

FNB CORP/FL/  
Form 10-Q  
November 05, 2010

**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, 2010**

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

**Commission file number 001-31940**

**F.N.B. CORPORATION**

(Exact name of registrant as specified in its charter)

**Florida**

**25-1255406**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**One F.N.B. Boulevard, Hermitage, PA**

**16148**

(Address of principal executive offices)

(Zip Code)

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

(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

(Do not check if a smaller reporting company)

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

**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.

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

Class	Outstanding at October 31, 2010
Common Stock, \$0.01 Par Value	114,641,514 Shares

---

**F.N.B. CORPORATION**  
**FORM 10-Q**  
September 30, 2010  
**INDEX**

	<b>PAGE</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	1
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 3. Quantitative and Qualitative Disclosures About Market Risk	59
Item 4. Controls and Procedures	60
<b>PART II OTHER INFORMATION</b>	
Item 1. Legal Proceedings	60
Item 1A. Risk Factors	61
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	61
Item 3. Defaults Upon Senior Securities	61
Item 5. Other Information	61
Item 6. Exhibits	61
Signatures	62

**F.N.B. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

Dollars in thousands, except par value

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 142,615	\$ 160,845
Interest bearing deposits with banks	164,406	149,705
<b>Cash and Cash Equivalents</b>	307,021	310,550
Securities available for sale	738,828	715,349
Securities held to maturity (fair value of \$904,589 and \$796,537)	869,765	775,281
Residential mortgage loans held for sale	16,729	12,754
Loans, net of unearned income of \$40,343 and \$38,173	6,004,577	5,849,361
Allowance for loan losses	(116,627)	(104,655)
<b>Net Loans</b>	5,887,950	5,744,706
Premises and equipment, net	114,320	117,921
Goodwill	528,720	528,710
Core deposit and other intangible assets, net	34,100	39,141
Bank owned life insurance	207,402	205,447
Other assets	288,208	259,218
<b>Total Assets</b>	\$ 8,993,043	\$ 8,709,077
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 1,103,393	\$ 992,298
Savings and NOW	3,307,698	3,182,909
Certificates and other time deposits	2,186,737	2,205,016
<b>Total Deposits</b>	6,597,828	6,380,223
Other liabilities	105,326	86,797
Short-term borrowings	817,582	669,167
Long-term debt	203,257	324,877
Junior subordinated debt	204,204	204,711
<b>Total Liabilities</b>	7,928,197	7,665,775
<b>Stockholders Equity</b>		
Common stock \$0.01 par value		
Authorized 500,000,000 shares		
Issued 114,784,268 and 114,214,951 shares	1,142	1,138
Additional paid-in capital	1,092,828	1,087,369
Retained earnings	(3,126)	(12,833)

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

Accumulated other comprehensive loss	(23,481)	(30,633)
Treasury stock 151,418 and 103,256 shares at cost	(2,517)	(1,739)
<b>Total Stockholders Equity</b>	1,064,846	1,043,302
<b>Total Liabilities and Stockholders Equity</b>	\$ 8,993,043	\$ 8,709,077

See accompanying Notes to Consolidated Financial Statements

2

---

**F.N.B. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF 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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Interest Income</b>				
Loans, including fees	\$ 81,507	\$ 81,957	\$ 241,885	\$ 247,871
Securities:				
Taxable	10,524	12,765	33,100	38,342
Nontaxable	1,779	1,836	5,489	5,264
Dividends	17	33	54	120
Other	120	159	326	461
<b>Total Interest Income</b>	93,947	96,750	280,854	292,058
<b>Interest Expense</b>				
Deposits	15,742	20,290	50,072	67,062
Short-term borrowings	2,029	2,072	6,191	6,369
Long-term debt	1,825	4,210	6,462	13,622
Junior subordinated debt	2,092	2,417	5,984	7,658
<b>Total Interest Expense</b>	21,688	28,989	68,709	94,711
<b>Net Interest Income</b>	72,259	67,761	212,145	197,347
Provision for loan losses	12,313	16,455	36,516	40,878
<b>Net Interest Income After Provision for Loan Losses</b>	59,946	51,306	175,629	156,469
<b>Non-Interest Income</b>				
Impairment losses on securities		(14,234)	(9,539)	(15,866)
Non-credit related losses on securities not expected to be sold (recognized in other comprehensive income)		10,943	7,251	11,632
Net impairment losses on securities		(3,291)	(2,288)	(4,234)
Service charges	14,250	14,760	42,634	42,955
Insurance commissions and fees	3,921	3,960	12,094	12,878
Securities commissions and fees	1,794	1,451	5,122	5,247
Trust fees	3,084	2,856	9,430	8,786
Gain on sale of securities	80	154	2,517	498
Gain on sale of residential mortgage loans	964	666	2,339	2,341
Bank owned life insurance	1,448	1,354	3,760	4,400
Other	2,213	1,835	10,864	7,331
<b>Total Non-Interest Income</b>	27,754	23,745	86,472	80,202

<b>Non-Interest Expense</b>				
Salaries and employee benefits	33,831	31,377	100,348	95,096
Net occupancy	4,781	4,741	15,159	15,518
Equipment	4,486	4,517	13,625	13,288
Amortization of intangibles	1,675	1,732	5,041	5,360
Outside services	5,737	5,819	17,144	17,638
FDIC insurance	2,627	2,613	7,890	11,201
Other	11,110	11,522	33,567	31,457
<b>Total Non-Interest Expense</b>	<b>64,247</b>	<b>62,321</b>	<b>192,774</b>	<b>189,558</b>
<b>Income Before Income Taxes</b>	<b>23,453</b>	<b>12,730</b>	<b>69,327</b>	<b>47,113</b>
Income taxes	6,236	2,424	18,208	10,558
<b>Net Income</b>	<b>17,217</b>	<b>10,306</b>	<b>51,119</b>	<b>36,555</b>
Preferred stock dividends and discount amortization		5,496		8,308
<b>Net Income Available to Common Stockholders</b>	<b>\$ 17,217</b>	<b>\$ 4,810</b>	<b>\$ 51,119</b>	<b>\$ 28,247</b>

**F.N.B. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME** (continued)

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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Net Income per Common Share</b>				
Basic	\$0.15	\$0.04	\$0.45	\$0.29
Diluted	0.15	0.04	0.45	0.29
<b>Cash Dividends per Common Share</b>	0.12	0.12	0.36	0.36
See accompanying Notes to Consolidated Financial Statements				

4

---



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

Dollars in thousands, except per share data

Unaudited

	Compre- hensive Income	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
<b>Balance at January 1, 2010</b>		\$	\$ 1,138	\$ 1,087,369	\$ (12,833)	\$ (30,633)	\$ (1,739)	\$ 1,043,302
Net income	\$ 51,119				51,119			51,119
Change in other comprehensive income, net of tax	7,152					7,152		7,152
Comprehensive income	\$ 58,271							
Common stock dividends (\$0.36/share)					(41,412)			(41,412)
Issuance of common stock			4	3,604			(778)	2,830
Restricted stock compensation				2,060				2,060
Tax expense of stock-based compensation				(205)				(205)
<b>Balance at September 30, 2010</b>		\$	\$ 1,142	\$ 1,092,828	\$ (3,126)	\$ (23,481)	\$ (2,517)	\$ 1,064,846
<b>Balance at January 1, 2009</b>		\$	\$ 894	\$ 953,200	\$ (1,143)	\$ (26,505)	\$ (462)	\$ 925,984
Net income	\$ 36,555				36,555			36,555
Change in other comprehensive income, net of tax	(3,024)					(3,024)		(3,024)
Comprehensive income	\$ 33,531							
Common stock dividends					(35,312)			(35,312)

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

(\$0.36/share)							
Preferred stock dividends and amortization of discount	4,975			(8,308)			(3,333)
Issuance of preferred stock and common stock warrant	95,025		4,723				99,748
Redemption of preferred stock	(100,000)						(100,000)
Issuance of common stock		243	126,924		(1,290)		125,877
Restricted stock compensation			1,689				1,689
Tax expense of stock-based compensation			(158)				(158)
Cumulative effect of applying FSP 115-2 and 124-2					4,563		4,563
<b>Balance at September 30, 2009</b>	\$	\$ 1,137	\$ 1,086,378	\$ (3,645)	\$ (29,529)	\$ (1,752)	\$ 1,052,589

See accompanying Notes to Consolidated Financial Statements

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

Dollars in thousands

Unaudited

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Net income	\$ 51,119	\$ 36,555
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	21,558	20,106
Provision for loan losses	36,516	40,878
Deferred taxes	(3,137)	(19,388)
Gain on sale of securities	(2,517)	(498)
Other-than-temporary impairment losses on securities	2,288	4,234
Tax expense of stock-based compensation	205	158
Net change in:		
Interest receivable	275	2,166
Interest payable	(1,685)	(2,741)
Residential mortgage loans held for sale	(3,975)	(8,355)
Bank owned life insurance	(2,289)	(53)
Other, net	14,145	30,964
Net cash flows provided by operating activities	112,503	104,026
<b>Investing Activities</b>		
Net change in loans	(204,584)	(72,289)
Securities available for sale:		
Purchases	(335,865)	(449,945)
Sales	59,459	758
Maturities	259,191	235,469
Securities held to maturity:		
Purchases	(278,089)	(155,467)
Maturities	181,662	194,762
Purchase of bank owned life insurance	(27)	(8)
Withdrawal/surrender of bank owned life insurance	360	13,700
Increase in premises and equipment	(5,305)	(5,758)
Acquisitions, net of cash acquired		47
Net cash flows used in investing activities	(323,198)	(238,731)
<b>Financing Activities</b>		
Net change in:		
Non-interest bearing deposits, savings and NOW accounts	235,883	309,293
Time deposits	(18,278)	(105,133)

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

Short-term borrowings	148,415	10,144
Increase in long-term debt	108,871	26,502
Decrease in long-term debt	(230,492)	(137,495)
Decrease in junior subordinated debt	(506)	(506)
Issuance of preferred stock and common stock warrant		99,748
Redemption of preferred stock		(100,000)
Net proceeds from issuance of common stock	4,890	127,566
Tax expense of stock-based compensation	(205)	(158)
Cash dividends paid	(41,412)	(38,645)
Net cash flows provided by financing activities	207,166	191,316
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(3,529)</b>	<b>56,611</b>
Cash and cash equivalents at beginning of period	310,550	172,203
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 307,021</b>	<b>\$ 228,814</b>

See accompanying Notes to Consolidated Financial Statements

**F.N.B. CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Dollars in thousands, except per share data

(Unaudited)

September 30, 2010

**BUSINESS**

F.N.B. Corporation (the Corporation) is a diversified financial services company headquartered in Hermitage, Pennsylvania. Its primary businesses include community banking, consumer finance, wealth management and insurance. The Corporation also conducts leasing and merchant banking activities. The Corporation operates its community banking business through a full service branch network in Pennsylvania and Ohio. The Corporation operates its wealth management and insurance businesses within the existing branch network. It also conducts selected consumer finance business in Pennsylvania, Ohio 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 First National Bank of Pennsylvania (FNBPA), First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC, Regency Finance Company (Regency), F.N.B. Capital Corporation, LLC and Bank Capital Services, LLC, and includes results for each of these entities in the accompanying consolidated financial statements.

The accompanying consolidated financial statements include all adjustments that are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations. 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 U.S. generally accepted accounting principles (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 26, 2010.

**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.

**CAPITAL**

On January 9, 2009, in conjunction with the U.S. Department of the Treasury (UST) Capital Purchase Program (CPP), the Corporation issued to the UST 100,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C (Series C Preferred Stock) and a warrant to purchase up to 1,302,083 shares of the Corporation's common stock for an aggregate purchase price of \$100,000. The warrant has a ten-year term and an exercise price of \$11.52 per share.

On June 16, 2009, the Corporation completed a public offering of 24,150,000 shares of common stock at a price of \$5.50 per share. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were \$125,784. As a result of the completion of the public stock offering, the number of shares of the Corporation's common stock purchasable upon exercise of the warrant issued to the UST was reduced in half to 651,042 shares and the exercise price was unchanged.



