; (viii) making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; (ix) providing consumers a defense of set-off or recoupment in a foreclosure or collection action if the lender violates the newly created reasonable ability to repay provision; (x) amending the Truth in Lending Act with respect to mortgage originations, including originator compensation, disallowing mandatory arbitration, and prepayment considerations; (xi) the Volcker Rule which, among other things, imposes restrictions on proprietary trading and investment activities of banks and bank holding companies and (xii) reform related to the regulation of credit rating agencies. Regulators are tasked with adopting regulations that implement and define the breadth and scope of many of these changes. A number of the regulations that must be adopted under the Dodd-Frank Act have yet to be proposed, and it is difficult to gauge the impact of certain provisions of the Dodd-Frank Act because so many important details related to the concepts adopted in the Dodd-Frank Act were left within the discretion of the regulators. For example, the CFPB has the power to adopt new regulations to protect consumers, which power it may exercise at its discretion so long as it advances the general concept of the protection of consumers. Consequently, the impact of these regulations and other regulations to be adopted pursuant to the Dodd-Frank Act is unclear, but may impair the Corporation s ability to meet all of the product needs of its customers, lead customers to seek financial solutions and products through non-banking channels and adversely affect the Corporation s profits. Moreover, the increased regulatory scrutiny set forth in the bill and the various proposed mechanisms by which the regulated entities reimburse the regulatory agencies for the increased costs associated with implementing the increased regulatory scrutiny will likely increase the Corporation s cost of compliance, divert its resources and may adversely affect profits.

Among those regulations that have been proposed or adopted, the following may adversely affect the business of the Corporation:

limitations on debit card interchange fees may affect its profits;

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changing the methodology for calculating deposit insurance premium rates will become more complex, less predictable and more pro-cyclical, adversely affecting its profits and diverting its resources;

changing the procedures for liquidation may adversely impact its credit ratings and adversely impact its liquidity, profits, and its ability to fund itself;

increases in requirements for regulatory capital while eliminating certain sources of capital may adversely affect its profits; and

the ability to pay interest on commercial demand deposit accounts may increase its interest expenses.

These provisions may limit the types of products the Corporation is able to offer, the methods of offering them and prices at which they are offered. They may also increase the cost of offering these products. These provisions likely will affect different financial institutions in different ways, and therefore, may also affect the competitive landscape.

Increases in or required prepayments of FDIC insurance premiums may adversely affect the Corporation s earnings.

Since 2008, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted its DIF. In addition, the FDIC instituted temporary programs, some of which were made permanent by the Dodd-Frank Act, to further insure customer deposits at FDIC-insured banks, which have placed additional stress on the DIF.

In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions. In addition, on November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years worth of premiums to replenish the depleted insurance fund. With the enactment of the Dodd-Frank Act in July 2010, the minimum reserve ratio for the DIF was increased from 1.15% to 1.35% of estimated insured deposits, or the assessment base, and the FDIC was directed to take the steps needed to cause the reserve ratio of the DIF to reach 1.35% of estimated insured deposits by September 30, 2020. On December 15, 2010, as part of its long-range management plan to ensure that the DIF is able to maintain a positive balance despite banking crises and steady, moderate assessment rates despite economic and credit cycles, the FDIC set the DIF s designated reserve ratio, or DRR, at 2% of estimated insured deposits. The FDIC is required to offset the effect of the increased minimum reserve ratio for banks with assets of less than $10 billion, so smaller community banks will be spared the cost of funding the increase in the minimum reserve ratio. As of January 1, 2012, the assets of FNBPA exceeded the $10 billion threshold.

Historically, the FDIC utilized a risk-based assessment system that imposed insurance premiums based upon a risk matrix that takes into account several components, including but not limited to the bank s capital level and supervisory rating. Pursuant to the Dodd-Frank Act, in February 2011, the FDIC amended its regulations to base insurance assessments on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period; to set deposit insurance assessment rates in light of the new assessment base; and to revise the assessment system applicable to large banks (those having at least $10 billion in total assets) to better differentiate for the risks that a large bank could pose to the DIF.

The likely effect of the new assessment scheme will be to increase assessment fees for institutions that rely more heavily on non-deposit funding sources. However, the higher assessments for institutions that have relied on non-deposit sources of funding in the past could force these institutions to change their funding models and more actively search for deposits. If this happens, it could drive up the costs to attain deposits across the market, a situation that would negatively impact community banks like FNBPA, which derive the majority of their funding from deposits.

The Corporation generally will be unable to control the amount of premiums that it is required to pay for FDIC insurance. Any future increases in or required prepayments of FDIC insurance premiums may adversely affect the Corporation s financial condition or results of operations. In light of the recent increases in the

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assessment rates, the potential for additional increases, and the Corporation s status as a large bank, FNBPA may be required to pay additional amounts to the DIF, which would have an adverse effect on its earnings. If FNBPA s deposit insurance premium assessment rate increases again, either because of its risk classification, because of emergency assessments, or because of another uniform increase, the earnings of the Corporation could be further adversely impacted.

The expiration of unlimited FDIC insurance on certain non-interest-bearing transaction accounts may increase the Corporation s costs and reduce its liquidity levels.

On December 31, 2012, unlimited FDIC insurance on certain non-interest-bearing transaction accounts expired. Unlimited insurance coverage does not apply to money market deposit accounts or negotiable order of withdrawal accounts. The reduction in FDIC insurance on other types of accounts to the standard $250,000 maximum amount may cause depositors to place such funds in fully insured interest-bearing accounts, which would increase our costs of funds and negatively affect our results of operations, or may cause depositors to withdraw their deposits and invest uninsured funds in investments perceived as being more secure, such as securities issued by the UST. This may reduce the Corporation s liquidity, or require it to pay higher interest rates to maintain the Corporation s liquidity by retaining deposits.

The Corporation must comply with new stress-testing requirements.

In October, 2012, the FRB, OCC and FDIC finalized regulations implementing the stress testing requirements under the Dodd-Frank Act. The newly imposed stress test rule stipulates that all U.S. banks such as the Corporation with consolidated assets between $10 billion and $50 billion are required to conduct annual stress tests calculated under a multi-scenario analysis.

The economic and financial market scenarios to be used in the annual company-run stress test include baseline, adverse and severely adverse scenarios. Each includes 26 variables, including economic activity, unemployment, exchange rates, prices, incomes and interest rates. The adverse and severely adverse scenarios are not forecasts, but rather hypothetical scenarios designed to assess the strength and resilience of financial institutions. The final rule pushed back the compliance date for model submission until October 2013, and additionally delayed the public disclosure provisions until the completion of the 2014 data collection cycle. If the Corporation fails to meet these stress-test requirements, its financial condition could be materially and adversely affected.

Recently adopted rules regulating the imposition of debit card income may adversely affect the operations of the Corporation.

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. Entities which had assets in excess of $10 billion as of December 31, 2011 were required to comply with those rules effective as of July 1, 2012. Beginning in 2012 and for each calendar year thereafter, entities having assets in excess of $10 billion as of the end of that calendar year will be required to comply with those rules no later than the immediately following July 1.

Following completion of the Parkvale acquisition on January 1, 2012, the Corporation s assets exceeded the $10 billion threshold. The Corporation will be subject to the FRB rules concerning debit card interchange fees as of July 1, 2013. The Corporation estimates that its revenues earned from interchange fees could decrease by $9.0 million or more per year.

The Corporation s information systems may experience an interruption or breach in security.

The Corporation relies heavily on internal and outsourced digital technologies and communications and information systems in key aspects of its business. The Corporation uses those technologies and systems to manage its customer relationships, general ledger, deposits and loans. Although the Corporation has policies and procedures designed to prevent or limit the impact of systems failures, interruptions and security breaches and maintains cyber security insurance, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed.

The occurrence of any failures, interruptions, or security breaches of the Corporation s technology systems (internal or outsourced) could damage the Corporation s reputation, result in a loss of customer business, discourage customers from using mobile bill pay, mobile banking and online banking services, and result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation s financial condition, results of operations or stock price. As cyber threats continue to evolve and increase, the Corporation may also be required to spend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

The Corporation is dependent upon outside third parties for processing and handling of its records and data.

In addition, the Corporation outsources certain of its data-processing to third-party providers. Those third-party providers could also be sources of operational and information security risk to the Corporation, including from breakdowns or failures of their own systems or capacity constraints. If its third-party providers encounter difficulties, or if the Corporation has difficulty in communicating with them, the Corporation s ability to adequately process and account for customer transactions could be affected, and its business operations could be adversely impacted and result in a loss of customers and business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability. Any of these occurrences could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation continually encounters technological change.

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

The Corporation could experience significant difficulties and complications in connection with its growth and acquisition strategy.

The Corporation has grown significantly over the last few years, partly through acquisitions, and intends to seek to continue to grow by acquiring financial institutions and branches as well as non-depository entities engaged in permissible activities for its financial institution subsidiaries. However, the market for acquisitions is highly competitive. The Corporation may not be as successful in identifying financial institutions and branch acquisition candidates, integrating acquired institutions or preventing deposit erosion at acquired institutions or branches as it currently anticipates.

As part of its acquisition strategy, the Corporation may acquire additional banks and non-bank entities that it believes provide a strategic fit with its business. To the extent that the Corporation is successful with this strategy, it cannot assure you that it will be able to manage this growth adequately and profitably. For example, acquiring any bank or non-bank entity will involve risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of banks and non-bank entities that the Corporation acquires;

- exposure to potential asset quality issues of acquired banks and non-bank entities;
- potential disruption to the Corporation s business;
- potential diversion of the time and attention of the Corporation s management; and
- the possible loss of key employees and customers of the banks and other businesses that the Corporation acquires.

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

The Corporation may encounter unforeseen expenses, as well as difficulties and complications in integrating expanded operations and new employees without disruption to its overall operations. Following each acquisition, the Corporation must expend substantial resources to integrate the entities. The integration of non-banking entities often involves combining different industry cultures and business methodologies. The failure to integrate acquired entities successfully with the Corporation s existing operations may adversely affect its results of operations and financial condition.

The Corporation s continued pace of growth may require it to raise additional capital in the future, but that capital may not be available when it is needed.

The Corporation is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations (see the Government Supervision and Regulation section included in Item 1 of this Report). As a financial holding company, the Corporation seeks to maintain capital sufficient to meet the well-capitalized standard set by regulators. The Corporation anticipates that its current capital resources will satisfy its capital requirements for the foreseeable future. The Corporation may at some point, however, need to raise additional capital to support continued growth, whether such growth occurs internally or through acquisitions.

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

The Corporation s key assets include its brand and reputation and the Corporation s business may be affected by how it is perceived in the market place.

The Corporation s brand and its attributes are key assets of the Corporation. The Corporation s ability to attract and retain banking, insurance, consumer finance, wealth management, merchant banking and corporate clients is highly dependent upon external perceptions of its level of service, trustworthiness, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage the Corporation s reputation among existing customers and corporate clients, which could make it difficult for the Corporation to attract new clients and maintain existing ones. Adverse developments with respect to the financial services industry may also, by association, negatively impact the Corporation s reputation, or result in greater

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regulatory or legislative scrutiny or litigation against the Corporation. Although the Corporation monitors developments for areas of potential risk to its reputation and brand, negative perceptions or publicity could materially and adversely affect the Corporation s revenues and profitability.

The Corporation s status as a holding company makes it dependent on dividends from its subsidiaries to meet its financial obligations and pay dividends to stockholders.

The Corporation is a holding company and conducts almost all of its operations through its subsidiaries. The Corporation does not have any significant assets other than cash and the stock of its subsidiaries. Accordingly, the Corporation depends on dividends from its subsidiaries to meet its financial obligations and to pay dividends to stockholders. The Corporation s right to participate in any distribution of earnings or assets of its subsidiaries is subject to the prior claims of creditors of such subsidiaries. Under federal law, the amount of dividends that a national bank, such as FNBPA, may pay in a calendar year is dependent on the amount of its net income for the current year combined with its retained net income for the two preceding years. The OCC has the authority to prohibit FNBPA from paying dividends if it determines such payment would be an unsafe and unsound banking practice.

