

FNB CORP/FL/  
Form 10-Q  
November 08, 2013  
Table of Contents

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

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2013**

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

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

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

**16148**  
**(Zip Code)**

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller reporting company

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

**Class**  
**Common Stock, \$0.01 Par Value**

**Outstanding as November 1, 2013**  
**158,867,441 Shares**



---

**Table of Contents**

**F.N.B. CORPORATION**

**FORM 10-Q**

September 30, 2013

**INDEX**

	<b>PAGE</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Comprehensive Income</u>	4
<u>Consolidated Statements of Stockholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	78
Item 4. <u>Controls and Procedures</u>	78
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	79
Item 1A. <u>Risk Factors</u>	80
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	80
Item 3. <u>Defaults Upon Senior Securities</u>	80
Item 4. <u>Mine Safety Disclosures</u>	80
Item 5. <u>Other Information</u>	80
Item 6. <u>Exhibits</u>	81
<u>Signatures</u>	82

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

Dollars in thousands, except par value

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 234,746	\$ 216,233
Interest bearing deposits with banks	48,763	22,811
<b>Cash and Cash Equivalents</b>	<b>283,509</b>	<b>239,044</b>
Securities available for sale	1,115,558	1,172,683
Securities held to maturity (fair value of \$1,181,652 and \$1,143,213)	1,180,992	1,106,563
Residential mortgage loans held for sale	8,105	27,751
Loans, net of unearned income of \$52,598 and \$51,661	8,836,905	8,137,719
Allowance for loan losses	(110,052)	(104,374)
<b>Net Loans</b>	<b>8,726,853</b>	<b>8,033,345</b>
Premises and equipment, net	147,406	140,367
Goodwill	713,509	675,555
Core deposit and other intangible assets, net	35,400	37,851
Bank owned life insurance	263,781	246,088
Other assets	315,166	344,729
<b>Total Assets</b>	<b>\$ 12,790,279</b>	<b>\$ 12,023,976</b>
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 2,115,813	\$ 1,738,195
Savings and NOW	5,247,922	4,808,121
Certificates and other time deposits	2,359,636	2,535,858
<b>Total Deposits</b>	<b>9,723,371</b>	<b>9,082,174</b>
Other liabilities	133,061	163,151
Short-term borrowings	1,166,180	1,083,138
Long-term debt	91,807	89,425
Junior subordinated debt	194,213	204,019

<b>Total Liabilities</b>	11,308,632	10,621,907
<b>Stockholders Equity</b>		
Common stock \$0.01 par value		
Authorized 500,000,000 shares		
Issued 145,913,917 and 140,314,846 shares	1,455	1,398
Additional paid-in capital	1,440,779	1,376,601
Retained earnings	112,649	75,312
Accumulated other comprehensive loss	(66,171)	(46,224)
Treasury stock 650,482 and 385,604 shares at cost	(7,065)	(5,018)
<b>Total Stockholders Equity</b>	1,481,647	1,402,069
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 12,790,279</b>	<b>\$ 12,023,976</b>

See accompanying Notes to Consolidated Financial Statements

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

Dollars in thousands, except per share data

Unaudited

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Interest Income</b>				
Loans, including fees	\$ 97,499	\$ 94,545	\$ 286,156	\$ 282,720
Securities:				
Taxable	10,888	11,470	32,141	36,022
Nontaxable	1,377	1,682	4,336	5,083
Dividends	13	12	71	361
Other	13	47	45	142
<b>Total Interest Income</b>	<b>109,790</b>	<b>107,756</b>	<b>322,749</b>	<b>324,328</b>
<b>Interest Expense</b>				
Deposits	6,895	10,205	22,503	32,776
Short-term borrowings	1,122	1,182	3,304	3,961
Long-term debt	719	860	2,268	2,702
Junior subordinated debt	1,800	1,978	5,578	5,956
<b>Total Interest Expense</b>	<b>10,536</b>	<b>14,225</b>	<b>33,653</b>	<b>45,395</b>
<b>Net Interest Income</b>	<b>99,254</b>	<b>93,531</b>	<b>289,096</b>	<b>278,933</b>
Provision for loan losses	7,280	8,429	22,724	22,028
<b>Net Interest Income After Provision for Loan Losses</b>	<b>91,974</b>	<b>85,102</b>	<b>266,372</b>	<b>256,905</b>
<b>Non-Interest Income</b>				
Impairment losses on securities		(440)		(440)
Non-credit related losses on securities not expected to be sold (recognized in other comprehensive income)		321		321
Net impairment losses on securities		(119)		(119)
Service charges	16,512	17,666	51,703	52,419
Insurance commissions and fees	4,088	4,578	12,619	12,632
Securities commissions and fees	2,575	2,102	8,365	6,143
Trust fees	4,176	3,783	12,428	11,359
Net securities gains (losses)	5	(66)	757	302
Gain on sale of residential mortgage loans	899	1,176	2,942	2,696
Bank owned life insurance	1,635	1,671	5,161	4,809
Other	2,968	4,022	9,307	9,095

<b>Total Non-Interest Income</b>	32,858	34,813	103,282	99,336
<b>Non-Interest Expense</b>				
Salaries and employee benefits	45,155	41,579	132,261	127,255
Net occupancy	6,132	5,840	19,669	18,624
Equipment	6,415	5,728	18,013	16,598
Amortization of intangibles	2,115	2,242	6,226	6,892
Outside services	7,565	7,048	23,332	20,725
FDIC insurance	3,161	2,014	8,197	6,172
Merger related	913	88	4,211	7,399
Other	11,765	12,543	34,356	38,572
<b>Total Non-Interest Expense</b>	<b>83,221</b>	<b>77,082</b>	<b>246,265</b>	<b>242,237</b>
<b>Income Before Income Taxes</b>	<b>41,611</b>	<b>42,833</b>	<b>123,389</b>	<b>114,004</b>
Income taxes	9,977	12,090	34,024	32,549
<b>Net Income</b>	<b>\$ 31,634</b>	<b>\$ 30,743</b>	<b>\$ 89,365</b>	<b>\$ 81,455</b>
<b>Net Income per Share Basic</b>	<b>\$ 0.22</b>	<b>\$ 0.22</b>	<b>\$ 0.63</b>	<b>\$ 0.59</b>
<b>Net Income per Share Diluted</b>	<b>0.22</b>	<b>0.22</b>	<b>0.62</b>	<b>0.58</b>
<b>Cash Dividends per Share</b>	<b>0.12</b>	<b>0.12</b>	<b>0.36</b>	<b>0.36</b>
<b>Comprehensive Income</b>	<b>\$ 27,540</b>	<b>\$ 33,132</b>	<b>\$ 69,418</b>	<b>\$ 87,631</b>

See accompanying Notes to Consolidated Financial Statements



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

Dollars in thousands, except per share data

Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
<b>Balance at January 1, 2013</b>	\$ 1,398	\$ 1,376,601	\$ 75,312	\$ (46,224)	\$ (5,018)	\$ 1,402,069
Net income			89,365			89,365
Change in other comprehensive income, net of tax				(19,947)		(19,947)
Common stock dividends (\$0.36/share)			(52,028)			(52,028)
Issuance of common stock	57	59,561			(2,047)	57,571
Restricted stock compensation		3,339				3,339
Tax expense of stock-based compensation		1,278				1,278
<b>Balance at September 30, 2013</b>	\$ 1,455	\$ 1,440,779	\$ 112,649	\$ (66,171)	\$ (7,065)	\$ 1,481,647
<b>Balance at January 1, 2012</b>	\$ 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
<b>Balance at September 30, 2012</b>	\$ 1,397	\$ 1,374,241	\$ 63,298	\$ (38,972)	\$ (4,966)	\$ 1,394,998

See accompanying Notes to Consolidated Financial Statements

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

Dollars in thousands

Unaudited

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Net income	\$ 89,365	\$ 81,455
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	21,845	21,989
Provision for loan losses	22,724	22,028
Deferred tax expenses	12,246	29,549
Net securities gains	(757)	(302)
Other-than-temporary impairment losses on securities		119
Tax benefit of stock-based compensation	(1,278)	(385)
Net change in:		
Interest receivable	(1,568)	(3,248)
Interest payable	(2,836)	(3,506)
Trading securities	88,052	331,972
Residential mortgage loans held for sale	19,647	(7,300)
Bank owned life insurance	(1,808)	(4,475)
Other, net	18,610	12,036
<b>Net cash flows provided by operating activities</b>	<b>264,242</b>	<b>479,932</b>
<b>Investing Activities</b>		
Net change in loans	(473,933)	(238,978)
Securities available for sale:		
Purchases	(250,724)	(780,185)
Sales	21,919	87,101
Maturities	269,330	367,025
Securities held to maturity:		
Purchases	(335,533)	(468,780)
Sales	17,429	2,903
Maturities	239,942	240,059
Purchase of bank owned life insurance	(10,016)	(20,024)
Withdrawal/surrender of bank owned life insurance		20,701
Increase in premises and equipment	(7,745)	(7,940)
<b>Net cash received in business combinations</b>	<b>41,986</b>	<b>203,538</b>

Net cash flows used in investing activities	(487,345)	(594,580)
<b>Financing Activities</b>		
Net change in:		
Non-interest bearing deposits, savings and NOW accounts	536,442	567,788
Time deposits	(240,111)	(249,764)
Short-term borrowings	68,643	155,177
Increase in long-term debt	37,602	26,961
Decrease in long-term debt	(73,867)	(183,139)
Decrease in junior subordinated debt	(15,000)	
Net proceeds from issuance of common stock	4,609	6,586
Tax benefit of stock-based compensation	1,278	385
Cash dividends paid	(52,028)	(50,705)
Net cash flows provided by financing activities	267,568	273,289
<b>Net Increase in Cash and Cash Equivalents</b>	<b>44,465</b>	<b>158,641</b>
Cash and cash equivalents at beginning of period	239,044	208,953
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 283,509</b>	<b>\$ 367,594</b>

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Dollars in thousands, except share data

(Unaudited)

September 30, 2013

**BUSINESS**

F.N.B. Corporation (the Corporation), headquartered in Hermitage, Pennsylvania, is a regional diversified financial services company operating in six states and three major metropolitan areas, including Pittsburgh, Pennsylvania, Baltimore, Maryland and Cleveland, Ohio. The Corporation has more than 250 banking offices throughout Pennsylvania, Ohio, West Virginia and Maryland. The Corporation provides a full range of commercial banking, consumer banking and wealth management solutions through its subsidiary network which is led by its largest affiliate, First National Bank of Pennsylvania (FNBPA). Commercial banking solutions include corporate banking, small business banking, investment real estate financing, asset based lending, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include asset management, private banking and insurance. The Corporation also operates Regency Finance Company (Regency), which has more than 70 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee.

**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 FNBPA, First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC, 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, 2013.

**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.

## **SECURITIES OFFERINGS**

On November 1, 2013, the Corporation completed a public offering of 4,693,876 shares of common stock at a price of \$12.25 per share, including 612,244 shares of common stock purchased by the underwriters pursuant to an over-allotment option, which the underwriters exercised in full. On November 1, 2013, the Corporation also completed a public offering of 4,000,000 Depositary Shares, each representing a 1/40<sup>th</sup> interest in the Non-Cumulative Perpetual Preferred Stock, Series E, of the Corporation, at a price of \$25.00 per share. The net proceeds of the combined offerings after deducting underwriting discounts and commissions and estimated offering expenses were \$151,175. The Corporation intends to use the proceeds from the offerings to proactively position itself for Basel III implementation, as discussed in the Enhanced Regulatory Capital Standards section of this Report, and to support future growth opportunities.

---

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

On October 12, 2013, the Corporation completed its acquisition of PVF Capital Corp. (PVF), a savings and loan holding company based in Solon, Ohio. On the acquisition date, the estimated fair values of PVF included \$714,126 in assets, \$500,000 in loans and \$620,000 in deposits. The acquisition was valued at \$110,280 and resulted in the Corporation issuing 8,893,598 shares of its common stock in exchange for 26,119,398 shares of PVF common stock. The assets and liabilities of PVF were recorded on the Corporation's balance sheet at their preliminary estimated fair values as of October 12, 2013, the acquisition date, and PVF's results of operations have been included in the Corporation's consolidated statements of income and comprehensive income since that date. The operations of PVF are not included in the accompanying financial statements dated September 30, 2013. PVF's banking affiliate, Park View Federal Savings Bank, was merged into FNBPA on October 12, 2013. Based on a preliminary purchase price allocation, during October 2013 the Corporation recorded \$50,898 in goodwill and \$4,400 in core deposit intangibles as a result of the acquisition. These fair value estimates are provisional amounts based on third party valuations that are currently under review. None of the goodwill is deductible for income tax purposes.

On April 6, 2013, the Corporation completed its acquisition of Annapolis Bancorp, Inc. (ANNB), a bank holding company based in Annapolis, Maryland. On the acquisition date, the estimated fair values of ANNB included \$429,358 in assets, \$254,911 in loans and \$349,370 in deposits. The acquisition was valued at \$56,300 and resulted in the Corporation issuing 4,641,412 shares of its common stock in exchange for 4,060,802 shares of ANNB common stock. Additionally, the Corporation paid \$609, or \$0.15 per share, to the holders of ANNB common stock as cash consideration due to the collection of a certain loan, as designated in the merger agreement. The assets and liabilities of ANNB were recorded on the Corporation's balance sheet at their preliminary estimated fair values as of April 6, 2013, the acquisition date, and ANNB's results of operations have been included in the Corporation's consolidated statements of income and comprehensive income since that date. ANNB's banking affiliate, BankAnnapolis, was merged into FNBPA on April 6, 2013. In conjunction with the acquisition, a warrant issued by ANNB to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP) was assumed by the Corporation and converted into a warrant to purchase up to 342,564 shares of the Corporation's common stock. The warrant expires January 30, 2019 and has an exercise price of \$3.57 per share. Based on a preliminary purchase price allocation, the Corporation has recorded \$37,954 in goodwill and \$3,775 in core deposit intangibles as a result of the acquisition. These fair value estimates are provisional amounts based on third party valuations that are currently under review. None of the goodwill is deductible for income tax purposes.

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, the fair values of Parkvale included \$1,743,885 in assets, \$919,480 in loans and \$1,525,253 in deposits. The acquisition 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 fair values as of January 1, 2012, the acquisition date, and Parkvale's results of operations have been included in the Corporation's consolidated statements of income and comprehensive income since that date. Parkvale's banking affiliate, Parkvale Bank, was merged into FNBPA on January 1, 2012. The warrant issued by Parkvale to the UST under the CPP was assumed by the Corporation and 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 the purchase price allocation, which was completed in the fourth quarter of 2012, the Corporation recorded \$106,602 in goodwill and \$16,033 in core deposit intangibles as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

*Pending Acquisition*

On June 14, 2013, the Corporation announced the signing of a definitive merger agreement to acquire BCSB Bancorp, Inc. (BCSB), a bank holding company based in Baltimore, Maryland with approximately \$640,000 in total assets. The transaction is valued at approximately \$79,000. Under the terms of the merger agreement, BCSB shareholders will be entitled to receive 2.08 shares of the Corporation's common stock for each share of BCSB common stock. BCSB's banking affiliate, Baltimore County Savings Bank, will be merged into FNBPA. The transaction is expected to be completed in the first quarter of 2014, pending regulatory approvals, the approval of BCSB shareholders and the satisfaction of other closing conditions.

---

**Table of Contents****NEW ACCOUNTING STANDARDS***Income Taxes*

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, to provide guidance on the financial statement presentation of certain unrecognized tax benefits. An unrecognized tax benefit or a portion of an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward with certain exceptions related to availability. The requirements of ASU 2013-11 are effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Derivatives and Hedging*

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*, which establishes the Fed Funds Effective Swap Rate as an acceptable U.S. benchmark interest rate, in addition to the UST and LIBOR swap rates, to provide risk managers with a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate risk component under the hedge accounting guidance. The requirements of ASU 2013-10 are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this update did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Comprehensive Income*

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, that requires an entity to report the effects of significant reclassifications out of each component of accumulated other comprehensive income on the respective line item in net income if the amount being reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts not required to be reclassified in their entirety in the same reporting period, an entity shall add a cross reference to the related footnote where additional information about the effect of the reclassification is disclosed. The requirements of ASU 2013-02 were effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this update did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Disclosures about Offsetting Assets and Liabilities*

In January 2013, the FASB issued ASU No. 2013-01, *Scope Clarification of Disclosures about Offsetting Assets and Liabilities*, that clarifies the scope of its previously issued guidance, limiting the disclosure requirements to derivative instruments, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The requirements of ASU 2013-01 are effective on January 1, 2013. The adoption of this update did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.





**Table of Contents****SECURITIES**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale:</b>				
<b>September 30, 2013</b>				
U.S. government-sponsored entities	\$ 336,126	\$ 412	\$ (4,386)	\$ 332,152
Residential mortgage-backed securities:				
Agency mortgage-backed securities	223,125	4,641	(128)	227,638
Agency collateralized mortgage obligations	506,672	405	(18,030)	489,047
Non-agency collateralized mortgage obligations	1,818	28		1,846
States of the U.S. and political subdivisions	17,472	542	(139)	17,875
Collateralized debt obligations	36,451	2,452	(10,199)	28,704
Other debt securities	16,478	564	(914)	16,128
<b>Total debt securities</b>	<b>1,138,142</b>	<b>9,044</b>	<b>(33,796)</b>	<b>1,113,390</b>
Equity securities	1,554	645	(31)	2,168
	<b>\$ 1,139,696</b>	<b>\$ 9,689</b>	<b>\$ (33,827)</b>	<b>\$ 1,115,558</b>

**December 31, 2012**

U.S. government-sponsored entities	\$ 352,910	\$ 1,676	\$ (129)	\$ 354,457
Residential mortgage-backed securities:				
Agency mortgage-backed securities	267,575	7,575		275,150
Agency collateralized mortgage obligations	465,574	4,201	(228)	469,547
Non-agency collateralized mortgage obligations	2,679	50		2,729
States of the U.S. and political subdivisions	23,592	1,232		24,824
Collateralized debt obligations	34,765	967	(13,276)	22,456
Other debt securities	21,790	695	(972)	21,513
<b>Total debt securities</b>	<b>1,168,885</b>	<b>16,396</b>	<b>(14,605)</b>	<b>1,170,676</b>
Equity securities	1,554	462	(9)	2,007
	<b>\$ 1,170,439</b>	<b>\$ 16,858</b>	<b>\$ (14,614)</b>	<b>\$ 1,172,683</b>

**Securities Held to Maturity:****September 30, 2013**

U.S. Treasury	\$ 503	\$ 122	\$	\$ 625
U.S. government-sponsored entities	43,403	191	(1,019)	42,575
Residential mortgage-backed securities:				
Agency mortgage-backed securities	650,732	14,679	(2,414)	662,997
Agency collateralized mortgage obligations	341,743	759	(12,788)	329,714

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Non-agency collateralized mortgage obligations	7,317	53		7,370
Commercial mortgage-backed securities	2,247	134	(31)	2,350
States of the U.S. and political subdivisions	135,047	2,641	(1,667)	136,021
	\$ 1,180,992	\$ 18,579	\$ (17,919)	\$ 1,181,652

**December 31, 2012**

U.S. Treasury	\$ 503	\$ 188	\$	\$ 691
U.S. government-sponsored entities	28,731	280	(99)	28,912
Residential mortgage-backed securities:				
Agency mortgage-backed securities	780,022	28,783	(1)	808,804
Agency collateralized mortgage obligations	133,976	1,266		135,242
Non-agency collateralized mortgage obligations	14,082	130		14,212
Commercial mortgage-backed securities	1,024	39		1,063
States of the U.S. and political subdivisions	147,713	6,099		153,812
Collateralized debt obligations	512		(35)	477
	\$ 1,106,563	\$ 36,785	\$ (135)	\$ 1,143,213

**Table of Contents**

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 ANNB and Parkvale acquisitions as trading securities. The Corporation both acquired and sold these trading securities during the quarters in which the acquisitions occurred. As of September 30, 2013 and December 31, 2012, 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,	
	2013	2012	2013	2012
Gross gains	\$ 5	\$ 355	\$ 1,120	\$ 1,151
Gross losses		(421)	(363)	(849)
	\$ 5	\$ (66)	\$ 757	\$ 302

As of September 30, 2013, 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	\$	\$	\$ 2,461	\$ 2,483
Due from one to five years	209,474	209,523	34,366	34,162
Due from five to ten years	150,871	147,783	65,749	66,086
Due after ten years	46,182	37,553	76,377	76,490
	406,527	394,859	178,953	179,221
Residential mortgage-backed securities:				
Agency mortgage-backed securities	223,125	227,638	650,732	662,997
Agency collateralized mortgage obligations	506,672	489,047	341,743	329,714
Non-agency collateralized mortgage obligations	1,818	1,846	7,317	7,370
Commercial mortgage-backed securities			2,247	2,350
Equity securities	1,554	2,168		
	\$ 1,139,696	\$ 1,115,558	\$ 1,180,992	\$ 1,181,652

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, 2013 and December 31, 2012, securities with a carrying value of \$1,025,579 and \$725,450, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law.