On September 9, 2009, the Corporation utilized a portion of the proceeds of its public offering to redeem all of the Series C Preferred Stock issued to the UST under the CPP and to pay the related final accrued dividend. Since receiving the CPP funds on January 9, 2009, the Corporation paid the UST \$3,333 in cash dividends. Upon redemption, the remaining difference of \$4,319 between the Series C Preferred Stock redemption amount and the recorded amount of discount amortization was charged to retained earnings as non-cash deemed preferred stock dividends. The non-cash deemed preferred stock dividends had no impact on total equity, but reduced earnings per diluted common share by \$0.04.

The remaining offering proceeds were used for general corporate purposes and to enhance capital levels.

## **MERGERS AND ACQUISITIONS**

### *Pending Acquisition*

On August 9, 2010, the Corporation announced the signing of a definitive merger agreement to acquire Comm Bancorp, Inc. (CBI), a bank holding company with approximately \$641,765 in assets based in Clarks Summit, Pennsylvania. The transaction is valued at approximately \$67,727. Under the terms of the merger agreement, CBI shareholders will be entitled to receive 3.4545 shares of F.N.B. Corporation common stock and \$10.00 in cash for each share of CBI common stock. The transaction is expected to be completed in the fourth quarter of 2010, pending regulatory approvals, the approval of shareholders of CBI and the satisfaction of other closing conditions.

## **NEW ACCOUNTING STANDARDS**

### *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to provide financial statement users with greater transparency about credit quality of financing receivables and allowance for credit losses. This update requires additional disclosures as of the end of a reporting period and additional disclosures about activity that occurs during a reporting period that will assist financial statement users in assessing credit risk exposures and evaluating the adequacy of the allowance for credit losses.

The additional disclosures are required to be provided on a disaggregated basis. ASU No. 2010-20 defines two levels of disaggregation and provides additional implementation guidance to determine the appropriate level of disaggregation of information. The disclosures should facilitate evaluation of the nature of the credit risk inherent in a portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses.

The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this standard is not anticipated to have a material effect on the financial statements, results of operations or liquidity of the Corporation.

### *Modification of a Loan That is Part of a Pool That is Accounted for as a Single Asset*

In April 2010, the FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset*. ASU No. 2010-18 provides that modifications of acquired loans with deteriorated credit quality that are accounted for within a pool do not result in removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled asset restructuring. ASU No. 2010-18 is effective for modifications occurring in the first interim or annual reporting period ending on or after July 15, 2010. The adoption of this standard did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

### *Fair Value Disclosures*

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. The ASU clarifies existing disclosure requirements and requires additional disclosures regarding fair value measurements. This standard clarifies that an entity should provide fair value disclosures by class rather than major

category of assets and liabilities, resulting in a greater level of disaggregated information presented in all fair value disclosures. ASU 2010-06 also clarifies that, for fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), an entity is required to describe valuation techniques and the inputs used in determining the fair values of each class of assets and liabilities and to disclose a change in valuation technique and the reason for making that change. Additionally, the ASU requires an entity to discuss the reasons for transfers in or out of Level 3 and, if significant, to disclose these transfers on a gross basis, to disclose on a gross basis the amounts and reasons for significant transfers between Level 2 and Level 3 of the fair value hierarchy, and to disclose its policy for determining when transfers between Levels are recognized. This standard is effective for interim and annual reporting periods that begin after December 15, 2009. The adoption of this standard did not have a material effect on the financial statements, results of operations or liquidity of the Corporation.

*Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*

In June 2009, the FASB issued an accounting standard which amends current GAAP related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities, including the removal of the concept of a qualifying special-purpose entity from GAAP. This accounting standard also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing involvement with the transferred financial asset. This accounting standard is effective for interim and annual reporting periods that begin after November 15, 2009. The adoption of this standard did not have a material effect on the financial condition, results of operations or liquidity of the Corporation.

*Variable Interest Entities*

In June 2009, the FASB issued an accounting standard which requires a qualitative rather than a quantitative analysis to establish the primary beneficiary for determining whether the consolidation of a variable interest entity (VIE) is required. The primary beneficiary of a VIE is the enterprise that has: (a) the power to direct the activities of the VIE that most significantly impact its economic performance, and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. This accounting standard is effective for interim and annual reporting periods that begin after November 15, 2009. The adoption of this standard did not have a material effect on the financial condition, results of operations or liquidity of the Corporation.

**SECURITIES**

The amortized cost and fair value of securities are as follows:  
Securities Available For Sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2010</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 281,886	\$ 1,939	\$	\$ 283,825
Residential mortgage-backed securities:				
Agency mortgage-backed securities	215,623	6,428		222,051
Agency collateralized mortgage obligations	151,042	2,343		153,385
Non-agency collateralized mortgage obligations	39	1		40
States of the U.S. and political subdivisions	58,904	2,294	(13)	61,185
Collateralized debt obligations	19,288		(14,125)	5,163
Other debt securities	12,990		(1,840)	11,150
Total debt securities	739,772	13,005	(15,978)	736,799
Equity securities	1,918	220	(109)	2,029



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

\$ 741,690      \$ 13,225      \$ (16,087)      \$ 738,828

9

---

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2009</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 251,192	\$ 1,563	\$ (299)	\$ 252,456
Residential mortgage-backed securities:				
Agency mortgage-backed securities	319,902	6,035	(166)	325,771
Agency collateralized mortgage obligations	43,985	54	(531)	43,508
Non-agency collateralized mortgage obligations	47		(2)	45
States of the U.S. and political subdivisions	74,177	1,495	(89)	75,583
Collateralized debt obligations	21,590		(16,766)	4,824
Other debt securities	12,999		(2,569)	10,430
Total debt securities	723,892	9,147	(20,422)	712,617
Equity securities	2,656	224	(148)	2,732
	\$ 726,548	\$ 9,371	\$ (20,570)	\$ 715,349

## Securities Held To Maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2010</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 4,981	\$ 265	\$	\$ 5,246
Residential mortgage-backed securities:				
Agency mortgage-backed securities	655,652	29,518	(38)	685,132
Agency collateralized mortgage obligations	45,390	722		46,112
Non-agency collateralized mortgage obligations	38,275	471	(919)	37,827
States of the U.S. and political subdivisions	120,413	5,637	(138)	125,912
Collateralized debt obligations	3,466		(714)	2,752
Other debt securities	1,588	29	(9)	1,608
	\$ 869,765	\$ 36,642	\$ (1,818)	\$ 904,589

<b>December 31, 2009</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 5,386	\$ 81	\$	\$ 5,467
Residential mortgage-backed securities:				
Agency mortgage-backed securities	566,876	23,141	(261)	589,756
Agency collateralized mortgage obligations	27,263	406		27,669
Non-agency collateralized mortgage obligations	49,000		(3,245)	45,755
States of the U.S. and political subdivisions	121,548	2,477	(399)	123,626

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

Collateralized debt obligations	3,590		(812)	2,778
Other debt securities	1,618	11	(143)	1,486
	\$ 775,281	\$ 26,116	\$ (4,860)	\$ 796,537

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 statement of income. As of September 30, 2010 and December 31, 2009, the Corporation did not hold any trading securities.

The Corporation recognized a gain of \$2,291 for the nine months ended September 30, 2010 relating to the sale of a \$6,016 U.S. government agency security and \$52,625 of mortgage backed securities. These securities were sold to better position the balance sheet for the remainder of 2010. Additionally, the Corporation recognized a gain of \$226 for the nine months ended September 30, 2010 relating to other securities sold during that period. The Corporation recognized a gain of \$206 for the nine months ended September 30, 2009 relating to the acquisition by a third party of a company in which the Corporation owned stock. Additionally, the Corporation recognized a gain of \$292 for the nine

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

months ended September 30, 2009 relating to securities sold and called during that period. No security sales were at a loss.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross gains	\$ 80	\$ 154	\$ 2,517	\$ 498
Gross losses				
	\$ 80	\$ 154	\$ 2,517	\$ 498

As of September 30, 2010, 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	\$ 12,880	\$ 12,900	\$ 6,438	\$ 6,477
Due from one to five years	267,218	269,199	23,776	24,902
Due from five to ten years	17,178	17,722	16,405	17,270
Due after ten years	75,792	61,502	83,829	86,869
	373,068	361,323	130,448	135,518
Residential mortgage-backed securities:				
Agency mortgage-backed securities	215,623	222,051	655,652	685,132
Agency collateralized mortgage obligations	151,042	153,385	45,390	46,112
Non-agency collateralized mortgage obligations	39	40	38,275	37,827
Equity securities	1,918	2,029		
	\$ 741,690	\$ 738,828	\$ 869,765	\$ 904,589

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, 2010 and December 31, 2009, securities with a carrying value of \$746,674 and \$598,078, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of \$763,352 and \$616,000 at September 30, 2010 and December 31, 2009, respectively, were pledged as collateral for short-term borrowings.

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

Securities available for sale:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2010</b>						
States of the U.S. and political subdivisions	\$ 1,357	\$ (13)	\$	\$	\$ 1,357	\$ (13)

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

Collateralized debt obligations			5,163	(14,125)	5,163	(14,125)
Other debt securities	4,070	(18)	7,080	(1,822)	11,150	(1,840)
Equity securities	268	(6)	743	(103)	1,011	(109)
	\$ 5,695	\$ (37)	\$ 12,986	\$ (16,050)	\$ 18,681	\$ (16,087)

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2009</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 46,501	\$ (299)	\$	\$	\$ 46,501	\$ (299)
Residential mortgage-backed securities:						
Agency mortgage-backed securities	68,313	(166)			68,313	(166)
Agency collateralized mortgage obligations	29,516	(531)			29,516	(531)
Non-agency collateralized mortgage obligations	45	(2)			45	(2)
States of the U.S. and political subdivisions	12,357	(89)			12,357	(89)
Collateralized debt obligations	3,755	(12,023)	1,069	(4,743)	4,824	(16,766)
Other debt securities			10,430	(2,569)	10,430	(2,569)
Equity securities	789	(99)	721	(49)	1,510	(148)
	\$ 161,276	\$ (13,209)	\$ 12,220	\$ (7,361)	\$ 173,496	\$ (20,570)

Securities held to maturity:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2010</b>						
Residential mortgage-backed securities:						
Agency mortgage-backed securities	\$ 15,440	\$ (38)	\$	\$	\$ 15,440	\$ (38)
Non-agency collateralized mortgage obligations			11,736	(919)	11,736	(919)
States of the U.S. and political subdivisions	3,642	(53)	2,451	(85)	6,093	(138)
Collateralized debt obligations			2,752	(714)	2,752	(714)
Other debt securities			1,322	(9)	1,322	(9)
	\$ 19,082	\$ (91)	\$ 18,261	\$ (1,727)	\$ 37,343	\$ (1,818)

**December 31, 2009**

Residential mortgage-backed securities:						
Agency mortgage-backed securities	\$ 20,650	\$ (261)	\$	\$	\$ 20,650	\$ (261)
Non-agency collateralized mortgage obligations States of the U.S. and political subdivisions	15,534	(80)	30,221	(3,165)	45,755	(3,245)
Collateralized debt obligations	13,055	(362)	1,968	(37)	15,023	(399)
Other debt securities			2,778	(812)	2,778	(812)
			1,192	(143)	1,192	(143)
	\$ 49,239	\$ (703)	\$ 36,159	\$ (4,157)	\$ 85,398	\$ (4,860)

As of September 30, 2010, securities with unrealized losses for less than 12 months include 1 investment in a residential mortgage-backed security, 5 investments in states of the U.S. and political subdivision securities, 1 investment in an other debt security and 2 investments in equity securities. Securities with unrealized losses of greater than 12 months include 2 investments in residential mortgage-backed securities (non-agency collateralized mortgage obligations (CMOs)), 1 investment in states of the U.S. and political subdivisions, 13 investments in collateralized debt obligations (CDOs), 6 investments in other debt securities and 4 investments in equity securities. The unrealized losses relating to the residential mortgage-backed securities and states of the U.S. and political subdivisions are considered temporary resulting primarily from changes in interest rates.