The market price of the Corporation s common stock is subject to the risk of fluctuations.

The market price of the Corporation s common stock may fluctuate significantly in response to many factors, including:

- actual or anticipated variations in the Corporation s operating results, interest income, cash flows or liquidity;
- changes in the Corporation s earnings estimates or those of analysts;
- changes in the Corporation s dividend policy;
- publication of research reports about the Corporation or the banking industry generally;
- increases in market interest rates that lead purchasers of the Corporation s common stock to demand a higher dividend yield;
- changes in market valuations of similar institutions;
- adverse market reaction to the amount of maturing debt and other liabilities in the near-and medium-term and the Corporation s ability to refinance such debt and the terms thereof or the Corporation s plans to incur additional debt in the future;
- additions or departures of key management personnel;
- actions by institutional shareholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors included in, or incorporated by reference to, this Report; and
- general market and economic conditions.

Many of the factors listed above are beyond the Corporation s control. Those factors may cause the market price of the Corporation s common stock to decline, regardless of its financial performance and condition and prospects. It is impossible to provide any assurance that the market price of the Corporation s common stock will not fall in the future, and it may be difficult for holders to resell shares of the Corporation s common stock at prices they find attractive, or at all.

Certain provisions of the Corporation s Articles of Incorporation and By-laws and Florida law may discourage takeovers.

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

- require stockholders to give the Corporation advance notice to nominate candidates for election to its Board of Directors or to make stockholder proposals at a stockholders meeting;

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permit the Corporation s Board of Directors to issue, without stockholder approval unless otherwise required by law, preferred stock with such terms as its Board of Directors may determine;

require the vote of the holders of at least 75% of the Corporation s voting shares for stockholder amendments to its By-laws;

Under Florida law, the approval of a business combination with a stockholder owning 10% or more of the voting shares of a corporation requires the vote of holders of at least two-thirds of the voting shares not owned by such stockholder, unless the transaction is approved by a majority of the corporation s disinterested directors. In addition, Florida law generally provides that shares of a corporation that are acquired in excess of certain specified thresholds will not possess any voting rights unless the voting rights are approved by a majority of the corporation s disinterested stockholders.

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

The Corporation will incur transaction and merger-related costs in connection with its pending mergers.

The Corporation expects to incur costs associated with combining its operations with those of ANNB and PVF. The Corporation has just recently begun collecting information regarding PVF in order to formulate detailed integration plans to deliver planned synergies. Additional unanticipated costs may be incurred in the integration of the businesses of the Corporation and those of ANNB and PVF. Whether or not the mergers are consummated, the Corporation will incur expenses, such as legal, accounting, printing and financial advisory fees, in pursuing the mergers. Although the Corporation expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

The Corporation may encounter integration difficulties or may fail to realize the anticipated benefits of its pending mergers.

The success of each of the mergers will depend on, among other things, the Corporation s ability to combine the businesses of FNBPA and those of BankAnnapolis and Park View Federal Savings Bank (Park View) within the Corporation s projected timeframe and in a manner that permits growth opportunities and does not materially disrupt the existing customer relationships of BankAnnapolis or Park View nor result in decreased revenues due to any loss of customers. If the Corporation is not able to successfully achieve these objectives, the anticipated benefits of the mergers may not be realized fully or at all or may take longer to realize than expected.

The Corporation, ANNB and PVF have operated and, until the completion of the mergers, will continue to operate, independently. Certain employees of ANNB and PVF may not be employed after the mergers. In addition, employees of ANNB and PVF that the Corporation wishes to retain may elect to terminate their employment as a result of the mergers, which could delay or disrupt the integration process. It is possible that the integration process could result in the disruption of the Corporation s, ANNB s or PCF s ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect the ability of the Corporation, ANNB or PVF to maintain relationships with customers and employees or to achieve the anticipated benefits of the mergers. Banks which have recently been subject to formal regulatory supervision, such as Park View, may pose additional risks in the integration process. To the extent there are any supervisory issues which cannot be resolved by the acquisition of Park View, the Corporation may need to incur additional compliance costs to address those issues.

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The Corporation believes a combined company will achieve enhanced earnings due to, among other things, reduction of duplicate costs, improved efficiency and cross-marketing opportunities. If completion of the mergers is delayed or the Corporation experiences integration difficulties, including those discussed in the paragraphs above, the Corporation may not realize the anticipated benefits of the mergers at all, or the benefits of the mergers may take longer to realize than anticipated. Failure to achieve the anticipated benefits of the mergers in the timeframes projected by the Corporation could result in increased costs and decreased revenues.

The Corporation s lack of operating experience in Maryland may adversely impact the Corporation s ability to successfully compete in this market area.

The proposed merger between the Corporation and ANNB expands the Corporation s current market area into Anne Arundel and Queen Anne s counties, Maryland. While this new market area is contiguous with the Corporation s existing market area, it is outside of the markets in which the Corporation s senior management has extensive knowledge and experience and is a more competitive market environment than the markets in which the Corporation currently operates. The Corporation s success in this new market will depend, in part, on its ability to attract and retain qualified and experienced personnel (particularly bankers who are knowledgeable of the banking and financing needs of businesses that support U.S. government agencies) to supplement the existing ANNB team for businesses that ANNB does not currently engage in, such as asset-based lending, wealth management, private banking and insurance. Although the Corporation expects to retain the services of ANNB s Chairman of the Board, President and Chief Executive Officer, as Regional Chairman for a period of one year following the completion of the merger to assist with transition matters relating to the Annapolis, Maryland market, there can be no guarantee that this executive will serve the entire one-year term; or that his services will ensure the Corporation s entry into the Annapolis, Maryland market proceeds according to the expectations of the Corporation s management. Also, the lack of awareness of the Corporation brand in the Maryland markets may adversely affect its ability to attract and retain qualified personnel as well as the Corporation s overall ability to compete in the new market area. Accordingly, there is a risk that the Corporation will lose customers in this new market area, may not adequately address this new market in terms of the products and services that the Corporation proposes to offer, or may be unable to successfully compete with institutions already established within this market area.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

The Corporation owns a six-story building in Hermitage, Pennsylvania that serves as its headquarters, executive and administrative offices, and is also occupied by Community Banking and Wealth Management staff. The Corporation also leases office space in Pittsburgh, Pennsylvania that serves as its regional executive headquarters. This space is also occupied by Community Banking, Wealth Management and Insurance employees. Additionally, the Corporation owns a two-story building in Hermitage, Pennsylvania that serves as its data processing and technology center.

As of December 31, 2012, the Community Banking segment had 247 offices, located in 37 counties in Pennsylvania, six counties in eastern Ohio and one county in northern West Virginia, of which 165 were owned and 82 were leased. As of December 31, 2012, the Consumer Finance segment had 71 offices, located in 18 counties in Pennsylvania, 17 counties in Tennessee, 12 counties in Ohio and 14 counties in Kentucky, all of which were leased. The operating leases for the Community Banking and Consumer Finance offices expire at various dates through the year 2040 and generally include options to renew. For additional information regarding the lease commitments, see the Premises and Equipment footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

During 2012, the Corporation consolidated 37 banking locations and reduced three banking locations to drive-up only service. Seventeen of these locations were consolidated during the first quarter as a result of the Parkvale acquisition. The remaining 20 locations were consolidated during the fourth quarter in an effort to position the Corporation for greater efficiency and profitability. The three locations with a reduction of service were also completed during the fourth quarter.

ITEM 3. LEGAL PROCEEDINGS

Overdraft Litigation

On June 5, 2012, the Corporation was named as a defendant in a purported class action lawsuit entitled *Ord v. F.N.B. Corporation*, Civil Action No. 2:12-cv-00766-AJS, filed in the United States District Court for the Western District of Pennsylvania (the Ord Action). The Ord Action alleged state law claims related to FNBPA s order of posting ATM and debit card transactions and the assessment of overdraft fees on deposit customer accounts. On August 14, 2012, FNBPA was named as a defendant in a purported class action lawsuit entitled *Clarey v. First National Bank of Pennsylvania*, Civil Action No. GD-12-014512, filed in the Court of Common Pleas of Allegheny County, Pennsylvania (the Clarey Action). The Clarey action alleged claims and requested relief similar to the claims asserted and the relief sought in the Ord Action. On September 11, 2012, FNBPA removed the Clarey Action to the United States District Court for the Western District of Pennsylvania, Civil Action No. 2:12-cv-01305-AJS. On September 17, 2012, the plaintiffs in the Ord Action filed an amended complaint in which they added FNBPA as a defendant with the Corporation. On September 27, 2012, the United States District Court for the Western District of Pennsylvania consolidated the Ord and Clarey Actions at Civil Action No. 2:12-cv-00766-AJS.

On October 19, 2012, the parties to the Ord and Clarey Actions participated in a mediation required pursuant to the local rules of the court. On October 22, 2012, the parties filed a Joint Motion to Stay Pending Settlement Approval requesting that the court stay all proceedings due to the parties having reached an agreement in principle, subject to the preparation and execution of a mutually acceptable settlement agreement and release, to fully, finally and completely settle, resolve, discharge and release all claims that have been or could have been asserted in the Ord and Clarey Actions on a class-wide basis. The proposed settlement contemplates that, in return for a full and complete release of claims by the plaintiffs and the settlement class members, FNBPA will create a settlement fund of $3.0 million for distribution to the settlement class members after certain court-approved reductions, including for attorney s fees and expenses. Amounts related to the proposed settlement were accrued for in October 2012. On February 12, 2013, the court granted preliminary approval of the proposed settlement, which is subject to final court approval.

Annapolis Bancorp, Inc. Stockholder Litigation

On November 8, 2012, a purported stockholder of ANNB filed a derivative complaint on behalf of ANNB in the Circuit Court for Anne Arundel County, Maryland, captioned *Andera v. Lerner, et al.*, Case no. 02C12173766, and naming as defendants ANNB, its board of directors and the Corporation. The lawsuit makes various allegations against the defendants, including that the merger consideration is inadequate and undervalues the company, that the director defendants breached their fiduciary duties to ANNB in approving the merger, and that the Corporation aided and abetted those alleged breaches. The lawsuit generally seeks an injunction barring the defendants from consummating the merger. In addition, the lawsuit seeks rescission of the merger agreement to the extent already implemented or, in the alternative, award of rescissory damages, an accounting to plaintiff for all damages caused by the defendants and for all profits and special benefits obtained as a result of the defendants alleged breaches of fiduciary duties, and an award of the costs and expenses incurred in the action, including a reasonable allowance for counsel fees and expert fees.

On February 7, 2013, the plaintiff filed an amended complaint with additional allegations regarding certain purported non-disclosures relating to the proxy statement/prospectus for the pending merger filed with the SEC on January 23, 2013. On February 22, 2013, solely to avoid the costs, risks and uncertainties inherent in

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litigation, ANNB, the ANNB board of directors, the Corporation and the plaintiff reached an agreement in principle to settle the action, and expect to memorialize that agreement in a written agreement. As part of this agreement in principle, the Corporation and ANNB agreed to disclose additional information in the proxy statement/prospectus filed on February 25, 2013. No substantive term of the merger agreement was modified as part of this settlement. The settlement agreement will be subject to court approval.

Other Legal Proceedings

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.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age and principal occupation for each of the executive officers of the Corporation as of January 31, 2013 is set forth below:

Name	Age	Principal Occupation
Vincent J. Delie, Jr.	48	President and Chief Executive Officer of the Corporation; Chief Executive Officer of FNBPA
Vincent J. Calabrese, Jr.	50	Chief Financial Officer of the Corporation; Executive Vice President of FNBPA
Gary L. Guerrieri	52	Chief Credit Officer of the Corporation; Executive Vice President of FNBPA
Timothy G. Rubritz	58	Corporate Controller and Senior Vice President of the Corporation
John C. Williams, Jr.	66	President of FNBPA

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

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PART II.

