FNB CORP/FL/
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

¨ **Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
For the transition period from to

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**25-1255406**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-accelerated Filer ¨	Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at October 31, 2012
Common Stock, $0.01 Par Value	139,795,027 Shares

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F.N.B. CORPORATION

FORM 10-Q

September 30, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except par value

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$ 203,503	$ 197,349
Interest bearing deposits with banks	164,091	11,604
Cash and Cash Equivalents	367,594	208,953
Securities available for sale	1,112,839	640,571
Securities held to maturity (fair value of $1,196,359 and $952,033)	1,151,743	917,212
Residential mortgage loans held for sale	21,575	14,275
Loans, net of unearned income of $50,246 and $47,110	7,979,450	6,856,667
Allowance for loan losses	(102,714)	(100,662)
Net Loans	7,876,736	6,756,005
Premises and equipment, net	145,043	130,043
Goodwill	677,168	568,462
Core deposit and other intangible assets, net	40,095	30,953
Bank owned life insurance	239,615	208,927
Other assets	352,483	311,082
Total Assets	$ 11,984,891	$ 9,786,483
Liabilities		
Deposits:		
Non-interest bearing demand	$ 1,735,857	$ 1,340,465
Savings and NOW	4,764,148	3,790,863
Certificates and other time deposits	2,625,818	2,158,440
Total Deposits	9,125,823	7,289,768
Other liabilities	150,152	143,239
Short-term borrowings	1,019,411	851,294
Long-term debt	90,501	88,016
Junior subordinated debt	204,006	203,967
Total Liabilities	10,589,893	8,576,284
Stockholders Equity		
Common stock $0.01 par value Authorized 500,000,000 shares Issued 140,173,022 and 127,436,261 shares	1,397	1,268
Additional paid-in capital	1,374,241	1,224,572
Retained earnings	63,298	32,925
Accumulated other comprehensive loss	(38,972)	(45,148)
Treasury stock 380,295 and 215,502 shares at cost	(4,966)	(3,418)

Total Stockholders Equity	1,394,998	1,210,199
Total Liabilities and Stockholders Equity	$ 11,984,891	$ 9,786,483

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in thousands, except per share data

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Interest Income				
Loans, including fees	$ 94,545	$ 86,038	$ 282,720	$ 255,937
Securities:				
Taxable	11,470	10,744	36,022	32,233
Nontaxable	1,682	1,847	5,083	5,676
Dividends	12	13	361	144
Other	47	60	142	238
Total Interest Income	107,756	98,702	324,328	294,228
Interest Expense				
Deposits	10,205	13,078	32,776	41,727
Short-term borrowings	1,182	1,644	3,961	5,111
Long-term debt	860	1,698	2,702	4,981
Junior subordinated debt	1,978	1,880	5,956	6,030
Total Interest Expense	14,225	18,300	45,395	57,849
Net Interest Income	93,531	80,402	278,933	236,379
Provision for loan losses	8,429	8,573	22,028	25,352
Net Interest Income After Provision for Loan Losses	85,102	71,829	256,905	211,027
Non-Interest Income				
Impairment losses on securities	(440)	(473)	(440)	(473)
Non-credit related losses on securities not expected to be sold (recognized in other comprehensive income)	321	436	321	436
Net impairment losses on securities	(119)	(37)	(119)	(37)
Service charges	17,666	16,057	52,419	46,058
Insurance commissions and fees	4,578	4,002	12,632	11,812
Securities commissions and fees	2,102	1,858	6,143	5,960
Trust fees	3,783	3,565	11,359	11,222
Net securities (losses) gains	(66)	49	302	141
Gain on sale of residential mortgage loans	1,176	657	2,696	1,800
Bank owned life insurance	1,671	1,309	4,809	3,913
Other	4,022	2,170	9,095	6,451
Total Non-Interest Income	34,813	29,630	99,336	87,320
Non-Interest Expense				
Salaries and employee benefits	41,579	37,149	127,255	112,059
Net occupancy	5,840	5,514	18,624	16,484
Equipment	5,728	4,749	16,598	14,149
Amortization of intangibles	2,242	1,808	6,892	5,409
Outside services	7,048	5,447	20,725	16,024