The Corporation's unrealized losses on CDOs primarily relate to investments in trust preferred securities (TPS). The Corporation's portfolio of TPS consists of single-issuer and pooled securities. The single-issuer securities are primarily from money-center and large regional banks. The pooled securities consist of securities issued primarily by banks, with some of the pools including a limited number of insurance companies. The non-credit portion of unrealized losses on investments in TPS is attributable to temporary illiquidity and the uncertainty affecting these markets, as well as changes in interest rates.

### *Other-Than-Temporary Impairment*

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

When impairment of an equity security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded as a loss within non-interest income in the consolidated statement of 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 if it is more likely than not that the Corporation 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 other-than-temporary and includes documentation supporting both observable and unobservable inputs and a rationale for the 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 of 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 are considered in determining the Corporation's 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 Topic 325, *Investments - Other*. All other debt securities are required to be evaluated under ASC Topic 320, *Investments - Debt Securities*.

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





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

The Corporation prices its holdings of TPS using Level 3 inputs in accordance with ASC Topic 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 trust preferred CDOs consists of 13 pooled issues and seven single issue securities. One of the pooled issues is a senior tranche; the remaining 12 are mezzanine tranches. At September 30, 2010, the 13 pooled TPS had an estimated fair value of \$7,915 while the single-issuer TPS had an estimated fair value of \$12,472. The Corporation has concluded from the analysis performed at September 30, 2010 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.

Upon adoption of ASC Topic 320, the Corporation determined that \$7,021 of OTTI charges previously recorded were non-credit related. As such, a \$4,564 (net of \$2,457 of taxes) increase to retained earnings and a corresponding decrease to accumulated other comprehensive income were recorded as the cumulative effect of adopting ASC Topic 320 as of April 1, 2009.

The Corporation recognized net impairment losses on securities of \$2,288 and \$4,234 for the nine months ended September 30, 2010 and 2009, respectively, due to the write-down of securities that the Corporation deemed to be other-than-temporarily impaired. Impairment losses related to bank stocks for the nine months ended September 30, 2010 and 2009 amounted to \$7 and \$665, respectively. For the nine months ended September 30, 2010, impairment

losses on pooled TPS amounted to \$9,539, which includes \$7,251 (\$4,713, net of tax) for non-credit related impairment

losses recognized directly in other comprehensive income and \$2,288 of credit-related impairment losses recognized in earnings.

The impairment losses on bank stocks relate to securities that were in an unrealized loss position for an extended period of time or the percentage of unrealized loss was such that management believes it would be unlikely to recover in the near term. In accordance with GAAP, management has deemed these impairments to be other-than-temporary given the low likelihood that they will recover in value in the foreseeable future. At September 30, 2010, the Corporation held 14 bank stocks with an adjusted cost basis of \$1,892 and fair value of \$2,002.

At September 30, 2010, all 12 of the pooled trust preferred security investments on which OTTI has been recognized are classified as non-performing investments.

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>September 30, 2010</b>	<b>December 31, 2009</b>
Beginning balance of the amount related to credit loss for which a portion of OTTI was recognized in other comprehensive income	\$ (16,051)	\$ (8,953)
Amount of OTTI related to credit loss on April 1, 2009 (1)		(8,953)
Additions related to credit loss for securities with previously recognized OTTI	(2,235)	(2,315)
Additions related to credit loss for securities with initial OTTI	(46)	(4,783)
Ending balance of the amount related to credit loss for which a portion of OTTI was recognized in other comprehensive income	\$ (18,332)	\$ (16,051)

(1) Amount represents the OTTI charges recorded for pooled trust preferred securities, net of the Corporation's cumulative effect adjustment upon adoption of ASC Topic 320, effective April 1, 2009.

TPS continue to experience price volatility as the secondary market for such securities remains limited. Write-downs were based on the individual securities' 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 portfolio each quarter to determine if additional write-downs are warranted.

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

The following table provides information relating to the Corporation's TPS as of September 30, 2010:

Deal Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Loss	Credit Rating	Number of	Actual	Actual	Projected	Expected Defaults
								Default (as a percent of)	Deferrals (as a percent of)	Recovery Rates (on Current Deferrals)	
<b>Pooled TPS:</b>											
P1	C1	\$ 5,500	\$ 2,266	\$ 858	\$ (1,408)	C	46	19%	16%	27%	12%
P2	C1	4,889	2,746	446	(2,300)	C	42	14	18	32	14
P3	C1	5,561	4,218	1,138	(3,080)	C	52	11	8	26	16
P4	C1	3,994	2,852	680	(2,172)	C	53	15	10	36	16
P5	MEZ	483	358	172	(186)	C	24	15	16	46	12
P6	MEZ	1,909	1,087	629	(458)	C	23	17	14	10	13
P7	B3	2,000	726	259	(467)	C	23	28	9	45	14
P8	B1	3,028	2,386	667	(1,719)	C	51	12	23	34	15
P9	C	5,048	756	51	(705)	C	36	13	29	28	14
P10 (3)	C	507	461	83	(378)	C	51	13	12	29	13
P11	C	2,011	787	106	(681)	C	46	14	14	21	14
P12	A4L	2,000	645	74	(571)	C	27	16	19	35	17
<i>Total OTTI</i>		36,930	19,288	5,163	(14,125)		474	15	15	30	14
P13 (3)	SNR	3,304	3,466	2,752	(714)	A3	21	9	12	41	12
<i>Total Not OTTI</i>		3,304	3,466	2,752	(714)		21	9	12	41	12
<b>Total Pooled TPS</b>		<b>\$40,234</b>	<b>\$22,754</b>	<b>\$ 7,915</b>	<b>\$(14,839)</b>		<b>495</b>	<b>15%</b>	<b>15%</b>	<b>31%</b>	<b>14%</b>
<b>Single Issuer TPS:</b>											
S1		\$ 2,000	\$ 1,946	\$ 1,410	\$ (536)	BB	1				
S2		2,000	1,908	1,505	(403)	BBB+	1				
S3		2,000	2,050	1,860	(190)	B+	1				
S4		2,000	2,000	1,600	(400)	B+	1				
S5		4,000	4,087	4,070	(17)	Baa2	1				
S6		1,000	999	705	(294)	BB	1				
S7		1,300	1,331	1,322	(9)	BB	1				
<b>Total Single Issuer TPS</b>		<b>\$14,300</b>	<b>\$14,321</b>	<b>\$12,472</b>	<b>\$(1,849)</b>		<b>7</b>				
<b>Total TPS</b>		<b>\$54,534</b>	<b>\$37,075</b>	<b>\$20,387</b>	<b>\$(16,688)</b>		<b>502</b>				

- (1) Some current deferrals are projected to cure at rates varying from 10% to 90% after the deferral period ends.
- (2) Expected future defaults as a percent of remaining performing collateral. Future deferrals and defaults are generally assumed to have recovery rates of 10% for banks and 15% for insurance companies.
- (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. The P10 and P13 securities had excess subordination as a percent of current collateral of 0.27% and 53.34%, respectively, as of September 30, 2010.

*Non-Agency CMOs*

The Corporation purchased \$161,151 of non-agency CMOs from 2003 through 2005. These securities, which are classified as held to maturity, have paid down to a balance of \$38,275 at September 30, 2010, including \$10,725 of paydowns during the first nine months of 2010, an annualized payout rate of 29%. In addition, one AAA-rated holding that was performing well was redeemed by the issuer at par during the quarter. At the time of purchase, these securities were all rated AAA, with an original average loan-to-value (LTV) ratio of 66.1% and original credit score of 724. At origination, the credit support, or the amount of loss the collateral pool could absorb before the AAA securities would incur a credit loss, ranged from 1.3% to 7.0%. This credit support has grown to a range of 4.6% to 19.3%, due to paydowns and good credit performance through the first half of 2008. Beginning in the second half of 2008, national delinquencies, an early warning sign of potential default, began to accelerate on the collateral pools. The rate of delinquencies in the third quarter of 2010 was stable versus last quarter. All CMO holdings are current with regards to principal and interest payments due.

The rating agencies monitor these non-agency CMOs and the underlying collateral performance for delinquencies, foreclosures and defaults. They also factor in trends in bankruptcies and housing values to ultimately arrive at an expected loss for a given item of defaulted collateral. Based on deteriorating performance of the collateral, many of these types of securities have been downgraded by the rating agencies. For the Corporation's portfolio, four of the eleven non-agency CMOs have been downgraded from AAA.

The Corporation determines its credit related losses by running scenario analysis on the underlying collateral. This analysis applies default assumptions to delinquencies already in the pipeline, projects future defaults based in part on the historical trends for the collateral, applies a rate of severity and estimates prepayment rates. Because of the limited historical trends for the collateral, multiple default scenarios were analyzed including scenarios that significantly elevate defaults over the next 12 - 24 months. Based on the results of the analysis, the Corporation's management has concluded that there are currently no credit-related losses in its non-agency CMO portfolio.

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

The following table provides information relating to the Corporation's non-agency CMOs as of September 30, 2010:

Security	Original Year	Book Value	Credit Rating		Credit Support %		Delinquency %			Subordination Data				LTV	Credit Score
			S&P	Moody	Original	Current	30 Day	60 Day	90 Day	Foreclosure	ORR	Bankruptcy	Total Delinquency		
							%	%	%	%	%	%	%		
1	2003	\$ 4,923	AAA	n/a	2.5	4.8	0.6	0.2	0.5	0.4	0.0	0.4	2.3	52.7%	740
2	2003	2,777	AAA	n/a	4.3	15.5	1.9	2.3	3.4	2.7	0.1	0.7	11.0	56.8	712
3	2003	2,319	AAA	n/a	2.0	5.7	0.5	0.0	1.1	1.4	0.0	0.2	3.1	48.2	743
4	2003	2,137	AAA	n/a	2.7	16.4	0.0	0.1	1.1	0.8	0.0	1.0	3.0	51.5	n/a
5	2003	1,359	AAA	n/a	2.4	9.4	0.6	0.4	1.7	1.1	0.0	0.7	4.5	51.4	736
6	2004	4,443	AAA	Aa3	7.0	19.3	2.9	1.3	3.8	6.8	0.5	1.1	16.5	56.7	692
7	2004	3,263	AA+	n/a	5.3	10.4	1.0	0.0	1.2	1.5	0.0	1.0	4.7	48.1	736
8	2004	2,093	n/a	Aaa	2.5	7.2	1.0	0.0	0.0	2.5	0.0	0.0	2.5	56.9	741
9	2004	2,306	AAA	Aaa	4.4	9.1	1.5	0.4	0.6	2.0	0.7	0.9	6.1	55.9	733
10	2005	7,589	CCC	Caa1	5.1	5.7	4.0	2.1	9.1	4.8	0.9	1.8	22.6	65.7	708
11	2005	5,066	CCC	B2	4.7	4.6	3.0	2.8	5.8	5.6	1.5	1.0	19.6	66.4	728
		\$ 38,275			4.0	9.1							57.5%	723	



**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 both September 30, 2010 and December 31, 2009, the Corporation's FHLB stock totaled \$27,962 and is included in other assets on the balance sheet. The Corporation accounts for the stock in accordance with ASC Topic 325, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

The Corporation periodically evaluates its FHLB investment for possible impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The Federal Housing Finance Agency, the regulator of the FHLB, requires it to maintain a total capital-to-assets ratio of at least 4.0%. At June 30, 2010, the FHLB's capital ratio of 7.2% exceeded the regulatory requirement. Failure by the FHLB to meet this regulatory capital requirement would require an in-depth analysis of other factors including:

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

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

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

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

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

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

At September 30, 2010, 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. On October 29, 2010 the FHLB redeemed \$1,398 of stock at par value, which reduced the Corporation's holdings to \$26,564.

**BORROWINGS**

Following is a summary of short-term borrowings:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Securities sold under repurchase agreements	\$ 687,139	\$ 536,784
Subordinated notes	120,221	121,938
Other short-term borrowings	10,222	10,445
	<b>\$ 817,582</b>	<b>\$ 669,167</b>



Securities sold under repurchase agreements is comprised of treasury management accounts, which are borrowings from commercial customers of FNBPA which are generally renewable on a daily basis. Securities are pledged to these customers in an amount equal to the outstanding balance.