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

The Corporation s common stock is listed on the NYSE under the symbol FNB. The accompanying table shows the range of high and low sales prices per share of the common stock as reported by the NYSE for 2012 and 2011. The table also shows dividends per share paid on the outstanding common stock during those periods. As of January 31, 2013, there were 12,030 holders of record of the Corporation s common stock.

	Low	High	Dividends
Quarter Ended 2012			
March 31	$ 11.31	$ 12.56	$ 0.12
June 30	9.89	12.36	0.12
September 30	10.55	12.05	0.12
December 31	10.20	11.53	0.12
Quarter Ended 2011			
March 31	$ 9.75	$ 10.68	$ 0.12
June 30	9.66	11.50	0.12
September 30	7.87	10.73	0.12
December 31	8.06	11.50	0.12

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

The Corporation did not purchase any of its own equity securities during the fourth quarter of 2012.

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STOCK PERFORMANCE GRAPH

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

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on the Corporation s common stock (¨) to the NASDAQ Bank Index (n) and the Russell 2000 Index (p). This stock performance graph assumes $100 was invested on December 31, 2007, and the cumulative return is measured as of each subsequent fiscal year end.

F.N.B. Corporation Five-Year Stock Performance

Total Return, Including Stock and Cash Dividends

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ITEM 6. SELECTED FINANCIAL DATA

Dollars in thousands, except per share data

Year Ended December 31	**2012 (1)**	**2011 (2)**	**2010**	**2009**	**2008**
Total interest income	$ 431,906	$ 391,125	$ 373,721	$ 388,218	$ 409,781
Total interest expense	59,055	74,617	88,731	121,179	157,989
Net interest income	372,851	316,508	284,990	267,039	251,792
Provision for loan losses	31,302	33,641	47,323	66,802	72,371
Total non-interest income	131,463	119,918	115,972	105,482	86,115
Total non-interest expense	318,829	283,734	251,103	255,339	222,704
Net income	110,410	87,047	74,652	41,111	35,595
Net income available to common stockholders	110,410	87,047	74,652	32,803	35,595
At Year-End					
Total assets	$ 12,023,976	$ 9,786,483	$ 8,959,915	$ 8,709,077	$ 8,364,811
Net loans	8,033,345	6,756,005	5,982,035	5,744,706	5,715,650
Deposits	9,082,174	7,289,768	6,646,143	6,380,223	6,054,623
Short-term borrowings	1,083,138	851,294	753,603	669,167	596,263
Long-term debt	89,425	88,016	192,058	324,877	490,250
Junior subordinated debt	204,019	203,967	204,036	204,711	205,386
Total stockholders equity	1,402,069	1,210,199	1,066,124	1,043,302	925,984
Per Common Share					
Basic earnings per share	$ 0.79	$ 0.70	$ 0.66	$ 0.32	$ 0.44
Diluted earnings per share	0.79	0.70	0.65	0.32	0.44
Cash dividends declared	0.48	0.48	0.48	0.48	0.96
Book value	10.02	9.51	9.29	9.14	10.32
Ratios					
Return on average assets	0.94%	0.88%	0.84%	0.48%	0.46%
Return on average tangible assets	1.05	0.99	0.95	0.57	0.55
Return on average equity	8.02	7.36	7.06	3.87	4.20
Return on average tangible common equity	17.64	15.76	16.02	8.74	10.63
Dividend payout ratio	61.27	69.72	74.02	149.50	219.91
Average equity to average assets	11.68	11.97	11.88	12.35	11.01

(1) On January 1, 2012, the Corporation completed the acquisition of Parkvale Financial Corporation

(2) On January 1, 2011, the Corporation completed the acquisition of Comm Bancorp, Inc.

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QUARTERLY EARNINGS SUMMARY

Dollars in thousands, except per share data

Quarter Ended 2012	Dec. 31	Sept. 30	June 30	Mar. 31
Total interest income	$ 107,578	$ 107,756	$ 109,285	$ 107,287
Total interest expense	13,660	14,225	14,804	16,366
Net interest income	93,918	93,531	94,481	90,921
Provision for loan losses	9,274	8,429	7,027	6,572
Gain on sale of securities	3	(66)	260	108
Impairment loss on securities	(93)	(119)		
Other non-interest income	32,217	34,998	32,518	31,637
Total non-interest expense	76,592	77,082	78,482	86,673
Net income	28,955	30,743	29,130	21,582
Per Common Share				
Basic earnings per share	$ 0.21	$ 0.22	$ 0.21	$ 0.16
Diluted earnings per share	0.21	0.22	0.21	0.15
Cash dividends declared	0.12	0.12	0.12	0.12

Quarter Ended 2011	Dec. 31	Sept. 30	June 30	Mar. 31
Total interest income	$ 96,897	$ 98,702	$ 98,155	$ 97,371
Total interest expense	16,768	18,300	19,461	20,088
Net interest income	80,129	80,402	78,694	77,283
Provision for loan losses	8,289	8,573	8,551	8,228
Gain on sale of securities	3,511	49	38	54
Impairment loss on securities	(29)	(37)		
Other non-interest income	29,116	29,618	29,220	28,378
Total non-interest expense	71,591	69,217	68,369	74,557
Net income	23,737	23,773	22,362	17,175
Per Common Share				
Basic earnings per share	$ 0.19	$ 0.19	$ 0.18	$ 0.14
Diluted earnings per share	0.19	0.19	0.18	0.14
Cash dividends declared	0.12	0.12	0.12	0.12

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ITEM 7. 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. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes presented in Item 8 of this Report. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future period.

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 for earnings, revenues, expenses, capital levels, liquidity levels, asset levels, asset quality and other matters regarding or affecting the 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, outlook, p forecast, estimate, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumpti 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 FRB, UST 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 and persistence or worsening levels of unemployment.

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; 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 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.

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

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 and pending ANNB and PVF acquisitions, the Corporation grows its business in part by acquiring other financial services companies, financial services assets and related deposits. These 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. In addition, with respect to the pending acquisition of ANNB, the Corporation may experience difficulties in expanding into a new market area, including retention of customers and key personnel of ANNB and its subsidiary, BankAnnapolis.

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, cyber attacks, terrorist activities or international hostilities through their impacts on the economy and financial markets.

The Corporation provides greater detail regarding some of these factors in the Risk Factors section of this Report. 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 or in SEC filings, accessible on the SEC s website at www.sec.gov and on the Corporation s website at 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.

Application of Critical Accounting Policies

The Corporation s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies followed by the Corporation are presented in the Summary of Significant Accounting Policies footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how the Corporation values significant assets and liabilities in the consolidated financial statements, how the Corporation determines those values and how the Corporation records transactions in the consolidated financial statements.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the consolidated financial statements. Management currently views the determination of the allowance for loan losses, accounting for acquired loans, securities valuation, goodwill and other intangible assets and income taxes to be critical accounting policies.

Allowance for Loan Losses

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

Estimating the amount of the allowance for loan losses is based to a significant extent on the judgment and estimates of management regarding the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change.

Management s assessment of the adequacy of the allowance for loan losses considers individual impaired loans, pools of homogeneous loans with similar risk characteristics and other risk factors concerning the economic environment. The specific credit allocations for individual impaired loans are based on ongoing analyses of all loans over a $0.5 million threshold. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, current fair value of the underlying collateral and other qualitative risk factors that may affect the loan. The evaluation of this component of the allowance for loan losses requires considerable judgment in order to estimate inherent loss exposures.

Pools of homogeneous loans with similar risk characteristics are also assessed for probable losses. Loans are categorized into pools primarily based on loan type and internal risk rating. There is considerable judgment involved in setting internal risk ratings, including an evaluation of the borrower s current financial condition and ability to repay the loan. A loss migration and historical charge-off analysis is performed quarterly and loss factors are updated regularly based on actual experience. This analysis examines historical loss experience, the related internal ratings of loans charged off and considers inherent but undetected losses within the portfolio. Inherent but undetected losses may arise due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates and risk factors that have not yet manifested themselves in loss allocation factors. The Corporation has grown through acquisitions and expanding the geographic footprint in which it operates. As a result, historical loss experience data used to establish loss estimates may not precisely correspond to the current portfolio. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical loss experience used in the migration and historical charge-off analysis may not be representative of actual unrealized 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 allowance for loan losses 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 for loan losses is particularly dependent on the judgment of management.

There are many factors affecting the allowance for loan losses; some are quantitative, while others require qualitative judgment. Although management believes its process for determining the allowance for loan losses adequately considers all of the factors currently inherent in the portfolio that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses could be required that may adversely affect the Corporation s earnings or financial position in future periods.

The Allowance and Provision for Loan Losses section of this financial review includes a discussion of the factors affecting changes in the allowance for loan losses during the current period.

Accounting for Acquired Loans

The Corporation accounts for its acquisitions under Accounting Standards Codification (ASC) 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC 820. Fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Corporation continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Corporation evaluates at each balance sheet date whether the estimated cash flows and corresponding present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Corporation adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life.

Securities Valuation and Impairment

The Corporation evaluates its investment securities portfolio for OTTI on a quarterly basis. Impairment is assessed at the individual security level. An investment security is considered impaired if the fair value of the security is less than its cost or amortized cost basis.

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The Corporation s OTTI evaluation process is performed in a consistent and systematic manner and includes an evaluation of all available evidence. Documentation of the process is extensive to support a conclusion as to whether a decline in fair value below cost or amortized cost is other-than-temporary and includes documentation supporting both observable and unobservable inputs and a rationale for conclusions reached.

This process considers factors such as the severity, length of time and anticipated recovery period of the impairment, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the issuer s financial condition, capital strength and near-term prospects. The Corporation also considers its intent to sell the security and whether it is more likely than not that the Corporation would be required to sell the security prior to the recovery of its amortized cost basis. Among the factors that are considered in determining the Corporation s intent to sell the security or whether it is more likely than not that the Corporation would be required to sell 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, and the Corporation s intent and ability to retain the security 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 320, *Investments Debt Securities*.

Goodwill and Other Intangible Assets

As a result of acquisitions, the Corporation has acquired goodwill and identifiable intangible assets on its balance sheet. Goodwill represents the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. The Corporation s recorded goodwill relates to value inherent in its Community Banking, Wealth Management and Insurance segments.

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

Other identifiable intangible assets such as core deposit intangibles and customer and renewal lists are amortized over their estimated useful lives.

The Corporation performs a qualitative assessment to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount. If, after assessing updated qualitative factors, the Corporation determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not perform the two-step goodwill impairment test. The two-step impairment test is used to identify potential goodwill impairment and measure the amount of impairment loss to be recognized, if any. The first step compares the fair value of a reporting unit with its carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure impairment loss, if any. Under the second step, the fair value is allocated to all of the assets and liabilities of the reporting unit to determine an implied fair value of goodwill. This allocation is similar to a purchase price allocation performed in purchase accounting. If the implied goodwill value of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that difference.

Determining fair values of each reporting unit, of its individual assets and liabilities, and also of other identifiable intangible assets requires considering market information that is publicly available as well as the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Inputs used in determining fair values where significant estimates and assumptions are necessary include discounted cash flow calculations, market comparisons and recent transactions, projected future cash flows, discount rates reflecting the risk inherent in future cash flows, long-term growth rates and determination and evaluation of appropriate market comparables.

The Corporation performed an annual test of goodwill for each of its business units as of October 1, 2012, and concluded that the recorded value of goodwill was not impaired.