Securities with a carrying value of \$849,901 and \$795,812 at September 30, 2013 and December 31, 2012, respectively, were pledged as collateral for short-term borrowings.

**Table of Contents**

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

	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
<b>Securities Available for Sale:</b>									
<b>September 30, 2013</b>									
U.S. government-sponsored entities	12	\$ 173,836	\$ (4,386)		\$	\$	12	\$ 173,836	\$ (4,386)
Residential mortgage-backed securities:									
Agency mortgage-backed securities	3	31,737	(128)				3	31,737	(128)
Agency collateralized mortgage obligations	28	416,085	(18,030)				28	416,085	(18,030)
States of the U.S. and political subdivisions	2	3,134	(139)				2	3,134	(139)
Collateralized debt obligations	1	2,195	(3)	9	8,927	(10,196)	10	11,122	(10,199)
Other debt securities				4	5,963	(914)	4	5,963	(914)
Equity securities				1	632	(31)	1	632	(31)
	46	\$ 626,987	\$ (22,686)	14	\$ 15,522	\$ (11,141)	60	\$ 642,509	\$ (33,827)

**December 31, 2012**

U.S. government-sponsored entities	3	\$ 44,868	\$ (129)		\$	\$	3	\$ 44,868	\$ (129)
Residential mortgage-backed securities:									
Agency collateralized mortgage obligations	3	47,174	(228)				3	47,174	(228)
Collateralized debt obligations	7	8,708	(909)	9	5,532	(12,367)	16	14,240	(13,276)
Other debt securities				4	5,899	(972)	4	5,899	(972)
Equity securities	1	654	(9)				1	654	(9)
	14	\$ 101,404	\$ (1,275)	13	\$ 11,431	\$ (13,339)	27	\$ 112,835	\$ (14,614)

**Securities Held to Maturity:****September 30, 2013**

U.S. government-sponsored entities	3	\$ 39,027	\$ (1,019)				3	\$ 39,027	\$ (1,019)
------------------------------------	---	-----------	------------	--	--	--	---	-----------	------------

<b>Residential mortgage-backed securities:</b>						
Agency mortgage-backed securities	18	237,938	(2,414)		18	237,938 (2,414)
Agency collateralized mortgage obligations	19	274,423	(12,788)		19	274,423 (12,788)
<b>Commercial mortgage-backed securities</b>						
States of the U.S. and political subdivisions	1	991	(31)		1	991 (31)
	25	28,327	(1,667)		25	28,327 (1,667)
	66	\$ 580,706	\$ (17,919)		66	\$ 580,706 \$ (17,919)

**December 31, 2012**

U.S. government-sponsored entities	1	\$ 14,901	\$ (99)	\$	\$	1	\$ 14,901	\$ (99)
<b>Residential mortgage-backed securities:</b>								
Agency mortgage-backed securities	1	1,424	(1)			1	1,424	(1)
Collateralized debt obligations				1	477	(35)	1	477 (35)
	2	\$ 16,325	\$ (100)	1	\$ 477	\$ (35)	3	\$ 16,802 \$ (135)

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 collateralized debt obligations (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 and are included in other debt securities. 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 two investments in senior tranches, 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 illiquidity and the uncertainty affecting these markets, as well as changes in interest rates.

## **Table of Contents**

### *Other-Than-Temporary Impairment*

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

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

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

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

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

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

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



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

The Corporation invested in TPS issued by special purpose vehicles (SPVs) 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.

## Table of Contents

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 23 pooled issues and four single-issuer securities. Two of the pooled issues are senior tranches; the remaining 21 are mezzanine tranches. At September 30, 2013, the pooled TPS had an estimated fair value of \$28,704 while the single-issuer TPS had an estimated fair value of \$5,963. The Corporation has concluded from the analysis performed at September 30, 2013 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.

At September 30, 2013, all four single-issuer TPS are current in regards to their principal and interest payments. Of the 23 pooled TPS, three are accruing interest based on the coupon rate, 18 are accreting income based on future expected cash flows and the remaining two are on non-accrual status. Income of \$2,448 and \$2,138 was recognized on pooled TPS for the nine months ended September 30, 2013 and 2012, respectively. Included in the amount for the nine months ended September 30, 2012 was \$34 recognized on two pooled TPS which were sold in the second quarter of 2012.

The Corporation recognized net impairment losses on securities of \$119 for the nine months ended September 30, 2012 due to the write-down of securities that the Corporation deemed to be other-than-temporarily impaired. The Corporation did not recognize any impairment losses on securities for the nine months ended September 30, 2013.

**Table of Contents**

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

	<b>Collateralized Debt Obligations</b>	<b>Residential Non-Agency CMOs</b>	<b>Total</b>
<b>For the Nine Months Ended September 30, 2013</b>			
Beginning balance	\$ 17,155	\$ 212	\$ 17,367
Loss where impairment was not previously recognized			
Additional loss where impairment was previously recognized			
Reduction due to credit impaired securities sold		(212)	(212)
Ending balance	\$ 17,155	\$	\$ 17,155
<b>For the Nine Months Ended September 30, 2012</b>			
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

The secondary market for pooled TPS 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.

**Table of Contents**

The following table provides information relating to the Corporation's TPS as of September 30, 2013:

Deal Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Issuer Credit Rating	Number of Defaults Currently Performing	Actual Percent of Original Collateral	Actual Recovery Rates on Expected Defaults (%)	Projected Recovery Rates on Expected Defaults (%)	Excess Subordination (as a percent of current collateral) (3)	
<b>Pooled TPS:</b>												
P1	C1	\$ 5,500	\$ 2,571	\$ 1,511	\$ (1,060)	C	42	22	7	41	18	0.00
P2	C1	4,889	3,073	1,241	(1,832)	C	41	16	15	41	15	0.00
P3	C1	5,561	4,357	1,668	(2,689)	C	47	13	9	34	16	0.00
P4	C1	3,994	3,120	1,197	(1,923)	C	52	16	6	42	16	0.00
P5	B3	2,000	765	364	(401)	C	14	29	10	48	11	0.00
P6	B1	3,028	2,497	1,004	(1,493)	C	50	15	19	51	10	0.00
P7	C	5,048	828	875	47	C	36	14	22	37	14	0.00
P8	C	2,011	788	336	(452)	C	44	16	11	36	17	0.42
P9	A4L	2,000	645	397	(248)	C	24	16	13	43	11	0.00
<i>Total OTTI</i>		34,031	18,644	8,593	(10,051)		350	17	12	41	15	
P10	C1	5,220	1,077	1,434	357	C	42	22	7	41	18	0.00
P11	A2A	5,000	2,198	2,195	(3)	B+	41	16	15	41	15	47.85
P12	C1	4,781	1,317	1,434	117	C	47	13	9	34	16	0.00
P13	C1	5,260	1,278	1,576	298	C	52	16	6	42	16	0.00
P14	C1	5,190	1,063	1,166	103	C	58	15	12	36	17	0.00
P15	C1	3,206	408	639	231	C	43	19	7	28	16	0.00
P16	C	3,339	651	673	22	C	36	15	12	28	15	0.00
P17	B	2,069	672	673	1	Ca	32	13	21	40	12	18.75
P18	B2	5,000	2,228	2,905	677	CCC	20	0	8	10	15	37.52
P19	B	4,070	963	1,340	377	C	44	16	11	36	17	0.52
P20	A1	3,304	1,983	2,037	54	BB-	46	21	6	35	15	54.24
P21	B	5,000	1,307	1,209	(98)	C	15	18	6	49	11	0.00
P22	C1	5,531	1,386	1,399	13	C	23	15	12	42	11	0.00
P23	C1	5,606	1,276	1,431	155	C	23	16	10	44	11	0.00
<i>Total Not OTTI</i>		62,576	17,807	20,111	2,304		522	16	10	36	15	
<b>Total Pooled TPS</b>		<b>\$ 96,607</b>	<b>\$ 36,451</b>	<b>\$ 28,704</b>	<b>\$ (7,747)</b>		<b>872</b>	<b>16</b>	<b>11</b>	<b>38</b>	<b>15</b>	

**Table of Contents**

Deal Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Lowest Issuer Credit Rating	Number of Currently Performing	Actual Deferrals (as a percent of original collateral)	Projected Recovery Rates on Current Deferrals (1)	Expected Defaults (%) (2)	Excess Subordination (as a percent of collateral) (3)
<b>Single Issuer TPS:</b>											
S1		\$ 2,000	\$ 1,954	\$ 1,600	\$ (354)	BB	1				
S2		2,000	1,924	1,620	(304)	BBB	1				
S3		2,000	2,000	1,943	(57)	B+	1				
S4		1,000	999	800	(199)	BB	1				
<b>Total Single Issuer TPS</b>		<b>\$ 7,000</b>	<b>\$ 6,877</b>	<b>\$ 5,963</b>	<b>\$ (914)</b>		<b>4</b>				
<b>Total TPS</b>		<b>\$ 103,607</b>	<b>\$ 43,328</b>	<b>\$ 34,667</b>	<b>\$ (8,661)</b>		<b>876</b>				

- (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.

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

The Corporation's municipal bond portfolio of \$152,922 as of September 30, 2013 is highly rated with an average entity-specific rating of AA and 98.7% of the portfolio rated A or better. General obligation bonds comprise 99.0% of the portfolio. Geographically, municipal bonds support the Corporation's footprint as 78.0% of the securities are from municipalities located throughout Pennsylvania. The average holding size of the securities in the municipal bond portfolio is \$987. In addition to the strong stand-alone ratings, 67.7% 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.

**FEDERAL HOME LOAN BANK STOCK**

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

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

At September 30, 2013 and December 31, 2012, the Corporation's FHLB stock totaled \$21,636 and \$24,560, respectively, and is included in other assets on the balance sheet. The Corporation accounts for the stock in accordance with ASC 325, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. Due to the continued improvement of the FHLB's financial performance and stability over the past several years, the Corporation believes its holdings in the stock are ultimately recoverable at par value and, therefore, determined that FHLB stock was not other-than-temporarily impaired. In addition, the Corporation has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

**LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

	<b>Originated Loans</b>	<b>Acquired Loans</b>	<b>Total Loans</b>
<b>September 30, 2013</b>			
Commercial real estate	\$ 2,548,278	\$ 372,530	\$ 2,920,808
Commercial and industrial	1,689,467	65,768	1,755,235
Commercial leases	141,714		141,714
<b>Total commercial loans and leases</b>	<b>4,379,459</b>	<b>438,298</b>	<b>4,817,757</b>
Direct installment	1,349,804	58,735	1,408,539
Residential mortgages	669,978	361,827	1,031,805
Indirect installment	631,030	7,282	638,312

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Consumer lines of credit	804,453	83,528	887,981
Other	52,511		52,511
	\$ 7,887,235	\$ 949,670	\$ 8,836,905



**Table of Contents**

	<b>Originated Loans</b>	<b>Acquired Loans</b>	<b>Total Loans</b>
<b>December 31, 2012</b>			
Commercial real estate	\$ 2,448,471	\$ 258,575	\$ 2,707,046
Commercial and industrial	1,555,301	47,013	1,602,314
Commercial leases	130,133		130,133
Total commercial loans and leases	4,133,905	305,588	4,439,493
Direct installment	1,108,865	69,665	1,178,530
Residential mortgages	653,826	438,402	1,092,228
Indirect installment	568,324	13,713	582,037
Consumer lines of credit	732,534	72,960	805,494
Other	39,937		39,937
	\$ 7,237,391	\$ 900,328	\$ 8,137,719

The carrying amount of acquired loans at September 30, 2013 totaled \$944,954, including purchased credit-impaired (PCI) loans with a carrying amount of \$16,559, while the carrying amount of acquired loans at December 31, 2012 totaled \$896,148, including PCI loans with a carrying amount of \$15,864. The outstanding contractual balance receivable of acquired loans at September 30, 2013 totaled \$1,011,890, including PCI loans with an outstanding contractual balance receivable of \$43,767, while the outstanding contractual balance receivable of acquired loans at December 31, 2012 totaled \$949,862, including PCI loans with an outstanding contractual balance receivable of \$41,134.

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 include home equity lines of credit (HELOC) and consumer lines of credit that are either unsecured or secured by collateral other than home equity. Other is comprised primarily of mezzanine loans and student loans.

The loan portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation's primary market area of Pennsylvania, northeastern Ohio, northern West Virginia and central Maryland. The commercial real estate portfolio also includes run-off loans in Florida, which totaled \$49,189 or 0.6% of total loans at September 30, 2013, compared to \$68,627 or 0.8% of total loans at December 31, 2012. Additionally, the total loan portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio, Tennessee and Kentucky, which equaled \$175,123 or 2.0% of total loans at September 30, 2013, compared to \$170,999 or 2.1% of total loans at December 31, 2012. Due to the relative size of the consumer finance loan portfolio, they are not segregated from other consumer loans.

As of September 30, 2013, 45.2% of the commercial real estate loans were owner-occupied, while the remaining 54.8% were non-owner-occupied, compared to 46.5% and 53.5%, respectively, as of December 31, 2012. As of September 30, 2013 and December 31, 2012, the Corporation had commercial construction loans of \$215,433 and \$190,206, respectively, representing 2.4% and 2.3% of total loans, respectively.

*ASC 310-30 Loans*

All loans acquired in the ANNB and Parkvale acquisitions, except for revolving loans, are accounted for in accordance with ASC 310-30. Revolving loans are accounted for under ASC 310-20. The Corporation's allowance for loan losses for acquired loans reflects only those losses incurred after acquisition.

**Table of Contents**

The following table reflects amounts at acquisition for all purchased loans subject to ASC310-30 (impaired and non-impaired) acquired from ANNB in 2013 and Parkvale in 2012:

	<b>Acquired Impaired Loans</b>	<b>Acquired Performing Loans</b>	<b>Total</b>
<b>Acquired from ANNB in 2013</b>			
Contractually required cash flows at acquisition	\$ 12,200	\$ 270,197	\$ 282,397
Non-accretable difference (expected losses and foregone interest)	(7,829)	(13,705)	(21,534)
Cash flows expected to be collected at acquisition	4,371	256,492	260,863
Accretable yield	(523)	(41,207)	(41,730)
Basis in acquired loans at acquisition	\$ 3,848	\$ 215,285	\$ 219,133
<b>Acquired from Parkvale in 2012</b>			
Contractually required cash flows at acquisition	\$ 12,224	\$ 1,327,342	\$ 1,339,566
Non-accretable difference (expected losses and foregone interest)	(6,070)	(214,541)	(220,611)
Cash flows expected to be collected at acquisition	6,154	1,112,801	1,118,955
Accretable yield	(589)	(293,594)	(294,183)
Basis in acquired loans at acquisition	\$ 5,565	\$ 819,207	\$ 824,772

The following table provides a summary of change in accretable yield for all acquired loans:

	<b>Acquired Impaired Loans</b>	<b>Acquired Performing Loans</b>	<b>Total</b>
<b>Nine Months Ended September 30, 2013</b>			
Balance at beginning of period	\$ 778	\$ 253,375	\$ 254,153
Acquisitions	523	41,207	41,730
Reduction due to unexpected early payoffs		(37,432)	(37,432)
Reclass from non-accretable difference	6,318	1,555	7,873
Disposals/transfers	164	(210)	(46)
Accretion	(2,250)	(27,629)	(29,879)
Balance at end of period	\$ 5,533	\$ 230,866	\$ 236,399
<b>Year Ended December 31, 2012</b>			
Balance at beginning of period	\$ 2,477	\$ 49,229	\$ 51,706

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Acquisitions	589	293,594	294,183
Reduction due to unexpected early payoffs		(57,840)	(57,840)
Reclass from non-accretable difference	3,539	10,915	14,454
Disposals/transfers	(49)	(615)	(664)
Accretion	(5,778)	(41,908)	(47,686)
Balance at end of period	\$ 778	\$ 253,375	\$ 254,153

*Purchased Credit-Impaired (PCI) Loans*

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

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

	<b>At Acquisition</b>	<b>September 30, 2013</b>
Outstanding balance	\$ 12,220	\$ 11,867
Carrying amount	3,848	3,442
Allowance for loan losses	n/a	
Impairment recognized since acquisition	n/a	
Allowance reduction recognized since acquisition	n/a	

**Table of Contents**

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

	<b>At Acquisition</b>	<b>December 31, 2012</b>
Outstanding balance	\$ 9,135	\$ 3,704
Carrying amount	5,565	2,552
Allowance for loan losses	n/a	103
Impairment recognized since acquisition	n/a	103
Allowance reduction recognized since acquisition	n/a	

Following is information about the Corporation's PCI loans:

	<b>Outstanding Balance</b>	<b>Non- Accrutable Difference</b>	<b>Expected Cash Flows</b>	<b>Accrutable Yield</b>	<b>Recorded Investment</b>
<b>For the Nine Months Ended September 30, 2013</b>					
Balance at beginning of period	\$ 41,134	\$ (23,733)	\$ 17,401	\$ (778)	\$ 16,623
Acquisitions	12,220	(7,849)	4,371	(523)	3,848
Accretion				2,250	2,250
Payments received	(3,087)		(3,087)		(3,087)
Reclass from non-accrutable difference		6,318	6,318	(6,318)	
Disposals/transfers	(8,442)	6,193	(2,249)	(164)	(2,413)
Contractual interest	1,942	(1,942)			
Balance at end of period	\$ 43,767	\$ (21,013)	\$ 22,754	\$ (5,533)	\$ 17,221
<b>For the Year Ended December 31, 2012</b>					
Balance at beginning of period	\$ 51,693	\$ (33,377)	\$ 18,316	\$ (2,477)	\$ 15,839
Acquisitions	9,135	(2,981)	6,154	(589)	5,565
Accretion				5,778	5,778
Payments received	(9,556)		(9,556)		(9,556)
Reclass from non-accrutable difference		3,539	3,539	(3,539)	
Disposals/transfers	(12,494)	11,442	(1,052)	49	(1,003)
Contractual interest	2,356	(2,356)			
Balance at end of period	\$ 41,134	\$ (23,733)	\$ 17,401	\$ (778)	\$ 16,623

The accretion in the table above includes \$440 in 2013 and \$3,539 in 2012 that primarily represents payoffs received on certain loans in excess of expected cash flows.

*Credit Quality*

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

Non-performing loans include non-accrual loans and non-performing troubled debt restructurings (TDRs). Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The Corporation places a loan on non-accrual status and discontinues interest accruals on originated loans generally when principal or interest is due and has remained unpaid for a certain number of days unless the loan is both well secured and in the process of collection. Commercial loans are placed on non-accrual at 90 days, installment loans are placed on non-accrual at 120 days and residential mortgages and consumer lines of credit are generally placed on non-accrual at 180 days. When a loan is placed on non-accrual status, all unpaid 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.