FDIC insurance	2,014	1,699	6,172	6,288
State taxes	1,347	2,023	4,800	5,978
Merger related	88	282	7,399	4,589
Other	11,196	10,546	33,772	31,163
Total Non-Interest Expense	77,082	69,217	242,237	212,143
Income Before Income Taxes	42,833	32,242	114,004	86,204
Income taxes	12,090	8,469	32,549	22,894
Net Income	$ 30,743	$ 23,773	$ 81,455	$ 63,310
Net Income per Share Basic	$ 0.22	$ 0.19	$ 0.59	$ 0.51
Net Income per Share Diluted	0.22	0.19	0.58	0.51
Cash Dividends per Share	0.12	0.12	0.36	0.36
Comprehensive Income	$ 33,132	$ 24,241	$ 87,631	$ 66,794

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Dollars in thousands, except per share data

Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at January 1, 2012	$ 1,268	$ 1,224,572	$ 32,925	$ (45,148)	$ (3,418)	$ 1,210,199
Net income			81,455			81,455
Change in other comprehensive income, net of tax				6,176		6,176
Common stock dividends ($0.36/share)			(50,705)			(50,705)
Issuance of common stock	129	145,833	(377)		(1,548)	144,037
Restricted stock compensation		3,451				3,451
Tax expense of stock-based compensation		385				385
Balance at September 30, 2012	$ 1,397	$ 1,374,241	$ 63,298	$ (38,972)	$ (4,966)	$ 1,394,998
Balance at January 1, 2011	$ 1,143	$ 1,094,713	$ 6,564	$ (33,732)	$ (2,564)	$ 1,066,124
Net income			63,310			63,310
Change in other comprehensive income, net of tax				3,484		3,484
Common stock dividends ($0.36/share)			(45,114)			(45,114)
Issuance of common stock	125	124,100			(848)	123,377
Restricted stock compensation		3,371				3,371
Tax expense of stock-based compensation		(61)				(61)
Balance at September 30, 2011	$ 1,268	$ 1,222,123	$ 24,760	$ (30,248)	$ (3,412)	$ 1,214,491

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

Unaudited

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating Activities		
Net income	$ 81,455	$ 63,310
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	21,989	16,908
Provision for loan losses	22,028	25,352
Deferred taxes	29,549	6,892
Net securities gains	(302)	(141)
Other-than-temporary impairment losses on securities	119	37
Tax (benefit) expense of stock-based compensation	(385)	61
Net change in:		
Interest receivable	(3,248)	883
Interest payable	(3,506)	(1,519)
Trading securities	331,972	110,490
Residential mortgage loans held for sale	(7,300)	2,393
Bank owned life insurance	(4,475)	476
Other, net	12,036	26,806
Net cash flows provided by operating activities	479,932	251,948
Investing Activities		
Net change in loans	(238,978)	(323,897)
Securities available for sale:		
Purchases	(780,185)	(250,558)
Sales	87,101	10,883
Maturities	367,025	292,247
Securities held to maturity:		
Purchases	(468,780)	(332,870)
Sales	2,903	
Maturities	240,059	176,009
Purchase of bank owned life insurance	(20,024)	(26)
Withdrawal/surrender of bank owned life insurance	20,701	
Increase in premises and equipment	(7,940)	(9,648)
Net cash received in business combinations	203,538	23,374
Net cash flows used in investing activities	(594,580)	(414,486)
Financing Activities		
Net change in:		
Non-interest bearing deposits, savings and NOW accounts	567,788	297,049
Time deposits	(249,764)	(116,864)
Short-term borrowings	155,177	38,629
Increase in long-term debt	26,961	46,569
Decrease in long-term debt	(183,139)	(25,114)

Net proceeds from issuance of common stock	6,586	68,608
Tax benefit (expense) of stock-based compensation	385	(61)
Cash dividends paid	(50,705)	(45,114)
Net cash flows provided by financing activities	273,289	263,702
Net Increase in Cash and Cash Equivalents	158,641	101,164
Cash and cash equivalents at beginning of period	208,953	131,571
Cash and Cash Equivalents at End of Period	$ 367,594	$ 232,735

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

(Unaudited)