Income Taxes

The Corporation is subject to the income tax laws of the U.S., its states and other jurisdictions where it conducts business. The laws are complex and subject to different interpretations by the taxpayer and various taxing authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex tax statutes, related regulations and case law. In the process of preparing the Corporation s tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the taxing authorities or based on management s ongoing assessment of the facts and evolving case law.

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. Periodically, the valuation allowance is reviewed and adjusted based on management s assessments of realizable deferred tax assets.

On a quarterly basis, management assesses the reasonableness of the Corporation s effective tax rate based on management s current best estimate of net income and the applicable taxes for the full year. Deferred tax assets and liabilities are assessed on an annual basis, or sooner, if business events or circumstances warrant.

Recent Accounting Pronouncements and Developments

The New Accounting Standards footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by the Corporation in 2012 and the expected impact of accounting pronouncements recently issued or proposed but not yet required to be adopted.

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, eastern Ohio and northern 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.

Results of Operations

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net income for 2012 was $110.4 million or $0.79 per diluted share compared to net income of $87.0 million or $0.70 per diluted share for 2011. The increase in net income is a result of an increase of $56.3 million in net interest income, combined with an increase of $11.5 million in non-interest income and a decrease of $2.3 million in the provision for loan losses, partially offset by a $35.1 million increase in non-

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interest expense. The results for 2012 were impacted by merger costs totaling $7.4 million and the full-year effect of the Parkvale acquisition that closed on January 1, 2012.

The Corporation s return on average equity was 8.02% and its return on average assets was 0.94% for 2012, an improvement compared to 7.36% and 0.88%, respectively, for 2011. The Corporation s return on average tangible equity was 17.64% and its return on average tangible assets was 1.05% for 2012, both improvements from 15.76% and 0.99%, respectively, for 2012.

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 facilitates comparisons with the performance of the Corporation s peers. The non-GAAP financial measures the Corporation uses may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations.

The following tables summarize the Corporation s non-GAAP financial measures for 2012 and 2011 derived from amounts reported in the Corporation s financial statements (dollars in thousands):

Year Ended December 31	**2012**	**2011**
Return on average tangible equity:		
Net income	$ 110,410	$ 87,047
Amortization of intangibles, net of tax	5,938	4,698
	$ 116,348	$ 91,745
Average total stockholders equity	$ 1,376,494	$ 1,181,941
Less: Average intangibles	(717,031)	(599,851)
	$ 659,463	$ 582,090
Return on average tangible equity	17.64%	15.76%
Return on average tangible assets:		
Net income	$ 110,410	$ 87,047
Amortization of intangibles, net of tax	5,938	4,698
	$ 116,348	$ 91,745
Average total assets	$ 11,782,821	$ 9,871,164
Less: Average intangibles	(717,031)	(599,851)
	$ 11,065,790	$ 9,271,313
Return on average tangible assets	1.05%	0.99%

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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):

	Year Ended December 31								
	2012			2011			2010		
Assets	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Rate**
Interest earning assets:									
Interest bearing deposits with banks	$ 94,719	$ 210	0.22%	$ 118,731	$ 275	0.23%	$ 171,740	$ 428	0.25%
Taxable investment securities (1)	2,031,289	47,161	2.27	1,555,939	42,061	2.65	1,394,778	43,150	3.04
Non-taxable investment securities (1) (2)	183,558	10,253	5.59	198,197	11,402	5.75	189,834	11,126	5.86
Loans (2) (3)	7,896,899	381,664	4.83	6,688,368	345,282	5.16	5,968,567	325,669	5.45
Total interest earning assets	10,206,465	439,288	4.30	8,561,235	399,020	4.66	7,724,919	380,373	4.92
Cash and due from banks	187,095			166,809			141,880		
Allowance for loan losses	(103,590)			(109,754)			(114,526)		
Premises and equipment	146,757			127,017			115,983		
Other assets	1,346,094			1,125,857			1,038,478		
	$ 11,782,821			$ 9,871,164			$ 8,906,734		
Liabilities									
Interest bearing liabilities:									
Deposits:									
Interest bearing demand	$ 3,497,352	7,636	0.22	$ 2,889,720	9,912	0.34	$ 2,443,381	10,129	0.41
Savings	1,194,071	1,124	0.09	945,673	1,683	0.18	857,582	1,659	0.19
Certificates and other time	2,691,597	33,753	1.25	2,278,133	41,940	1.84	2,199,667	52,736	2.40
Customer repurchase agreements	792,131	2,506	0.31	637,351	3,185	0.49	640,248	4,449	0.69
Other short-term borrowings	158,875	2,656	1.64	154,228	3,526	2.26	130,981	3,694	2.78
Long-term debt	90,652	3,492	3.85	200,158	6,403	3.20	224,610	8,080	3.60
Junior subordinated debt	203,471	7,888	3.88	203,950	7,968	3.91	204,370	7,984	3.91
Total interest bearing liabilities	8,628,149	59,055	0.68	7,309,213	74,617	1.02	6,700,839	88,731	1.32
Non-interest bearing demand	1,615,419			1,266,392			1,045,837		
Other liabilities	162,759			113,618			102,326		
	10,406,327			8,689,223			7,849,002		
Stockholders equity	1,376,494			1,181,941			1,057,732		
	$ 11,782,821			$ 9,871,164			$ 8,906,734		
Excess of interest earning assets over interest bearing liabilities	$ 1,578,316			$ 1,252,022			$ 1,024,080		
Net interest income (FTE)		380,233			324,403			291,642	
Tax-equivalent adjustment		(7,382)			(7,895)			(6,652)	
Net interest income		$ 372,851			$ 316,508			$ 284,990	
Net interest spread			3.62%			3.64%			3.60%
Net interest margin (2)			3.73%			3.79%			3.77%

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

(2) The interest income amounts are reflected on a fully taxable equivalent (FTE) basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35.0% for each period presented. The yield on earning assets and the net interest margin are presented on an FTE 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.

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Net Interest Income

Net interest income, which is the Corporation s major source of revenue, is the difference between interest income from earning assets (loans, securities and interest bearing deposits with banks) and interest expense paid on liabilities (deposits, customer repurchase agreements, short- and long-term borrowings and junior subordinated debt). In 2012, net interest income, which comprised 73.9% of net revenue (net interest income plus non-interest income) compared to 72.5% in 2011, was affected by the general level of interest rates, changes in interest rates and the timing of repricing of assets and liabilities, 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 $55.8 million or 17.2% from $324.4 million for 2011 to $380.2 million for 2012. Average earning assets increased $1.6 billion or 19.2% and average interest bearing liabilities increased $1.3 billion or 18.0% 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 3.73% for 2012 compared to 3.79% for 2011 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 provides certain information regarding changes in net interest income attributable to changes in the average volumes and yields earned on interest earning assets and the average volume and rates paid for interest bearing liabilities for the periods indicated (in thousands):

	2012 vs 2011			2011 vs 2010		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Interest bearing deposits with banks	$ (54)	$ (11)	$ (65)	$ (124)	$ (29)	$ (153)
Securities	11,701	(7,750)	3,951	4,628	(5,441)	(813)
Loans	57,843	(21,461)	36,382	34,040	(14,427)	19,613
	69,490	(29,222)	40,268	38,544	(19,897)	18,647
Interest Expense						
Deposits:						
Interest bearing demand	1,504	(3,780)	(2,276)	1,437	(1,654)	(217)
Savings	387	(946)	(559)	145	(121)	24
Certificates and other time	6,715	(14,902)	(8,187)	1,866	(12,662)	(10,796)
Customer repurchase agreements	665	(1,344)	(679)	(20)	(1,244)	(1,264)
Other short-term borrowings	(90)	(780)	(870)	427	(595)	(168)
Long-term debt	(4,024)	1,113	(2,911)	(831)	(846)	(1,677)
Junior subordinated debt	(19)	(61)	(80)	(16)		(16)
	5,138	(20,700)	(15,562)	3,008	(17,122)	(14,114)
Net Change	$ 64,352	$ (8,522)	$ 55,830	$ 35,536	$ (2,775)	$ 32,761

(1) The amount of change not solely due to rate or volume 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 35.0% 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 $439.3 million for 2012 increased $40.3 million or 10.1% from 2011, primarily due to increased earning assets resulting from a combination of organic growth and the Parkvale acquisition, partially offset by lower yields. Additionally, during 2012, the Corporation recognized $5.9 million

in additional accretable yield as a result of improved cash flows on acquired loan portfolios compared to original estimates for both CBI and Parkvale and $2.1 million in accretable yield relating to TPS. The increase in earning assets was primarily driven by a $1.2 billion or 18.1% increase in average loans. Loans acquired from Parkvale totaled $922.1 million on the acquisition date. The yield on earning assets decreased 36 basis points from 2011 to 4.30% for 2012, reflecting the decreases in market interest rates and competitive pressure along with the Parkvale acquired loans that carried lower yields than the Corporation s existing loan portfolio.

Interest expense of $59.1 million for 2012 decreased $15.6 million or 20.9% 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 34 basis points to 0.68% during 2012 compared to 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 $1.8 billion or 22.1% for 2012 compared to 2011. Deposits acquired from Parkvale totaled $1.5 billion on the acquisition date. This growth was partially offset by a $109.5 million or 54.7% 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 $31.3 million during 2012 decreased $2.3 million from 2011, primarily due to a lower provision in the Florida portfolio, partially offset by $4.2 million in provision for the acquired portfolio. During 2012, net charge-offs were $27.6 million, or 0.35% of average loans, compared to $39.1 million, or 0.58% of average loans, for 2011, reflecting consistent, solid performance in the Corporation s loan portfolio. The ratio of the allowance for loan losses to total loans equaled 1.28% at December 31, 2012, compared to 1.47% at December 31, 2011, with the decline directionally consistent with the overall favorable credit quality performance as well as reserves to support the solid loan growth experienced in 2012. For additional information relating to the allowance and provision for loan losses, refer to the Allowance and Provision for Loan Losses section of this Management s Discussion and Analysis.

Non-Interest Income

Total non-interest income of $131.5 million for 2012 increased $11.5 million or 9.6% from 2011. This increase was primarily due to increases in service charges, insurance commissions and fees, gains on sales of mortgage loans and other non-interest income, partially offset by a decrease in gains on sales of securities. The variances in these and certain other non-interest income items are further explained in the following paragraphs.

Net impairment losses on securities for 2012 were $0.2 million, relating to one non-agency collateralized mortgage obligation (CMO), compared to $0.1 million for 2011, primarily related to pooled TPS.

Service charges on loans and deposits of $70.1 million for 2012 increased $8.2 million or 13.2% from 2011, reflecting increases of $3.3 million in income from interchange fees, $1.7 million in overdraft fees and $3.2 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 of 2010 section included in the Business section of this Report.

Insurance commissions and fees of $16.4 million for 2012 increased $1.2 million or 8.2% from 2011, primarily as a result of increased policies for new business, including a large new account.

Securities commissions of $8.4 million for 2012 increased $0.8 million or 11.0% from 2011 primarily due to positive results from new initiatives, combined with increased volume and the Parkvale acquisition.

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Trust fees of $15.2 million for 2012 increased $0.5 million or 3.1% from 2011. The market value of assets under management increased by $344.2 million or 14.3% to $2.8 billion over this same period as a result of organic growth, primarily in the fourth quarter, and improved market conditions.

Gains on sales of residential mortgage loans of $3.9 million for 2012 increased 40.4% from 2011 due to additional sales volume. For 2012, the Corporation sold $241.6 million of residential mortgage loans, compared to $164.5 million for 2011, as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

Gains on sales of securities of $0.3 million for 2012 decreased from $3.7 million for 2011. During 2011, the Corporation recognized a $3.4 million gain relating to the sale of a $3.9 million U.S. government agency security and $83.7 million of mortgage-backed securities. These sales were made in conjunction with debt prepayments that were completed to better position the balance sheet.