**Table of Contents**

Following is a summary of non-performing assets:

	September 30, 2013	December 31, 2012
Non-accrual loans	\$ 65,451	\$ 66,004
Troubled debt restructurings	17,252	14,876
<b>Total non-performing loans</b>	<b>82,703</b>	<b>80,880</b>
Other real estate owned (OREO)	35,144	35,257
<b>Total non-performing loans and OREO</b>	<b>117,847</b>	<b>116,137</b>
Non-performing investments	733	2,809
<b>Total non-performing assets</b>	<b>\$ 118,580</b>	<b>\$ 118,946</b>

Asset quality ratios:

Non-performing loans as a percent of total loans	0.94%	0.99%
Non-performing loans + OREO as a percent of total loans + OREO	1.33%	1.42%
Non-performing assets as a percent of total assets	0.93%	0.99%

The following tables provide an analysis of the aging of the Corporation's past due loans by class, segregated by loans originated and loans acquired:

	>90 Days					
	30-89 Days Past Due	Past Due and Still Accruing	Non- Accrual	Total Past Due	Current	Total Loans
<b>Originated loans:</b>						
<b>September 30, 2013</b>						
Commercial real estate	\$ 7,041	\$ 301	\$ 47,151	\$ 54,493	\$ 2,493,785	\$ 2,548,278
Commercial and industrial	4,068	459	8,081	12,608	1,676,859	1,689,467
Commercial leases	836		782	1,618	140,096	141,714
<b>Total commercial loans and leases</b>	<b>11,945</b>	<b>760</b>	<b>56,014</b>	<b>68,719</b>	<b>4,310,740</b>	<b>4,379,459</b>
Direct installment	9,952	2,515	4,462	16,929	1,332,875	1,349,804
Residential mortgages	12,331	1,986	3,694	18,011	651,967	669,978
Indirect installment	4,815	607	975	6,397	624,633	631,030
Consumer lines of credit	2,146	1,113	306	3,565	800,888	804,453
Other	23	37		60	52,451	52,511
	\$ 41,212	\$ 7,018	\$ 65,451	\$ 113,681	\$ 7,773,554	\$ 7,887,235
<b>December 31, 2012</b>						
Commercial real estate	\$ 5,786	\$ 533	\$ 47,895	\$ 54,214	\$ 2,394,257	\$ 2,448,471

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Commercial and industrial	7,310	456	6,017	13,783	1,541,518	1,555,301
Commercial leases	1,671		965	2,636	127,497	130,133
Total commercial loans and leases	14,767	989	54,877	70,633	4,063,272	4,133,905
Direct installment	8,834	2,717	3,342	14,893	1,093,972	1,108,865
Residential mortgages	15,821	2,365	2,891	21,077	632,749	653,826
Indirect installment	5,114	374	1,039	6,527	561,797	568,324
Consumer lines of credit	1,633	247	355	2,235	730,299	732,534
Other	36	15	3,500	3,551	36,386	39,937
	\$ 46,205	\$ 6,707	\$ 66,004	\$ 118,916	\$ 7,118,475	\$ 7,237,391



**Table of Contents**

	<b>30-89 Days Past Due</b>	<b><sup>3</sup> 90 Days Past Due and Still Accruing</b>	<b>Non-Accrual</b>	<b>Total Past Due (1)</b>	<b>Current</b>	<b>Discount</b>	<b>Total Loans</b>
<b>Acquired Loans:</b>							
<b>September 30, 2013</b>							
Commercial real estate	\$ 4,681	\$ 16,002		\$ 20,683	\$ 370,373	\$ (18,526)	\$ 372,530
Commercial and industrial	3,396	4,500		7,896	63,566	(5,694)	65,768
Commercial leases							
Total commercial loans and leases	8,077	20,502		28,579	433,939	(24,220)	438,298
Direct installment	1,147	1,023		2,170	53,785	2,780	58,735
Residential mortgages	7,272	19,002		26,274	370,609	(35,056)	361,827
Indirect installment	246	38		284	7,661	(663)	7,282
Consumer lines of credit	226	893		1,119	87,470	(5,061)	83,528
Other							
	\$ 16,968	\$ 41,458		\$ 58,426	\$ 953,464	\$ (62,220)	\$ 949,670
<b>December 31, 2012</b>							
Commercial real estate	\$ 6,829	\$ 13,597		\$ 20,426	\$ 250,116	\$ (11,967)	\$ 258,575
Commercial and industrial	1,653	138		1,791	47,351	(2,129)	47,013
Commercial leases							
Total commercial loans and leases	8,482	13,735		22,217	297,467	(14,096)	305,588
Direct installment	1,454	947		2,401	63,502	3,762	69,665
Residential mortgages	12,137	21,069		33,206	439,620	(34,424)	438,402
Indirect installment	347	56		403	14,089	(779)	13,713
Consumer lines of credit	379	778		1,157	75,800	(3,997)	72,960
Other							
	\$ 22,799	\$ 36,585		\$ 59,384	\$ 890,478	\$ (49,534)	\$ 900,328

(1) Past due information for loans acquired is based on the contractual balance outstanding at September 30, 2013 and December 31, 2012.

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

**Rating****Category****Definition**

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

The use of these internally assigned credit quality categories within the commercial loan portfolio permits management's use of migration and roll rate analysis to estimate a quantitative portion of credit risk. The Corporation's internal credit risk grading system is based on past experiences with similarly graded loans and conforms with regulatory categories. In general, loan risk ratings within each category are reviewed on an ongoing basis according to the Corporation's policy for each class of loans. Each quarter, management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the commercial loan portfolio. Loans within the Pass credit category or that migrate toward the Pass credit category generally have a lower risk of loss compared to loans that migrate toward the Substandard or Doubtful credit categories. Accordingly, management applies higher risk factors to Substandard and Doubtful credit categories.

**Table of Contents**

The following tables present a summary of the Corporation's commercial loans by credit quality category, segregated by loans originated and loans acquired:

**Commercial Loan Credit Quality Categories**

	Pass	Special Mention	Substandard	Doubtful	Total
<b>Originated Loans:</b>					
<b>September 30, 2013</b>					
Commercial real estate	\$ 2,388,404	\$ 46,750	\$ 110,342	\$ 2,782	\$ 2,548,278
Commercial and industrial	1,550,195	80,987	57,966	319	1,689,467
Commercial leases	139,966	764	984		141,714
	\$ 4,078,565	\$ 128,501	\$ 169,292	\$ 3,101	\$ 4,379,459
<b>December 31, 2012</b>					
Commercial real estate	\$ 2,282,139	\$ 57,938	\$ 106,258	\$ 2,136	\$ 2,448,471
Commercial and industrial	1,472,598	32,227	49,814	662	1,555,301
Commercial leases	126,283	243	3,607		130,133
	\$ 3,881,020	\$ 90,408	\$ 159,679	\$ 2,798	\$ 4,133,905
<b>Acquired Loans:</b>					
<b>September 30, 2013</b>					
Commercial real estate	\$ 277,806	\$ 47,663	\$ 45,673	\$ 1,388	\$ 372,530
Commercial and industrial	49,105	5,067	11,582	14	65,768
Commercial leases					
	\$ 326,911	\$ 52,730	\$ 57,255	\$ 1,402	\$ 438,298
<b>December 31, 2012</b>					
Commercial real estate	\$ 204,300	\$ 14,713	\$ 39,093	\$ 469	\$ 258,575
Commercial and industrial	39,596	3,611	3,804	2	47,013
Commercial leases					
	\$ 243,896	\$ 18,324	\$ 42,897	\$ 471	\$ 305,588

Credit quality information for acquired loans is based on the contractual balance outstanding at September 30, 2013 and December 31, 2012. The increase in acquired loans in 2013 primarily relates to the ANNB acquisition on April 6, 2013.

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



**Table of Contents**

Following is a table showing originated consumer loans by payment status:

	<b>Consumer Loan Credit Quality by Payment Status</b>		
	<b>Performing</b>	<b>Non-Performing</b>	<b>Total</b>
<b>September 30, 2013</b>			
Direct installment	\$ 1,339,139	\$ 10,665	\$ 1,349,804
Residential mortgages	656,674	13,304	669,978
Indirect installment	629,838	1,092	631,030
Consumer lines of credit	803,904	549	804,453
Other	52,511		52,511
<b>December 31, 2012</b>			
Direct installment	\$ 1,100,324	\$ 8,541	\$ 1,108,865
Residential mortgages	642,406	11,420	653,826
Indirect installment	567,192	1,132	568,324
Consumer lines of credit	731,788	746	732,534
Other	36,437	3,500	39,937

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, the Corporation does not consider loans for impairment unless a sustained period of delinquency (i.e., 90-plus days) is noted or there are subsequent events that impact repayment probability (i.e., negative financial trends, bankruptcy filings, imminent foreclosure proceedings, etc.). Impairment is evaluated in the aggregate for consumer installment loans, residential mortgages, consumer lines of credit, commercial leases and commercial loan relationships less than \$500. For commercial loan relationships greater than or equal to \$500, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using a market interest rate or at the fair value of collateral if repayment is expected solely from the collateral. Consistent with the Corporation's existing method of income recognition for loans, interest on impaired loans, except those classified as non-accrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

**Table of Contents**

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

	Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment
<b>At or For the Nine Months Ended September 30, 2013</b>				
<b><u>With no specific allowance recorded:</u></b>				
Commercial real estate	\$ 34,281	\$ 46,548	\$	\$ 34,165
Commercial and industrial	9,308	11,377		9,448
Commercial leases	782	782		729
 Total commercial loans and leases	 44,371	 58,707		 44,342
Direct installment	10,665	10,901		10,451
Residential mortgages	13,298	13,561		13,767
Indirect installment	1,092	2,491		1,169
Consumer lines of credit	549	609		631
Other				583
<b><u>With a specific allowance recorded:</u></b>				
Commercial real estate	14,300	23,748	2,782	14,379
Commercial and industrial	124	131	124	126
Commercial leases				
 Total commercial loans and leases	 14,424	 23,879	 2,906	 14,505
Direct installment				
Residential mortgages				
Indirect installment				
Consumer lines of credit				
Other				
<b><u>Total:</u></b>				
Commercial real estate	48,581	70,296	2,782	48,544
Commercial and industrial	9,432	11,508	124	9,574
Commercial leases	782	782		729
 Total commercial loans and leases	 58,795	 82,586	 2,906	 58,847
Direct installment	10,665	10,901		10,451
Residential mortgages	13,298	13,561		13,767
Indirect installment	1,092	2,491		1,169
Consumer lines of credit	549	609		631
Other				583

**Table of Contents**

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Specific Related Allowance</b>	<b>Average Recorded Investment</b>
<b>At or For the Year Ended December 31, 2012</b>				
<b><u>With no specific allowance recorded:</u></b>				
Commercial real estate	\$ 37,119	\$ 50,234	\$	\$ 36,426
Commercial and industrial	7,074	9,597		6,992
Commercial leases	965			1,053
<b>Total commercial loans and leases</b>	<b>45,158</b>	<b>59,831</b>		<b>44,471</b>
Direct installment	8,541	8,693		6,443
Residential mortgages	11,414	11,223		9,059
Indirect installment	1,132	2,381		1,133
Consumer lines of credit	746	792		591
Other	3,500	3,500		3,500
<b><u>With a specific allowance recorded:</u></b>				
Commercial real estate	12,623	21,877	2,136	14,522
Commercial and industrial	590	590	590	592
Commercial leases				
<b>Total commercial loans and leases</b>	<b>13,213</b>	<b>22,467</b>	<b>2,726</b>	<b>15,114</b>
Direct installment				
Residential mortgages				
Indirect installment				
Consumer lines of credit				
Other				
<b><u>Total:</u></b>				
Commercial real estate	49,742	72,111	2,136	50,948
Commercial and industrial	7,664	10,187	590	7,584
Commercial leases	965			1,053
<b>Total commercial loans and leases</b>	<b>58,371</b>	<b>82,298</b>	<b>2,726</b>	<b>59,585</b>
Direct installment	8,541	8,693		6,443
Residential mortgages	11,414	11,223		9,059
Indirect installment	1,132	2,381		1,133
Consumer lines of credit	746	792		591
Other	3,500	3,500		3,500

Interest income is generally no longer recognized once a loan becomes impaired.

The above tables do not include PCI loans with a recorded investment of \$17,221 at September 30, 2013 and \$16,623 at December 31, 2012. These tables do not reflect the additional allowance for loan losses relating to acquired loans in the following pools and categories: commercial real estate of \$1,443; commercial and industrial of \$1,023; direct installment of \$916; residential mortgages of \$1,039; and indirect installment of \$295, totaling \$4,716 at September 30, 2013 and commercial real estate of \$1,955; commercial and industrial of \$1,140; direct installment of \$657; residential mortgages of \$69; and indirect installment of \$359, totaling \$4,180 at December 31, 2012.

*Troubled Debt Restructurings*

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



**Table of Contents**

Following is a summary of the composition of total TDRs:

	September 30, 2013	December 31, 2012
Accruing:		
Performing	\$ 10,102	\$ 12,659
Non-performing	17,252	14,876
Non-accrual	12,185	12,385
	\$ 39,539	\$ 39,920

TDRs that are accruing and performing include loans that met the criteria for non-accrual of interest prior to restructuring for which the Corporation can reasonably estimate the timing and amount of the expected cash flows on such loans and for which the Corporation expects to fully collect the new carrying value of the loans. During the nine months ended September 30, 2013, the Corporation returned to performing status \$1,737 in restructured loans, all of which were secured by residential mortgages that have consistently met their modified obligations for more than six months. TDRs that are accruing and non-performing are comprised of 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 collectability of the remaining principal and interest is reasonably assured. Some loan modifications classified as TDRs may not ultimately result in the full collection of principal and interest, as modified, and result in potential incremental losses which are factored into the allowance for loan losses.

Excluding purchased impaired loans, commercial loans over \$500 whose terms have been modified in a TDR are generally placed on non-accrual, individually analyzed and measured for estimated impairment based on the fair value of the underlying collateral. The Corporation's allowance for loan losses included specific reserves for commercial TDRs of \$756 and \$41 at September 30, 2013 and December 31, 2012, respectively, and pooled reserves for individual loans under \$500 of \$108 and \$297 for those same periods, based on historical loss experience. Upon default, the amount of the recorded investment in the TDR in excess of the fair value of the collateral less estimated selling costs is generally considered a confirmed loss and is charged-off against the allowance for loan losses.

All other classes of loans, which are primarily secured by residential properties, whose terms have been modified in a TDR are pooled and measured for estimated impairment based on the expected net present value of the estimated future cash flows of the pool. The Corporation's allowance for loan losses included pooled reserves for these classes of loans of \$1,096 and \$1,455 at September 30, 2013 and December 31, 2012, respectively. Upon default of an individual loan, the Corporation's charge-off policy is followed accordingly for that class of loan.

**Table of Contents**

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

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate	2	\$ 212	\$ 207	7	\$ 1,252	\$ 1,031
Commercial and industrial Commercial leases						
Total commercial loans and leases	2	212	207	7	1,252	1,031
Direct installment	117	1,199	1,168	300	3,078	2,930
Residential mortgages	9	346	348	39	1,809	1,784
Indirect installment	5	20	18	20	92	84
Consumer lines of credit	1	6	6	14	207	204
Other						
	134	\$ 1,783	\$ 1,747	380	\$ 6,438	\$ 6,033

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate	13	\$ 2,183	\$ 2,245	16	\$ 2,341	\$ 2,971
Commercial and industrial Commercial leases	4	51	48	7	254	123
Total commercial loans and leases	17	2,234	2,293	23	2,595	3,094
Direct installment	50	237	228	229	1,597	1,557
Residential mortgages	15	934	996	39	2,085	2,266
Indirect installment	4	30	30	17	105	97
Consumer lines of credit	2	2	3	4	5	5
Other						
	88	\$ 3,437	\$ 3,550	312	\$ 6,387	\$ 7,019



**Table of Contents**

Following is a summary of TDRs, by class of loans, for which there was a payment default during the periods indicated, excluding loans that were either charged-off or cured by period end. Default occurs when a loan is 90 days or more past due and is within 12 months of restructuring.

	<b>Three Months Ended September 30, 2013 (1)</b>		<b>Nine Months Ended September 30, 2013 (1)</b>	
	<b>Number of Contracts</b>	<b>Recorded Investment</b>	<b>Number of Contracts</b>	<b>Recorded Investment</b>
Commercial real estate		\$	1	\$ 751
Commercial and industrial			1	15
Commercial leases				
Total commercial loans and leases			2	766
Direct installment	24	254	53	509
Residential mortgages	2	99	5	240
Indirect installment			4	37
Consumer lines of credit	1	85	1	85
Other				
	27	\$ 438	65	\$ 1,637

	<b>Three Months Ended September 30, 2012 (1)</b>		<b>Nine Months Ended September 30, 2012 (1)</b>	
	<b>Number of Contracts</b>	<b>Recorded Investment</b>	<b>Number of Contracts</b>	<b>Recorded Investment</b>
Commercial real estate		\$		\$
Commercial and industrial				
Commercial leases				
Total commercial loans and leases				
Direct installment	21	138	27	165
Residential mortgages	1	25	3	208
Indirect installment	2	6	3	8
Consumer lines of credit				
Other				
	24	\$ 169	33	\$ 381

(1) The recorded investment is as of period end.

*Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision charged to earnings. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Changes in the allowance for loan losses related to impaired loans are charged or credited to the provision for loan losses.

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

**Table of Contents**

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

Following is a summary of changes in the allowance for loan losses, by loan class:

	Balance at Beginning of Period	Charge- Offs	Recoveries	Net Charge- Offs	Provision for Loan Losses	Balance at End of Period
<b>Three Months Ended September 30, 2013</b>						
Commercial real estate	\$ 35,666	\$ (365)	\$ 80	\$ (285)	\$ (538)	\$ 34,843
Commercial and industrial	32,486	(1,529)	231	(1,298)	1,460	32,648
Commercial leases	1,756	(69)	59	(10)	21	1,767
Total commercial loans and leases	69,908	(1,963)	370	(1,593)	943	69,258
Direct installment	15,993	(2,183)	227	(1,956)	3,194	17,231
Residential mortgages	5,120	(174)	50	(124)	437	5,433
Indirect installment	5,626	(807)	188	(619)	1,120	6,127
Consumer lines of credit	6,421	(454)	60	(394)	1,052	7,079
Other	(219)	(333)		(333)	760	208
Total allowance on originated loans	102,849	(5,914)	895	(5,019)	7,506	105,336
Purchased credit-impaired loans	325				337	662
Other acquired loans	5,106	70	(559)	(489)	(563)	4,054
Total allowance on acquired loans	5,431	70	(559)	(489)	(226)	4,716
Total allowance	\$ 108,280	\$ (5,844)	\$ 336	\$ (5,508)	\$ 7,280	\$ 110,052
<b>Three Months Ended September 30, 2012</b>						
Commercial real estate	\$ 38,480	\$ (1,481)	\$ 1,375	\$ (106)	\$ (3,360)	\$ 35,014
Commercial and industrial	30,779	(3,746)	(19)	(3,765)	4,861	31,875
Commercial leases	1,674	(216)	78	(138)	214	1,750

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Total commercial loans and leases	70,933	(5,443)	1,434	(4,009)	1,715	68,639
Direct installment	14,536	(1,985)	225	(1,760)	1,929	14,705
Residential mortgages	4,259	(3)	4	1	256	4,516
Indirect installment	5,666	(688)	158	(530)	539	5,675
Consumer lines of credit	5,266	(831)	37	(794)	1,556	6,028
Other	203	(270)		(270)	229	162
Total allowance on originated loans	100,863	(9,220)	1,858	(7,362)	6,224	99,725
Purchased credit-impaired loans	784				2,205	2,989
Other acquired loans						
Total allowance on acquired loans	784				2,205	2,989
Total allowance	\$ 101,647	\$ (9,220)	\$ 1,858	\$ (7,362)	\$ 8,429	\$ 102,714