Following is a summary of long-term debt:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Federal Home Loan Bank advances	\$ 130,972	\$ 256,921
Subordinated notes	71,672	67,343
Convertible debt	613	613
	<b>\$ 203,257</b>	<b>\$ 324,877</b>

The Corporation's banking affiliate has available credit with the FHLB of \$1,831,371 of which \$130,972 was used as of September 30, 2010. 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 1.35% to 4.85% for the nine months ended September 30, 2010 and 2.28% to 5.54% for the year ended December 31, 2009. During the first nine months of 2010, the Corporation prepaid \$59,000 of FHLB advances yielding 3.93% and incurred a prepayment penalty of \$2,269 that was recorded in other non-interest expense.

#### **JUNIOR SUBORDINATED DEBT**

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

Distributions on the subordinated debt issued to the Trusts are recorded as interest expense by the Corporation. The TPS are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debt. The 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 subject to certain limitations beginning March 31, 2011. 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.

The following table provides information relating to the Trusts as of September 30, 2010:

	<b>F.N.B. Statutory</b>	<b>F.N.B. Statutory</b>	<b>Omega Financial Capital Trust</b>	<b>Sun Bancorp Statutory</b>
	<b>Trust I</b>	<b>Trust II</b>	<b>I</b>	<b>Trust I</b>
Trust preferred securities	\$ 125,000	\$ 21,500	\$ 36,000	\$ 16,500
Common securities	3,866	665	1,114	511
Junior subordinated debt	128,866	22,165	35,859	17,314
Stated maturity date	3/31/33	6/15/36	10/18/34	2/22/31

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

Optional redemption date	3/31/08	6/15/11	10/18/09	2/22/11
Interest rate	3.78%	7.17%	2.71%	10.20%
	variable;	fixed until	variable;	
	LIBOR		LIBOR	
	plus	6/15/11;	plus	
		then		
	325 basis	LIBOR	219 basis	
	points	plus	points	
		165 basis		
		points		

**DERIVATIVE INSTRUMENTS**

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

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

At September 30, 2010, the Corporation was party to 121 swaps with notional amounts totaling approximately \$456,961 with customers, and 121 swaps with notional amounts totaling approximately \$456,961 with derivative counterparties. The following table presents the fair value of the Corporation's derivative financial instruments as well as their classification on the balance sheet:

	<b>Balance Sheet Location</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Interest Rate Products:			
Asset derivatives	Other assets	\$ 37,025	\$ 13,305
Liability derivatives	Other liabilities	36,616	12,497

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, 2010</b>	<b>2009</b>
Interest rate products	Other income	\$(399)	\$173

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

Interest rate swap agreements generally require posting of collateral by either party under certain conditions. As of September 30, 2010, 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 \$38,243. At September 30, 2010, the Corporation has posted collateral with derivative counterparties with a fair value of \$28,968, of which none is cash collateral. Additionally, if the Corporation had breached its agreements with its derivative

counterparties it would be required to settle its obligations under the agreements at the termination value and would be required to pay an additional \$9,275 in excess of amounts previously posted as collateral with the respective counterparties.

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, 2010 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, 2010</b>	<b>December 31, 2009</b>
Commitments to extend credit	\$1,495,539	\$1,411,865
Standby letters of credit	107,198	87,917

At September 30, 2010, funding of approximately 81.0% 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 essentially the same as that involved in extending loans to customers. The obligations are not recorded in the Corporation's consolidated financial statements. The Corporation's maximum exposure to credit loss in the event the customer does not satisfy the terms of the agreement equals the notional amount of the obligation less the value of any collateral.

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

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

**STOCK INCENTIVE PLANS***Restricted Stock*

The Corporation issues restricted stock awards, consisting of both restricted stock and restricted stock units, to key employees under its Incentive Compensation Plans (Plans). The grant date fair value of the restricted stock awards is equal to the price of the Corporation's common stock on the grant date. For the nine months ended September 30, 2010 and 2009, the Corporation issued 500,707 and 469,346 restricted stock awards with aggregate weighted average grant date fair values of \$7.77 and \$5.99, respectively, under these Plans. As of September 30, 2010, the Corporation had available up to 2,536,289 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 ultimately 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 \$2,059 and \$1,689 for the nine months ended September 30, 2010 and 2009, the tax benefit of which was \$721 and \$591, respectively.

The following table summarizes certain information concerning restricted stock awards:

	Nine Months Ended September 30,			
	2010		2009	
	Awards	Weighted Average Grant Price	Awards	Weighted Average Grant Price
Unvested awards outstanding at beginning of period	854,440	\$10.57	527,101	\$15.34
Granted	500,707	7.77	469,346	5.99
Vested	(95,281)	15.05	(99,369)	17.59
Forfeited	(32,008)	9.21	(90,705)	13.04
Dividend reinvestment	50,208	8.37	33,446	6.64
Unvested awards outstanding at end of period	1,278,066	9.09	839,819	9.75

The total fair value of awards vested was \$698 and \$1,046 for the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, there was \$6,093 of unrecognized compensation cost related to unvested restricted stock awards including \$71 that is subject to accelerated vesting under the Plan's immediate vesting upon retirement provision for awards granted prior to the adoption of ASC Topic 718, *Compensation - Stock Compensation*, on January 1, 2006. The components of the restricted stock awards as of September 30, 2010 are as follows:

	Service- Based Awards	Performance- Based Awards	Total
Unvested awards	483,387	794,679	1,278,066



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

Unrecognized compensation expense	\$ 1,924	\$ 4,169	\$ 6,093
Intrinsic value	\$ 4,138	\$ 6,802	\$ 10,940
Weighted average remaining life (in years)	2.15	2.35	2.27

23

---

*Stock Options*

The Corporation did not grant stock options during the nine months ended September 30, 2010 or 2009. 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 were fully vested as of January 1, 2006. The Corporation issues shares of treasury stock or authorized but unissued shares to satisfy stock option exercises. No stock options were exercised during the nine months ended September 30, 2010. Shares issued upon the exercise of stock options were 1,624 for the nine months ended September 30, 2009.

The following table summarizes certain information concerning stock option awards:

	Nine Months Ended September 30,		2009	
	2010	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	968,090	\$13.67	1,299,317	\$14.00
Exercised			(1,624)	15.53
Forfeited	(155,613)	11.42	(291,910)	14.90
Options outstanding and exercisable at end of period	812,477	14.10	1,005,783	13.74

The intrinsic value of outstanding and exercisable stock options at September 30, 2010 was \$(4,483), since the fair value of the stock subject to the options was less than the exercise price.

*Warrants*

In conjunction with its participation in the 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 has been reduced in half to 651,042 shares as of June 16, 2009, the date the Corporation completed a public offering. The warrant has an exercise price of \$11.52 per share.

**RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Corporation sponsors the Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan covering substantially all salaried employees hired prior to January 1, 2008. The RIP covers employees who satisfy minimum age and length of service requirements. During 2006, the Corporation amended the RIP such that effective January 1, 2007, benefits are earned based on the employee's compensation each year and caused a remeasurement that produced a net unrecognized service credit of \$14,079, which is being amortized over the average period of future service of active employees of 13.5 years. The Corporation's funding guideline has been to make annual contributions to the RIP each year, if necessary, such that minimum funding requirements have been met. Based on the funded status of the plan, the Corporation does not expect to make a contribution to the RIP in 2010. The Corporation amended the RIP on October 20, 2010 to be frozen effective December 31, 2010, at which time the Corporation will take the remaining previously unrecognized prior service credit of approximately \$10,347 into income as a reduction to expense in the fourth quarter of 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 is reduced by the monthly benefit the participant receives from Social Security, the RIP, the ERISA Excess Retirement Plan and the annuity equivalent of the two 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 Corporation anticipates that the ERISA Excess Retirement Plan will be frozen as of December 31, 2010.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Service cost	\$ 899	\$ 772	\$ 2,709	\$ 2,580
Interest cost	1,741	1,770	5,258	5,244
Expected return on plan assets	(1,875)	(1,798)	(5,621)	(5,388)
Amortization:				
Unrecognized net transition asset	(23)	(23)	(70)	(70)
Unrecognized prior service credit	(287)	(299)	(880)	(896)
Unrecognized loss	843	781	2,284	2,159
Net periodic pension benefit cost	\$ 1,298	\$ 1,203	\$ 3,680	\$ 3,629

The Corporation's subsidiaries participate in a qualified 401(k) defined contribution plan under which eligible employees may contribute a percentage of their salary. The Corporation matches 50 percent of an eligible employee's contribution on the first 6 percent that the employee defers. Employees are generally eligible to participate upon having attained age 21. Beginning with 2007, in light of the change to the RIP benefit, the Corporation began making an automatic two percent contribution and may make an additional contribution of up to two percent depending on the Corporation achieving its performance goals for the plan year. Effective January 1, 2008, in lieu of the RIP benefit, the automatic contribution for substantially all new full-time employees was increased from two percent to four percent. The Corporation's contribution expense was \$3,724 and \$3,159 for the nine months ended September 30, 2010 and 2009, respectively.

Effective January 1, 2011, the Corporation has adopted a safe-harbor contribution method in which the Corporation will match 100 percent of the first four percent that the employee defers. In addition, substantially all employees will be eligible for a three percent automatic contribution after each calendar year end and may be eligible for an additional contribution of up to two percent depending on the Corporation achieving its performance goals for the plan year.

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 pre-Medicare eligible postretirement medical insurance plan for retirees of certain affiliates between the ages of 62 and 65. During 2006, the Corporation amended the plan such that only employees who were age 60 or older as of January 1, 2007 are eligible for employer-paid coverage. The Corporation has no plan assets attributable to this plan and funds the benefits as claims arise. Benefit costs related to this plan are recognized in the periods in which employees provide the service for such benefits. The Corporation reserves the right to terminate the plan or make plan changes at any time.

The net periodic postretirement benefit cost includes the following components:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Interest cost	\$ 17	\$ 20	\$ 50	\$ 70
Amortization of unrecognized loss		(1)		1

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

Net periodic postretirement benefit cost	\$ 17	\$ 19	\$ 50	\$ 71
--	-------	-------	-------	-------

25

---

**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, 2010, 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 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, 2010 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 17,217	\$ 10,306	\$ 51,119	\$ 36,555
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Arising during the period, net of tax expense (benefit) of \$852, \$1,860, \$2,943 and \$(3,046)	1,582	3,454	5,465	(5,657)
Less: reclassification adjustment for losses (gains) included in net income, net of tax (benefit) expense of \$28, \$(1,098), \$80 and \$(1,307)	(52)	2,039	(149)	2,428
Pension and postretirement amortization, net of tax expense (benefit) of \$187, \$(147), \$988 and \$110	347	(274)	1,836	205
Other comprehensive income (loss)	1,877	5,219	7,152	(3,024)
Comprehensive income	\$ 19,094	\$ 15,525	\$ 58,271	\$ 33,531

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

<b>September 30</b>	<b>2010</b>	<b>2009</b>
Non-credit related loss on debt securities not expected to be sold	\$ (9,181)	\$ (11,254)
Unrealized net gain (loss) on other available for sale securities	7,477	3,687
Unrecognized pension and postretirement obligations	(21,777)	(21,962)

Accumulated other comprehensive loss	\$ (23,481)	\$ (29,529)
--------------------------------------	-------------	-------------

**EARNINGS PER COMMON SHARE**

Earnings per common share is computed using net income available to common stockholders, which is net income adjusted for the preferred stock dividend and discount amortization.

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

Diluted earnings per common share is calculated by dividing net income available to common stockholders 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.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income available to common stockholders basic earnings per share	\$ 17,217	\$ 4,809	\$ 51,119	\$ 28,246
Interest expense on convertible debt	5	5	15	15
Net income available to common stockholders after assumed conversion diluted earnings per share	\$ 17,222	\$ 4,814	\$ 51,134	\$ 28,261
Basic weighted average common shares outstanding	113,983,990	113,571,703	113,871,635	98,869,326
Net effect of dilutive stock options, warrants, restricted stock and convertible debt	502,261	299,234	416,965	235,683
Diluted weighted average common shares outstanding	114,486,251	113,870,937	114,288,600	99,105,009
Basic earnings per common share	\$ 0.15	\$ 0.04	\$ 0.45	\$ 0.29
Diluted earnings per common share	\$ 0.15	\$ 0.04	\$ 0.45	\$ 0.29

For the three months ended September 30, 2010 and 2009, 835,375 and 1,437,326 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be antidilutive. For the nine months ended September 30, 2010 and 2009, 870,784 and 1,559,725 shares of common stock, respectively, related to stock options and warrants were excluded from the computation of diluted earnings per share because the exercise price of the shares was greater than the average market price of the common shares and therefore, the effect would be antidilutive.



**CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information:

<b>Nine Months Ended September 30</b>	<b>2010</b>	<b>2009</b>
Interest paid on deposits and other borrowings	\$70,394	\$97,452
Income taxes paid	23,950	4,000
Transfers of loans to other real estate owned	22,033	13,431
Financing of other real estate owned sold	754	489

**BUSINESS SEGMENTS**

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

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

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.

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>At or for the Three Months Ended September 30, 2010</b>	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
Interest income	\$ 84,282	\$ 4	\$ 48	\$ 8,534	\$ 1,079	\$ 93,947
Interest expense	17,901			1,216	2,571	21,688
Net interest income	66,381	4	48	7,318	(1,492)	72,259
Provision for loan losses	10,456			1,650	207	12,313
Non-interest income	20,434	5,120	3,163	524	(1,487)	27,754
Non-interest expense	51,611	4,046	2,929	4,041	(55)	62,572
Intangible amortization	1,481	88	106			1,675
Income tax expense (benefit)	6,250	359	65	776	(1,214)	6,236
Net income (loss)	17,017	631	111	1,375	(1,917)	17,217
Total assets	8,800,430	20,139	19,642	168,269	(15,437)	8,993,043
Total intangibles	537,073	12,054	11,884	1,809		562,820

<b>At or for the Three Months Ended September 30, 2009</b>	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
Interest income	\$ 87,861	\$ 3	\$ 64	\$ 8,154	\$ 668	\$ 96,750
Interest expense	24,763			1,353	2,873	28,989
Net interest income	63,098	3	64	6,801	(2,205)	67,761
Provision for loan losses	14,693			1,521	241	16,455
Non-interest income	16,830	4,583	3,321	533	(1,522)	23,745
Non-interest expense	49,512	3,672	3,140	4,027	238	60,589
Intangible amortization	1,533	92	107			1,732
Income tax expense (benefit)	2,975	297	51	650	(1,549)	2,424
Net income (loss)	11,215	525	87	1,136	(2,657)	10,306
Total assets	8,398,925	19,881	21,152	167,720	(11,806)	8,595,872
Total intangibles	543,058	12,409	12,302	1,809		569,578

<b>At or for the Nine Months Ended September 30, 2010</b>	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
Interest income	\$ 252,988	\$ 10	\$ 155	\$ 24,660	\$ 3,041	\$ 280,854
Interest expense	57,593			3,673	7,443	68,709
Net interest income	195,395	10	155	20,987	(4,402)	212,145
Provision for loan losses	31,451			4,547	518	36,516
Non-interest income	62,389	15,339	10,045	1,710	(3,011)	86,472
Non-interest expense	154,399	12,209	8,835	11,953	337	187,733
Intangible amortization	4,458	263	320			5,041
Income tax expense (benefit)	17,773	1,037	375	2,237	(3,214)	18,208
Net income (loss)	49,703	1,840	670	3,960	(5,054)	51,119
Total assets	8,800,430	20,139	19,642	168,269	(15,437)	8,993,043
Total intangibles	537,073	12,054	11,884	1,809		562,820

<b>At or for the Nine Months Ended September 30, 2009</b>	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
Interest income	\$ 266,042	\$ 10	\$ 218	\$ 24,006	\$ 1,782	\$ 292,058
Interest expense	81,735			4,256	8,720	94,711
Net interest income	184,307	10	218	19,750	(6,938)	197,347
Provision for loan losses	35,726			4,626	526	40,878
Non-interest income	57,747	14,856	10,749	1,636	(4,786)	80,202
Non-interest expense	149,998	11,875	9,203	11,680	1,442	184,198
Intangible amortization	4,764	275	321			5,360
Income tax expense (benefit)	12,213	976	513	1,847	(4,991)	10,558
Net income (loss)	39,353	1,740	930	3,233	(8,701)	36,555
Total assets	8,398,925	19,881	21,152	167,720	(11,806)	8,595,872
Total intangibles	543,058	12,409	12,302	1,809		569,578

## FAIR VALUE MEASUREMENTS

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

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

In determining fair value, the Corporation uses various valuation approaches, including market, income and cost approaches. ASC Topic 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:

- 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.

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

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

### *Securities Available For Sale*

Securities available for sale consists of both debt and equity securities. These securities are recorded at fair value on a recurring basis. At September 30, 2010, approximately 97.7% 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 2.3% of these securities were measured using model-based techniques, with primarily unobservable (Level 3) inputs.

The Corporation closely monitors market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using

unobservable inputs, those assets are classified as Level 1 or Level 2; if not, they are classified as Level 3. Making this assessment requires significant judgment.

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

The Corporation determines the valuation of its investments in trust preferred debt securities with the assistance of a third-party independent financial consulting firm that specializes in advisory services related to illiquid financial investments. The consulting firm provides the Corporation appropriate valuation methodology, performance assumptions, modeling techniques, discounted cash flows, discount rates 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 for information on how the Corporation reassesses assumptions to determine the valuation of its trust preferred debt securities. Accessing the services of a financial consulting firm with a focus on financial instruments assists the Corporation in accurately valuing these complex financial instruments and facilitates informed decision-making with respect to such instruments.

#### *Derivative Financial Instruments*

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

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

Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2010, 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 nonrecurring fair value adjustments. Fair value, when recorded, is based on independent quoted market prices for similar assets and is classified as Level 2.

#### *Impaired Loans*

The Corporation reserves for commercial and commercial real estate loans that the Corporation considers impaired as defined in ASC Topic 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's financial statements. Management must rely on the financial statements prepared and certified by the borrower or its accountants in determining the value of these business assets on an ongoing basis which may be subject to significant change over time. Based on the quality



of information or statements provided, management may require the use of business asset appraisals and site-inspections to better value these assets. The Corporation may discount appraised and reported values based on management's historical knowledge, changes in market conditions from the time of valuation or management's knowledge of the borrower and the borrower's business. Since not all valuation inputs are observable, the Corporation classifies these nonrecurring fair value determinations as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

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

*Other Real Estate Owned*

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

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, 2010</b>				
Assets measured at fair value:				
Available for sale debt securities:				
U.S. Treasury and other U.S. government agencies and corporations	\$	\$ 283,825	\$	\$ 283,825
Residential mortgage-backed securities:				
Agency mortgage-backed securities		222,051		222,051
Agency collateralized mortgage obligations		153,385		153,385
Non-agency collateralized mortgage obligations		40		40
States of the U.S. and political subdivisions		61,185		61,185
Collateralized debt obligations			5,163	5,163
Other debt securities			11,150	11,150
		720,486	16,313	736,799
Available for sale equity securities:				
Financial services industry	381	1,262	359	2,002
Insurance services industry	27			27
	408	1,262	359	2,029
	408	721,748	16,672	738,828
Derivative financial instruments		37,025		37,025
	\$ 408	\$ 758,773	\$ 16,672	\$ 775,853
Liabilities measured at fair value:				
Derivative financial instruments		\$ 36,616		\$ 36,616

\$ 36,616

\$ 36,616

	Level 1	Level 2	Level 3	Total
<b>December 31, 2009</b>				
Assets measured at fair value:				
Available for sale debt securities:				
U.S. Treasury and other U.S. government agencies and corporations	\$	\$ 252,456	\$	\$ 252,456
Residential mortgage-backed securities:				
Agency mortgage-backed securities		325,771		325,771
Agency collateralized mortgage obligations		43,508		43,508
Non-agency collateralized mortgage obligations		45		45
States of the U.S. and political subdivisions		75,583		75,583
Collateralized debt obligations			4,824	4,824
Other debt securities			10,430	10,430
		697,363	15,254	712,617
Available for sale equity securities:				
Financial services industry	992	1,385	333	2,710
Insurance services industry	22			22
	1,014	1,385	333	2,732
	1,014	698,748	15,587	715,349
Derivative financial instruments		13,305		13,305
	\$ 1,014	\$ 712,053	\$ 15,587	\$ 728,654
Liabilities measured at fair value:				
Derivative financial instruments		\$ 12,497		\$ 12,497
		\$ 12,497		\$ 12,497

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:

	Collateralized Debt Obligations	Other Debt Securities	Equity Securities	Total
<b>Nine Months Ended September 30, 2010</b>				
Balance at beginning of period	\$ 4,824	\$ 10,430	\$ 333	\$ 15,587
Total gains (losses) realized/unrealized:				
Included in earnings	(2,281)			(2,281)
Included in other comprehensive income	2,619	720	27	3,366
Purchases, issuances, and settlements				
Transfers in and/or (out) of Level 3				



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

Balance at end of period	\$	5,162	\$	11,150	\$	360	\$	16,672
--------------------------	----	-------	----	--------	----	-----	----	--------

33

---

	<b>Collateralized Debt Obligations</b>	<b>Other Debt Securities</b>	<b>Equity Securities</b>	<b>Total</b>
<b>Twelve Months Ended December 31, 2009</b>				
Balance at beginning of period	\$ 14,626	\$ 8,475	\$ 293	\$ 23,394
Total gains (losses) realized/unrealized:				
Included in earnings	(7,098)			(7,098)
Included in other comprehensive income	(2,704)	2,236	40	(428)
Purchases, issuances, and settlements		14,465		14,465
Transfers in and/or (out) of Level 3		(14,746)		(14,746)
Balance at end of period	\$ 4,824	\$ 10,430	\$ 333	\$ 15,587

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.

The amount of total losses included in earnings for the nine months ended September 30, 2010 and 2009 and for the year 2009 attributable to the change in unrealized gains or losses relating to assets still held as of those dates was \$2,281, \$3,510 and \$7,098, respectively. These losses are included in net impairment losses on securities reported as a component of non-interest income.

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>September 30, 2010</b>				
Impaired loans		\$ 2,246	\$42,944	\$45,190
Other real estate owned		16,776	5,026	21,802
<b>December 31, 2009</b>				
Impaired loans		2,794	21,981	24,775
Other real estate owned		6,929	7,687	14,616

Impaired loans measured or re-measured at fair value on a non-recurring basis during the nine months ended September 30, 2010 had a carrying amount of \$48,646 and an allocated allowance for loan losses of \$10,167 at September 30, 2010. The allocated allowance is based on fair value of \$45,190 less estimated costs to sell of \$6,711. The allowance for loan losses includes a provision applicable to the current period fair value measurements of \$6,971 which was included in the provision for loan losses for the nine months ended September 30, 2010.

OREO with a carrying amount of \$28,417 was written down to \$21,802 (fair value of \$25,187 less estimated costs to sell of \$3,385), resulting in a loss of \$6,615, which was included in earnings for the nine months ended September 30, 2010.

#### *Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each financial instrument: *Cash and Due from Banks, Short-Term Investments, 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

34

---

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. The fair value of variable and adjustable rate loans approximates the carrying amount.

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

*Deposits.* The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. 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 non-binding, and fees are not normally assessed on these balances.

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and short-term investments	\$ 307,021	\$ 307,021	\$ 310,550	\$ 310,550
Securities available for sale	738,828	738,828	715,349	715,349
Securities held to maturity	869,765	904,589	775,281	796,537
Net loans, including loans held for sale	5,904,679	5,951,693	5,757,460	5,770,824
Bank owned life insurance	207,402	207,402	205,447	205,447
Accrued interest receivable	26,944	26,944	27,219	27,219
<b>Financial Liabilities</b>				
Deposits	6,597,828	6,641,540	6,380,223	6,420,971
Short-term borrowings	817,582	818,313	669,167	669,712
Long-term debt	203,257	210,746	324,877	333,494
Junior subordinated debt	204,204	104,128	204,711	90,721
Accrued interest payable	7,265	7,265	8,951	8,951

**PART I.**

**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, 2010. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto. The Corporation's results of operations for the nine months ended September 30, 2010 are not necessarily indicative of results to be expected for the year ending December 31, 2010.