September 30, 2012

BUSINESS

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

BASIS OF PRESENTATION

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

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

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

USE OF ESTIMATES

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

COMMON STOCK

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

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MERGERS AND ACQUISITIONS

On January 1, 2012, the Corporation completed its acquisition of Parkvale Financial Corporation (Parkvale), a unitary savings and loan holding company based in Monroeville, Pennsylvania. On the acquisition date, Parkvale had $1,815,663 in assets, which included $937,350 in loans, and $1,505,671 in deposits. The acquisition, net of equity offering costs, was valued at $140,900 and resulted in the Corporation issuing 12,159,312 shares of its common stock in exchange for 5,582,846 shares of Parkvale common stock. The assets and liabilities of Parkvale were recorded on the Corporation s balance sheet at their preliminary estimated fair values as of January 1, 2012, the acquisition date, and Parkvale s results of operations have been included in the Corporation s consolidated statement of comprehensive income since that date. Parkvale s banking affiliate, Parkvale Bank, was merged into FNBPA on January 1, 2012. In conjunction with the completion of this acquisition, the Corporation fully repaid the $31,762 of Parkvale preferred stock previously issued to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). The warrant issued by Parkvale to the UST has been converted into a warrant to purchase up to 819,640 shares of the Corporation s common stock. The warrant expires December 23, 2018 and has an exercise price of $5.81. Based on a preliminary purchase price allocation, the Corporation recorded $108,216 in goodwill and $16,033 in core deposit intangible as a result of the acquisition. The Corporation has recorded estimates of the fair values of acquired assets and liabilities. The fair values for loans, goodwill and other assets are provisional amounts based on third party valuations that are currently under review. Management expects to finalize the valuation and purchase price allocation in the fourth quarter. None of the goodwill is deductible for income tax purposes.

During the first nine months of 2012, the Corporation recorded merger and integration charges of $7,399 associated with the Parkvale acquisition.

The following table summarizes the amounts recorded on the consolidated balance sheet in conjunction with the Parkvale acquisition:

Fair value of consideration paid:	
Common stock issued, net of offering costs	$ 136,441
Warrant assumed	4,459
Total consideration paid	140,900
Fair value of identifiable assets acquired:	
Cash and cash equivalents	203,538
Securities	486,186
Loans	919,479
Other intangible assets	16,033
Accrued income and other assets	116,992
Total identifiable assets acquired	1,742,228
Fair value of liabilities assumed:	
Deposits	1,525,253
Borrowings	171,606
Accrued expenses and other liabilities	12,685
Total liabilities assumed	1,709,544
Fair value of net identifiable assets acquired	32,684
Goodwill recognized	$ 108,216

On January 1, 2011, the Corporation completed its acquisition of Comm Bancorp, Inc. (CBI), a bank holding company based in Clarks Summit, Pennsylvania. On the acquisition date, CBI had $625,570 in assets, which included $445,271 in loans, and $561,775 in deposits. The transaction, valued at $75,547, resulted in the Corporation paying $17,203 in cash and issuing 5,941,287 shares of its common stock in exchange for 1,719,978 shares of CBI common stock. The assets and liabilities of CBI were recorded on the Corporation s balance sheet at their fair values as of January 1, 2011, the acquisition date, and CBI s results of operations have been included in the Corporation s consolidated statement of comprehensive income since that date. CBI s banking affiliate, Community Bank and Trust Company, was merged into FNBPA on January 1, 2011. Based on the purchase price allocation, the Corporation recorded $40,232 in goodwill and $4,785 in core deposit intangible as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

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Pending Acquisition

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 $437,000 in total assets based in Annapolis, Maryland. The transaction is valued at approximately $51,000. Under the terms of the merger agreement, ANNB shareholders will be entitled to receive 1.143 shares of F.N.B. Corporation 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. ANNB s banking affiliate, BankAnnapolis, will be merged into FNBPA. 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.