**Table of Contents**

	Balance at Beginning of Period	Charge- Offs	Recoveries	Net Charge- Offs	Provision for Loan Losses	Balance at End of Period
<b>Nine Months Ended September 30, 2013</b>						
Commercial real estate	\$ 34,810	\$ (3,067)	\$ 1,606	\$ (1,461)	\$ 1,494	\$ 34,843
Commercial and industrial	31,849	(4,262)	734	(3,528)	4,327	32,648
Commercial leases	1,744	(317)	161	(156)	179	1,767
<b>Total commercial loans and leases</b>	<b>68,403</b>	<b>(7,646)</b>	<b>2,501</b>	<b>(5,145)</b>	<b>6,000</b>	<b>69,258</b>
Direct installment	15,130	(6,824)	709	(6,115)	8,216	17,231
Residential mortgages	5,155	(733)	90	(643)	921	5,433
Indirect installment	5,449	(2,349)	576	(1,773)	2,451	6,127
Consumer lines of credit	6,057	(1,183)	209	(974)	1,996	7,079
Other		(721)		(721)	929	208
<b>Total allowance on originated loans</b>	<b>100,194</b>	<b>(19,456)</b>	<b>4,085</b>	<b>(15,371)</b>	<b>20,513</b>	<b>105,336</b>
Purchased credit-impaired loans	759	(156)		(156)	59	662
Other acquired loans	3,421	(1,199)	(320)	(1,519)	2,152	4,054
<b>Total allowance on acquired loans</b>	<b>4,180</b>	<b>(1,355)</b>	<b>(320)</b>	<b>(1,675)</b>	<b>2,211</b>	<b>4,716</b>
<b>Total allowance</b>	<b>\$ 104,374</b>	<b>\$ (20,811)</b>	<b>\$ 3,765</b>	<b>\$ (17,046)</b>	<b>\$ 22,724</b>	<b>\$ 110,052</b>
<b>Nine Months Ended September 30, 2012</b>						
Commercial real estate	\$ 43,283	\$ (4,733)	\$ 1,634	\$ (3,099)	\$ (5,170)	\$ 35,014
Commercial and industrial	25,476	(7,086)	349	(6,737)	13,136	31,875
Commercial leases	1,556	(509)	177	(332)	526	1,750
<b>Total commercial loans and leases</b>	<b>70,315</b>	<b>(12,328)</b>	<b>2,160</b>	<b>(10,168)</b>	<b>8,492</b>	<b>68,639</b>
Direct installment	14,814	(5,908)	721	(5,187)	5,078	14,705
Residential mortgages	4,437	(644)	127	(517)	596	4,516
Indirect installment	5,503	(2,128)	433	(1,695)	1,867	5,675
Consumer lines of credit	5,447	(1,585)	146	(1,439)	2,020	6,028
Other	146	(716)		(716)	732	162
<b>Total allowance on originated loans</b>	<b>100,662</b>	<b>(23,309)</b>	<b>3,587</b>	<b>(19,722)</b>	<b>18,785</b>	<b>99,725</b>
Purchased credit-impaired loans		(254)		(254)	3,243	2,989
Other acquired loans						
<b>Total allowance on acquired loans</b>		<b>(254)</b>		<b>(254)</b>	<b>3,243</b>	<b>2,989</b>
<b>Total allowance</b>	<b>\$ 100,662</b>	<b>\$ (23,563)</b>	<b>\$ 3,587</b>	<b>\$ (19,976)</b>	<b>\$ 22,028</b>	<b>\$ 102,714</b>





**Table of Contents**

Following is a summary of the individual and collective originated allowance for loan losses and corresponding loan balances by class:

	Allowance		Loans	Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	Collectively Evaluated for Impairment
<b>September 30, 2013</b>					
Commercial real estate	\$ 2,782	\$ 32,061	\$ 2,548,278	\$ 35,740	\$ 2,512,538
Commercial and industrial	124	32,524	1,689,467	5,357	1,684,110
Commercial leases		1,767	141,714		141,714
Total commercial loans and leases	2,906	66,352	4,379,459	41,097	4,338,362
Direct installment		17,231	1,349,804		1,349,804
Residential mortgages		5,433	669,978		669,978
Indirect installment		6,127	631,030		631,030
Consumer lines of credit		7,079	804,453		804,453
Other		208	52,511		52,511
	\$ 2,906	\$ 102,430	\$ 7,887,235	\$ 41,097	\$ 7,846,138

**December 31, 2012**

Commercial real estate	\$ 2,136	\$ 32,674	\$ 2,448,471	\$ 35,024	\$ 2,413,447
Commercial and industrial	590	31,259	1,555,301	1,624	1,553,677
Commercial leases		1,744	130,133		130,133
Total commercial loans and leases	2,726	65,677	4,133,905	36,648	4,097,257
Direct installment		15,130	1,108,865		1,108,865
Residential mortgages		5,155	653,826		653,826
Indirect installment		5,449	568,324		568,324
Consumer lines of credit		6,057	732,534		732,534
Other			39,937		39,937
	\$ 2,726	\$ 97,468	\$ 7,237,391	\$ 36,648	\$ 7,200,743

**BORROWINGS**

Following is a summary of short-term borrowings:

	September 30, 2013	December 31, 2012
Securities sold under repurchase agreements	\$ 834,610	\$ 807,820
Federal funds purchased	200,000	140,000

Subordinated notes	131,570	135,318
	\$ 1,166,180	\$ 1,083,138

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

Following is a summary of long-term debt:

	September 30, 2013	December 31, 2012
Federal Home Loan Bank advances	\$ 79	\$ 88
Subordinated notes	82,457	79,897
Other subordinated debt	8,691	8,850
Convertible debt	580	590
	\$ 91,807	\$ 89,425

**Table of Contents**

The Corporation's banking affiliate has available credit with the FHLB of \$3,212,358 of which \$79 was used as of September 30, 2013. These advances are secured by loans collateralized by 1-4 family mortgages and FHLB stock and are scheduled to mature in various amounts periodically through the year 2019. Effective interest rates paid on these advances range from 3.78% to 4.19% for the nine months ended September 30, 2013 and for the year ended December 31, 2012.

**JUNIOR SUBORDINATED DEBT**

The Corporation has five unconsolidated subsidiary trusts (collectively, the Trusts): F.N.B. Statutory Trust I, F.N.B. Statutory Trust II, Omega Financial Capital Trust I, Sun Bancorp Statutory Trust I and Annapolis Bancorp Statutory Trust I. One hundred percent of the common equity of each Trust is owned by the Corporation. The Trusts were formed for the purpose of issuing Corporation-obligated mandatorily redeemable capital securities (TPS) to third-party investors. The proceeds from the sale of TPS and the issuance of common equity by the Trusts were invested in junior subordinated debt securities (subordinated debt) issued by the Corporation, which are the sole assets of each Trust. Since third-party investors are the primary beneficiaries, the Trusts are not consolidated in the Corporation's financial statements. The Trusts pay dividends on the TPS at the same rate as the distributions paid by the Corporation on the junior subordinated debt held by the Trusts. Annapolis Bancorp Statutory Trust I was acquired in conjunction with the ANNB acquisition completed on April 6, 2013. Omega Financial Capital Trust I and Sun Bancorp Statutory Trust I were acquired as a result of a previous acquisition.

Distributions on the subordinated debt issued to the Trusts are recorded as interest expense by the Corporation. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The TPS are eligible for redemption, at any time, at the Corporation's discretion. The subordinated debt, net of the Corporation's investment in the Trusts, qualifies as Tier 1 capital under the Board of Governors of the Federal Reserve System (FRB) guidelines. Under recently issued capital guidelines, these TPS obligations are subject to limitations when total assets of the Corporation exceed \$15,000,000. The Corporation has entered into agreements which, when taken collectively, fully and unconditionally guarantee the obligations under the TPS subject to the terms of each of the guarantees.

During the second quarter of 2013, \$15,000 of the Corporation-issued TPS was repurchased at a discount and the related debt extinguished. This \$15,000 was opportunistically purchased at auction and represents a portion of the underlying collateral of a pooled TPS that was liquidated by the trustee. The regulatory capital ratios at September 30, 2013 reflect this \$15,000 debt extinguishment of TPS.

The following table provides information relating to the Trusts as of September 30, 2013:

	<b>Trust Preferred Securities</b>	<b>Common Securities</b>	<b>Junior Subordinated Debt</b>	<b>Stated Maturity Date</b>	<b>Interest Rate</b>	
F.N.B. Statutory Trust I	\$ 110,000	\$ 3,866	\$ 113,866	3/31/33	3.52%	Variable; LIBOR + 325 basis points (bps)
F.N.B. Statutory Trust II	21,500	665	22,165	6/15/36	1.90%	Variable; LIBOR + 165 bps
Omega Financial Capital Trust I	36,000	1,114	36,016	10/18/34	2.46%	Variable; LIBOR + 219 bps
	16,500	511	17,011	2/22/31	10.20%	Fixed

Sun Bancorp Statutory  
Trust I

Annapolis Bancorp Statutory Trust I	5,000	155	5,155	3/26/33	3.40%	Variable; LIBOR + 315 bps
--	-------	-----	-------	---------	-------	---------------------------

\$ 189,000    \$ 6,311    \$ 194,213

## DERIVATIVE INSTRUMENTS

The Corporation is exposed to certain risks arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate risk, primarily by managing the amount, source, and duration of its assets and liabilities, and through the use of derivative instruments. Interest rate swaps are the primary derivative instrument used by the Corporation for interest rate management. The Corporation also uses derivative instruments to facilitate transactions on behalf of its customers.

---

**Table of Contents***Commercial Borrower Derivatives*

The Corporation enters into interest rate swap agreements to meet the financing, interest rate and equity risk management needs of qualifying commercial loan customers. These agreements provide the customer the ability to convert from variable to fixed interest rates. The Corporation then enters into positions with a derivative counterparty in order to offset its exposure on the fixed components of the customer agreements. The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies and monitoring. The Corporation seeks to minimize counterparty credit risk by entering into transactions with only high-quality institutions. These arrangements meet the definition of derivatives, but are not designated as hedging instruments under ASC 815, *Derivatives and Hedging*. The interest rate swap agreement with the loan customer and with the counterparty is reported at fair value in other assets and other liabilities on the consolidated balance sheet with any resulting gain or loss recorded in current period earnings as other income.

*Risk Management Derivatives*

The Corporation entered into four separate interest rate derivative agreements between December 2012 and August 2013 in order to manage its net interest income by increasing the stability of the net interest income over a range of potential interest rate scenarios. Interest rate swaps are also used to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of changes in future cash flows due to interest rate changes. These agreements are designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows). The effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same line item associated with the forecasted transaction when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. Gains and losses from hedge ineffectiveness recognized in the consolidated statement of comprehensive income were not material for the three- and six- month periods ended September 30, 2013.

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

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

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

counterparty derivative portfolio, in accordance with the Corporation's accounting policy elections. The Corporation notes that key market participants take into account the existence of such arrangements that mitigate credit risk exposure in the event of default. As such, the Corporation formally elects to apply the portfolio exception in ASC 820 with respect to measuring counterparty credit risk for all of its derivative transactions subject to master netting arrangements.

At September 30, 2013, the Corporation was party to 300 swaps with customers with notional amounts totaling \$801,609 and 266 swaps with derivative counterparties with notional amounts totaling \$1,001,609.

**Table of Contents**

Derivative assets are classified in the balance sheet under other assets and derivative liabilities are classified in the balance sheet under other liabilities. The following tables present information about derivative assets and derivative liabilities that are subject to enforceable master netting agreements as well as those not subject to enforceable master netting arrangements:

	Gross Amount	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet
<b>Offsetting of Derivative Assets:</b>			
<b>September 30, 2013</b>			
Derivative assets subject to master netting arrangement:			
Interest rate contracts	\$ 2,225		\$ 2,225
Equity contracts	18		18
Derivative assets not subject to master netting arrangement:			
Interest rate contracts	35,799		35,799
Total derivative assets	\$ 38,042		\$ 38,042
<b>December 31, 2012</b>			
Derivative assets subject to master netting arrangement:			
Equity contracts	\$ 16		\$ 16
Derivative assets not subject to master netting arrangement:			
Interest rate contracts	57,992		57,992
Total derivative assets	\$ 58,008		\$ 58,008
<b>Offsetting of Derivative Liabilities:</b>			
<b>September 30, 2013</b>			
Derivative liabilities subject to master netting arrangement:			
Interest rate contracts	\$ 43,045		\$ 43,045
Derivative liabilities not subject to master netting arrangement:			
Interest rate contracts	1,409		1,409
Equity contracts	18		18
Total derivative liabilities	\$ 44,472		\$ 44,472



**December 31, 2012**

Derivative liabilities subject to master netting arrangement:

Interest rate contracts	\$ 58,134	\$ 58,134
-------------------------	-----------	-----------

Derivative liabilities not subject to master netting arrangement:

Equity contracts	16	16
------------------	----	----

Total derivative liabilities	\$ 58,150	\$ 58,150
------------------------------	-----------	-----------

**Table of Contents**

The following tables present a reconciliation of the net amounts of derivative assets and derivative liabilities presented in the balance sheet to the net amounts that would result in the event of offset:

	<b>Gross Amounts Not Offset in the Balance Sheet</b>			
	<b>Net Amount Presented in the Balance Sheet</b>	<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	<b>Net Amount</b>
<b>Derivative Assets:</b>				
<b>September 30, 2013</b>				
Counterparty B	\$ 2	\$ 2	\$	\$
Counterparty D	205	205		
Counterparty E	936	936		
Counterparty F	205	205		
Counterparty G	112	112		
Counterparty I	386	386		
Counterparty J	397		397	
	\$ 2,243	\$ 1,846	\$ 397	
<b>December 31, 2012</b>				
Counterparty E	\$ 16			\$ 16
<b>Derivative Liabilities:</b>				
<b>September 30, 2013</b>				
Counterparty A	\$ 5,528	\$ 5,528	\$	\$
Counterparty B	3,714	3,612		102
Counterparty C	1,589	1,589		
Counterparty D	10,131	10,131		
Counterparty E	6,069	6,069		
Counterparty F	25	25		
Counterparty G	5,213	5,213		
Counterparty H	2,634	125		2,509
Counterparty I	6,629	6,629		
Counterparty J	1,513		1,513	
	\$ 43,045	\$ 38,921	\$ 1,513	\$ 2,611
<b>December 31, 2012</b>				
Counterparty A	\$ 8,393	\$ 8,393		\$
Counterparty B	5,601	5,601		
Counterparty C	2,145	2,145		
Counterparty D	12,354	12,354		
Counterparty E	8,846	8,846		

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Counterparty F	353	282	71
Counterparty G	5,497	5,497	
Counterparty H	3,937	1,775	2,162
Counterparty I	11,008	11,008	
	\$ 58,134	\$ 55,901	\$ 2,233

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

	<b>Income Statement Location</b>	<b>Nine Months Ended September 30,</b>	
		<b>2013</b>	<b>2012</b>
Interest Rate Products	Other income	\$ 40	\$ 40

**Table of Contents**

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

Interest rate swap agreements generally require posting of collateral by either party under certain conditions. As of September 30, 2013, the fair value of counterparty derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk related to these agreements, was \$42,093. At September 30, 2013, the Corporation has posted collateral with derivative counterparties with a fair value of \$39,493 and cash collateral of \$1,699. Additionally, if the Corporation had breached its agreements with its derivative counterparties it would be required to settle its obligations under the agreements at the termination value and would be required to pay an additional \$3,014 in excess of amounts previously posted as collateral with the respective counterparty.

The Corporation has entered into interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans to secondary market investors. These arrangements are considered derivative instruments. The fair values of the Corporation's rate lock commitments to customers and commitments with investors at September 30, 2013 are not material.

**COMMITMENTS, CREDIT RISK AND CONTINGENCIES**

The Corporation has commitments to extend credit and standby letters of credit that involve certain elements of credit risk in excess of the amount stated in the consolidated balance sheet. The Corporation's exposure to credit loss in the event of non-performance by the customer is represented by the contractual amount of those instruments. The credit risk associated with loan commitments and standby letters of credit is essentially the same as that involved in extending loans to customers and is subject to normal credit policies. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Commitments to extend credit	\$ 2,822,545	\$ 2,600,355
Standby letters of credit	122,713	130,912

At September 30, 2013, funding of 78.3% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation that may require payment at a future date. The credit risk involved in issuing letters of credit is quantified on a quarterly basis, through the review of historical performance of the Corporation's portfolios and allocated as a liability on the Corporation's balance sheet.

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

## **Table of Contents**

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.

### *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 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. Plaintiff filed a Motion for Preliminary Approval of Class Action Settlement on July 3, 2013.

### *BCSB Bancorp, Inc., Stockholder Litigation*

On June 21, 2013, a purported stockholder of BCSB filed a derivative complaint on behalf of BCSB in the Circuit Court for Baltimore City, Maryland, captioned *Darr v. Bouffard, et al.*, at Case No. 24-C-13-004131, and naming as defendants, BCSB, its board of directors and the Corporation. The lawsuit made 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 BCSB in approving the merger and that the Corporation aided and abetted those alleged breaches. The lawsuit generally sought an injunction barring the defendants from consummating the merger transaction. Alternatively, if the companies completed the transaction before the court entered judgment, the lawsuit sought rescission of the merger or, in the alternative, rescissory damages, an accounting for all resulting damages and for all profits and any special benefits defendants obtained as a result of the alleged breaches of fiduciary duty, and an award for the costs and expenses incurred in the lawsuit, including attorneys' fees and costs. The plaintiff filed a notice to voluntarily dismiss the complaint on September 6, 2013.

### *PVF Capital Corp. Stockholder Litigation*

On July 24, 2013, a purported shareholder of PVF filed a putative class action complaint in the U.S. District Court for the Northern District of Ohio, captioned *Kugelman v. PVF Capital Corp., et al.*, Case No. 1:13-cv-01606, and naming

as defendants PVF, its board of directors and the Corporation. The plaintiff alleged that the disclosures in PVF's proxy statement were inadequate, and that the director defendants breached their fiduciary duties to PVF by approving the proposed merger and by their involvement in preparing the proxy statement. The plaintiff sought an injunction barring the defendants from completing the merger; rescission of the merger agreement to the extent already implemented or, in the alternative, an award of rescissory damages; an accounting to plaintiff for all damages caused by the defendants; and an award of the costs and expenses incurred by the plaintiff in the lawsuit, including a reasonable allowance for counsel fees and expert fees.

**Table of Contents**

On August 5, 2013, the Corporation, PVF and PVF's board of directors filed motions to dismiss the plaintiff's claims in their entirety. On September 9, 2013, the court granted the motions to dismiss and entered judgment in favor of the Corporation, PVF and PVF's board of directors.

**STOCK INCENTIVE PLANS***Restricted Stock*

The Corporation issues restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under its Incentive Compensation Plans (Plans). The grant date fair value of the restricted stock awards is equal to the price of the Corporation's common stock on the grant date. For the nine months ended September 30, 2013 and 2012, the Corporation issued 344,479 and 275,674 restricted stock awards with aggregate weighted average grant date fair values of \$3,802 and \$3,384, respectively, under these Plans. As of September 30, 2013, the Corporation had available up to 2,734,087 shares of common stock to issue under these Plans.

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

The unvested restricted stock awards are eligible to receive cash dividends or dividend equivalents which are ultimately used to purchase additional shares of stock. Any additional shares of stock received as a result of cash dividends are subject to forfeiture if the requisite service period is not completed or the specified performance criteria are not met. These awards are subject to certain accelerated vesting provisions upon retirement, death, disability or in the event of a change of control as defined in the award agreements.

Share-based compensation expense related to restricted stock awards was \$3,338 and \$2,634 for the nine months ended September 30, 2013 and 2012, the tax benefit of which was \$1,186 and \$922, respectively.

The following table summarizes certain information concerning restricted stock awards:

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	Weighted Average Grant Price	2012	Weighted Average Grant Price
	Awards		Awards	
Unvested awards outstanding at beginning of period	1,913,073	\$ 9.17	1,846,115	\$ 8.44
Granted	344,479	11.04	275,674	12.28
Net adjustment due to performance	73,835	10.60	28,181	8.31
Vested	(734,129)	7.60	(168,361)	8.06
Forfeited	(37,175)	10.40	(166,018)	8.53
Dividend reinvestment	43,934	11.66	55,349	11.38



Unvested awards outstanding at end of period	1,604,017	10.26	1,870,940	9.12
--	-----------	-------	-----------	------

The total fair value of awards vested was \$8,259 and \$2,068 for the nine months ended September 30, 2013 and 2012, respectively.