**IMPORTANT NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this report are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, which statements generally can be identified by the use of forward-looking terminology, such as may, will, expect, estimate, anticipate, believe, target, plan, project or continue or the negatives thereof, variations thereon or similar terminology, and are made on the basis of management's current plans and analyses of the Corporation, its business and the industry as a whole. These forward-looking statements are subject to risks and uncertainties, including, but not limited to, economic conditions, competition, interest rate sensitivity and the impact of regulatory and legislative changes, including those resulting from the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and any requirements adopted by the Basel Committee on Banking Supervision. The above factors in some cases could affect the Corporation's financial performance and could cause actual results to differ materially from those expressed or implied in such forward-looking statements. The Corporation does not undertake to update or revise its forward-looking statements even if experience or future changes make it clear that the Corporation will not realize any projected results expressed or implied therein.

**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 2009 Annual Report on Form 10-K 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, 2009.

**OVERVIEW**

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

Because the Corporation issued preferred stock to the UST in January 2009, the Corporation reported net income available to common stockholders for the periods in which the preferred stock was outstanding. Net income available to common stockholders is calculated by subtracting the preferred stock dividends and discount amortization from net income.

**RESULTS OF OPERATIONS**

***Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009***

Net income for the three months ended September 30, 2010 was \$17.2 million or \$0.15 per diluted share, compared to net income available to common stockholders for the three months ended September 30, 2009 of \$4.8 million or \$0.04 per diluted common share. Net income available to common stockholders for the three months ended September 30, 2009 was derived by reducing net income by \$5.5 million related to preferred stock dividends and discount amortization associated with the Corporation's participation in the CPP. For the three months ended

September 30, 2010, the Corporation's return on average equity was 6.43% and its return on average assets was 0.76%, compared to 3.62% and 0.47%, respectively, for the three months ended September 30, 2009.

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, return on average tangible common equity and return on average tangible assets. The Corporation believes these non-GAAP financial measures provide information useful to investors in understanding the Corporation's operating performance and trends, and facilitates comparisons with the performance of the Corporation's peers. The non-GAAP financial measures used by the Corporation may differ from the non-GAAP financial measures other financial institutions use to measure their results of operations. The following tables summarize the Corporation's non-GAAP financial measures for the quarterly periods indicated derived from amounts reported in the Corporation's financial statements (dollars in thousands):

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Return on average tangible common equity:</b>		
Net income available to common stockholders (annualized)	\$ 68,308	\$ 19,085
Amortization of intangibles, net of tax (annualized)	4,319	4,467
	\$ 72,627	\$ 23,552
Average total stockholders' equity	\$ 1,062,512	\$ 1,128,898
Less: Average preferred stockholders' equity		(72,727)
Less: Average intangibles	(563,631)	(570,705)
	\$ 498,881	\$ 485,466
Return on average tangible common equity	14.56%	4.85%
 <b>Return on average tangible assets:</b>		
Net income (annualized)	\$ 68,308	\$ 40,887
Amortization of intangibles, net of tax (annualized)	4,319	4,467
	\$ 72,627	\$ 45,354
Average total assets	\$ 8,958,692	\$ 8,701,853
Less: Average intangibles	(563,631)	(570,705)
	\$ 8,395,061	\$ 8,131,148
Return on average tangible assets	0.87%	0.56%

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

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>2010</b>			<b>2009</b>		
	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						
(4)	\$ 162,377	\$ 120	0.29%	\$ 269,425	\$ 217	0.31%
Federal funds sold					(58)	
Taxable investment securities (1)	1,428,043	10,524	2.90	1,272,091	12,771	3.97
Non-taxable investment securities (2)	184,569	2,712	5.88	194,086	2,792	5.75
Loans (2) (3)	5,998,926	82,257	5.45	5,814,013	82,672	5.65
Total interest earning assets (2)	7,773,915	95,613	4.89	7,549,615	98,394	5.18
Cash and due from banks	147,779			143,710		
Allowance for loan losses	(117,982)			(103,249)		
Premises and equipment	115,322			119,786		
Other assets	1,039,658			991,992		
	\$ 8,958,692			\$ 8,701,854		
<b>Liabilities</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 2,439,563	2,324	0.38	\$ 2,256,086	3,530	0.66
Savings	867,693	417	0.19	845,082	560	0.26
Certificates and other time	2,201,454	13,001	2.34	2,223,126	16,200	2.89
Treasury management accounts	660,762	1,104	0.65	465,250	1,095	0.92
Other short-term borrowings	129,753	924	2.79	118,274	977	3.23
Long-term debt	208,433	1,825	3.47	412,411	4,210	4.05
Junior subordinated debt	204,287	2,092	4.06	204,962	2,417	4.68
Total interest bearing liabilities (2)	6,711,945	21,687	1.28	6,525,191	28,989	1.76
Non-interest bearing demand	1,077,797			951,113		
Other liabilities	106,438			96,652		
	7,896,180			7,572,956		
<b>Stockholders equity</b>	1,062,512			1,128,898		
	\$ 8,958,692			\$ 8,701,854		

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

Excess of interest earning assets over interest bearing liabilities	\$ 1,061,970		\$ 1,024,424
Fully tax-equivalent net interest income	73,926		69,405
Tax-equivalent adjustment	(1,666)		(1,644)
Net interest income	\$ 72,260		\$ 67,761
Net interest spread		3.61%	3.42%
Net interest margin (2)		3.78%	3.66%

- (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.
- (4) Interest bearing deposits with banks includes balances at the Federal Reserve Bank.



*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, treasury management accounts and short- and long-term borrowings). For the three months ended September 30, 2010, net interest income, which comprised 72.3% of net revenue (net interest income plus non-interest income) compared to 74.1% for the same period in 2009, 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 \$4.5 million or 6.5% from \$69.4 million for the three months ended September 30, 2009 to \$73.9 million for the same period of 2010. Average earning assets increased \$224.3 million or 3.0% and average interest bearing liabilities increased \$186.8 million or 2.9% from the three months ended September 30, 2009 due to investment, loan, deposit and treasury management growth. The Corporation's net interest margin increased from 3.66% for the third quarter of 2009 to 3.78% for the third quarter of 2010 as deposit rates declined faster than loan yields along with an improved funding mix with higher transaction account balances and lower long-term debt. 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, 2010 compared to the three months ended September 30, 2009 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ (85)	\$ (12)	\$ (97)
Federal funds sold		58	58
Securities	699	(3,026)	(2,327)
Loans	1,692	(2,107)	(415)
	2,306	(5,087)	(2,781)
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	(4)	(1,202)	(1,206)
Savings	(1)	(142)	(143)
Certificates and other time	(152)	(3,047)	(3,199)
Treasury management accounts	382	(373)	9
Other short-term borrowings	89	(142)	(53)
Long-term debt	(1,853)	(532)	(2,385)
Junior subordinated debt	(8)	(317)	(325)
	(1,547)	(5,755)	(7,302)
Net Change	\$ 3,853	\$ 668	\$ 4,521

(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 \$95.6 million for the third quarter of 2010 decreased by \$2.8 million or 2.8% from the same period of 2009 due to lower yields, partially offset by increased earning assets. Average earning assets of \$7.8 billion for the third quarter of 2010 grew \$224.3 million or 3.0% from the same period of 2009 primarily driven by increases in average investments and average loans, partially offset by a decrease in interest bearing deposits with banks. The yield on earning assets decreased 29 basis points from the three months ended September 30, 2009 to 4.89% for the three months ended September 30, 2010, reflecting the decreases in market interest rates.

Interest expense of \$21.7 million for the three months ended September 30, 2010 decreased \$7.3 million or 25.2% from the same period of 2009 due to lower rates paid partially offset by growth in interest bearing liabilities. The rate paid on interest bearing liabilities decreased 48 basis points to 1.28% during the third quarter of 2010 compared to the third quarter of 2009, reflecting changes in interest rates and a favorable shift in mix. Average interest bearing liabilities increased \$186.8 million or 2.9% to average \$6.7 billion for the third quarter of 2010. This growth was primarily attributable to growth in deposits and treasury management accounts, which increased by \$379.9 million or 6.6% for the third quarter of 2010, compared to the same period of 2009, driven by success with ongoing marketing campaigns designed to attract new customers combined with customer preferences to keep funds in banks due to uncertainties in the market. This growth was partially offset by a \$204.0 million or 49.5% reduction in long-term debt associated with the pre-payment and maturities of certain higher cost borrowings since September 30, 2009.

#### *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 \$12.3 million during the third quarter of 2010 decreased \$4.1 million from the same period in 2009. During the third quarter of 2010, net charge-offs decreased \$0.3 million from the same period of 2009 as the Corporation recognized lower net charge-offs in its Florida portfolio, which decreased \$0.4 million compared to the third quarter of 2009. The allowance for loan losses increased \$10.7 million to \$116.6 million at September 30, 2010 from September 30, 2009. While the economy is recovering from the recession, the duration of the slow economic environment remains a challenge for borrowers, particularly in the Corporation's Florida portfolio. The \$12.3 million provision for loan losses for the third quarter of 2010 was comprised of \$5.9 million relating to FNBPA's Florida region, \$1.6 million relating to Regency and \$4.8 million relating to the remainder of the Corporation's portfolio, which is predominantly in Pennsylvania. During the third quarter of 2010, net charge-offs were \$9.7 million or 0.64% (annualized) of average loans compared to \$10.0 million or 0.68% (annualized) of average loans for the same period in 2009. The net charge-offs for the third quarter of 2010 were comprised of \$3.7 million or 6.59% (annualized) of average loans relating to FNBPA's Florida region, \$1.6 million or 3.84% (annualized) of average loans relating to Regency and \$4.4 million or 0.32% (annualized) of average loans relating to the remainder of the Corporation's portfolio. For additional information relating to the allowance and provision for loan losses, refer to the Allowance and Provision for Loan Losses section of this Management's Discussion and Analysis.

#### *Non-Interest Income*

Total non-interest income of \$27.8 million for the third quarter of 2010 increased \$4.0 million or 16.9% from the same period of 2009. Increases in securities commissions and fees, trust income and other non-interest income combined with lower OTTI charges were offset by decreases in service charges and insurance commissions and fees. These items, and other variances in non-interest income, are further explained in the following paragraphs.

Service charges on loans and deposits of \$14.3 million for the third quarter of 2010 decreased \$0.5 million or 3.5% from the same period of 2009, reflecting lower overdraft fees resulting from changes in the pattern of consumer behavior and the implementation of Regulation E, which was effective for new accounts on July 1, 2010 and existing accounts on August 15, 2010. The Corporation estimates a \$1.2 million reduction in revenues from overdraft fees during the remaining three months of 2010, which could lower fourth quarter earnings by \$0.01 per share. The lower overdraft fees were partially offset by higher check card fees.

Insurance commissions and fees of \$3.9 million for the three months ended September 30, 2010 decreased slightly from \$4.0 million for the same period of 2009.

Securities commissions of \$1.8 million for the third quarter of 2010 increased by \$0.3 million or 23.6% from the same period of 2009 primarily due to higher revenue generated from increased financial consultant activity during 2010.

Trust fees of \$3.1 million for the third quarter of 2010 increased by \$0.2 million or 8.0% from the same period of 2009 due to the effect of improved market conditions on assets under management compared to 2009.

Income from BOLI of \$1.4 million for the three months ended September 30, 2010 remained consistent with the same period of 2009.

Gain on the sale of residential mortgage loans of \$1.0 million for the third quarter of 2010 increased from \$0.7 million for the same period of 2009. For the third quarter of 2010, the Corporation sold \$47.8 million of residential mortgage loans compared to \$44.0 million for the same period of 2009 as part of its ongoing strategy of generally selling 30-year residential mortgage loans.

There were no net impairment losses on securities for the three months ended September 30, 2010, compared to losses of \$3.3 million from the same period of 2009.