Income from bank owned life insurance (BOLI) of $6.5 million for 2012 increased $1.3 million or 24.9% from 2011 as a result of policies acquired from Parkvale and management actions designed to improve performance.

Other income was $10.9 million for 2012 compared to $9.0 million for 2011. During 2012, the Corporation recognized a $0.7 million gain relating to the successful harvesting of mezzanine financing relationships by the Corporation s merchant banking subsidiary. Also during 2012, the Corporation recognized $0.5 million more in dividends on non-marketable equity securities and $0.7 million more in recoveries on impaired loans acquired in acquisitions prior to 2009. Additionally, the Corporation recognized $0.3 million more swap-related revenue during 2012. 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. During 2012, the Corporation recognized a $1.7 million loss on the sale of branches as part of accelerating its branch consolidation project, partially offset by a $1.4 million gain on sale of the former headquarters building of a previously acquired bank.

Non-Interest Expense

Total non-interest expense of $318.8 million for 2012 increased $35.1 million or 12.4% from 2011. This increase was primarily attributable to increases in salaries and employee benefits, occupancy and equipment, amortization of intangibles, outside services, supplies, merger-related expenses and other non-interest expense, partially offset by decreases in loan-related, other real estate owned (OREO) and marketing expenses. The variances in these and certain other non-interest expense items are further explained in the following paragraphs, with an overriding theme of the expense increases being primarily related to the branch offices and operations acquired from Parkvale, as well as merger-related costs.

Salaries and employee benefits of $168.2 million for 2012 increased $18.4 million or 12.3% from 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 given increased financial results. Additionally, the Corporation recorded a net charge of $0.6 million in 2012 for severance and other items relating to a former executive.

Occupancy and equipment expense of $46.9 million for 2012 increased $6.1 million or 14.8% from 2011, resulting from higher expenses associated with the Parkvale locations.

Amortization of intangibles expense of $9.1 million for 2012 increased $1.9 million or 26.4% from 2011 due to additional intangible balances from the Parkvale acquisition.

Outside services expense of $28.0 million for 2012 increased $6.2 million or 28.4% from 2011, primarily resulting from increases of $1.5 million related to legal expense, $1.4 million related to check card expenses, $1.1 related to data processing services, $0.4 million related to director fees and $1.0 million relating to other services. These increases were primarily due to the Parkvale acquisition.

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FDIC insurance of $8.1 million for 2012 increased slightly from $8.0 million for 2011 primarily due the increased assessment asset base from the Parkvale acquisition.

Supplies expense of $6.4 million for 2012 increased $1.5 million or 30.4% from 2011 resulting from the higher expenses associated with the Parkvale locations.

State tax expense of $6.2 million for 2012 decreased $0.8 million or 11.7% from 2011, primarily due to utilizing state tax credits.

Loan-related expense of $3.4 million for 2012 decreased $2.0 million or 37.2% from 2011, primarily due to lower expenses resulting from the reduction of the Florida commercial real estate loan portfolio.

OREO expense of $3.3 million for 2012 decreased $1.9 million or 37.4% from 2011 primarily due to a $1.5 million recovery on a Florida property sale combined with higher property maintenance costs during 2011 associated with the Florida commercial real estate portfolio.

Telephone expense of $5.7 million for 2012 increased $0.7 million or 14.9% from 2011, primarily due to additional locations from the Parkvale acquisition.

Advertising and promotional expense of $5.0 million for 2012 decreased $1.4 million or 21.7% from 2011, primarily due to continued expense control.

The Corporation recorded $7.4 million in merger-related costs associated with the Parkvale acquisition, including related branch consolidation costs, during 2012. Merger-related costs recorded during 2011 in conjunction with the Parkvale and CBI acquisitions were $5.0 million.

Other non-interest expense increased to $21.1 million for 2012 from $17.2 million for 2011. During 2012, the Corporation recorded $3.0 million in litigation costs to establish a settlement fund to resolve a class action matter, which is further discussed in the Legal Proceedings section of this Report. The Corporation also recognized $0.5 million more in postage, primarily resulting from the Parkvale acquisition. Additionally, miscellaneous losses increased $0.5 million due to check losses, donations increased $0.5 million due to the timing of annual contributions to support corporate causes, insurance benefit expense increased $0.6 million as a result of an adjustment related to Regency and business development expense increased $0.4 million. During 2011, the Corporation recorded a charge of $3.3 million associated with the prepayment of certain higher-cost borrowings to better position the balance sheet.

Income Taxes

The Corporation s income tax expense of $43.8 million for 2012 increased $11.8 million or 36.8% from 2011. The effective tax rate of 28.4% for 2012 increased from 26.9% for 2011, reflecting the impact of higher pre-tax income. 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, as well as tax credits.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net income for 2011 was $87.0 million or $0.70 per diluted share compared to net income of $74.7 million or $0.65 per diluted share for 2010. The increase in net income is a result of an increase of $31.5 million in net interest income, combined with an increase of $3.9 million in non-interest income and a decrease of $13.7 million in the provision for loan losses, partially offset by a $32.6 million increase in non-interest expense. The results for 2011 were impacted by merger costs totaling $5.0 million and the full-year effect of the CBI acquisition on January 1, 2011. The results for 2010 were impacted by a one-time $10.5 million reduction to pension expense and merger costs totaling $0.6 million. These items are more fully discussed later in this section.

The Corporation s return on average equity was 7.36% and its return on average assets was 0.88% for 2011, compared to 7.06% and 0.84%, respectively, for 2010. The Corporation s return on average tangible equity was 15.76% and its return on average tangible assets was 0.99% for 2011, compared to 16.02% and 0.95%, respectively, for 2010.

Net Interest Income

In 2011, net interest income, which comprised 72.5% of net revenue compared to 71.1% in 2010, 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 $32.8 million or 11.2% from $291.6 million for 2010 to $324.4 million for 2011. Average earning assets increased $836.3 million or 10.8% and average interest bearing liabilities increased $608.4 million or 9.1% from 2010 due to organic growth in investments, loans, deposits and customer repurchase agreements combined with the acquisition of CBI. The Corporation s net interest margin increased slightly from 3.77% for 2010 to 3.79% for 2011 as deposit rates declined faster than loan yields and the funding mix improved with higher transaction account balances and lower long-term debt.

Interest income, on an FTE basis, of $399.0 million for 2011 increased by $18.6 million or 4.9% from 2010 primarily due to increased earning assets resulting from a combination of organic growth, the May 2011 capital raise and the CBI acquisition, partially offset by lower yields. The increase in earning assets was primarily driven by a $719.8 million or 12.1% increase in average loans during 2011. Loans acquired from CBI totaled $445.3 million on the acquisition date. The yield on earning assets decreased 26 basis points from 2010 to 4.66% for 2011 reflecting the decreases in market interest rates and competitive pressure.

Interest expense of $74.6 million for 2011 decreased $14.1 million or 15.9% from 2010 due to lower rates paid, partially offset by growth in interest bearing liabilities resulting from a combination of organic growth and the acquisition of CBI. The rate paid on interest bearing liabilities decreased 30 basis points to 1.02% during 2011 compared to 2010, reflecting changes in interest rates 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 $830.6 million or 11.6% for 2011 compared to 2010. This growth was driven by success with ongoing marketing campaigns designed to attract new customers, combined with customer preferences to keep funds in banks due to uncertainties in the market and the acquisition of CBI. This growth was partially offset by a $24.5 million or 10.9% reduction in long-term debt primarily associated with the prepayment and maturities of certain higher-cost borrowings during the first quarter of 2010. The Corporation also reduced its long-term debt during the fourth quarter of 2011 with the prepayment of certain higher-cost borrowings.

Provision for Loan Losses

The provision for loan losses of $33.6 million during 2011 decreased $13.7 million from 2010 due to a $7.1 million lower provision for the Florida portfolio and a $6.6 million lower provision for the remainder of the Corporation s portfolio. During 2011, net charge-offs decreased $6.8 million from 2010 as the Corporation recognized lower net charge-offs in its Florida portfolio, which decreased $4.8 million compared to 2010. While the economy is recovering from the recession, the duration of the slow economic environment remains a challenge for borrowers, particularly in the Corporation s Florida portfolio. During 2011, net charge-offs were $39.1 million or 0.58% of average loans compared to $45.9 million or 0.77% of average loans for 2010. For additional information relating to the allowance and provision for loan losses, refer to the Allowance and Provision for Loan Losses section of this Management s Discussion and Analysis.

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Non-Interest Income

Total non-interest income of $119.9 million for 2011 increased $3.9 million or 3.4% from 2010. Increases in service charges, securities commissions and fees, trust income, income from BOLI and gain on sale of securities combined with lower OTTI charges were partially offset by decreases in insurance commissions and fees, gain on sale of residential mortgage loans and other non-interest income. The variances in these non-interest income items are further explained in the following paragraphs.

Net impairment losses on securities for 2010 were $2.3 million, primarily relating to pooled TPS, compared to $0.1 million for 2011.

Service charges on loans and deposits of $61.9 million for 2011 increased $5.1 million or 9.0% from 2010, reflecting increases of $2.7 million in income from interchange fees, $0.6 million in overdraft fees and $1.8 million in other service charges due to a combination of new account growth and the CBI 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 of 2010 section included in the Business section of this Report.

Insurance commissions and fees of $15.2 million for 2011 decreased by $0.6 million or 3.7% from 2010 primarily as a result of lower contingent and commission revenues.

Securities commissions of $7.6 million for 2011 increased by $0.7 million or 10.6% from 2010 primarily due to positive results from initiatives started towards the end of 2010 and improved market conditions in 2011, combined with increased volume, organic growth and the CBI acquisition.

Trust fees of $14.8 million for 2011 increased by $2.1 million or 16.2% from 2010 due to revenue initiatives implemented in 2011and improved market conditions in 2011, combined with increased volume from the CBI acquisition. During 2011, the market value of assets under management increased by $110.9 million or 4.8% to $2.4 billion at December 31, 2011.

Gain on sale of securities of $3.7 million for 2011 increased $0.7 million or 23.4% from 2010. During 2011, the Corporation recognized a $3.4 million gain relating to the sale of $87.6 million of U.S. government agency and mortgage-backed securities. During 2010, the Corporation recognized a gain of $2.3 million relating to the sale of $59.8 million of U.S. government agency and mortgage-backed securities. These sales were made in conjunction with debt prepayments that were completed to better position the balance sheet.

Gain on the sale of residential mortgage loans of $2.8 million for 2011 decreased from $3.8 million for 2010 as a result of the Corporation selling less residential mortgage loans and receiving a lower return on those residential mortgage loans sold during 2011. During 2011, the Corporation sold $164.5 million of residential mortgage loans compared to $191.9 million in 2010 as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

Income from BOLI of $5.2 million for 2011 increased by $0.3 million or 5.1% from 2010 due to a death claim adjustment.

Other income of $9.0 million for 2011 decreased $5.6 million or 38.4% from 2010. The primary items contributing to this decrease were $3.7 million less in recoveries on impaired loans acquired in acquisitions prior to 2009 and $2.5 million gains relating to the successful harvesting of mezzanine financing relationships by the Corporation s merchant banking subsidiary during 2010. Additionally, gains on the sale of fixed assets and repossessed assets decreased $0.5 million during this period. Partially offsetting these decreases was an increase of $1.3 million in fees earned through an interest rate swap program 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.

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Non-Interest Expense

Total non-interest expense of $283.7 million for 2011 increased $32.6 million or 13.0% from 2010. This increase was primarily attributable to increases in salaries and employee benefits, occupancy and equipment, amortization of intangibles, loan-related expenses, OREO expenses, telephone, advertising, merger-related expenses and other non-interest expenses partially offset by decreases in outside services, FDIC insurance and state taxes. These variances in non-interest expense items are further explained in the following paragraphs.