**Table of Contents**

As of September 30, 2013, there was \$5,786 of unrecognized compensation cost related to unvested restricted stock awards, including \$90 that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC 718, *Compensation - Stock Compensation*. The components of the restricted stock awards as of September 30, 2013 are as follows:

	<b>Service- Based Awards</b>	<b>Performance- Based Awards</b>	<b>Total</b>
Unvested awards	425,378	1,178,639	1,604,017
Unrecognized compensation expense	\$ 1,980	\$ 3,806	\$ 5,786
Intrinsic value	\$ 5,160	\$ 14,297	\$ 19,457
Weighted average remaining life (in years)	2.24	2.35	2.32

*Stock Options*

The Corporation did not grant stock options during the nine months ended September 30, 2013 or 2012. All outstanding stock options were granted at prices equal to the fair market value at the date of the grant, are primarily exercisable within ten years from the date of the grant and are fully vested. The Corporation issues shares of treasury stock or authorized but unissued shares to satisfy stock options exercised. Shares issued upon the exercise of stock options were 36,647 and 174,565 for the nine months ended September 30, 2013 and 2012, respectively.

The following table summarizes certain information concerning stock option awards:

	<b>Nine Months Ended September 30,</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at beginning of period	640,050	\$ 13.21	586,020	\$ 14.93
Assumed from acquisition	19,223	7.92	627,808	10.41
Exercised	(36,647)	8.90	(174,565)	8.80
Forfeited	(298,150)	15.10	(329,477)	13.74
Options outstanding and exercisable at end of period	324,476	11.65	709,786	12.99

The intrinsic value of outstanding and exercisable stock options at September 30, 2013 was \$217.

*Warrants*

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

In conjunction with the Parkvale acquisition, the warrant issued by Parkvale to the UST under the CPP has been converted into a warrant to purchase up to 819,640 shares of the Corporation's common stock. This warrant, which was recorded at its fair value on January 1, 2012, expires in 2018 and has an exercise price of \$5.81 per share.

In conjunction with the ANNB acquisition, the warrant issued by ANNB to the UST under the CPP has been converted into a warrant to purchase up to 342,564 shares of the Corporation's common stock. The warrant, which was recorded at its fair value on April 6, 2013, expires in 2019 and has an exercise price of \$3.57 per share.

**Table of Contents****RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Corporation sponsors the Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan that covered substantially all salaried employees hired prior to January 1, 2008. The RIP covers employees who satisfied minimum age and length of service requirements. During 2006, the Corporation amended the RIP such that effective January 1, 2007 benefits were earned based on the employee's compensation each year. The Corporation's funding guideline has been to make annual contributions to the RIP each year, if necessary, such that minimum funding requirements have been met. The Corporation amended the RIP on October 20, 2010 to be frozen effective December 31, 2010.

The Corporation also sponsors two supplemental non-qualified retirement plans. The ERISA Excess Retirement Plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Internal Revenue Code and the amount that would be provided under the RIP, if no limits were applied. The Basic Retirement Plan (BRP) is applicable to certain officers whom the Board of Directors designates. Officers participating in the BRP receive a benefit based on a target benefit percentage based on years of service at retirement and a designated tier as determined by the Board of Directors. When a participant retires, the basic benefit under the BRP is a monthly benefit equal to the target benefit percentage times the participant's highest average monthly cash compensation during five consecutive calendar years within the last ten calendar years of employment. This monthly benefit was reduced by the monthly benefit the participant receives from Social Security, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the three percent automatic contributions to the qualified 401(k) defined contribution plan and the ERISA Excess Lost Match Plan. The BRP was frozen as of December 31, 2008. The ERISA Excess Retirement Plan was frozen as of December 31, 2010.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Service cost	\$ 15	\$ 13	\$ 51	\$ 47
Interest cost	1,437	1,545	4,291	4,627
Expected return on plan assets	(2,271)	(2,034)	(6,811)	(5,902)
Amortization:				
Unrecognized net transition asset	(24)	(24)	(70)	(70)
Unrecognized prior service cost (credit)	2	2	6	6
Unrecognized loss	575	484	1,689	1,378
Net periodic pension benefit cost	\$ (266)	\$ (14)	\$ (844)	\$ 86

The Corporation's subsidiaries participate in a qualified 401(k) defined contribution plan under which employees may contribute a percentage of their salary. Employees are eligible to participate upon their first day of employment. Under this plan, the Corporation matches 100% of the first four percent that the employee defers. Additionally, substantially all employees receive an automatic contribution of three percent of compensation at the end of the year and the Corporation may make an additional contribution of up to two percent depending on the Corporation achieving its performance goals for the plan year. The Corporation's contribution expense was \$6,975 and \$6,664 for the nine months ended September 30, 2013 and 2012, respectively.

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

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

**Table of Contents**

The net periodic postretirement benefit cost includes the following components:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest cost	\$ 8	\$ 9	\$ 24	\$ 33
Amortization of unrecognized loss	2	(3)	2	3
Net periodic postretirement benefit cost	\$ 10	\$ 6	\$ 26	\$ 36

**INCOME TAXES**

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

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

At September 30, 2013, the Corporation anticipates that it will not utilize state net operating loss carryforwards and other net deferred tax assets at certain of its subsidiaries and has recorded a valuation allowance against the state deferred tax assets. The Corporation believes that, except for the portion which is covered by the valuation allowance, it is more likely than not the Corporation will realize the benefits of its deferred tax assets, net of the valuation allowance, at September 30, 2013, based on the level of historical taxable income and taxes paid in available carry-back periods.

**COMPREHENSIVE INCOME**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$ 31,634	\$ 30,743	\$ 89,365	\$ 81,455
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:	(4,894)	1,970	(16,408)	5,779

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Arising during the period, net of tax (benefit) expense of \$(2,635), \$1,061, \$(8,835) and \$3,112				
Less: reclassification adjustment for (losses) gains included in net income, net of tax (benefit) expense of \$2, \$(65), \$260 and \$247	(3)	120	(483)	(459)
Unrealized gains (losses) on derivative instruments, net of tax expense (benefit) of \$239 and \$(2,215)	443		(4,113)	
Unrealized gains associated with pension and postretirement benefits, net of tax expense of \$194, \$161, \$569 and \$461	360	299	1,057	856
Other comprehensive income (loss)	(4,094)	2,389	(19,947)	6,176
Comprehensive income	\$ 27,540	\$ 33,132	\$ 69,418	\$ 87,631

**Table of Contents**

The following table presents changes in accumulated other comprehensive income, net of tax, by component:

	<b>Unrealized Net Gains (Losses) on Securities Available for Sale</b>	<b>Non-Credit Related Loss on Debt Securities not Expected to be Sold</b>	<b>Unrealized Losses on Derivative Instruments</b>	<b>Unrecognized Pension and Postretirement Obligations</b>	<b>Total</b>
<b>Nine Months Ended September 30, 2013</b>					
Balance at beginning of period	\$ 9,269	\$ (8,039)	\$ (171)	\$ (47,283)	\$ (46,224)
Other comprehensive income (loss) before reclassifications	(17,914)	1,506	(4,113)	1,057	(19,464)
Amounts reclassified from accumulated other comprehensive income	(483)				(483)
Net current period other comprehensive income (loss)	(18,397)	1,506	(4,113)	1,057	(19,947)
Balance at end of period	\$ (9,128)	\$ (6,533)	\$ (4,284)	\$ (46,226)	\$ (66,171)

The following table presents a summary of the reclassifications out of accumulated other comprehensive income:

**Nine Months Ended September 30, 2013**

<b>Details About Accumulated Other Comprehensive Income Component</b>	<b>Amount Reclassified from Other Comprehensive Income</b>	<b>Affected Line Item in the Statement where Net Income is Presented</b>
Unrealized net gains on securities available for sale (1)	\$ (743)	Net securities gains
	(260)	Tax expense
	\$ (483)	

(1) For additional detail related to unrealized net gains on securities available for sale and related amounts reclassified from accumulated other comprehensive income see the Securities note in this Report.

**EARNINGS PER SHARE**

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



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

**Table of Contents**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 31,634	\$ 30,743	\$ 89,365	\$ 81,455
Basic weighted average common shares outstanding	144,759,887	139,228,812	142,949,134	139,074,244
Net effect of dilutive stock options, warrants, restricted stock and convertible debt	1,686,555	1,535,240	1,520,683	1,474,334
Diluted weighted average common shares outstanding	146,446,442	140,764,052	144,469,817	140,548,578
Basic earnings per share	\$ 0.22	\$ 0.22	\$ 0.63	\$ 0.59
Diluted earnings per share	\$ 0.22	\$ 0.22	\$ 0.62	\$ 0.58

For the three months ended September 30, 2013 and 2012, 17,081 and 168,227 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive. For the nine months ended September 30, 2013 and 2012, 41,779 and 156,983 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive.

**CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information:

<b>Nine Months Ended September 30</b>	<b>2013</b>	<b>2012</b>
Interest paid on deposits and other borrowings	\$ 36,340	\$ 42,227
Income taxes paid	18,700	7,250
Transfers of loans to other real estate owned	10,856	12,086
Financing of other real estate owned sold	549	701

**BUSINESS SEGMENTS**

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

The Community Banking segment provides commercial and consumer banking services. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, asset based lending, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services.

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

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

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

**Table of Contents**

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

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Three Months Ended September 30, 2013</b>						
Interest income	\$ 98,716	\$	\$ 27	\$ 9,600	\$ 1,447	\$ 109,790
Interest expense	7,552			839	2,145	10,536
Net interest income	91,164		27	8,761	(698)	99,254
Provision for loan losses	5,432			1,725	123	7,280
Non-interest income	24,365	6,916	3,222	681	(2,326)	32,858
Non-interest expense	68,091	5,850	2,799	4,724	(358)	81,106
Intangible amortization	1,938	76	101			2,115
Income tax expense (benefit)	9,552	366	128	1,145	(1,214)	9,977
Net income (loss)	30,516	624	221	1,848	(1,575)	31,634
Total assets	12,610,043	19,614	19,788	182,695	(41,861)	12,790,279
Total intangibles	725,389	11,084	10,627	1,809		748,909
<b>At or for the Three Months Ended September 30, 2012</b>						
Interest income	\$ 97,364	\$	\$ 27	\$ 8,860	\$ 1,505	\$ 107,756
Interest expense	10,912			869	2,444	14,225
Net interest income	86,452		27	7,991	(939)	93,531
Provision for loan losses	6,826			1,421	182	8,429
Non-interest income	25,048	6,006	3,602	590	(433)	34,813
Non-interest expense	61,820	4,844	2,947	4,829	400	74,840
Intangible amortization	2,056	80	106			2,242
Income tax expense (benefit)	11,456	396	204	888	(854)	12,090
Net income (loss)	29,342	686	372	1,443	(1,100)	30,743
Total assets	11,803,432	19,075	19,281	170,304	(27,201)	11,984,891
Total intangibles	693,029	11,392	11,033	1,809		717,263
<b>At or for the Nine Months Ended September 30, 2013</b>						
Interest income	\$ 289,984	\$	\$ 82	\$ 27,920	\$ 4,763	\$ 322,749
Interest expense	24,449			2,533	6,671	33,653
Net interest income	265,535		82	25,387	(1,908)	289,096
Provision for loan losses	17,283			4,930	511	22,724
Non-interest income	74,118	21,294	10,024	2,029	(4,183)	103,282
Non-interest expense	198,395	18,338	8,420	14,063	823	240,039
Intangible amortization	5,694	228	304			6,226
Income tax expense (benefit)	32,486	1,009	497	3,234	(3,202)	34,024
Net income (loss)	85,795	1,719	885	5,189	(4,223)	89,365
Total assets	12,610,043	19,614	19,788	182,695	(41,861)	12,790,279

Total intangibles	725,389	11,084	10,627	1,809	748,909
-------------------	---------	--------	--------	-------	---------

**Table of Contents**

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Nine Months Ended September 30, 2012</b>						
Interest income	\$ 293,756	\$ 4	\$ 85	\$ 25,888	\$ 4,595	\$ 324,328
Interest expense	35,130			2,736	7,529	45,395
Net interest income	258,626	4	85	23,152	(2,934)	278,933
Provision for loan losses	17,215			4,218	595	22,028
Non-interest income	72,904	17,889	10,072	1,674	(3,203)	99,336
Non-interest expense	196,510	14,587	8,658	14,016	1,574	235,345
Intangible amortization	6,334	240	318			6,892
Income tax expense (benefit)	31,882	1,117	420	2,530	(3,400)	32,549
Net income (loss)	79,589	1,949	761	4,062	(4,906)	81,455
Total assets	11,803,432	19,075	19,281	170,304	(27,201)	11,984,891
Total intangibles	693,029	11,392	11,033	1,809		717,263

**FAIR VALUE MEASUREMENTS**

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

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

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

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

**Measurement**

<b>Category</b>	<b>Definition</b>
Level 1	valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

- Level 2 valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.
- Level 3 valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

## **Table of Contents**

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies the Corporation uses for financial instruments recorded at fair value on either a recurring or non-recurring basis:

### *Securities Available For Sale*

Securities available for sale consists of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At September 30, 2013, 97% of these securities used valuation methodologies involving market-based or market-derived information, collectively Level 1 and Level 2 measurements, to measure fair value. The remaining 3% of these securities were measured using model-based techniques, with primarily unobservable (Level 3) inputs.

The Corporation closely monitors market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level 1 or Level 2; if not, they are classified as Level 3. Making this assessment requires significant judgment.

The Corporation uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of investment securities. The Corporation validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing by Corporate personnel familiar with market liquidity and other market-related conditions.

The Corporation determines the valuation of its investments in pooled TPS with the assistance of a third-party independent financial consulting firm that specializes in advisory services related to illiquid financial investments. The consulting firm provides the Corporation appropriate valuation methodology, performance assumptions, modeling techniques, discounted cash flows, discount rates using the underlying index plus 4.5-14%, and sensitivity analyses with respect to levels of defaults and deferrals necessary to produce losses.

Additionally, the Corporation utilizes the firm's expertise to reassess assumptions to reflect actual conditions. See the Securities footnote in the Notes to Consolidated Financial Statements section of this Report for information on how the Corporation reassesses assumptions to determine the valuation of its pooled TPS. Accessing the services of a financial consulting firm with a focus on financial instruments assists the Corporation in accurately valuing these complex financial instruments and facilitates informed decision-making with respect to such instruments.

The Level 3 CDOs could be subject to sensitivities in market risks that may cause the discount rates on these instruments to vary from those currently utilized to determine fair value. These discount rates vary today, but typically range between 4.5-14% over the coupon rate of the specific security. The valuations are somewhat sensitive to changes in the discount rate. For example, each 1% change in the discount rate will alter the fair value of these debt obligations by approximately \$3,000 or 7% of the total book value. Factors that could influence the discount rate include: the overall health of the economy, the current and projected health of the banking system and its impact upon banks' capital strategies, access to capital markets for the underlying debt issuers and regulatory matters. Generally, in an improving economy the health of the banking system should be improving and capital market access would be open, thus reducing market risk premiums and therefore discount rates for these instruments. Conversely, the opposite is true, a weakening economy puts pressure on the banking system and the financial health of banks. The Corporation



takes all these factors into consideration when establishing a fair value for these Level 3 obligations.

*Derivative Financial Instruments*

The Corporation determines its fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity and uses observable market based inputs, including interest rate curves and implied volatilities.

## **Table of Contents**

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

Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2013, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

### *Residential Mortgage Loans Held For Sale*

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

### *Impaired Loans*

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

The Corporation determines the value of real estate based on appraisals by licensed or certified appraisers. The value of business assets is generally based on amounts reported on the business' financial statements. Management must rely on the financial statements prepared and certified by the borrower or its accountants in determining the value of these business assets on an ongoing basis which may be subject to significant change over time. Based on the quality of information or statements provided, management may require the use of business asset appraisals and site-inspections to better value these assets. The Corporation may discount appraised and reported values based on management's historical knowledge, changes in market conditions from the time of valuation or management's knowledge of the borrower and the borrower's business. Since not all valuation inputs are observable, the Corporation classifies these non-recurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

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

### *Other Real Estate Owned*

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

information and is classified as Level 2 or Level 3.

**Table of Contents**

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

	Level 1	Level 2	Level 3	Total
<b>September 30, 2013</b>				
Assets measured at fair value				
Available for sale debt securities				
U.S. government-sponsored entities	\$	\$ 332,152	\$	\$ 332,152
Residential mortgage-backed securities				
Agency mortgage-backed securities		227,638		227,638
Agency collateralized mortgage obligations		489,047		489,047
Non-agency collateralized mortgage obligations		19	1,827	1,846
States of the U.S. and political subdivisions		17,875		17,875
Collateralized debt obligations			28,704	28,704
Other debt securities		16,128		16,128
		1,082,859	30,531	1,113,390
Available for sale equity securities				
Financial services industry	686	1,020	398	2,104
Insurance services industry	64			64
	750	1,020	398	2,168
	750	1,083,879	30,929	1,115,558
Derivative financial instruments				
Trading		37,655		37,655
Not for trading		387		387
		38,042		38,042
	\$ 750	\$ 1,121,921	\$ 30,929	\$ 1,153,600
Liabilities measured at fair value				
Derivative financial instruments				
Trading		\$ 37,495		\$ 37,495
Not for trading		6,977		6,977
		\$ 44,472		\$ 44,472

**Table of Contents**

	Level 1	Level 2	Level 3	Total
<b>December 31, 2012</b>				
Assets measured at fair value				
Available for sale debt securities				
U.S. government-sponsored entities	\$	\$ 354,457	\$	\$ 354,457
Residential mortgage-backed securities				
Agency mortgage-backed securities		275,150		275,150
Agency collateralized mortgage obligations		469,547		469,547
Non-agency collateralized mortgage obligations		24	2,705	2,729
States of the U.S. and political subdivisions		24,824		24,824
Collateralized debt obligations			22,456	22,456
Other debt securities		14,621	6,892	21,513
		1,138,623	32,053	1,170,676
Available for sale equity securities				
Financial services industry	351	1,099	512	1,962
Insurance services industry	45			45
	396	1,099	512	2,007
	396	1,139,722	32,565	1,172,683
Derivative financial instruments				
Trading		58,008		58,008
Not for trading				
		58,008		58,008
	\$ 396	\$ 1,197,730	\$ 32,565	\$ 1,230,691
Liabilities measured at fair value				
Derivative financial instruments				
Trading		\$ 58,150		\$ 58,150
Not for trading				
		\$ 58,150		\$ 58,150

During 2013, the Corporation transferred out of Level 2 and Level 3 equity securities that now trade on NASDAQ. At September 30, 2013, the securities are classified as Level 1. Additionally during 2013, the Corporation transferred out of Level 3 and into Level 2 four single name TPS. There were no transfers of assets or liabilities between the hierarchy levels for the nine months ended September 30, 2012.

**Table of Contents**

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

	<b>Pooled Trust Preferred Collateralized Debt Obligations</b>	<b>Other Debt Securities</b>	<b>Equity Securities</b>	<b>Residential Non-Agency Collateralized Mortgage Obligations</b>	<b>Total</b>
<b>Nine Months Ended September 30, 2013</b>					
Balance at beginning of period	\$ 22,456	\$ 6,892	\$ 512	\$ 2,705	\$ 32,565
Total gains (losses) realized/unrealized:					
Included in earnings		78			78
Included in other comprehensive income	4,561	21	6	(21)	4,567
Accretion included in earnings	2,311	4		11	2,326
Purchases, issuances, sales and settlements:					
Purchases					
Issuances	29				29
Sales/redemptions		(1,033)			(1,033)
Settlements	(653)			(868)	(1,521)
Transfers from Level 3		(5,962)	(120)		(6,082)
Transfers into Level 3					
Balance at end of period	\$ 28,704	\$	\$ 398	\$ 1,827	\$ 30,929
<b>Year Ended December 31, 2012</b>					
Balance at beginning of period	\$ 5,998	\$ 5,197	\$ 408	\$	\$ 11,603
Total gains (losses) realized/unrealized:					
Included in earnings					
Included in other comprehensive income	917	732	104	49	1,802
Accretion included in earnings	2,515	9		20	2,544
Purchases, issuances, sales and settlements:					
Purchases	16,569	954		4,230	21,753
Issuances	46				46
Sales/redemptions	(2,542)				(2,542)
Settlements	(1,047)			(1,594)	(2,641)
Transfers from Level 3					
Transfers into Level 3					
Balance at end of period	\$ 22,456	\$ 6,892	\$ 512	\$ 2,705	\$ 32,565

The Corporation reviews fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value at the beginning of the period in which the changes occur. See the Securities footnote in the Notes to Consolidated Financial Statements section of this Report for information relating to

significant unobservable inputs used in determining Level 3 fair values.