NEW ACCOUNTING STANDARDS

Comprehensive Income

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

Amendments to Fair Value Measurements

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

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SECURITIES

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

Securities Available For Sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
U.S. Treasury and other U.S. government agencies and corporations	$ 325,453	$ 1,852	$	$ 327,305
Residential mortgage-backed securities:				
Agency mortgage-backed securities	287,926	9,255		297,181
Agency collateralized mortgage obligations	406,741	4,248	(114)	410,875
Non-agency collateralized mortgage obligations	2,950	41		2,991
States of the U.S. and political subdivisions	27,091	1,463		28,554
Collateralized debt obligations	34,264	156	(13,720)	20,700
Other debt securities	23,799	756	(1,295)	23,260
Total debt securities	1,108,224	17,771	(15,129)	1,110,866
Equity securities	1,555	442	(24)	1,973
	$ 1,109,779	$ 18,213	$ (15,153)	$ 1,112,839
December 31, 2011				
U.S. Treasury and other U.S. government agencies and corporations	$ 231,187	$ 642	$	$ 231,829
Residential mortgage-backed securities:				
Agency mortgage-backed securities	166,758	4,853		171,611
Agency collateralized mortgage obligations	181,493	2,236		183,729
Non-agency collateralized mortgage obligations	31		(1)	30
States of the U.S. and political subdivisions	38,509	1,841		40,350
Collateralized debt obligations	19,224		(13,226)	5,998
Other debt securities	6,863		(1,666)	5,197
Total debt securities	644,065	9,572	(14,893)	638,744
Equity securities	1,593	257	(23)	1,827
	$ 645,658	$ 9,829	$ (14,916)	$ 640,571

Securities Held To Maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
U.S. Treasury and other U.S. government agencies and corporations	$ 14,336	$ 450	$ (10)	$ 14,776

Residential mortgage-backed securities:				
Agency mortgage-backed securities	862,530	36,082		898,612
Agency collateralized mortgage obligations	101,770	1,238		103,008
Non-agency collateralized mortgage obligations	15,603	136	(13)	15,726
Commercial mortgage-backed securities	1,024	45		1,069
States of the U.S. and political subdivisions	154,372	6,793	(7)	161,158
Collateralized debt obligations	787		(87)	700
Other debt securities	1,321		(11)	1,310
	$ 1,151,743	$ 44,744	$ (128)	$ 1,196,359

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
U.S. Treasury and other U.S. government agencies and corporations	$ 4,523	$ 360	$	$ 4,883
Residential mortgage-backed securities:				
Agency mortgage-backed securities	683,100	28,722		711,822
Agency collateralized mortgage obligations	54,319	573	(11)	54,881
Non-agency collateralized mortgage obligations	24,348	143	(1,373)	23,118
States of the U.S. and political subdivisions	147,748	6,877		154,625
Collateralized debt obligations	1,592		(314)	1,278
Other debt securities	1,582	25	(181)	1,426
	$ 917,212	$ 36,700	$ (1,879)	$ 952,033

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross gains	$ 355	$ 49	$ 1,151	$ 337
Gross losses	(421)		(849)	(196)
	$ (66)	$ 49	$ 302	$ 141

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 19,504	$ 19,538	$ 6,446	$ 6,516
Due from one to five years	298,511	300,621	20,784	21,190
Due from five to ten years	35,763	36,905	53,728	56,127
Due after ten years	56,829	42,755	89,858	94,111
	410,607	399,819	170,816	177,944
Residential mortgage-backed securities:				
Agency mortgage-backed securities	287,926	297,181	862,530	898,612
Agency collateralized mortgage obligations	406,741	410,875	101,770	103,008
Non-agency collateralized mortgage obligations	2,950	2,991	15,603	15,726
Commercial mortgage-backed securities			1,024	1,069
Equity securities	1,555	1,973		
	$ 1,109,779	$ 1,112,839	$ 1,151,743	$ 1,196,359

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

At September 30, 2012 and December 31, 2011, securities with a carrying value of $689,533 and $547,727, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of $871,839 and $680,212 at September 30, 2012 and December 31, 2011, respectively, were pledged as collateral for short-term borrowings.

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

Securities available for sale:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2012						
Residential mortgage-backed securities:						
Agency mortgage-backed securities	$ 63,593	$ (114)	$	$	$ 63,593	$ (114)
Collateralized debt obligations	11,338	(1,340)	5,392	(12,380)	16,730	(13,720)
Other debt securities	2,003		5,574	(1,295)	7,577	(1,295)
Equity securities	640	(24)			640	(24)
	$ 77,574	$ (1,478)	$ 10,966	$ (13,675)	$ 88,540	$ (15,153)
December 31, 2011						
Residential mortgage-backed securities:						
Non-agency collateralized mortgage obligations	$ 30	$ (1)	$	$	$ 30	$ (1)
Collateralized debt obligations			5,998	(13,226)	5,998	(13,226)
Other debt securities			5,197	(1,666)	5,197	(1,666)
Equity securities	100	(9)	659	(14)	759	(23)
	$ 130	$ (10)	$ 11,854	$ (14,906)	$ 11,984	$ (14,916)