Salaries and employee benefits of $149.8 million for 2011 increased $23.6 million or 18.7% from 2010. This increase was primarily attributable to the CBI acquisition as well as merit increases and higher profitability and performance-based accruals for incentive compensation and restricted stock combined with higher 401(k) contribution expense due to the 401(k) plan changes discussed in the Retirement Plans footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. These increases were partially offset by lower retirement plan expense as a result of the Corporation freezing the Retirement Income Plan (RIP) at December 31, 2010, which is also discussed in the Retirement Plans footnote. The results for 2010 also included a one-time $10.5 million reduction to pension expense related to the freezing of the RIP.

Occupancy and equipment expense of $40.8 million for 2011 increased $2.6 million or 6.7% from 2010, primarily related to higher expenses associated with the CBI acquisition combined with $0.3 million in costs related to damage caused by severe flooding in northeastern Pennsylvania during the third quarter of 2011.

Amortization of intangibles expense of $7.2 million for 2011 increased $0.5 million or 7.7% from 2010 due to higher intangible balances from the CBI acquisition.

Outside services expense of $21.8 million for 2011 decreased $0.8 million or 3.5% from 2010, primarily resulting from a decrease of $2.5 million in fees associated with ATM services due to new contract pricing combined with a decrease of $1.2 million in courier expenses resulting from the elimination of courier service related to the implementation of check imaging technology. These decreases were partially offset by increases of $1.8 million, $0.4 million and $0.8 million related to debit card expenses, armored car services and other outside services primarily due to the CBI acquisition.

FDIC insurance of $8.0 million for 2011 decreased $2.5 million or 23.8% from 2010 due to the new assessment methodology effective during the second quarter of 2011, partially offset by the impact of the CBI acquisition.

State tax expense of $7.0 million for 2011 decreased $0.3 million or 4.2% from 2010, primarily due to lower net worth based taxes during 2011.

Loan-related expense of $5.4 million for 2011 increased $0.7 million or 14.8% from 2010, primarily resulting from costs incurred in conjunction with a home equity promotional offering and higher production volumes.

OREO expense of $5.2 million for 2011 increased $0.3 million or 6.8% from 2010 to reflect updated valuations and property maintenance costs primarily for the Corporation s Florida commercial real estate portfolio.

Telephone expense of $5.0 million for 2011 increased $0.4 million or 9.2% from 2010, primarily due to the CBI acquisition.

Advertising and promotional expense of $6.4 million for 2011 increased $1.2 million or 23.5% from 2010, primarily due to the CBI acquisition.

The Corporation recorded $5.0 million in merger-related costs associated with the CBI acquisition and the pending Parkvale acquisition during 2011. Merger-related costs recorded during 2010 were $0.6 million. Information relating to the Corporation s acquisitions is discussed in the Mergers and Acquisitions footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Other non-interest expense of $17.2 million for 2011 increased $1.9 million or 12.6% from 2010. Business development expenses and postage increased $0.4 million and $0.2 million, respectively, during 2011, mainly due to the acquisition of CBI. During 2011 and 2010, the Corporation recorded charges of $3.3 million and $2.3 million, respectively, associated with the prepayment of certain higher-cost borrowings to better position the balance sheet.

Income Taxes

The Corporation s income tax expense of $32.0 million for 2011 increased $4.1 million or 14.8% from 2010. The effective tax rate of 26.9% for 2011 decreased slightly from 27.2% for 2010 primarily due to higher tax credits and the resolution of previously uncertain tax positions for 2011. 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.

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- 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 December 31, 2012 was $114.7 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 $62.8 million in proceeds from the 2011 capital raise which was deployed in the acquisition of Parkvale 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 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 2.5 times on December 31, 2012 and 2.1 times on December 31, 2011. The internal guideline for LCR is for the ratio to be greater than 1.0 time. The MCH is defined as the number of months of corporate expenses that can be covered by the cash on hand. The MCH was 16.2 months on December 31, 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 on a regular basis. Subordinated notes increased $2.3 million or 1.1% during 2012 to $215.2 million at December 31, 2012. Regency terminated a $25.0 million line of credit with Wells Fargo in June 2012, as Regency is able to fund itself with less expensive sources.

The liquidity position of the Corporation continues to be strong as evidenced by its ability to generate consistent growth in deposits and customer repurchase agreements. Average deposits and customer repurchase agreements had organic growth of 3.1% for 2012. This growth was net of a planned decrease in time deposits due to the lower rate environment and desire to enhance overall mix. Transaction deposits and customer repurchase agreements had organic growth of 9.6% for the same period, representing successful new customer acquisition and higher average balances. FNBPA had unused wholesale credit availability of $4.0 billion or 34.1% of bank assets at December 31, 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 5.0% and 2.7% of bank assets as of December 31, 2012 and 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 December 31, 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 2.6% and 3.4% as of December 31, 2012 and 2011, respectively.

	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$ 248,614	$ 402,896	$ 516,707	$ 942,811	$ 2,111,028
Investments	63,629	101,160	162,387	355,448	682,624
	312,243	504,056	679,094	1,298,259	2,793,652
Liabilities					
Non-maturity deposits	59,323	118,646	177,969	355,939	711,877
Time deposits	148,415	335,508	398,444	509,262	1,391,629
Borrowings	159,277	39,781	60,362	115,022	374,442
	367,015	493,935	636,775	980,223	2,477,948
Period Gap (Assets - Liabilities)	$ (54,772)	$ 10,121	$ 42,319	$ 318,036	$ 315,704
Cumulative Gap	$ (54,772)	$ (44,651)	$ (2,332)	$ 315,704	
Cumulative Gap to Total Assets	(0.5)%	(0.4)%	0.0%	2.6%	

In addition, the ALCO regularly monitors various liquidity ratios and stress scenarios of the Corporation s liquidity position. The stress scenarios forecast that adequate funding will be available even under severe conditions. 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 an 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 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 risk profile.

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The following repricing gap analysis (in thousands) as of December 31, 2012 compares the difference between the amount of interest earning assets and interest-bearing liabilities subject to repricing over a period of time. Management utilizes the repricing gap analysis as a diagnostic tool in managing net interest income and EVE risk measures.

	Within 1 Month	2-3 Months	4-6 Months	7-12 Months	Total 1 Year
Assets					
Loans	$ 2,827,375	$ 774,366	$ 497,518	$ 827,104	$ 4,926,363
Investments	63,631	141,484	187,711	406,721	799,547
	2,891,006	915,850	685,229	1,233,825	5,725,910
Liabilities					
Non-maturity deposits	1,971,330				1,971,330
Time deposits	158,367	336,902	398,123	508,515	1,401,907
Borrowings	932,294	155,331	13,936	22,170	1,123,731
	3,061,991	492,233	412,059	530,685	4,496,968
Off-balance sheet	(100,000)				(100,000)
Period Gap (assets liabilities + off-balance sheet)	$ (270,985)	$ 423,617	$ 273,170	$ 703,140	$ 1,128,942
Cumulative Gap	$ (270,985)	$ 152,632	$ 425,802	$ 1,128,942	
Cumulative Gap to Assets	(2.3)%	1.3%	3.5%	9.4%	

The twelve-month cumulative repricing gap to total assets was 9.4% and 9.8% as of December 31, 2012 and 2011, respectively. The positive cumulative gap positions indicate that the Corporation has a greater amount of repricing earning assets than repricing interest-bearing liabilities over the subsequent twelve months. If interest rates increase then net interest income will increase and, conversely, if interest rates decrease then net interest income will decrease.

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

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 December 31, 2012.

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

	December 31, 2012	December 31, 2011	ALCO Guidelines
Net interest income change (12 months):			
+ 300 basis points	6.1%	3.9%	n/a
+ 200 basis points	4.7%	2.8%	+/-5.0%
+ 100 basis points	2.5%	1.6%	+/-5.0%
- 100 basis points	(2.8)%	(1.6)%	+/-5.0%
Economic value of equity:			
+ 300 basis points	4.5%	5.3%	+/-25.0%
+ 200 basis points	4.5%	5.0%	+/-15.0%
+ 100 basis points	3.3%	3.6%	+/-10.0%
- 100 basis points	(10.2)%	(9.3)%	+/-10.0%

The ALCO has granted an exception for -100 basis point scenarios due to the low probability of such an interest rate scenario when interest rates are already at historical lows.

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 has been managed to an asset-sensitive position. Currently, rising rates are expected to have a modest, positive effect on net interest income versus net interest income if rates remained unchanged. The 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 non-maturity 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 were 59.6% of total loans as of both December 31, 2012 and 2011. This ratio decreased in the first quarter of 2012 due to the Parkvale acquisition, which had a higher concentration of fixed-rate loans, and subsequently increased due to variable and adjustable rate loan originations. The investment portfolio is used, in part, to manage the Corporation s interest rate risk position. The Corporation has managed the duration of its investment portfolio to be slightly longer given the asset sensitive nature of its balance sheet in order to generate incremental earnings. At December 31, 2012, the portfolio duration was 2.7 versus a 2.2 level at December 31, 2011. Finally, the Corporation has made use of interest rate swaps to commercial borrowers (commercial swaps) to manage its interest rate risk position as the commercial swaps effectively increase adjustable-rate loans. The commercial swaps currently total $794.7 million of notional principal, with $210.0 million in notional swap principal originated during 2012. The success of the aforementioned tactics has resulted in an asset-sensitive position. In order to manage the interest rate risk position and generate incremental earnings, the ALCO executed a $100 million pay variable/receivable fixed swap on January 1, 2013, which will mature on January 1, 2021. The swap pays 1-month LIBOR and receives a fixed rate of 1.365%. For additional information regarding interest rate swaps, see the Derivative Instruments footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 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 repricing 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 that could be taken.

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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, helps insure that management executes business decisions within the Corporation s desired risk profile. The Risk Committee has the following key roles:

- facilitate the identification, assessment and monitoring of risk across the Corporation;
- provide support and oversight to the Corporation s businesses; and
- identify and implement risk management best practices, as appropriate.

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

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

The following table sets forth contractual obligations of principal that represent required and potential cash outflows as of December 31, 2012 (in thousands):

	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Deposits without a stated maturity	$ 6,546,316	$	$	$	$ 6,546,316
Certificates and other time deposits	1,433,472	726,327	342,623	33,436	2,535,858
Operating leases	7,619	11,629	7,873	19,024	46,125
Long-term debt	32,101	30,063	24,501	2,760	89,425
Low income housing tax credit investments	2,745				2,745
	$ 8,022,253	$ 768,019	$ 374,997	$ 55,220	$ 9,220,489

The following table sets forth the amounts and expected maturities of commitments to extend credit and standby letters of credit as of December 31, 2012 (in thousands):

	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Commitments to extend credit	$ 2,350,030	$ 38,129	$ 74,743	$ 137,453	$ 2,600,355
Standby letters of credit	58,431	11,302	3,226	57,953	130,912
	$ 2,408,461	$ 49,431	$ 77,969	$ 195,406	$ 2,731,267

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

Lending Activity

The loan portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation s primary market area of Pennsylvania, eastern Ohio and northern West Virginia. The commercial real estate portfolio also includes loans in Florida, which totaled $68.6 million or 0.8% of total loans at December 31, 2012, compared to $154.1 million or 2.2% of total loans at December 31, 2011. Additionally, the total loan portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky, which equaled $171.0 million or 2.1% of total loans at December 31, 2012, compared to $163.9 million or 2.4% of total loans as of December 31, 2011. Due to the relative insignificance of these consumer finance loans, they are not segregated from other consumer loans.