Other income of \$2.2 million for the third quarter of 2010 increased \$0.4 million or 20.6% from the same period of 2009. The primary items contributing to this increase were \$0.2 million more in fees earned through an interest rate swap program for larger commercial customers who desire fixed rate loans while the Corporation benefits from a variable rate asset, thereby helping to reduce volatility in its net interest income, combined with a \$0.5 million impairment loss related to the Corporation's merchant banking subsidiary during the third quarter of 2009. These items were partially offset by \$0.2 million less in recoveries on impaired loans acquired in previous acquisitions.

#### *Non-Interest Expense*

Total non-interest expense of \$64.2 million for the third quarter of 2010 increased \$1.9 million or 3.1% from the same period of 2009. This increase was primarily attributable to an increase in salaries and employee benefits expense. This increase, and other variances in non-interest expense, is further explained in the following paragraphs.

Salaries and employee benefits of \$33.8 million for the three months ended September 30, 2010 increased \$2.5 million or 7.8% from the same period of 2009. This increase was primarily attributable to higher exempt salary expense due to merit increases and more full-time employees in 2010 combined with higher deferred compensation and restricted stock expense.

Combined net occupancy and equipment expense of \$9.3 million for the third quarter of 2010 remained unchanged compared to the same period in 2009.

Amortization of intangibles expense of \$1.7 million for the third quarter of 2010 decreased slightly from the same period of 2009 due to a combination of certain intangible assets being completely amortized during 2009 and lower amortization expense on some intangible assets due to accelerated amortization methods.

Outside services expense of \$5.7 million for the three months ended September 30, 2010 decreased \$0.1 million or 1.4% from the same period in 2009, primarily resulting from decreases in legal, consulting and courier expenses, partially offset by an increase in fees associated with ATM services.

Federal Deposit Insurance Corporation (FDIC) insurance of \$2.6 million for the third quarter of 2010 remained unchanged compared to the same period of 2009.

Other non-interest expense decreased to \$11.1 million for the third quarter of 2010 from \$11.5 million for the third quarter of 2009. This decrease was primarily the result of decreases in marketing, insurance benefit and telephone expenses, partially offset by increases in supplies and business development expenses.

#### *Income Taxes*

The Corporation's income tax expense of \$6.2 million for the third quarter of 2010 increased \$3.8 million or 157.3% from the same period of 2009. The effective tax rate of 26.59% for the third quarter of 2010 increased from 19.04% for the same period of 2009 primarily due to higher taxable income for the third quarter of 2010. Both periods tax rates are lower than the 35.0% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt instruments and excludable dividend income.

**Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009**

Net income for the nine months ended September 30, 2010 was \$51.1 million or \$0.45 per diluted share, compared to net income available to common stockholders for the nine months ended September 30, 2009 of \$28.2 million or \$0.29 per diluted common share. Net income available to common stockholders for the nine months ended September 30, 2009 was derived by reducing net income by \$8.3 million related to preferred stock dividends and discount amortization associated with the Corporation's participation in the CPP. For the nine months ended September 30, 2010, the Corporation's return on average equity was 6.48% and its return on average assets was 0.77%, compared to 4.58% and 0.57%, respectively, for the nine months ended September 30, 2009.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Return on average tangible common equity:</b>		
Net income available to common stockholders (annualized)	\$ 68,346	\$ 37,766
Amortization of intangibles, net of tax (annualized)	4,381	4,658
	\$ 72,727	\$ 42,424
Average total stockholders' equity	\$ 1,054,115	\$ 1,066,683
Less: Average preferred stockholders' equity		(85,035)
Less: Average intangibles	(565,290)	(572,444)
	\$ 488,825	\$ 409,204
Return on average tangible common equity	14.88%	10.37%
<b>Return on average tangible assets:</b>		
Net income (annualized)	\$ 68,346	\$ 48,874
Amortization of intangibles, net of tax (annualized)	4,381	4,658
	\$ 72,727	\$ 53,532
Average total assets	\$ 8,860,202	\$ 8,580,797
Less: Average intangibles	(565,290)	(572,444)
	\$ 8,294,912	\$ 8,008,353
Return on average tangible assets	0.88%	0.67%

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

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,					
	Average Balance	2010 Interest Income/ Expense	Yield/ Rate	Average Balance	2009 Interest Income/ Expense	Yield/ Rate
<b>Assets</b>						
Interest earning assets:						
Interest bearing deposits with						
banks (4)	\$ 172,755	\$ 326	0.25%	\$ 217,210	\$ 393	0.23%
Federal funds sold				18,864	69	0.48
Taxable investment securities (1)	1,375,233	33,100	3.16	1,183,180	38,366	4.28
Non-taxable investment securities (2)	189,966	8,362	5.87	185,879	8,013	5.75
Loans (2) (3)	5,942,654	244,035	5.48	5,815,899	249,906	5.74
 Total interest earning assets (2)	 7,680,608	 285,823	 4.97	 7,421,032	 296,747	 5.34
 Cash and due from banks	 141,414			 142,355		
Allowance for loan losses	(113,292)			(105,681)		
Premises and equipment	116,264			121,519		
Other assets	1,035,208			1,001,573		
	\$ 8,860,202			\$ 8,580,798		
 <b>Liabilities</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 2,417,642	7,871	0.44	\$ 2,157,008	11,179	0.69
Savings	856,638	1,241	0.19	848,157	2,412	0.38
Certificates and other time	2,213,129	40,960	2.47	2,276,079	53,471	3.14
Treasury management accounts	625,567	3,412	0.72	451,208	3,418	1.00
Other short-term borrowings	129,809	2,779	2.82	108,919	2,951	3.57
Long-term debt	233,238	6,462	3.70	444,087	13,622	4.10
Junior subordinated debt	204,454	5,984	3.91	205,130	7,658	4.99
 Total interest bearing liabilities (2)	 6,680,477	 68,709	 1.37	 6,490,588	 94,711	 1.95
 Non-interest bearing demand Other liabilities	 1,025,847 99,763			 928,238 95,289		
	7,806,087			7,514,115		

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

<b>Stockholders equity</b>	1,054,115	1,066,683	
	\$ 8,860,202	\$ 8,580,798	
Excess of interest earning assets over interest bearing liabilities	\$ 1,000,131	\$ 930,444	
Fully tax-equivalent net interest income	217,114	202,036	
Tax-equivalent adjustment	(4,969)	(4,689)	
Net interest income	\$ 212,145	\$ 197,347	
Net interest spread		3.60%	3.39%
Net interest margin (2)		3.78%	3.63%

- (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.
- (4) Interest bearing deposits with banks includes balances at the Federal Reserve Bank.



*Net Interest Income*

For the nine months ended September 30, 2010, net interest income, which comprised 71.0% of net revenue compared to 71.1% for the same period in 2009, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve, the level of non-accrual loans and changes in the amount and mix of interest earning assets and interest bearing liabilities.

Net interest income, on an FTE basis, increased \$15.1 million or 7.5% from \$202.0 million for the nine months ended September 30, 2009 to \$217.1 million for the same period of 2010. Average earning assets increased \$259.6 million or 3.5% and average interest bearing liabilities increased \$189.9 million or 2.9% from the nine months ended September 30, 2009 due to investment, loan, deposit and treasury management growth. The Corporation's net interest margin increased from 3.63% for the first nine months of 2009 to 3.78% for the first nine months of 2010 as deposit rates declined faster than loan yields along with an improved funding mix with higher transaction account balances and lower long-term debt. 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, 2010 compared to the nine months ended September 30, 2009 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ (97)	\$ 30	\$ (67)
Federal funds sold	(35)	(34)	(69)
Securities	4,473	(9,390)	(4,917)
Loans	2,393	(8,264)	(5,871)
	6,734	(17,658)	(10,924)
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	653	(3,961)	(3,308)
Savings	(93)	(1,078)	(1,171)
Certificates and other time	(1,408)	(11,103)	(12,511)
Treasury management accounts	1,106	(1,112)	(6)
Other short-term borrowings	523	(695)	(172)
Long-term debt	(5,948)	(1,212)	(7,160)
Junior subordinated debt	(25)	(1,649)	(1,674)
	(5,192)	(20,810)	(26,002)
Net Change	\$ 11,926	\$ 3,152	\$ 15,078

- (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 \$285.8 million for the first nine months of 2010 decreased by \$10.9 million or 3.7% from the same period of 2009. Average earning assets of \$7.7 billion for the first nine months of 2010 grew \$259.6 million or 3.5% from the same period of 2009 primarily driven by increases in average investments and average loans. The yield on earning assets decreased 37 basis points from the nine months ended September 30, 2009 to 4.97% for the nine months ended September 30, 2010, reflecting the decreases in market interest rates.

Interest expense of \$68.7 million for the nine months ended September 30, 2010 decreased by \$26.0 million or 27.5% from the same period of 2009. The rate paid on interest bearing liabilities decreased 58 basis points to 1.37% during the first nine months of 2010 compared to the first nine months of 2009, reflecting changes in interest rates and a favorable shift in mix. Average interest bearing liabilities increased \$189.9 million or 2.9% to average \$6.7 billion for the first nine months of 2010. This growth was primarily attributable to growth in deposits and treasury management

accounts, which increased by \$380.5 million or 6.6% for the first nine months of 2010, compared to the same period of 2009 driven by success with ongoing marketing campaigns designed to attract new customers to the Corporation's local approach to banking combined with customer preferences to keep funds in banks due to uncertainties in the market. This growth was partially offset by a \$210.8 million or 47.5% decline in long-term debt associated with the pre-payment and maturities of certain higher cost borrowings since September 30, 2009.

#### *Provision for Loan Losses*

The provision for loan losses of \$36.5 million during the first nine months of 2010 decreased \$4.4 million from the same period in 2009. During the first nine months of 2010, net charge-offs decreased \$15.2 million from the same period of 2009 as the Corporation recognized lower net charge-offs for its Florida portfolio, which decreased \$17.0 million compared to the first nine months of 2009. The allowance for loan losses increased \$10.7 million to \$116.6 million at September 30, 2010. While the economy is recovering from the recession, the duration of the slow economic environment remains a challenge for borrowers, particularly in the Corporation's Florida portfolio. The \$36.5 million provision for loan losses for the first nine months of 2010 was comprised of \$15.9 million relating to FNBPA's Florida region, \$4.5 million relating to Regency and \$16.1 million relating to the remainder of the Corporation's portfolio, which is predominantly in Pennsylvania. During the first nine months of 2010, net charge-offs were \$24.5 million or 0.55% (annualized) of average loans compared to \$39.7 million or 0.91% (annualized) of average loans for the same period in 2009. The net charge-offs for the first nine months of 2010 were comprised of \$6.5 million or 3.82% (annualized) of average loans relating to FNBPA's Florida region, \$4.6 million or 3.84% (annualized) of average loans relating to Regency and \$13.4 million or 0.32% (annualized) of average loans relating to the remainder of the Corporation's portfolio. For additional information relating to the allowance and provision for loan losses, refer to the Allowance and Provision for Loan Losses section of this Management's Discussion and Analysis.

#### *Non-Interest Income*

Total non-interest income of \$86.5 million for the first nine months of 2010 increased \$6.3 million or 7.8% from the same period of 2009. This increase resulted primarily from increases in gain on sale of securities and recoveries on impaired loans previously acquired through acquisitions, partially offset by lower OTTI charges. These items, and other variances in non-interest income, are further explained in the following paragraphs.

Service charges on loans and deposits of \$42.6 million for the first nine months of 2010 decreased \$0.3 million or 0.7% from the same period of 2009, reflecting lower overdraft fees resulting from changing patterns of consumer behavior and the implementation of Regulation E, which was effective for new accounts on July 1, 2010 and existing accounts on August 15, 2010. The Corporation estimates a \$1.2 million reduction in revenues from overdraft fees during the remaining three months of 2010, which could lower fourth quarter earnings by \$0.01 per share. The lower overdraft fees were partially offset by higher check card fees.

Insurance commissions and fees of \$12.1 million for the nine months ended September 30, 2010 decreased \$0.8 million or 6.1% from the same period of 2009 primarily as a result of lower contingent revenues due to a less favorable loss ratio, combined with lower commission revenues and premium reductions due to decreased customer exposures.