Securities held to maturity:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2012						
U.S. Treasury and other U.S. government agencies and corporations	$ 10,049	$ (10)	$	$	$ 10,049	$ (10)
Residential mortgage-backed securities:						
Non-agency collateralized mortgage obligations			2,709	(13)	2,709	(13)
States of the U.S. and political subdivisions	3,298	(7)			3,298	(7)
Collateralized debt obligations			700	(87)	700	(87)
Other debt securities			1,310	(11)	1,310	(11)
	$ 13,347	$ (17)	$ 4,719	$ (111)	$ 18,066	$ (128)
December 31, 2011						
Residential mortgage-backed securities:						
Agency collateralized mortgage obligations	$ 12,911	$ (11)	$	$	$ 12,911	$ (11)
Non-agency collateralized mortgage obligations	5,374	(64)	4,351	(1,309)	9,725	(1,373)
Collateralized debt obligations			1,278	(314)	1,278	(314)
Other debt securities			1,144	(181)	1,144	(181)
	$ 18,285	$ (75)	$ 6,773	$ (1,804)	$ 25,058	$ (1,879)

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As of September 30, 2012, securities with unrealized losses for less than 12 months included 1 investment in U.S. Treasury and other U.S. government agencies and corporations, 4 investments in residential mortgage-backed agency collateralized mortgage obligations (CMOs), 3 investments in states of the U.S. and political subdivisions, 11 investments in collateralized debt obligations (CDOs), 1 investment in other debt securities and 1 investment in equity securities. Securities with unrealized losses of 12 months or more included 1 investment in a residential mortgage-backed security (non-agency CMO), 10 investments in CDOs and 5 investments in other debt securities as of September 30, 2012. The Corporation does not intend to sell the debt securities and it is not more likely than not the Corporation will be required to sell the securities before recovery of their amortized cost basis.

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

Other-Than-Temporary Impairment

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

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

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

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

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

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

For debt securities, the Corporation also considers the payment structure of the debt security, the likelihood of the issuer being able to make future payments, failure of the issuer of the security to make scheduled interest and principal payments, whether the Corporation has made a decision to sell the security and whether the Corporation s cash or working capital requirements or contractual or regulatory obligations indicate that the debt security will be required to be sold before a forecasted recovery occurs. For equity securities, the Corporation also considers its intent and ability to retain the security for a period of time sufficient to allow for a recovery in fair value. Among the factors that the

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Corporation considers in determining its intent and ability to retain the security is a review of its capital adequacy, interest rate risk position and liquidity. The assessment of a security s ability to recover any decline in fair value, the ability of the issuer to meet contractual obligations, the Corporation s intent and ability to retain the security, and whether it is more likely than not the Corporation will be required to sell the security before recovery of its amortized cost basis require considerable judgment.

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

The Corporation invested in TPS issued by special purpose vehicles (SPVs) that hold pools of collateral consisting of trust preferred and subordinated debt securities issued by banks, bank holding companies, thrifts and insurance companies. The securities issued by the SPVs are generally segregated into several classes known as tranches. Typically, the structure includes senior, mezzanine and equity tranches. The equity tranche represents the first loss position. The Corporation generally holds interests in mezzanine tranches. Interest and principal collected from the collateral held by the SPVs are distributed with a priority that provides the highest level of protection to the senior-most tranches. In order to provide a high level of protection to the senior tranches, cash flows are diverted to higher-level tranches if the principal and interest coverage tests are not met.

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

- that current defaults would have no recovery;
- that some individually analyzed deferrals will cure at rates varying from 10% to 90% after the deferral period ends;
- recent historical performance metrics, including profitability, capital ratios, loan charge-offs and loan reserve ratios, for the underlying institutions that would indicate a higher probability of default by the institution;
- that institutions identified as possessing a higher probability of default would recover at a rate of 10% for banks and 15% for insurance companies;
- that financial performance of the financial sector continues to be affected by the economic environment resulting in an expectation of additional deferrals and defaults in the future;
- whether the security is currently deferring interest; and
- the external rating of the security and recent changes to its external rating.