Following is a summary of loans (in thousands):

December 31	2012	2011	2010	2009	2008
Commercial real estate	$ 2,707,046	$ 2,495,727	$ 2,256,400	$ 2,303,126	$ 2,247,354
Commercial and industrial	1,602,314	1,363,692	1,081,592	931,612	926,587
Commercial leases	130,133	110,795	79,429	57,255	36,664
Commercial loans and leases	4,439,493	3,970,214	3,417,421	3,291,993	3,210,605
Direct installment	1,178,530	1,029,187	1,002,725	985,746	1,070,791
Residential mortgages	1,092,228	670,936	622,242	605,219	638,356
Indirect installment	582,037	540,789	514,369	527,818	531,430
Consumer lines of credit	805,494	607,280	493,881	408,469	340,750
Other	39,937	38,261	37,517	30,116	28,448
	$ 8,137,719	$ 6,856,667	$ 6,088,155	$ 5,849,361	$ 5,820,380

Commercial real estate includes both owner occupied and non-owner occupied loans secured by commercial properties. Commercial and industrial includes loans to businesses that are not secured by real estate. Commercial leases consist of 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 originated by third parties and underwritten by the Corporation, primarily automobile loans. Consumer lines of credit includes 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.

Additional information relating to originated and acquired loans is provided in the Loans footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Total loans increased $1,281.1 million or 18.7% to $8.1 billion at December 31, 2012, compared to $6.9 billion at December 31, 2011. This increase was due to a combination of $922.1 million in loans from the Parkvale acquisition and solid organic growth, particularly in commercial loans and leases and consumer lines of credit.

Total loans increased $768.5 million or 12.6% to $6.9 billion at December 31, 2011, compared to $6.1 billion at December 31, 2010. This increase was due to a combination of $445.3 million in loans from the CBI acquisition and solid organic growth in all loan classes, particularly in commercial loans and leases and consumer lines of credit.

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Total loans increased $238.8 million or 4.1% to $6.1 billion at December 31, 2010, compared to $5.8 billion at December 31, 2009. The majority of the increase was due to solid growth in commercial loans and leases and consumer lines of credit.

As of December 31, 2012, approximately 46.5% of the commercial real estate loans were owner-occupied, while the remaining 53.5% were non-owner-occupied, compared to 46.0% and 54.0%, respectively, as of December 31, 2011. As of December 31, 2012 and 2011, the Corporation had commercial construction loans of $190.2 million and $210.1 million, respectively, representing 2.3% and 3.1% of total loans, respectively. As of December 31, 2012 and 2011, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

Following is a summary of the maturity distribution of certain loan categories based on remaining scheduled repayments of principal as of December 31, 2012 (in thousands):

	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial loans and leases	$ 319,414	$ 1,411,833	$ 2,708,246	$ 4,439,493
Residential mortgages	4,978	28,936	1,058,314	1,092,228
	$ 324,392	$ 1,440,769	$ 3,766,560	$ 5,531,721

The total amount of loans due after one year includes $1.4 billion with floating or adjustable rates of interest and $3.8 billion with fixed rates of interest.

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

Non-Performing Assets

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

December 31	2012	2011	2010	2009	2008
Non-accrual loans	$ 66,004	$ 94,335	$ 115,589	$ 133,891	$ 139,607
Troubled debt restructurings	14,876	11,893	19,705	11,624	3,872
Total non-performing loans	80,880	106,228	135,294	145,515	143,479
Other real estate owned (OREO)	35,257	34,719	32,702	21,367	9,177
Total non-performing loans and OREO	116,137	140,947	167,996	166,882	152,656
Non-performing investments	2,809	8,972	5,974	4,825	10,456
Total non-performing assets	$ 118,946	$ 149,919	$ 173,970	$ 171,707	$ 163,112

Non-performing loans/total loans	0.99%	1.55%	2.22%	2.49%	2.47%
Non-performing loans + OREO/ total loans + OREO	1.42%	2.05%	2.74%	2.84%	2.62%
Non-performing assets/total assets	0.99%	1.53%	1.94%	1.97%	1.95%

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During 2012, non-performing loans and OREO decreased $24.8 million, from $140.9 million at December 31, 2011 to $116.1 million at December 31, 2012. The total decrease reflects a $28.3 million reduction in non-accrual loans, which was partially offset by a $3.0 million increase in TDRs. Non-accrual loans decreased from $94.3 million at December 31, 2011 to $66.0 million at December 31, 2012, with the decrease primarily attributable to two non-accrual accounts in the Corporation s Florida commercial real estate portfolio making significant principal payments during the year totaling $21.9 million.

During 2011, non-performing loans and OREO decreased $27.1 million, from $168.0 million at December 31, 2010 to $140.9 million at December 31, 2011. The total decrease reflects a $21.3 million decrease in non-accrual loans and a $7.8 million decrease in TDRs. Non-accrual loans decreased from $115.6 million at December 31, 2010 to $94.3 million at December 31, 2011, with $16.1 million of the decrease relating to the Corporation s commercial real estate portfolio following a $7.4 million transfer to OREO during the first quarter of 2011, as well as write-downs related to land reappraisals. Non-performing TDRs decreased during the year as a result of $7.9 million of accruing loans moving to performing status following a period of sustained performance.

Following is a summary of non-performing loans, by class (in thousands):

December 31	**2012**	**2011**	**2010**
Commercial real estate	$ 48,483	$ 76,256	$ 98,557
Commercial and industrial	6,099	6,956	9,808
Commercial leases	965	1,084	970
Total commercial loans and leases	55,547	84,296	109,335
Direct installment	8,541	7,163	10,734
Residential mortgages	11,415	9,544	13,600
Indirect installment	1,131	979	820
Consumer lines of credit	746	746	805
Other	3,500	3,500	
	$ 80,880	$ 106,228	$ 135,294

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

TDRs that are accruing and performing include loans 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. TDRs that are accruing and non-performing are comprised of consumer loans that have not demonstrated a consistent repayment pattern on the modified terms for more than six months, however it is expected that the Corporation will collect all future principal and interest payments. TDRs that are on non-accrual are not placed on accruing status until all delinquent principal and interest have been paid and the ultimate ability to collect the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses which are factored into the allowance for loan losses estimate. Additional information related to the Corporation s TDRs is included in the Loans and Allowance for Loan Losses footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

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Following is a summary of performing, non-performing and non-accrual TDRs, by class (in thousands):

	Performing	Non-Performing	Non-Accrual	Total
December 31, 2012				
Commercial real estate	$ 850	$ 588	$ 11,156	$ 12,594
Commercial and industrial	775	82	283	1,140
Commercial leases				
Total commercial loans and leases	1,625	670	11,439	13,734
Direct installment	5,613	5,199	749	11,561
Residential mortgages	5,401	8,524	107	14,032
Indirect installment		92	90	182
Consumer lines of credit	20	391		411
Other				
	$ 12,659	$ 14,876	$ 12,385	$ 39,920
December 31, 2011				
Commercial real estate	$ 803	$	$ 10,510	$ 11,313
Commercial and industrial	800		214	1,014
Commercial leases				
Total commercial loans and leases	1,603		10,724	12,327
Direct installment	4,987	4,638	103	9,728
Residential mortgages	3,419	7,101		10,520
Indirect installment		61		61
Consumer lines of credit	122	93		215
Other				
	$ 10,131	$ 11,893	$ 10,827	$ 32,851
December 31, 2010				
Commercial real estate		$ 822	$ 19,333	$ 20,155
Commercial and industrial		819	39	858
Commercial leases				
Total commercial loans and leases		1,641	19,372	21,013
Direct installment		7,449	100	7,549
Residential mortgages		10,328	155	10,483
Indirect installment		70		70
Consumer lines of credit		217		217
Other				
		$ 19,705	$ 19,627	$ 39,332

Following is a summary of loans 90 days or more past due on which interest accruals continue (dollars in thousands):

December 31	**2012**	**2011**	**2010**	**2009**	**2008**
Loans 90 days or more past due	$ 43,291	$ 18,131	$ 8,634	$ 12,471	$ 13,677

As a percentage of total loans	0.53%	0.26%	0.14%	0.21%	0.23%

The increase in loans 90 days or more past due and accruing from 2011 to 2012 was primarily the result of the acquisition of Parkvale. Acquired loans that are 90 days or more past due were considered to be accruing since the

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Corporation can reasonably estimate future cash flows and it expects to fully collect the carrying value of these loans. The acquired Parkvale loans were discounted and marked to market with interest income recognized via accretion.

Following is a table showing the amounts of contractual interest income and actual interest income related to non-accrual loans and non-performing TDRs (in thousands):

December 31	2012	2011	2010	2009	2008
Gross interest income:					
Per contractual terms	$ 8,646	$ 13,540	$ 7,827	$ 8,788	$ 6,408
Recorded during the year	369	351	337	364	322

Allowance and Provision for Loan Losses

The allowance for loan losses represents management s estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance for loan losses through both periodic provisions charged to income and recoveries of losses previously recorded. Reductions to the allowance for loan losses occur as loans are charged off. Additional information related to the Corporation s policy for its allowance for loan losses is included in the Application of Critical Accounting Policies section of this financial review and in the Summary of Significant Accounting Policies footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

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 $0.5 million. 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 $0.5 million 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.

Following is a summary of changes in the allowance for loan losses related to loans (dollars in thousands):

Year Ended December 31	2012	2011	2010	2009	2008
Balance at beginning of period	$ 100,662	$ 106,120	$ 104,655	$ 104,730	$ 52,806
Additions due to acquisitions				16	12,150
Charge-offs:					
Commercial	(17,295)	(25,227)	(30,315)	(52,850)	(21,578)
Direct installment	(7,875)	(8,874)	(10,431)	(8,907)	(8,382)
Residential mortgages	(1,050)	(1,261)	(1,387)	(1,288)	(573)
Indirect installment	(2,926)	(2,957)	(3,345)	(3,881)	(2,833)
Consumer lines of credit	(2,137)	(2,110)	(1,841)	(1,444)	(1,240)
Other	(1,039)	(1,194)	(1,270)	(1,297)	(1,308)
Purchased impaired loans		(208)			
Other acquired loans	(254)				
Total charge-offs	(32,576)	(41,831)	(48,589)	(69,667)	(35,914)
Recoveries:					
Commercial	2,682	1,037	808	912	1,326
Direct installment	942	876	1,015	1,024	1,030
Residential mortgages	194	67	99	69	181
Indirect installment	605	501	640	625	638
Consumer lines of credit	534	213	160	122	121
Other	14	31	9	22	21
Purchased impaired loans		7			
Other acquired loans	315				
Total recoveries	4,986	2,732	2,731	2,774	3,317
Net charge-offs	(27,590)	(39,099)	(45,858)	(66,893)	(32,597)
Provision for loan losses	31,302	33,641	47,323	66,802	72,371
Balance at end of period	$ 104,374	$ 100,662	$ 106,120	$ 104,655	$ 104,730
Net loan charge-offs/average loans	0.35%	0.58%	0.77%	1.15%	0.60%
Allowance for loan losses/total loans	1.28%	1.47%	1.74%	1.79%	1.80%
Allowance for loan losses/ non-performing loans	123.88%	94.76%	78.44%	71.92%	72.99%

The allowance for loan losses at December 31, 2012 increased $3.7 million or 3.7% from December 31, 2011 as the provision for loan losses for 2012 of $31.3 million exceeded net charge-offs of $27.6 million, with the remainder supporting loan growth. The allowance for loan losses at December 31, 2011 decreased $5.5 million or 5.1% from December 31, 2010 as net charge-offs for 2011 of $39.1 million exceeded the provision for loan losses of $33.6 million as a result of the Corporation utilizing previously established reserves. The allowance for loan losses at December 31, 2010 increased $1.5 million or 1.4% from December 31, 2009 as the provision for loan losses for 2010 of $47.3 million exceeded net charge-offs of $45.9 million.

The Corporation s commercial portfolio experienced significant provisions for loan losses and charge-offs from 2008 through 2011 related to its Florida portfolio due to continued declines in the real estate values and unstable economic conditions in that market. The Corporation s practice for the past four years has been to conduct annual independent third-party property appraisals on all Florida loans secured by vacant land or land development projects as part of its ongoing monitoring of the trends in the Florida real estate market. Throughout the year, management monitors the real estate values in Florida through financial statement review, the review of property appraisals and monitoring real estate transactions in the market, and charge-offs are taken on specific loans based on the updated valuations in the normal course of business.