For the nine months ended September 30, 2013 and 2012, there were no gains or losses included in earnings attributable to the change in unrealized gains or losses relating to assets still held as of those dates.

**Table of Contents**

In accordance with GAAP, from time to time, the Corporation measures certain assets at fair value on a non-recurring basis. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write-downs of individual assets. Valuation methodologies used to measure these fair value adjustments were previously described. For assets measured at fair value on a non-recurring basis still held at the balance sheet date, the following table provides the hierarchy level and the fair value of the related assets or portfolios:

	Level 1	Level 2	Level 3	Total
<b>September 30, 2013</b>				
Impaired loans		\$ 3,880	\$ 9,242	\$ 13,122
Other real estate owned		4,751	4,634	9,385
<b>December 31, 2012</b>				
Impaired loans		\$ 14,325	\$ 3,171	\$ 17,496
Other real estate owned		5,771	13,540	19,311
<b>Investment security, held-to-maturity:</b>				
Non-agency CMO			3,636	3,636

Impaired loans measured or re-measured at fair value on a non-recurring basis during the nine months ended September 30, 2013 had a carrying amount of \$14,424 and an allocated allowance for loan losses of \$2,906 at September 30, 2013. The allocated allowance is based on fair value of \$13,122 less estimated costs to sell of \$1,604. The allowance for loan losses includes a provision applicable to the current period fair value measurements of \$771, which was included in the provision for loan losses for the nine months ended September 30, 2013.

OREO with a carrying amount of \$10,738 was written down to \$8,245 (fair value of \$9,385 less estimated costs to sell of \$1,140), resulting in a loss of \$2,493, which was included in earnings for the nine months ended September 30, 2013.

The investment security held-to-maturity as of December 31, 2012 represented a non-agency CMO where OTTI had been identified and the investment had been adjusted to fair value. This security was sold during the first quarter of 2013.

*Fair Value of Financial Instruments*

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

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

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

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



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

*Bank Owned Life Insurance.* The Corporation owns general account, separate account and hybrid account bank owned life insurance (BOLI). The fair value of the general account BOLI is based on the insurance contract cash surrender value. The separate account BOLI has a stable value protection (SVP) component that mitigates the impact of market value fluctuations of the underlying account assets. The SVP component guarantees the book value, which is the insurance contract cash surrender value. The hybrid account BOLI also has a guaranteed book value, except it does not require a stable value protection component. Instead, the insurance carrier incurs the investment return risk, which is imbedded in their fee structure.

---

**Table of Contents**

If the Corporation's separate account and hybrid account BOLI book value exceeds the market value of the underlying securities, then the fair value of the separate account and hybrid account BOLI is the cash surrender value. If the Corporation's separate account and hybrid account BOLI book value is less than the market value of the underlying securities, then the fair value of the separate account and hybrid account BOLI is the quoted market price of the underlying securities.

*Derivative Assets and Liabilities.* The Corporation determines its fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity and uses observable market based inputs, including interest rate curves and implied volatilities.

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

Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2013, the Corporation has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Corporation has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

*Deposits.* The estimated fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date because of the customer's ability to withdraw funds immediately. The fair value of fixed-maturity deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

*Short-Term Borrowings.* The carrying amounts for short-term borrowings approximate fair value for amounts that mature in 90 days or less. The fair value of subordinated notes is estimated by discounting future cash flows using rates currently offered.

*Long-Term and Junior Subordinated Debt.* The fair value of long-term and junior subordinated debt is estimated by discounting future cash flows based on the market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

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

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



**Table of Contents**

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

	Carrying Amount	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
<b>September 30, 2013</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 283,509	\$ 283,509	\$ 283,509	\$	\$
Securities available for sale	1,115,558	1,115,558	750	1,083,879	30,929
Securities held to maturity	1,180,992	1,181,652		1,174,282	7,370
Net loans, including loans held for sale	8,734,958	8,597,123			8,597,123
Bank owned life insurance	263,781	268,641	268,641		
Derivative assets	38,042	38,042		38,042	
Accrued interest receivable	33,025	33,025	33,025		
<b>Financial Liabilities</b>					
Deposits	9,723,371	9,736,492	7,375,322	2,361,170	
Short-term borrowings	1,166,180	1,166,180	1,166,180		
Long-term debt	91,807	94,670			94,670
Junior subordinated debt	194,213	190,150			190,150
Derivative liabilities	44,472	44,472		44,472	
Accrued interest payable	6,368	6,368	6,368		
<b>December 31, 2012</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 239,044	\$ 239,044	\$ 239,044	\$	\$
Securities available for sale	1,172,683	1,172,683	396	1,139,722	32,565
Securities held to maturity	1,106,563	1,143,213		1,128,524	14,689
Net loans, including loans held for sale	8,061,096	7,996,554			7,966,554
Bank owned life insurance	246,088	257,060	257,060		
Derivative assets	58,008	58,008		58,008	
Accrued interest receivable	30,210	30,210	30,210		
<b>Financial Liabilities</b>					
Deposits	9,082,174	9,117,757	6,546,316	2,571,441	
Short-term borrowings	1,083,138	1,083,138	1,083,138		
Long-term debt	89,425	92,329			92,329
Junior subordinated debt	204,019	172,246			172,246
Derivative liabilities	58,150	58,150		58,150	
Accrued interest payable	9,054	9,054	9,054		

---

**Table of Contents**

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

Management's Discussion and Analysis represents an overview of the consolidated results of operations and financial condition of the Corporation and highlights material changes to the financial condition and results of operations at and for the three-month and nine-month periods ended September 30, 2013. This Discussion and Analysis should be read in conjunction with the consolidated financial statements and notes thereto contained herein and the Corporation's consolidated financial statements and notes thereto and Management's Discussion and Analysis included in its 2012 Annual Report on Form 10-K filed with the SEC on February 28, 2013. The Corporation's results of operations for the nine months ended September 30, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013.

**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, project, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time.

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

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

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

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

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

Actions by the 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.

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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on the Corporation, remains uncertain.

The impact on fee income opportunities resulting from the limit imposed under the Durbin Amendment of the Dodd-Frank Act on the maximum permissible interchange fee that banks may collect from merchants for debit card transactions.

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.

## **Table of Contents**

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

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

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

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

## **CRITICAL ACCOUNTING POLICIES**

A description of the Corporation's critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Corporation's 2012 Annual Report on Form 10-K filed with the SEC on February 28, 2013 under the heading Application of Critical Accounting Policies. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since the year ended December 31, 2012.

## **OVERVIEW**

The Corporation, headquartered in Hermitage, Pennsylvania, is a regional diversified financial services company operating in six states and three major metropolitan areas, including Pittsburgh, Pennsylvania; Baltimore, Maryland and Cleveland, Ohio. The Corporation has more than 250 banking offices throughout Pennsylvania, Ohio, West Virginia and Maryland. The Corporation provides a full range of commercial banking, consumer banking and wealth management solutions through its subsidiary network. Commercial banking solutions include corporate banking, small business banking, investment real estate financing, asset based lending, capital markets and lease financing. Consumer banking products and services include deposit products, mortgage lending, consumer lending and a complete suite of mobile and online banking services. Wealth management services include asset management, private banking and insurance. The Corporation also has more than 70 consumer finance offices in Pennsylvania, Ohio, Kentucky and Tennessee.



Table of Contents**RESULTS OF OPERATIONS*****Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012***

Net income for the three months ended September 30, 2013 was \$31.6 million or \$0.22 per diluted share, compared to net income for the three months ended September 30, 2012 of \$30.7 million or \$0.22 per diluted share. For the three months ended September 30, 2013, the Corporation's return on average equity was 8.50% and its return on average assets was 0.99%, compared to 8.83% and 1.03%, respectively, for the three months ended September 30, 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 facilitate comparisons with the performance of the Corporation's peers. The non-GAAP financial measures used by the Corporation may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Corporation's reported results prepared in accordance with GAAP. The following tables summarize the Corporation's non-GAAP financial measures for the periods indicated derived from amounts reported in the Corporation's financial statements (dollars in thousands):

	<b>Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b><u>Return on average tangible equity:</u></b>		
Net income (annualized)	\$ 125,505	\$ 122,304
Amortization of intangibles, net of tax (annualized)	5,455	5,798
	\$ 130,960	\$ 128,102
Average total stockholders' equity	\$ 1,475,751	\$ 1,385,282
Less: Average intangibles	(748,592)	(714,501)
	\$ 727,159	\$ 670,781
Return on average tangible equity	18.01%	19.10%
<b><u>Return on average tangible assets:</u></b>		
Net income (annualized)	\$ 125,505	\$ 122,304
Amortization of intangibles, net of tax (annualized)	5,455	5,798
	\$ 130,960	\$ 128,102

Edgar Filing: FNB CORP/FL/ - Form 10-Q

Average total assets	\$ 12,615,338	\$ 11,842,204
Less: Average intangibles	(748,592)	(714,501)
	\$ 11,866,746	\$ 11,127,703
Return on average tangible assets	1.10%	1.15%

**Table of Contents**

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):

	<b>Three Months Ended September 30,</b>					
	<b>2013</b>			<b>2012</b>		
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Yield/ Rate</b>	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Yield/ Rate</b>
<b>Assets</b>						
Interest earning assets:						
Interest bearing deposits with banks	\$ 30,224	\$ 13	0.17%	\$ 86,501	\$ 47	0.21%
Taxable investment securities (1)	2,117,849	10,889	2.01	2,067,146	11,471	2.17
Non-taxable investment securities (2)	157,624	2,122	5.39	185,614	2,581	5.56
Residential mortgage loans held for sale	12,060	134	4.45	19,503	215	4.42
Loans (2) (3)	8,730,010	98,413	4.48	7,908,671	95,294	4.80
Total interest earning assets (2)	11,047,767	111,571	4.01	10,267,435	109,608	4.25
Cash and due from banks	185,419			182,356		
Allowance for loan losses	(110,463)			(103,757)		
Premises and equipment	147,804			146,313		
Other assets	1,344,811			1,349,857		
<b>Total Assets</b>	<b>\$ 12,615,338</b>			<b>\$ 11,842,204</b>		
<b>Liabilities</b>						
Interest-bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 3,841,619	1,391	0.14	\$ 3,489,658	1,764	0.20
Savings	1,387,869	162	0.05	1,210,670	252	0.08
Certificates and other time	2,391,828	5,342	0.89	2,652,713	8,189	1.23
Customer repurchase agreements	748,249	419	0.22	803,492	575	0.28
Other short-term borrowings	318,024	703	0.86	159,843	607	1.49
Long-term debt	91,659	719	3.11	90,869	860	3.76
Junior subordinated debt	194,206	1,800	3.68	203,999	1,978	3.86
Total interest-bearing liabilities (2)	8,973,454	10,536	0.47	8,611,244	14,225	0.66
Non-interest bearing demand	2,033,370			1,677,578		
Other liabilities	132,763			168,100		
<b>Total Liabilities</b>	<b>11,139,587</b>			<b>10,456,922</b>		
<b>Stockholders equity</b>	<b>1,475,751</b>			<b>1,385,282</b>		

<b>Total Liabilities and Stockholders Equity</b>	\$ 12,615,338	\$ 11,842,204
Excess of interest earning assets over interest-bearing liabilities	\$ 2,074,313	\$ 1,656,191
Fully tax-equivalent net interest income	101,035	95,383
Tax-equivalent adjustment	(1,781)	(1,852)
Net interest income	\$ 99,254	\$ 93,531
Net interest spread	3.55%	3.60%
Net interest margin (2)	3.64%	3.70%

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

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

Net interest income, which is the Corporation's principal source of revenue, is the difference between interest income from earning assets (loans, securities, interest bearing deposits with banks and federal funds sold) and interest expense paid on liabilities (deposits, customer repurchase agreements and short- and long-term borrowings). For the three months ended September 30, 2013, net interest income, which comprised 75.1% of net revenue (net interest income plus non-interest income) compared to 72.9% for the same period in 2012, 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 \$5.7 million or 5.9% from \$95.4 million for the third quarter of 2012 to \$101.0 million for the third quarter of 2013. Average earning assets increased \$780.3 million or 7.6% and average interest bearing liabilities increased \$362.2 million or 4.2% from 2012 due to the acquisition of ANNB, combined with organic growth in loans and deposits and customer repurchase agreements. The Corporation's net interest margin was 3.64% for the third quarter of 2013, compared to 3.70% for the same period of 2012, as loan yields declined faster than deposit rates primarily as a result of the current low interest rate environment. Additionally, 5 basis points of the narrowing of the net interest margin was attributable to the benefit of higher accretable yield in the third quarter of 2012. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest earning assets and interest-bearing liabilities and changes in the rates for the three months ended September 30, 2013 compared to the three months ended September 30, 2012 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ (26)	\$ (8)	\$ (34)
Securities	(953)	(88)	(1,041)
Residential mortgage loans held for sale	(83)	2	(81)
Loans	10,479	(7,360)	3,119
	9,417	(7,454)	1,963
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	245	(618)	(373)
Savings	33	(123)	(90)
Certificates and other time	(736)	(2,111)	(2,847)
Customer repurchase agreements	(37)	(119)	(156)
Other short-term borrowings	87	9	96
Long-term debt	8	(149)	(141)
Junior subordinated debt	(90)	(88)	(178)
	(490)	(3,199)	(3,689)

Net Change	\$ 9,907	\$ (4,255)	\$ 5,652
------------	----------	------------	----------

- (1) The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the net size of the rate and volume changes.
- (2) Interest income amounts are reflected on an FTE basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income, on an FTE basis, of \$111.6 million for the third quarter of 2013 increased by \$2.0 million or 1.8% from 2012, primarily due to increased earning assets, partially offset by lower yields. During the third quarter of 2012, the Corporation recognized \$1.4 million in accretable yield as a result of better than expected cash flows on acquired portfolios. The increase in earning assets was primarily driven by an \$821.3 million or 10.4% increase in average loans, which included organic growth of \$562.4 million or 7.1% and \$258.9 million acquired from ANNB. The yield on earning assets decreased 24 basis points from the third quarter of 2012 to 4.01% for the third quarter of 2013, reflecting the decreases in market interest rates and competitive pressure and the above-mentioned changes in accretable yield.

---

**Table of Contents**

Interest expense of \$10.5 million for the third quarter of 2013 decreased \$3.7 million or 25.9% from the same period of 2012 due to lower rates paid, partially offset by growth in interest-bearing liabilities. The rate paid on interest-bearing liabilities decreased 19 basis points to 0.47% for the third quarter of 2013, compared to 0.66% for the third quarter of 2012, reflecting changes in interest rates and a favorable shift in deposit mix to lower-cost transaction deposits and customer repurchase agreements. The growth in average interest-bearing liabilities was primarily attributable to growth in deposits and customer repurchase agreements, which increased by \$568.8 million or 5.8% and included organic growth of \$210.5 million or 2.1% for the third quarter of 2013 compared to the third quarter of 2012 and \$358.3 million acquired from ANNB.

*Provision for Loan Losses*

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

The provision for loan losses of \$7.3 million during the third quarter of 2013 decreased \$1.1 million from the same period of 2012, primarily due to a decrease of \$2.4 million in the provision for the acquired portfolio, partially offset by an increase of \$1.3 million in the provision for the originated portfolio. During the third quarter of 2013, net charge-offs were \$5.5 million, or 0.25% (annualized) of average loans, compared to \$7.4 million, or 0.37% (annualized) of average loans, for the same period of 2012, reflecting consistent, solid performance in the Corporation's loan portfolio. The ratio of the allowance for loan losses to total loans equaled 1.25% and 1.29% at September 30, 2013 and 2012, respectively, which reflects the Corporation's overall favorable credit quality performance along with the addition of loans acquired in the ANNB acquisition without a corresponding allowance for loan losses. 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 \$32.9 million for the third quarter of 2013 decreased \$2.0 million or 5.6% from the same period of 2012. The variances in the individual non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$16.5 million for the third quarter of 2013 decreased \$1.2 million or 6.5% from the same period of 2012, primarily due to a decrease of \$2.2 million in interchange fees as the Corporation became subject to the new rules regarding debit card interchange fees imposed by the Durbin Amendment of the Dodd-Frank Act effective July 1, 2013. Overdraft fees and other service charges increased \$0.3 million and \$0.7 million, respectively, over this same period reflecting the impact of organic growth and the expanded customer base due to the ANNB acquisition. For information relating to the impact of the new regulations on the Corporation's income from interchange fees, refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act section of this Management's Discussion and Analysis.

Insurance commissions and fees of \$4.1 million for the three months ended September 30, 2013 decreased \$0.5 million or 10.7% from the same period of 2012, reflecting lower commissions.

Securities commissions of \$2.6 million for the third quarter of 2013 increased \$0.5 million or 22.5% from the same period of 2012 primarily due to positive results from new initiatives generating new customer relationships, combined with increased volume and improved market conditions.

Trust fees of \$4.2 million for the three months ended September 30, 2013 increased \$.04 million or 10.4% from the same period of 2012, primarily due to additions to the sales team, enhanced sales management processes, including scorecard implementation, as well as improved market conditions. The market value of assets under management increased \$271.3 million or 10.1% to \$3.0 billion over the same period in 2012 as a result of organic growth and improved market conditions.



---

**Table of Contents**

Gain on sale of residential mortgage loans of \$0.9 million for the third quarter of 2013 decreased \$0.3 million or 23.5% from the same period of 2012 due to lower origination volume resulting from a combination of market conditions and changes in interest rates. For the third quarter of 2013, the Corporation sold \$62.3 million of residential mortgage loans, compared to \$71.0 million for the same period of 2012, as part of its ongoing strategy of generally selling longer term fixed-rate residential mortgage loans.

Other non-interest income of \$3.0 million for the third quarter of 2013 decreased \$1.1 million or 26.2% from the same period of 2012, primarily due a \$1.4 million gain on the sale of the former headquarters building of a previously acquired bank recognized during the third quarter of 2012. Additionally, during the third quarter of 2013, the Corporation recorded a loss of \$0.3 million related to its equity investment in a small business investment company and recorded \$0.4 million less in fees earned through its commercial loan interest rate swap program compared to the same quarter of 2012. The swap fees were impacted by a lower interest rate environment combined with the impact of the Dodd-Frank Act that restricts the eligibility of smaller commercial customers. Partially offsetting these decreases in other non-interest income is \$0.9 million in life insurance proceeds recorded during the third quarter of 2013.

*Non-Interest Expense*

Total non-interest expense of \$83.2 million for the third quarter of 2013 increased \$6.1 million or 8.0% from the same period of 2012. The variances in the individual non-interest expense items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the branch offices and operations acquired from ANNB.

Salaries and employee benefits of \$45.2 million for the three months ended September 30, 2013 increased \$3.6 million or 8.6% from the same period of 2012. The increase primarily relates to the ANNB acquisition, combined with new hires, merit increases and higher medical insurance costs in the third quarter of 2013, compared to the third quarter of 2012.

Occupancy and equipment expense of \$12.5 million for the third quarter of 2013 increased \$1.0 million or 8.5% from the same period of 2012, primarily resulting from the ANNB acquisition, combined with an increase in equipment depreciation expense due to upgrades to incorporate new technology, primarily relating to online and mobile banking upgrades.

Amortization of intangibles expense of \$2.1 million for the third quarter of 2013 decreased \$0.1 million or 5.7% from the same period of 2012 due to lower amortization expense on some intangibles acquired in 2008 and 2012 resulting from accelerated amortization methods consistent with prior practices.

Outside services expense of \$7.6 million for the three months ended September 30, 2013 increased \$0.5 million or 7.3% from the same period of 2012, primarily resulting from the ANNB acquisition and costs related to compliance with new regulations, as the Corporation recognized increases of \$0.7 million related to consulting fees, \$0.1 million related to audits and exams and \$0.2 million related to other outside services. These increases were partially offset by decreases of \$0.4 million in licenses fees and dues and \$0.2 million in legal expenses.