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

The Corporation s portfolio of TPS consists of 24 pooled issues and six single-issuer securities. Three of the pooled issues are senior tranches; the remaining 21 are mezzanine tranches. At September 30, 2012, the 24 pooled TPS had an estimated fair value of $21,400 while the single-issuer TPS had an estimated fair value of $7,893. The Corporation has concluded from the analysis performed at September 30, 2012 that it is probable that the Corporation will collect all contractual principal and interest payments on all of its single-issuer and pooled TPS sufficient to recover the amortized cost basis of the securities.

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The Corporation recognized net impairment losses on securities of $119 for the nine months ended September 30, 2012, compared to $37 for the nine months ended September 30, 2011, due to the write-down of securities that the Corporation deemed to be other-than-temporarily impaired.

At September 30, 2012, all six single-issuer TPS are current in regards to their principal and interest payments. Of the 24 pooled TPS, four are accruing interest based on the coupon rate, fourteen are accreting income based on future expected cash flows and the remaining six are on nonaccrual status. Income of $2,138 was recognized on pooled TPS for the first nine months of 2012. Included in this amount was $34 recognized on pooled TPS which were sold during the first nine months of 2012.

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

	Collateralized Debt Obligations	Residential Non-Agency CMOs	Total
For the Nine Months Ended September 30, 2012			
Beginning balance	$ 18,369	$ 29	$ 18,398
Loss where impairment was not previously recognized	119		119
Additional loss where impairment was previously recognized			
Reduction due to credit impaired securities sold	(1,214)	(29)	(1,243)
Ending balance	$ 17,274	$	$ 17,274
For the Nine Months Ended September 30, 2011			
Beginning balance	$ 18,332	$	$ 18,332
Loss where impairment was not previously recognized			
Additional loss where impairment was previously recognized	37		37
Reduction due to credit impaired securities sold			
Ending balance	$ 18,369	$	$ 18,369

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

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

Deal Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Ratings	Number of Issuers Currently Performing	Actual Defaults (as a percent of original collateral)	Actual Deferrals (as a percent of original collateral)	Projected Recovery Rates on Current Deferrals (1)	Expected Defaults (%) (2)	Excess Subordination (as a percent of current collateral) (3)
Pooled TPS:												
P1	C1	$ 5,500	$ 2,402	$ 985	$ (1,417)	C	42	21	13	41	11	0.00
P2	C1	4,889	2,885	863	(2,022)	C	44	17	14	38	11	0.00
P3	C1	5,561	4,218	1,162	(3,056)	C	48	13	9	27	12	0.00
P4	C1	3,994	2,967	790	(2,177)	C	51	16	8	51	12	0.00
P5	B3	2,000	726	335	(391)	C	18	29	10	54	9	0.00
P6	B1	3,028	2,386	727	(1,659)	C	49	12	18	43	11	0.00
P7	C	5,048	756	281	(475)	C	33	14	32	43	11	0.00
P8	C	2,010	787	96	(691)	C	39	16	16	38	12	0.00
P9	A4L	2,000	645	153	(492)	C	24	16	20	47	11	0.00
Total OTTI		34,030	17,772	5,392	(12,380)		348	17	15	42	11	
P10	SNR	760	787	700	(87)	BBB	11	15	14	43	10	77.27
P11	C1	5,220	938	935	(3)	C	42	21	13	41	11	0.00
P12	A2A	5,000	2,057	1,871	(186)	B	44	17	14	38	11	44.14
P13	C1	4,781	1,144	999	(145)	C	48	13	9	27	12	0.00
P14	C1	5,260	1,093	1,040	(53)	C	51	16	8	51	12	0.00
P15	C1	5,190	903	706	(197)	C	56	14	18	33	14	0.00
P16	C1	3,206	341	173	(168)	C	42	19	12	22	13	0.00
P17	C	3,339	551	618	67	C	35	15	16	24	14	0.00
P18	B	2,069	596	549	(47)	C	34	12	25	33	16	20.04
P19	B2	5,000	2,171	2,176	5	CCC	21	0	8	10	10	41.76
P20	B	4,031	916	834	(82)	C	39	16	16	38	12	10.42
P21	A1	3,831	2,256	2,083	(173)	BB-	47	21	7	41	12	51.97
P22	B	5,000	1,228	1,140	(88)	C	17	18	6	44	11	0.00
P23	C1	5,531	1,206	1,008	(198)	C	26	15	12	36	11	0.00
P24	C1	5,606	1,092	1,176	84	C	27	16	10	44	10	0.00
Total Not OTTI		63,824	17,279	16,008	(1,271)		540	16	12	35	12	
Total Pooled TPS		$ 97,854	$ 35,051	$ 21,400	$ (13,651)		888	16	13	38	12	