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Following is a summary of the allocation of the allowance for loan losses (dollars in thousands):

	Dec 31, 2012	% of Loans in each Category to Total Loans	Dec 31, 2011	% of Loans in each Category to Total Loans	Dec 31, 2010	% of Loans in each Category to Total Loans	Dec. 31, 2009	% of Loans in each Category to Total Loans	Dec. 31, 2008	% of Loans in each Category to Total Loans
Commercial	$ 68,403	51%	$ 70,315	58%	$ 75,676	56%	$ 74,934	56%	$ 76,863	55%
Direct installment	15,130	14	14,814	15	14,941	17	14,707	17	14,022	18
Residential mortgages	5,155	8	4,436	10	4,578	10	4,204	10	3,659	11
Indirect installment	5,449	7	5,503	8	5,941	8	6,204	9	5,012	9
Consumer lines of credit	6,057	9	5,448	9	4,743	8	4,176	7	4,851	6
Other			146		241	1	430	1	323	1
Total originated loans	100,194	89	100,662	100	106,120	100	104,655	100	104,730	100
Purchased credit-impaired loans	759									
Other acquired loans	3,421	11								
	$ 104,374	100%	$ 100,662	100%	$ 106,120	100%	$ 104,655	100%	$ 104,730	100%

During 2012, the allowance for loan losses allocated to residential mortgages and consumer lines of credit increased to support organic loan growth, which was partially offset by a decrease in the Corporation s commercial portfolio due to the change in composition within the commercial real estate portfolio. The amount of the allowance for loan losses allocated to acquired loan activities increased during the year as a result of the addition of the Parkvale portfolio.

During 2011, the allowance for loan losses allocated to commercial loans decreased primarily due to the utilization of reserves held for the Florida portfolio following charge-offs of $14.1 million during the year. Additionally, the allowance for loan losses allocated to consumer lines of credit increased during 2011 in relation to growth in the Corporation s HELOC portfolio.

The amount of the allowance for loan losses allocated to consumer lines of credit increased in 2010 due to loan growth in the Corporation s HELOC portfolio. The amount of the allowance for loan losses allocated to the commercial portfolio increased during 2010 due to loan growth in the commercial and industrial portfolio.

Investment Activity

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

As of December 31, 2012, securities totaling $1.2 billion and $1.1 billion were classified as available for sale and held to maturity, respectively. During 2012, securities available for sale increased by $532.1 million and securities held to maturity increased by $189.4 million from December 31, 2011. The increase in securities was primarily due to the Parkvale acquisition.

The following table indicates the respective maturities and weighted-average yields of securities as of December 31, 2012 (dollars in thousands):

	Amount	Weighted Average Yield
Obligations of U.S. Treasury:		
Maturing after ten years	$ 503	5.61%
Obligations of U.S. government-sponsored entities:		
Maturing after one year but within five years	284,490	1.00
Maturing after five years but within ten years	95,023	1.16
Maturing after ten years	3,675	2.24
States of the U.S. and political subdivisions:		
Maturing within one year	6,309	5.29
Maturing after one year but within five years	10,842	4.70
Maturing after five years but within ten years	67,680	5.46
Maturing after ten years	87,706	5.71
Collateralized debt obligations:		
Maturing after ten years	22,968	6.89
Other debt securities:		
Maturing within one year	4,451	1.76
Maturing after one year but within five years	10,170	3.33
Maturing after ten years	6,892	3.55
Residential mortgage-backed securities:		
Agency mortgage-backed securities	1,055,172	2.74
Agency collateralized mortgage obligations	603,523	1.62
Non-agency collateralized mortgage obligations	16,811	4.67
Commercial mortgage-backed securities	1,024	2.60
Equity securities	2,007	4.44
Total	$ 2,279,246	2.46

The weighted average yields for tax-exempt securities are computed on a FTE basis using the federal statutory tax rate of 35.0%. The weighted average yields for securities available for sale are based on amortized cost.

For additional information relating to investment activity, see the Securities footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Deposits and Short-Term Borrowings

As a bank holding company, the Corporation s primary source of funds is deposits. These deposits are provided by businesses, municipalities and individuals located within the markets served by the Corporation s Community Banking subsidiary.

Total deposits increased $1.8 billion to $9.1 billion at December 31, 2012, compared to December 31, 2011, primarily as a result of $1.5 billion in deposits from 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). 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.

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Short-term borrowings, made up of customer repurchase agreements (also referred to as securities sold under repurchase agreements), federal funds purchased, subordinated notes and other short-term borrowings, increased $231.8 million to $1.1 billion at December 31, 2012, compared to $851.3 million at December 31, 2011. This increase is primarily the result of increases of $161.2 million and $80.0 million in customer repurchase agreements and federal funds purchased, respectively, partially offset by a decrease of $10.0 million in other short-term borrowings. The increase in customer repurchase agreements is the result of the Corporation s continued growth in new commercial client relationships.

Customer repurchase agreements are the largest component of short-term borrowings. The customer repurchase agreements, which have next day maturities, are sweep accounts utilized by larger commercial customers to earn interest on their funds. At December 31, 2012 and 2011, customer repurchase agreements represented 74.6% and 76.0%, respectively, of total short-term borrowings.

Following is a summary of selected information relating to customer repurchase agreements (dollars in thousands):

At or For the Year Ended December 31	2012	2011	2010
Balance at year-end	$ 807,820	$ 646,660	$ 611,902
Maximum month-end balance	925,219	715,714	714,498
Average balance during year	792,131	637,351	640,248
Weighted average interest rates:			
At end of year	0.28%	0.39%	0.58%
During the year	0.32	0.50	0.69

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

Capital Resources

The access to, and cost of, funding for new business initiatives, 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. Through December 31, 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. These capital plans include assessing the adequacy of expected capital levels assuming various scenarios by projecting capital needs for a forecast period of 2-3 years beyond the current year. Both the Corporation and FNBPA are subject to various regulatory capital requirements administered by federal banking agencies. For additional information, see the Regulatory Matters footnote in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report. From time to time, the Corporation issues shares initially acquired by the Corporation as treasury stock under its various benefit plans. The Corporation may

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continue to grow through acquisitions, which can potentially impact its capital position. The Corporation may issue additional common stock in order maintain its well-capitalized status.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in the Market Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report, and is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

February 28, 2013

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

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Corporation s internal control over financial reporting as of December 31, 2012 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on that assessment, management concluded that, as of December 31, 2012 the Corporation s internal control over financial reporting is effective based on the criteria established in *Internal Control - Integrated Framework*. Ernst & Young LLP, independent registered public accounting firm, has issued an audit report on the Corporation s internal control over financial reporting.

F.N.B. Corporation

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

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

F.N.B. Corporation

We have audited the accompanying consolidated balance sheets of F.N.B. Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of F.N.B. Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), F.N.B. Corporation and subsidiaries internal controls over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

February 28, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

F.N.B. Corporation

We have audited F.N.B. Corporation and subsidiaries internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). F.N.B. Corporation and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on F.N.B. Corporation s Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, F.N.B. Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of F.N.B. Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2012 of F.N.B. Corporation and subsidiaries and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

February 28, 2013

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F.N.B. Corporation and Subsidiaries

Consolidated Balance Sheets

Dollars in thousands, except par values

	December 31	
	2012	**2011**
Assets		
Cash and due from banks	$ 216,233	$ 197,349
Interest bearing deposits with banks	22,811	11,604
Cash and Cash Equivalents	239,044	208,953
Securities available for sale	1,172,683	640,571
Securities held to maturity (fair value of $1,143,213 and $952,033)	1,106,563	917,212
Residential mortgage loans held for sale	27,751	14,275
Loans, net of unearned income of $51,661 and $47,110	8,137,719	6,856,667
Allowance for loan losses	(104,374)	(100,662)
Net Loans	8,033,345	6,756,005
Premises and equipment, net	140,367	130,043
Goodwill	675,555	568,462
Core deposit and other intangible assets, net	37,851	30,953
Bank owned life insurance	246,088	208,927
Other assets	344,729	311,082
Total Assets	$ 12,023,976	$ 9,786,483
Liabilities		
Deposits:		
Non-interest bearing demand	$ 1,738,195	$ 1,340,465
Savings and NOW	4,808,121	3,790,863
Certificates and other time deposits	2,535,858	2,158,440
Total Deposits	9,082,174	7,289,768
Other liabilities	163,151	143,239
Short-term borrowings	1,083,138	851,294
Long-term debt	89,425	88,016
Junior subordinated debt	204,019	203,967
Total Liabilities	10,621,907	8,576,284
Stockholders Equity		
Common stock - $0.01 par value		
Authorized - 500,000,000 shares		
Issued 140,314,846 and 127,436,261 shares	1,398	1,268
Additional paid-in capital	1,376,601	1,224,572
Retained earnings	75,312	32,925
Accumulated other comprehensive loss	(46,224)	(45,148)
Treasury stock 385,604 and 215,502 shares at cost	(5,018)	(3,418)
Total Stockholders Equity	1,402,069	1,210,199
Total Liabilities and Stockholders Equity	$ 12,023,976	$ 9,786,483

See accompanying Notes to Consolidated Financial Statements

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F.N.B. Corporation and Subsidiaries

Consolidated Statements of Income

Dollars in thousands, except per share data

	Year Ended December 31		
	2012	**2011**	**2010**
Interest Income			
Loans, including fees	$ 377,802	$ 341,268	$ 322,773
Securities:			
Taxable	46,839	41,956	43,150
Nontaxable	6,680	7,469	7,299
Dividends	375	157	71
Other	210	275	428
Total Interest Income	431,906	391,125	373,721
Interest Expense			
Deposits	42,513	53,535	64,524
Short-term borrowings	5,162	6,711	8,143
Long-term debt	3,492	6,403	8,080
Junior subordinated debt	7,888	7,968	7,984
Total Interest Expense	59,055	74,617	88,731
Net Interest Income	372,851	316,508	284,990
Provision for loan losses	31,302	33,641	47,323
Net Interest Income After Provision for Loan Losses	341,549	282,867	237,667
Non-Interest Income			
Impairment losses on securities	(626)	(895)	(9,590)
Non-credit related losses on securities not expected to be sold (recognized in other comprehensive income)	414	829	7,251
Net impairment losses on securities	(212)	(66)	(2,339)
Service charges	70,055	61,891	56,780
Insurance commissions and fees	16,426	15,185	15,772
Securities commissions and fees	8,395	7,562	6,839
Trust	15,239	14,782	12,719
Bank owned life insurance	6,485	5,191	4,941
Gain on sale of mortgage loans	3,887	2,768	3,762
Gain on sale of securities	305	3,652	2,960
Other	10,883	8,953	14,538
Total Non-Interest Income	131,463	119,918	115,972
Non-Interest Expense			
Salaries and employee benefits	168,219	149,817	126,259
Net occupancy	24,578	21,805	20,049
Equipment	22,320	19,033	18,212
Amortization of intangibles	9,135	7,228	6,714
Outside services	28,038	21,840	22,628
FDIC insurance	8,077	8,025	10,526
Supplies	6,441	4,938	4,307
State taxes	6,162	6,975	7,278
Telephone	5,697	4,957	4,538
Advertising and promotional	4,991	6,375	5,161
Loan related	3,363	5,353	4,664
Other real estate owned	3,268	5,218	4,886
Merger related	7,394	4,982	620
Other	21,146	17,188	15,261

Total Non-Interest Expense	318,829	283,734	251,103
Income Before Income Taxes	154,183	119,051	102,536
Income taxes	43,773	32,004	27,884
Net Income	$ 110,410	$ 87,047	$ 74,652
Net Income per Common Share			
Basic	$ 0.79	$ 0.70	$ 0.66