Federal Deposit Insurance Corporation (FDIC) insurance of \$3.2 million for the third quarter of 2013 increased \$1.1 million or 56.9% from the same period of 2012 primarily due to revised assessment methodologies, combined with an increased asset base resulting from the acquisition of ANNB and a higher assessment rate due to FNBPA exceeding \$10.0 billion in total assets.

The Corporation recorded \$0.9 million in merger-related costs associated with the ANNB and pending PVF and BCSB acquisitions during the third quarter of 2013. Merger-related costs recorded during the same period of 2012 in conjunction with the Parkvale acquisition were \$0.1 million.

Other non-interest expense decreased \$0.8 million to \$11.8 million for the third quarter of 2013 from \$12.5 million for the third quarter of 2012, primarily resulting from a decrease of \$0.7 million in state capital stock tax due to utilizing state tax credits and a decrease of \$0.5 million in OREO expenses due to lower costs associated with the Corporation's Florida commercial real estate loan portfolio. These decreases were partially offset by an increase of \$0.4 million in marketing expense primarily due to the ANNB acquisition.

**Table of Contents***Income Taxes*

The Corporation's income tax expense of \$10.0 million for the third quarter of 2013 decreased \$2.1 million or 17.5% from the same period of 2012. The effective tax rate of 24.0% for the third quarter of 2013 decreased from 28.2% for the same period of 2012, reflecting the impact of lower pre-tax income combined with the benefit of tax credits. Both periods' tax rates are lower than the 35% 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.

***Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012***

Net income for the nine months ended September 30, 2013 was \$89.4 million or \$0.62 per diluted share, compared to net income for the nine months ended September 30, 2012 of \$81.5 million or \$0.58 per diluted share. For the nine months ended September 30, 2013, the Corporation's return on average equity was 8.22% and its return on average assets was 0.97%, compared to 7.95% and 0.93%, respectively, for the nine months ended September 30, 2012.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b><u>Return on average tangible equity:</u></b>		
Net income (annualized)	\$ 119,480	\$ 108,805
Amortization of intangibles, net of tax (annualized)	5,411	5,984
	\$ 124,891	\$ 114,789
Average total stockholders' equity	\$ 1,453,746	\$ 1,368,457
Less: Average intangibles	(735,638)	(717,390)
	\$ 718,108	\$ 651,067
Return on average tangible equity	17.39%	17.63%
<b><u>Return on average tangible assets:</u></b>		
Net income (annualized)	\$ 119,480	\$ 108,805
Amortization of intangibles, net of tax (annualized)	5,411	5,984
	\$ 124,891	\$ 114,789
Average total assets	\$ 12,365,612	\$ 11,713,834
Less: Average intangibles	(735,638)	(717,390)

	\$ 11,629,974	\$ 10,996,444
Return on average tangible assets	1.07%	1.04%

**Table of Contents**

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):

	Nine Months Ended September 30,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
<b>Assets</b>						
Interest earning assets:						
Interest bearing deposits with banks	\$ 33,199	\$ 45	0.18%	\$ 87,277	\$ 142	0.22%
Taxable investment securities (1)	2,112,382	32,170	1.98	2,016,128	36,344	2.35
Non-taxable investment securities (2)	163,045	6,682	5.46	185,000	7,798	5.62
Residential mortgage loans held for sale	21,696	617	3.79	15,872	532	4.47
Loans (2) (3)	8,474,135	288,500	4.55	7,830,356	285,096	4.86
Total interest earning assets (2)	10,804,457	328,014	4.06	10,134,633	329,912	4.35
Cash and due from banks	178,154			182,946		
Allowance for loan losses	(108,173)			(103,299)		
Premises and equipment	144,212			147,447		
Other assets	1,346,962			1,352,107		
<b>Total Assets</b>	<b>\$ 12,365,612</b>			<b>\$ 11,713,834</b>		
<b>Liabilities</b>						
Interest-bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 3,774,211	4,326	0.15	\$ 3,470,249	5,802	0.22
Savings	1,339,723	491	0.05	1,189,187	871	0.10
Certificates and other time	2,448,634	17,686	0.97	2,729,663	26,103	1.28
Customer repurchase agreements	769,997	1,340	0.23	766,857	1,903	0.33
Other short-term borrowings	250,846	1,964	1.03	159,774	2,058	1.69
Long-term debt	92,024	2,268	3.30	91,221	2,702	3.96
Junior subordinated debt	201,575	5,578	3.70	203,290	5,956	3.91
Total interest-bearing liabilities (2)	8,877,010	33,653	0.51	8,610,241	45,395	0.70
Non-interest bearing demand	1,894,206			1,572,808		
Other liabilities	140,650			162,328		
<b>Total Liabilities</b>	<b>10,911,866</b>			<b>10,345,377</b>		
<b>Stockholders equity</b>	<b>1,453,746</b>			<b>1,368,457</b>		

<b>Total Liabilities and Stockholders Equity</b>	\$ 12,365,612	\$ 11,713,834
Excess of interest earning assets over interest-bearing liabilities	\$ 1,927,447	\$ 1,524,392
Fully tax-equivalent net interest income	294,361	284,517
Tax-equivalent adjustment	(5,265)	(5,584)
Net interest income	\$ 289,096	\$ 278,933
Net interest spread	3.55%	3.64%
Net interest margin (2)	3.64%	3.75%

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

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

For the nine months ended September 30, 2013, net interest income, which comprised 73.7% of net revenue, unchanged from the same period in 2012, 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 \$5.7 million or 3.5% from \$284.5 million for the first nine months of 2012 to \$294.4 million for the first nine months of 2013. Average earning assets increased \$669.8 million or 6.6% and average interest-bearing liabilities increased \$266.8 million or 3.1% from 2012 due to the acquisition of ANNB, combined with organic growth in loans and deposits and customer repurchase agreements. The Corporation's net interest margin was 3.64% for the first nine months of 2013 compared to 3.75% for the same period of 2012 as loan yields declined faster than deposit rates, primarily as a result of the current low interest rate environment. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest-bearing liabilities, yields and cost of funds are set forth in the preceding table.

The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest earning assets and interest-bearing liabilities and changes in the rates for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ (77)	\$ (20)	\$ (97)
Securities	(2,259)	(3,031)	(5,290)
Residential mortgage loans held for sale	174	(89)	85
Loans	22,888	(19,484)	3,404
	20,726	(22,624)	(1,898)
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	665	(2,141)	(1,476)
Savings	99	(479)	(380)
Certificates and other time	(2,484)	(5,933)	(8,417)
Customer repurchase agreements	8	(571)	(563)
Other short-term borrowings	58	(152)	(94)
Long-term debt	23	(457)	(434)
Junior subordinated debt	(51)	(327)	(378)
	(1,682)	(10,060)	(11,742)
<b>Net Change</b>	<b>\$ 22,408</b>	<b>\$ (12,564)</b>	<b>\$ 9,844</b>

- (1) The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the net size of the rate and volume changes.
- (2) Interest income amounts are reflected on an FTE basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income, on an FTE basis, of \$328.0 million for the first nine months of 2013 decreased by \$1.9 million or 0.6% from 2012, primarily due to lower yields, partially offset by increased earning assets. Additionally, during the first nine months of 2013, the Corporation recognized \$1.8 million in accretable yield as a result of better than expected cash flows on acquired portfolios compared to original estimates, which compares to \$3.3 million for the same period of 2012. The increase in earning assets was primarily driven by a \$643.8 million or 8.2% increase in average loans, including \$476.8 million or 6.1% of organic growth and \$166.7 million in loans added in the ANNB acquisition. The yield on earning assets decreased 29 basis points from the first nine months of 2012 to 4.06% for the same period of 2013, reflecting the decreases in market interest rates and competitive pressure and the above-mentioned changes in accretable yield.



---

**Table of Contents**

Interest expense of \$33.7 million for the first nine months of 2013 decreased \$11.7 million or 25.9% from the same period of 2012 due to lower rates paid, partially offset by growth in interest-bearing liabilities. The rate paid on interest-bearing liabilities decreased 19 basis points to 0.51% during the first nine months of 2013, compared to the first nine months of 2012, reflecting changes in interest rates and a favorable shift in deposit mix to lower-cost transaction deposits and customer repurchase agreements. The growth in average interest-bearing liabilities was primarily attributable to growth in deposits and customer repurchase agreements, which increased by \$498.0 million or 5.1% for the first nine months of 2013 compared to the same period of 2012, including \$267.0 million or 2.7% of organic growth and \$231.0 million added in the ANNB acquisition.

*Provision for Loan Losses*

The provision for loan losses of \$22.7 million during the first nine months of 2013 increased \$0.7 million from the same period of 2012, primarily due to an increase of \$1.7 million in the provision for the originated portfolio, partially offset by an decrease of \$1.0 million in the provision for the acquired portfolio. During the first nine months of 2013, net charge-offs were \$17.0 million, or 0.27% (annualized) of average loans, compared to \$20.0 million, or 0.34% (annualized) of average loans, for the same period of 2012, reflecting consistent, solid performance in the Corporation's loan portfolio. The ratio of the allowance for loan losses to total loans equaled 1.25% and 1.29% at September 30, 2013 and 2012, respectively, which reflects the Corporation's overall favorable credit quality performance along with the addition of loans acquired in the ANNB acquisition without a corresponding allowance for loan losses. 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 \$103.3 million for the first nine months of 2013 increased \$3.9 million or 4.0% from the same period of 2012. The variances in the individual non-interest income items are further explained in the following paragraphs.

Service charges on loans and deposits of \$51.7 million for the first nine months of 2013 decreased \$0.7 million or 1.4% from the same period of 2012, primarily due to a decrease of \$2.2 million in interchange fees as the Corporation became subject to the new rules regarding debit card interchange fees imposed by the Durbin Amendment of the Dodd-Frank Act effective July 1, 2013. Additionally, overdraft fees decreased \$0.2 million over this same period. Partially offsetting these decreases, other service charges increased \$1.7 million over this same period reflecting the impact of organic growth and the expanded customer base due to the ANNB acquisition. For information relating to the impact of the new regulations on the Corporation's income from interchange fees, refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act section of this Management's Discussion and Analysis.

Insurance commissions and fees remained constant at \$12.6 million for both the nine months ended September 30, 2013 and 2012.

Securities commissions of \$8.4 million for the first nine months of 2013 increased \$2.2 million or 36.2% from the same period of 2012 primarily due to positive results from new initiatives generating new customer relationships, combined with increased volume and improved market conditions.

Trust fees of \$12.4 million for the nine months ended September 30, 2013 increased \$1.1 million or 9.4% from the same period of 2012, primarily due to additions to the sales team, enhanced sales management processes, including scorecard implementation, as well as improved market conditions. The market value of assets under management increased \$271.3 million or 10.1% to \$3.0 billion over the same period in 2012 as a result of organic growth and

improved market conditions.

Gain on sale of securities of \$0.8 million for the first nine months of 2013 increased \$0.5 million from the same period of 2012 primarily due to increased volume of securities sold.

Gain on sale of residential mortgage loans of \$2.9 million for the first nine months of 2013 increased \$0.2 million or 9.1% from the same period of 2012 due to increased origination volume. For the first nine months of 2013, the Corporation sold \$210.0 million of residential mortgage loans, compared to \$170.0 million for the same period of 2012, as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

---

**Table of Contents**

Income from BOLI of \$5.2 million for the nine months ended September 30, 2013 increased \$0.4 million or 7.3% from the same period of 2012, primarily as a result of continued management actions designed to improve performance.

Other non-interest income of \$9.3 million for the first nine months of 2013 increased \$0.2 million or 2.3% from the same period of 2012. During the first nine months of 2013, the Corporation recognized a \$1.6 million gain related to a debt extinguishment in which \$15.0 million of the Corporation- issued TPS were repurchased at a discount and the related debt extinguished. This \$15.0 million was opportunistically purchased at auction and represents a portion of the underlying collateral of a pooled TPS that was liquidated by the trustee. Additionally, during this same period, the Corporation recognized a gain of \$0.6 million relating to the successful harvesting of a mezzanine financing relationship by its merchant banking subsidiary and a \$0.3 million gain on the sale of a former branch building. During the first nine months of 2012, the Corporation recognized a \$1.4 million gain on the sale of the former headquarters building of a previously acquired bank. During this period, the Corporation also saw a decrease of \$1.2 million in fees earned through the its commercial loan interest rate swap program, which was impacted by a lower interest rate environment combined with the impact of the Dodd-Frank Act that restricts the eligibility of smaller commercial customers.

*Non-Interest Expense*

Total non-interest expense of \$246.3 million for the first nine months of 2013 increased \$4.0 million or 1.7% from the same period of 2012. The variances in the individual non-interest income items are further explained in the following paragraphs with an overriding theme of the expense increases primarily related to the branch offices and operations acquired from ANNB.

Salaries and employee benefits of \$132.3 million for the nine months ended September 30, 2013 increased \$5.0 million or 3.9% from the same period of 2012. This increase primarily relates to the ANNB acquisition, combined with new hires, merit increases and higher medical insurance costs in 2013, partially offset by the reduction of staff related to the former Parkvale headquarters and branches consolidated in 2012.

Occupancy and equipment expense of \$37.7 million for the first nine months of 2013 increased \$2.5 million or 7.0% from the same period of 2012, primarily resulting from the ANNB acquisition combined with an increase in equipment depreciation expense due to upgrades to incorporate new technology, primarily relating to online and mobile banking upgrades.

Amortization of intangibles expense of \$6.2 million for the first nine months of 2013 decreased \$0.7 million or 9.7% from the same period of 2012 due to lower amortization expense on some intangibles due to accelerated amortization methods consistent with prior practices.

Outside services expense of \$23.3 million for the nine months ended September 30, 2013 increased \$2.6 million or 12.6% from the same period of 2012, primarily resulting from the ANNB acquisition and costs related to compliance with new regulations, as the Corporation recognized increases of \$1.5 million related to consulting fees, \$0.3 million related to audits and exams and \$1.0 million related to other outside services. These increases were partially offset by decreases of \$0.3 million in licenses, fees and dues and \$0.2 million in legal expenses.

FDIC insurance of \$8.2 million for the first nine months of 2013 increased \$2.0 million or 32.8% from the same period of 2012 primarily due to revised assessment methodologies, combined with an increased asset base resulting from the acquisition of ANNB and a higher assessment rate due to FNBPA exceeding \$10.0 billion in total assets.

The Corporation recorded \$4.2 million in merger-related costs associated with the ANNB and PVF acquisitions and the pending BCSB acquisition during the first nine months of 2013. Merger-related costs recorded during the same period of 2012 in conjunction with the Parkvale acquisition were \$7.4 million.

Other non-interest expense decreased to \$34.4 million for the first nine months of 2013 from \$38.6 million for the first nine months of 2012, primarily resulting from a decrease of \$2.6 million in OREO expenses due to lower costs associated with the Corporation's Florida commercial real estate loan portfolio and a decrease of \$1.5 million in state capital stock tax due to utilizing state tax credits. Additionally, during this same period, telephone expense decreased \$0.8 million as the Corporation continues to focus on controlling expenses. Also, during the nine months ended September 30, 2012, the Corporation recognized fraud losses of \$0.7 million. These decreases were partially offset by increases of \$0.7 million in marketing expense, \$0.3 million in business development expense, \$0.3 million in loan related expense, \$0.2 million in insurance expense, primarily as a result of the ANNB acquisition.

---

**Table of Contents***Income Taxes*

The Corporation's income tax expense of \$34.0 million for the first nine months of 2013 increased \$1.5 million or 4.5% from the same period of 2012. The effective tax rate of 27.8% for the first nine months of 2013 decreased from 28.6% for the same period of 2012, reflecting the impact of higher tax credits. Both periods' tax rates are lower than the 35% 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.

**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- and long-term funds can be acquired to help fund normal business operations as well as serve as contingency funding in the event that the Corporation would be faced with a liquidity crisis.

The principal sources of the parent company's liquidity are its strong existing cash resources plus dividends it receives from its subsidiaries. These dividends may be impacted by the parent's or its subsidiaries' capital needs, statutory laws and regulations, corporate policies, contractual restrictions, profitability and other factors. Cash on hand at the parent at September 30, 2013 was \$103.3 million compared to \$114.7 million at December 31, 2012. Cash on hand decreased during 2013, as \$15.0 million of Corporation-issued TPS were repurchased at a discount by the Corporation, and the related debt extinguished. This \$15.0 million was opportunistically purchased at auction and represents a portion of the underlying collateral of a pooled TPS that was liquidated by the trustee. Management believes cash levels for the Corporation are appropriate given the current environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the Liquidity Coverage Ratio (LCR) and Months of Cash on Hand (MCH). The LCR is defined as the sum of cash on hand plus projected cash inflows over the next 12 months divided by cash outflows over the next 12 months. The LCR was 2.1 times at September 30, 2013 and 2.5 times at December 31, 2012. The internal limit 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 13.1 months at September 30, 2013 and 16.2 months at December 31, 2012. The internal limit for MCH is for the ratio to be greater than 12 months. In addition, the Corporation issues subordinated notes on a regular basis. Subordinated notes decreased \$1.2 million or 0.6% during 2013 to \$214.0 million at September 30, 2013.

The liquidity position of the Corporation continues to be strong as evidenced by its ability to generate growth in relationship-based accounts. Average transaction deposits and customer repurchase agreements grew \$138.6 million, or 7.0% annualized for the third quarter of 2013, and represent 77.7% of total deposits and customer repurchase agreements at September 30, 2013. Average total deposits and customer repurchase agreements increased \$68.9

million or 2.6% annualized for the third quarter of 2013 as solid growth in lower cost, relationship-based accounts was offset by a continued planned decline in time deposits. Time deposits declined \$69.7 million or 11.2% annualized, reflecting the lower rate offered environment. FNBPA had unused wholesale credit availability of \$4.7 billion or 37.2% of bank assets at September 30, 2013 and \$4.0 billion or 34.1% of bank assets at December 31, 2012. These sources include the availability to borrow from the FHLB, the FRB, correspondent bank lines and access to brokered certificates of deposit. 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 3.3% and 5.0% of bank assets as of September 30, 2013 and December 31, 2012, respectively.

**Table of Contents**

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis (in thousands) for the Corporation as of September 30, 2013 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 (0.1)% and 2.6% as of September 30, 2013 and December 31, 2012, respectively.

	<b>Within 1 Month</b>	<b>2-3 Months</b>	<b>4-6 Months</b>	<b>7-12 Months</b>	<b>Total 1 Year</b>
<b>Assets</b>					
Loans	\$ 232,006	\$ 412,436	\$ 532,732	\$ 955,383	\$ 2,132,557
Investments	109,860	46,961	100,851	217,150	474,822
	341,866	459,397	633,583	1,172,533	2,607,379
<b>Liabilities</b>					
Non-maturity deposits	67,793	135,585	203,378	406,755	813,511
Time deposits	116,288	247,550	375,588	504,397	1,243,823
Borrowings	219,327	42,849	182,729	118,019	562,924
	403,408	425,984	761,695	1,029,172	2,620,258
Period Gap (Assets - Liabilities)	\$ (61,542)	\$ 33,413	\$ (128,112)	\$ 143,362	\$ (12,879)
Cumulative Gap	\$ (61,542)	\$ (28,129)	\$ (156,241)	\$ (12,879)	
Cumulative Gap to Total Assets	(0.5)%	(0.2)%	(1.2)%	(0.1)%	

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.



**Table of Contents**

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.

The following repricing gap analysis (in thousands) as of September 30, 2013 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.

	<b>Within 1 Month</b>	<b>2-3 Months</b>	<b>4-6 Months</b>	<b>7-12 Months</b>	<b>Total 1 Year</b>
<b>Assets</b>					
Loans	\$ 3,000,807	\$ 805,914	\$ 430,690	\$ 826,368	\$ 5,063,779
Investments	109,861	80,660	151,560	238,753	580,834
	3,110,668	886,574	582,250	1,065,121	5,644,613
<b>Liabilities</b>					
Non-maturity deposits	2,309,086				2,309,086
Time deposits	125,340	248,216	376,117	505,181	1,254,854
Borrowings	1,013,378	142,593	25,095	22,752	1,203,818
	3,447,804	390,809	401,212	527,933	4,767,758
Off-balance sheet	(200,000)				(200,000)
Period Gap (assets less liabilities + off-balance sheet)	\$ (537,136)	\$ 495,765	\$ 181,038	\$ 537,188	\$ 676,855
Cumulative Gap	\$ (537,136)	\$ (41,371)	\$ 139,667	\$ 676,855	
Cumulative Gap to Assets	(4.2)%	(0.3)%	1.1%	5.3%	

The twelve-month cumulative repricing gap to total assets was 5.3% and 9.4% as of September 30, 2013 and December 31, 2012, 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 an immediate and parallel fashion. 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 September 30, 2013.