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Deal Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Credit Ratings	Number of Issuers Currently Performing	Actual Defaults (as a percent of original collateral)	Actual Deferrals (as a percent of original collateral)	Projected Recovery Rates on Current Deferrals (1)	Expected Defaults (%) (2)	Excess Subordination (as a percent of current collateral) (3)
Single Issuer TPS:												
S1		$ 2,000	$ 1,952	$ 1,445	$ (507)	BB	1					
S2		2,000	1,918	1,513	(405)	BBB	1					
S3		1,000	955	1,009	54	BB-	1					
S4		2,000	2,000	1,886	(114)	BB-	1					
S5		1,000	999	730	(269)	BB	1					
S6		1,300	1,321	1,310	(11)	BB	1					
Total Single Issuer TPS		$ 9,300	$ 9,145	$ 7,893	$ (1,252)		6					
Total TPS		$ 107,154	$ 44,196	$ 29,293	$ (14,903)		894					

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

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States of the U.S. and Political Subdivisions

The Corporation s municipal bond portfolio of $182,926 as of September 30, 2012 is highly rated with an average entity specific rating of AA and 100.0% of the portfolio rated A or better. General obligation bonds comprise 99.5% of the portfolio. Geographically, the municipal bonds support the Corporation s footprint as 77.9% of the securities are from municipalities located throughout Pennsylvania. The average holding size of the securities in the municipal bond portfolio is $1,011. In addition to the strong stand-alone ratings, 74.7% of the municipalities have purchased credit enhancement insurance to strengthen the creditworthiness of their issue. Management also reviews the credit profile of each issuer on a quarterly basis.

Non-Agency CMOs

The Corporation purchased $161,151 of non-agency CMOs from 2003 through 2005. At the time of purchase, these securities were all rated AAA, with an original average loan-to-value (LTV) ratio of 66.1% and original average credit score of 724. At origination, the credit support, or the amount of loss the collateral pool could absorb before the AAA securities would incur a credit loss, ranged from 2.0% to 7.0%. Since the time of these original purchases, all of which are classified as held to maturity, two holdings have been sold and one holding has been paid off. The Corporation acquired and retained $60 of non-agency CMOs from the acquisition of Omega Financial Corporation in 2008 and acquired $42,810 and retained $4,238 of non-agency CMOs from the Parkvale acquisition. These acquired and retained securities are classified as available for sale. Non-agency CMOs have a book value of $18,553 at September 30, 2012. Paydowns during the first nine months of 2012 amounted to $7,183, an annualized paydown rate of 33.4%. The credit support range at September 30, 2012 was 2.3% to 21.0%, due to paydowns, continued good credit performance and the sale of one non-agency CMO having a book value of $2,848 during the first quarter of 2012. National delinquencies, an early warning sign of potential default, have been increasing for the past five years. Overall, the rate of delinquencies on the Corporation s holdings continued to increase modestly during 2012, but at a slower pace. All non-agency CMO holdings are current with regards to principal and interest.

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

The Corporation determines its credit-related losses by running scenario analysis on the underlying collateral. This analysis applies default assumptions to delinquencies already in the pipeline, projects future defaults based in part on the historical trends for the collateral, applies a rate of severity and estimates prepayment rates. Because of the limited historical trends for the collateral, multiple default scenarios were analyzed including scenarios that significantly elevate defaults over the next 12 18 months. Based on the results of the analysis, the Corporation s management has concluded that one non-agency CMO incurred a credit-related loss of $119, which was recognized as an OTTI charge in the third quarter of 2012. The one non-agency CMO that incurred a credit-related loss in 2011 was sold in March 2012 and resulted in a net loss on sale of $226, which was recognized in the first quarter of 2012.

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

			Credit Rating		Credit Support %		Delinquency %			Subordination Data					
Security	Original Year	Book Value (1)	S&P	Moody s	Original	Current	30 Day	60 Day	90 Day	% Foreclosure	% OREO	% Bankruptcy	% Total Delinquency	Original % LTV	Original Credit Score
1	2003	$ 1,815	AAA	n/a	2.5	6.6	0.9	0.3	1.5						