**Table of Contents**

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>ALCO Limits</b>
<b>Net interest income change (12 months):</b>			
+ 300 basis points	3.5%	6.1%	n/a
+ 200 basis points	2.2%	4.7%	(5.0)%
+ 100 basis points	0.9%	2.5%	(5.0)%
- 100 basis points	(2.3)%	(2.8)%	(5.0)%
<b>Economic value of equity:</b>			
+ 300 basis points	(2.5)%	4.5%	(25.0)%
+ 200 basis points	(1.3)%	4.5%	(15.0)%
+ 100 basis points	(0.4)%	3.3%	(10.0)%
- 100 basis points	(5.4)%	(10.2)%	(10.0)%

The Corporation also models rate scenarios which move all rates gradually over twelve months (Rate Ramps) and also scenarios that gradually change the shape of the yield curve. A +300 basis point Rate Ramp increases net interest income (12 months) by 2.3% at September 30, 2013 and 4.6% at December 31, 2013. 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 transaction 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 58.3% and 59.6% of total loans as of September 30, 2013 and December 31, 2012, respectively. This decrease was mainly due to the acquisition of ANNB. 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. At September 30, 2013, the portfolio duration was 3.4 versus a 2.7 level at December 31, 2012. 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 \$801.6 million of notional principal, with \$104.0 million in notional swap principal originated during the first nine months of 2013. The success of the aforementioned tactics has resulted in an asset-sensitive position. During the second and third quarters of 2013, long-term interest rates have risen substantially causing cash flows from certain mortgage-related portfolios to lengthen, which contributed to a reduction in the asset-sensitive interest rate risk position this quarter. The addition of ANNB also contributed to the change in the interest rate risk position as well as a slight increase in the use of overnight borrowings. In order to manage the interest rate risk position and generate incremental earnings, between December 2012 and August 2013 the Corporation entered into four separate interest rate derivative agreements totaling \$200.0 million of notional principal in swaps which pay a variable interest rate and

receive a fixed interest rate. For additional information regarding interest rate swaps, see the Derivative Instruments footnote in the Notes to Consolidated Financial Statements section of this Report.

The Corporation recognizes that all asset/liability models have some inherent shortcomings. Asset/liability models require certain assumptions to be made, such as prepayment rates on interest earning assets and 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.

**Table of Contents****RISK MANAGEMENT**

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

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

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

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

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

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

The Corporation's audit function performs an independent assessment of the internal control environment. Moreover, the Corporation's audit function plays a critical role in risk management, testing the operation of internal control systems and reporting findings to management and to the Corporation's Audit Committee. Both the Corporation's Risk Committee and FNBPA's Risk Management Committee regularly assess the Corporation's enterprise-wide risk profile and provide guidance to senior management on actions needed to address key risk issues.

**DEPOSITS AND CUSTOMER REPURCHASE AGREEMENTS**

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Non-interest bearing	\$ 2,115,813	\$ 1,738,195
Savings and NOW	5,247,922	4,808,121
Certificates of deposit and other time deposits	2,359,636	2,535,858
Total deposits	9,723,371	9,082,174
Customer repurchase agreements	834,610	807,820

Total deposits and customer repurchase agreements	\$ 10,557,981	\$ 9,889,994
---	---------------	--------------

Total deposits and customer repurchase agreements increased by \$668.0 million, or 6.8%, to \$10.6 billion at September 30, 2013, compared to December 31, 2012, primarily as a result of the acquisition of ANNB combined with organic growth in relationship-based transaction deposits, which are comprised of non-interest bearing, savings and NOW accounts (which includes money market deposit accounts), and customer repurchase agreements, partially offset by the continued planned decline in time deposits. Generating growth in relationship-based transaction deposits and customer repurchase agreements remains a key focus of the Corporation.

#### **NON-PERFORMING ASSETS**

Credit quality for the first nine months of 2013 reflects continued solid performance by the Corporation. During the first nine months of 2013, non-performing loans and OREO increased \$1.7 million, from \$116.1 million at December 31, 2012 to \$117.8 million at September 30, 2013, primarily as the result of an increase of \$2.4 million in TDRs, partially offset by a decrease of \$0.6 million in non-accrual loans. The increase in TDRs was primarily attributed to loans secured by residential mortgages.

**Table of Contents**

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Commercial real estate	\$ 48,194	\$ 48,483
Commercial and industrial	8,123	6,099
Commercial leases	782	965
<b>Total commercial loans and leases</b>	<b>57,099</b>	<b>55,547</b>
Direct installment	10,664	8,541
Residential mortgages	13,299	11,415
Indirect installment	1,092	1,131
Consumer lines of credit	549	746
Other		3,500
	<b>\$ 82,703</b>	<b>\$ 80,880</b>

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

	<b>Performing</b>	<b>Non- Performing</b>	<b>Non-Accrual</b>	<b>Total</b>
<b>September 30, 2013</b>				
Commercial real estate	\$ 57	\$ 1,043	\$ 10,307	\$ 11,407
Commercial and industrial	755	42	250	1,047
Commercial leases				
<b>Total commercial loans and leases</b>	<b>812</b>	<b>1,085</b>	<b>10,557</b>	<b>12,454</b>
Direct installment	4,906	6,202	858	11,966
Residential mortgages	4,154	9,605	586	14,345
Indirect installment		117	99	216
Consumer lines of credit	230	243	85	558
Other				
	<b>\$ 10,102</b>	<b>\$ 17,252</b>	<b>\$ 12,185</b>	<b>\$ 39,539</b>
<b>December 31, 2012</b>				
Commercial real estate	\$ 850	\$ 588	\$ 11,156	\$ 12,594
Commercial and industrial	775	82	283	1,140
Commercial leases				
<b>Total commercial loans and leases</b>	<b>1,625</b>	<b>670</b>	<b>11,439</b>	<b>13,734</b>
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

## ALLOWANCE FOR LOAN LOSSES

Commercial loans are individually risk-rated by the loan relationship manager, approved by the appropriate loan authority or committee and reviewed on an ongoing basis by the Loan Review department. In general, commercial loan risk ratings are affirmed at least annually. Troubled, classified and non-performing loans and borrowers are reviewed more frequently by the Special Attention Credit Committee. Impaired commercial relationships with exposures greater than or equal to \$500 thousand are subject to specific measurement of impairment and the establishment of an ASC 310 specific reserve, if any. These reserve allocations are generally collateral dependent. Consumer and residential real estate loans are generally reviewed in the aggregate due to their homogeneous nature. Non-account specific ASC 450 reserve allocations, along with allocations to impaired loan relationships under \$500 thousand, are applied a quantitative loss factor in a pool based on migration analysis for commercial loans, roll rate analysis for consumer and residential loans and the qualitative factors described below.



**Table of Contents**

Management 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.

The allowance for loan losses at September 30, 2013 increased \$5.7 million or 5.4% from December 31, 2012, primarily due to growth in originated loans and, to a lesser extent, to support the acquired portfolio. The provision for loan losses during the nine months ended September 30, 2013 was \$22.7 million, covering net charge-offs of \$17.0 million with the remainder supporting originated loan growth and the acquired portfolios. The allowance for loan losses as a percentage of non-performing loans for the Corporation's total portfolio increased from 129.5% as of December 31, 2012 to 133.1% as of September 30, 2013.

Following is a summary of supplemental statistical ratios pertaining to the Corporation's originated loan portfolio. The originated loan portfolio excludes loans acquired at fair value and accounted for in accordance with ASC 805, which was effective January 1, 2009. The decline in each ratio is consistent with generally positive trends in asset quality, including a continued reduction of loans in the Florida portfolio.

	<b>At or for the Three Months Ended</b>		
	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2012</b>
Non-performing loans/total originated loans	1.05%	1.12%	1.19%
Non-performing loans + OREO/total originated loans + OREO	1.49%	1.60%	1.69%
Allowance for loan losses (originated loans)/total originated loans	1.34%	1.38%	1.43%
Net loan charge-offs on originated loans (annualized)/total average originated loans	0.26%	0.45%	0.42%

**CAPITAL RESOURCES AND REGULATORY MATTERS**

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

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions, economic forces and the regulatory environment. The Corporation

seeks to maintain a strong capital base to support its growth and expansion activities, to provide stability to current operations and to promote public confidence.

The Corporation has an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, the Corporation may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities or TPS. During the first nine months of 2013, the Corporation has not issued any such stock or securities under this shelf registration. On November 1, 2013, the Corporation issued 4,693,876 common shares and 4,000,000 Depositary Shares, each representing a 1/40<sup>th</sup> interest in the Non-Cumulative Perpetual Preferred Stock, Series E, in public equity offerings under this registration statement. These equity offerings increased the Corporation's capital by \$151.2 million. The Corporation intends to use the proceeds from the offerings to proactively position itself for Basel III implementation, as discussed in the Enhanced Regulatory Capital Standards section of this Report, and to support future growth opportunities.

**Table of Contents**

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

The Corporation and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies. Quantitative measures established by regulators to ensure capital adequacy require the Corporation and FNBPA to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of leverage ratio (as defined). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and FNBPA must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Corporation's management believes that, as of September 30, 2013 and December 31, 2012, the Corporation and FNBPA met all capital adequacy requirements to which either of them was subject.

As of September 30, 2013, the most recent notification from the federal banking agencies categorized the Corporation and FNBPA as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification which management believes have changed this categorization.

During the second quarter of 2013, \$15.0 million of the Corporation-issued TPS were repurchased at a discount and the related debt extinguished. This \$15.0 million was opportunistically purchased at auction and represents a portion of the underlying collateral of a pooled TPS that was liquidated by the trustee. The regulatory capital ratios at September 30, 2013 reflect this \$15.0 million debt extinguishment of TPS, with remaining TPS included in Tier 1 capital totaling \$189.0 million.

**Table of Contents**

Following are the capital ratios as of September 30, 2013 and December 31, 2012 for the Corporation and FNBPA (dollars in thousands):

	Actual		Well-Capitalized		Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>September 30, 2013</b>						
<b>F.N.B. Corporation:</b>						
Total capital to risk-weighted assets	\$ 1,145,929	12.1%	\$ 949,085	10.0%	\$ 759,268	8.0%
Tier 1 capital to risk-weighted assets	1,002,769	10.6	569,451	6.0	379,634	4.0
Leverage ratio	1,002,769	8.4	595,207	5.0	476,166	4.0
<b>FNBPA:</b>						
Total capital to risk-weighted assets	1,076,975	11.5	933,714	10.0	746,971	8.0
Tier 1 capital to risk-weighted assets	966,821	10.4	560,228	6.0	373,485	4.0
Leverage ratio	966,821	8.3	584,591	5.0	467,672	4.0
<b>December 31, 2012</b>						
<b>F.N.B. Corporation:</b>						
Total capital to risk-weighted assets	\$ 1,068,704	12.2%	\$ 879,316	10.0%	\$ 703,453	8.0%
Tier 1 capital to risk-weighted assets	934,443	10.6	527,589	6.0	351,726	4.0
Leverage ratio	934,443	8.3	563,649	5.0	450,919	4.0
<b>FNBPA:</b>						
Total capital to risk-weighted assets	999,717	11.6	859,468	10.0	687,574	8.0
Tier 1 capital to risk-weighted assets	895,177	10.4	515,681	6.0	343,787	4.0
Leverage ratio	895,177	8.1	555,360	5.0	444,288	4.0

**DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT**

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority for institutions determined to be systemically important, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector and will fundamentally change the system of regulatory oversight as is described in more detail under Part I, Item 1, Business Government Supervision and Regulation included in the Corporation's 2012 Annual Report on Form 10-K as filed with the SEC on February 28, 2013. Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to the Corporation or across the financial services industry.

On June 29, 2011, the FRB, pursuant to its authority under the Dodd-Frank Act, issued rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion, adopting a per-transaction interchange cap base of \$0.21 plus a 5-basis point fraud loss adjustment per transaction. A July 2013 federal court decision ordered the FRB to re-evaluate the interchange cap based on its conclusion that the cap was too high. The FRB deemed such fees reasonable and proportional to the actual cost of a transaction to the issuer. The Corporation's total assets exceeded \$10 billion on December 31, 2012. As a result, the Corporation was subject to the new rules regarding debit card interchange fees as of July 1, 2013. The Corporation's revenue earned from debit card

interchange fees was \$13.5 million for the first nine months of 2013, a decrease of \$2.2 million from the same period of 2012. This revenue could decrease by approximately \$9.0 million on an annual basis; however, the Corporation is deploying various revenue enhancement and expense reduction strategies designed to mitigate this impact on debit card interchange fees.

On June 10, 2013, the Corporation became subject to the clearing requirement under the Dodd-Frank Act whereby it is now required to centrally clear certain interest rate swaps. A cleared swap is subject to continuous collateralization of swap obligations, real time reporting, additional agreements and other regulatory constraints.

**Table of Contents**

**ENHANCED REGULATORY CAPITAL STANDARDS**

Regulatory capital reform initiatives continue to be updated and released which impose additional conditions and restrictions on the Corporation's current business practices and capital strategies.

In July 2013, the FRB approved a final rule that implements changes to the regulatory capital framework for all banking organizations. The final rule implements the regulatory capital reforms recommended by the Basel III capital framework and the regulatory capital reforms required by the Dodd-Frank Act. These reforms seek to strengthen the components of regulatory capital by increasing the quantity and quality of capital held by banking organizations, increase risk-based capital requirements and make selected changes to the calculation of risk-weighted assets.

Following are some of the key provisions resulting from the final rule:

revises the components of regulatory capital to phase out certain TPS for banking organizations with greater than \$15.0 billion in total assets;

adds a new minimum common equity Tier 1 (CET1) ratio of 4.5% of risk-weighted assets;

implements a new capital conservation buffer of CET1 equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% CET1 ratio and phased in over a three-year period beginning January 1, 2016;

increases the minimum Tier 1 capital ratio requirement from 4.0% to 6.0%;

revises the prompt corrective action thresholds;

retains the existing risk-based capital treatment for 1-4 family residential mortgages;

increases capital requirements for past-due loans, high volatility commercial real estate exposures and certain short-term loan commitments;

expands the recognition of collateral and guarantors in determining risk-weighted assets;

removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

The final rule, which becomes effective January 1, 2015 for the Corporation, includes a phase-in period through January 1, 2019 for several provisions of the rule, including the new minimum capital ratio requirements and the capital conservation buffer.

As part of the regulatory supervisory process, the Corporation participated in the FRB of Cleveland (FRB Cleveland) capital plan review process and pursuant thereto submitted its capital plan in December 2012. The FRB Cleveland did not object to the Corporation's proposed capital plan actions. The FRB Cleveland capital plan review process included evaluation of the Corporation's internal capital planning process and its plans to make capital distributions, such as dividends, as well as a stress test requirement designed to test its capital adequacy throughout times of economic and financial stress.

In October 2012, the FRB issued rules requiring companies with total consolidated assets of more than \$10 billion to conduct annual company-run stress tests pursuant to the Dodd-Frank Act (DFAST). In July 2013, the FRB issued proposed supervisory guidance for implementing the DFAST rules for banking organizations with total consolidated assets of more than \$10 billion but less than \$50 billion. The DFAST guidelines and rules build upon the May 2012 stress testing guidance issued by the FRB, *Supervisory Guidance on Stress Testing for Banking Organizations with More Than \$10 Billion in Total Consolidated Assets* (SR Letter 12-7). The Corporation is subject to these supervisory rules and guidelines and is expected to conduct annual company-run stress tests with results reported to the FRB by March 31. Also, FNBPA will be subject to these stress testing rules and guidelines under the Office of the Comptroller of the Currency (OCC). The OCC has advised that it will consult closely with the FRB to provide common stress scenarios which can be utilized at both the depository institution and bank holding company levels.

**Table of Contents**

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

The information called for by this item is provided under the caption *Market Risk* in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference. There are no material changes in the information provided under Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk included in the Corporation's 2012 Annual Report on Form 10-K as filed with the SEC on February 28, 2013.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**CHANGES IN INTERNAL CONTROLS.** The CEO and the CFO have evaluated the changes to the Corporation's internal controls over financial reporting that occurred during the Corporation's fiscal quarter ended September 30, 2013, as required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.



---

**Table of Contents**

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**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 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. Plaintiff filed a Motion for Preliminary Approval of Class Action Settlement on July 3, 2013.

**BCSB Bancorp, Inc., Stockholder Litigation**

On June 21, 2013, a purported stockholder of BCSB filed a derivative complaint on behalf of BCSB in the Circuit Court for Baltimore City, Maryland, captioned *Darr v. Bouffard, et al.*, at Case No. 24-C-13-004131, and naming as defendants, BCSB, its board of directors and the Corporation. The lawsuit made 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 BCSB in approving the merger and that the Corporation aided and abetted those alleged breaches. The lawsuit generally sought an injunction barring the defendants from consummating the merger transaction. Alternatively, if the companies completed the transaction before the court entered judgment, the lawsuit sought rescission of the merger or, in the alternative, rescissory damages, an accounting for all resulting damages and for all profits and any special benefits defendants obtained as a result of the alleged breaches of fiduciary duty, and an award for the costs and expenses incurred in the lawsuit, including attorneys' fees and costs. The plaintiff filed a notice to voluntarily dismiss the complaint on September 6, 2013.

**PVF Capital Corp. Stockholder Litigation**

On July 24, 2013, a purported shareholder of PVF filed a putative class action complaint in the U.S. District Court for the Northern District of Ohio, captioned *Kugelman v. PVF Capital Corp., et al.*, Case No. 1:13-cv-01606, and naming as defendants PVF, its board of directors and the Corporation. The plaintiff alleged that the disclosures in PVF's proxy

statement were inadequate, and that the director defendants breached their fiduciary duties to PVF by approving the proposed merger and by their involvement in preparing the proxy statement. The plaintiff sought an injunction barring the defendants from completing the merger; rescission of the merger agreement to the extent already implemented or, in the alternative, an award of rescissory damages; an accounting to plaintiff for all damages caused by the defendants; and an award of the costs and expenses incurred by the plaintiff in the lawsuit, including a reasonable allowance for counsel fees and expert fees.

On August 5, 2013, the Corporation, PVF and PVF's board of directors filed motions to dismiss the plaintiff's claims in their entirety. On September 9, 2013, the court granted the motions to dismiss and entered judgment in favor of the Corporation, PVF and PVF's board of directors.

**Table of Contents**

**Other Legal Proceedings**

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

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

**ITEM 1A. RISK FACTORS**

There are no material changes from any of the risk factors previously disclosed in the Corporation's 2012 Annual Report on Form 10-K as filed with the SEC on February 28, 2013.

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

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

NONE

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit Index**

- 3.1 Articles of Restatement of the Articles of Incorporation of F.N.B. Corporation, as amended, as currently in effect. (filed herewith).
- 4.1 Deposit Agreement, dated as of November 1, 2013, by and between F.N.B. Corporation and Registrar and Transfer Company, as Depository (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K filed on November 1, 2013).
- 4.2 Form of Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K filed on November 1, 2013).
- 4.3 Form of Depository Receipt (included as Exhibit A to Exhibit 4.1 above).
- 31.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 31.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 302. (filed herewith).
- 32.1 Certification of Chief Executive Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
- 32.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (furnished herewith).
- 101 The following materials from F.N.B. Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2013, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

**Table of Contents**

**SIGNATURES**

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

F.N.B. Corporation

Dated: November 8, 2013

/s/ Vincent J. Delie, Jr.  
Vincent J. Delie, Jr.  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 8, 2013

/s/ Vincent J. Calabrese, Jr.  
Vincent J. Calabrese, Jr.  
Chief Financial Officer  
(Principal Financial Officer)

Dated: November 8, 2013

/s/ Timothy G. Rubritz  
Timothy G. Rubritz  
Corporate Controller  
(Principal Accounting Officer)