Securities commissions of \$5.1 million for the first nine months of 2010 decreased by \$0.1 million or 2.4% from the same period of 2009 primarily due to lower revenue generated from financial consultant activity during 2010.

Trust fees of \$9.4 million for the first nine months of 2010 increased by \$0.6 million or 7.3% from the same period of 2009 due to the effect of improved market conditions on assets under management compared to 2009.

Income from BOLI of \$3.8 million for the nine months ended September 30, 2010 decreased by \$0.6 million or 14.5% from the same period of 2009. This decrease was primarily attributable to lower yields and a \$13.7 million withdrawal from the policy during the second quarter of 2009 which was redeployed into higher return assets.

Gain on the sale of residential mortgage loans of \$2.3 million for the first nine months of 2010 remained unchanged from the same period of 2009. For the first nine months of 2010, the Corporation sold \$123.9 million of residential mortgage loans compared to \$158.9 million for the same period of 2009 as part of its ongoing strategy of generally selling 30-year residential mortgage loans.



Gain on the sale of securities of \$2.5 million for the first nine months of 2010 increased \$2.0 million from the same period of 2009 primarily a result of the Corporation selling a \$6.0 million U.S. government agency security and \$53.8 million of mortgage-backed securities in 2010 to better position the balance sheet.

Net impairment losses on securities of \$2.3 million for the nine months ended September 30, 2010 decreased by \$1.9 million from the same period of 2009 due to fewer impairment losses during 2010 relating to investments in pooled TPS.

Other income of \$10.9 million for the first nine months of 2010 increased \$3.5 million or 48.2% from the same period of 2009. The primary items contributing to this increase were \$2.6 million more in recoveries on impaired loans acquired in previous acquisitions, \$1.1 million more in gains relating to activity at the Corporation's merchant banking subsidiary and \$0.2 million more in gains relating to the sale of repossessed assets. These items were partially offset by a gain of \$0.8 million recognized during the first nine months of 2009 on the sale of a building acquired in a previous acquisition and a decrease of \$0.8 million in fees earned through an interest rate swap program for larger commercial customers who desire fixed rate loans while the Corporation benefits from a variable rate asset, thereby helping to reduce volatility in its net interest income.

#### *Non-Interest Expense*

Total non-interest expense of \$192.8 million for the first nine months of 2010 increased \$3.2 million or 1.7% from the same period of 2009. This increase was primarily attributable to increases in salaries and employee benefits and other non-interest expense, partially offset by decreases in FDIC insurance, outside services and amortization of intangibles. These items, and other variances in non-interest expense, are further explained in the following paragraphs.

Salaries and employee benefits of \$100.3 million for the nine months ended September 30, 2010 increased \$5.3 million or 5.5% from the same period of 2009. This increase was primarily attributable to increases in employee headcount along with employee insurance resulting from more claims in the first nine months of 2010 than there were during the first nine months of 2009 and deferred compensation and restricted stock awards as there were additional awards granted to more participants during the first nine months of 2010 compared to the same period of 2009.

Combined net occupancy and equipment expense of \$28.8 million for the first nine months of 2010 remained unchanged compared to the same period in 2009.

Amortization of intangibles expense of \$5.0 million for the first nine months of 2010 decreased \$0.3 million or 6.0% from the same period of 2009 due to a combination of certain intangible assets being completely amortized during 2009 and lower amortization expense on some intangible assets due to accelerated amortization methods.

Outside services expense of \$17.1 million for the nine months ended September 30, 2010 decreased \$0.5 million or 2.8% from the same period in 2009 primarily due to lower legal and consulting fees during 2010 resulting from the completion of projects and loan workout efforts in 2009.

FDIC insurance of \$7.9 million for the first nine months of 2010 decreased \$3.3 million or 29.6% from the same period of 2009 primarily due to a one-time special assessment of \$4.0 million paid during the second quarter of 2009 partially offset by an increase in FDIC insurance premium rates during the second half of 2009 combined with an increase in deposits.

Other non-interest expense increased to \$33.6 million for the first nine months of 2010 from \$31.5 million for the first nine months of 2009. During the first nine months of 2010, the Corporation recognized charges of \$2.3 million associated with the pre-payment of certain higher cost borrowings. Additionally, advertising and promotional expense for the first nine months of 2010 is \$0.2 million higher than the first nine months of 2009 due to increased advertising in connection with the Corporation's efforts to attract new customers during a time of competitor disruption in the marketplace. Telephone expense for the first nine months of 2010 is \$0.6 million lower than the first nine months of 2009 reflecting continued effective expense control.

#### *Income Taxes*

The Corporation's income tax expense of \$18.2 million for the first nine months of 2010 increased \$7.7 million or 72.5% from the same period of 2009. The effective tax rate of 26.26% for the first nine months of 2010 increased

from 22.41% for the same period of 2009 primarily due to the higher level of taxable income. Income taxes and the effective tax rate for the nine months ended September 30, 2010 and 2009 were favorably impacted by \$0.2 million and \$0.4 million, respectively, due to the resolution of previously uncertain tax positions. Both periods' tax rates are lower than the 35.0% federal statutory tax rate due to the tax benefits primarily resulting from tax-exempt instruments and excludable dividend income.

## LIQUIDITY

The Corporation's goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers as well as 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.

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, 2010 was \$76.0 million, up from \$74.9 million at December 31, 2009. Management believes these are appropriate levels of cash for the Corporation given the current environment. Two metrics that are used to gauge the adequacy of the parent company's cash position are the Liquidity Coverage Ratio (LCR) and Months of Cash on Hand (MCH). The LCR is defined as the sum of cash on hand plus cash inflows (next 12 months) divided by cash outflows (next 12 months). The LCR was 2.3x on September 30, 2010 and 2.1x on December 31, 2009. The MCH is defined as the number of months of corporate expenses that can be covered by the cash on hand. The MCH was 12 months on September 30, 2010 and 12 months on December 31, 2009. During 2009, the Parent took a number of actions to bolster its cash position. On January 9, 2009, the Corporation completed the sale of 100,000 shares of newly issued Series C Preferred Stock valued at \$100.0 million as part of the UST's CPP. The Corporation redeemed the Series C Preferred Stock on September 9, 2009. Additionally, on January 21, 2009, the Corporation's Board of Directors elected to reduce the common stock cash dividend rate from \$0.24 to \$0.12 per quarter, thus reducing annual liquidity needs by approximately \$55.0 million. Finally, on June 16, 2009, the Corporation completed a common stock offering that raised \$125.8 million in total capital, \$98.0 million of which was invested in FNBPA. The parent also may draw on an approved line of credit with a major domestic bank. This unused line was \$15.0 million as of September 30, 2010 and December 31, 2009. During 2009, a \$25.0 million committed line of credit was negotiated with a major domestic bank on behalf of Regency. As of September 30, 2010 and December 31, 2009, \$10.0 million was outstanding. In addition, the Corporation also issues subordinated notes through Regency on a regular basis. Subordinated notes increased \$2.6 million or 1.4% for the first nine months of 2010. This increase is net of an \$11.4 million decrease in the balance of a single customer's account.

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 223 banking offices of FNBPA in the form of deposits and treasury management accounts. The Corporation also has access to reliable and cost-effective wholesale sources of liquidity. Short-term and long-term funds can be acquired to help fund normal business operations as well as serve as contingency funding in the event that the Corporation would be faced with a liquidity crisis.

The liquidity position of the Corporation continues to be strong as evidenced by its ability to generate strong growth in deposits and treasury management accounts. As a result, the Corporation is less reliant on capital markets funding as witnessed by its ratio of total deposits and treasury management accounts to total assets of 81.0% and 79.4% as of September 30, 2010 and December 31, 2009, respectively. Over this time period, growth in deposits and

treasury management accounts was \$368.0 million or 5.3%. FNBPA had unused wholesale credit availability of \$3.0 billion or 34.6% of total assets at September 30, 2010 and \$2.9 billion or 33.2% of total assets at December 31, 2009. These sources include the availability to borrow from the FHLB, the FRB, correspondent bank lines and access to certificates of deposit issued through brokers. FNBPA has identified certain liquid assets, including overnight cash, unpledged securities and loans, which could be sold to meet funding needs.

Included in these liquid assets are overnight balances and unpledged government and agency securities which totaled 2.8% of total assets as of September 30, 2010 and 4.9% of total assets as of December 31, 2009. The decline in this ratio is due to the pledging requirements associated with the growth in repurchase agreements. FNBPA recently received approval to offer an offshore, non-collateralized, interest-bearing checking account. This account is expected to substantially reduce the security pledging requirements of FNBPA as customers move from repurchase agreements to this account. Consequently, the lower pledging requirements will result in a higher level of unpledged government and agency securities available for contingency funding needs.

Another metric for measuring liquidity risk is the liquidity gap analysis. The following liquidity gap analysis (in thousands) for the Corporation compares the difference between cash flows from existing assets and liabilities over future time intervals. Management seeks to limit the size of the liquidity gap so that sources and uses of funds are reasonably matched in the normal course of business. A matched position lays a better foundation for dealing with the additional funding needs during a potential liquidity crisis. The cumulative gap to total assets of 1.5% as of September 30, 2010 compares to an internal guideline of between -5.0% and +5.0%. This metric was not calculated as of December 31, 2009.

	<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	\$ 168,627	\$ 309,850	\$ 411,026	\$ 753,927	\$ 1,643,430
Investments	220,244	113,717	128,330	270,096	732,387
	388,871	423,567	539,356	1,024,023	2,375,817
<b>Liabilities</b>					
Non-maturity deposits	56,058	112,116	168,175	336,349	672,698
Time deposits	151,534	273,940	382,626	529,432	1,337,532
Borrowings	36,702	44,319	53,122	98,191	232,334
	244,294	430,375	603,923	963,972	2,242,564
Period Gap (Assets - Liabilities)	\$ 144,577	\$ (6,808)	(64,567)	60,051	133,253
Cumulative Gap	\$ 144,577	\$ 137,769	73,202	133,253	
Cumulative Gap to Total Assets	1.6%	1.5%	0.8%	1.5%	

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

#### **MARKET RISK**

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The Corporation is susceptible to impairment charges on holdings in its investment portfolio. The Securities footnote discusses the impairment charges taken during both 2010 and 2009 relating to the pooled TPS and bank stock portfolios. The Securities footnote also discusses the ongoing process management utilizes to determine whether impairment exists.

The Corporation is primarily exposed to interest rate risk inherent in its lending and deposit-taking activities as a financial intermediary. To succeed in this capacity, the Corporation offers an extensive variety of financial products



to meet the diverse needs of its customers. These products sometimes contribute to interest rate risk for the Corporation when product groups do not complement one another. For example, depositors may want short-term deposits while borrowers desire long-term loans.

Changes in market interest rates may result in changes in the fair value of the Corporation's financial instruments, cash flows and net interest income. The ALCO is responsible for market risk management which involves devising policy guidelines, risk measures and limits, and managing the amount of interest rate risk and its effect on net

interest income and capital. The Corporation uses derivative financial instruments for interest rate risk management purposes and not for trading or speculative purposes.

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

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

Gap analysis and EVE are static measures that do not incorporate assumptions regarding future business. Gap analysis, while a helpful diagnostic tool, displays cash flows for only a single rate environment. EVE's long-term horizon helps identify changes in optionality and longer-term positions. However, EVE's liquidation perspective does not translate into the earnings-based measures that are the focus of managing and valuing a going concern. Net interest income simulations explicitly measure the exposure to earnings from changes in market rates of interest. In these simulations, the Corporation's current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios on a periodic basis. Reviewing these various measures provides the Corporation with a comprehensive view of its interest rate profile.

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

	<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>Interest Earning Assets (IEA)</b>					
Loans	\$ 1,958,689	\$ 490,028	\$ 364,126	\$ 630,091	\$ 3,442,934
Investments	220,248	151,421	196,670	344,334	912,673
	2,178,937	641,449	560,796	974,425	4,355,607
<b>Interest Bearing Liabilities (IBL)</b>					
Non-maturity deposits	1,620,772				1,620,772
Time deposits	160,828	268,326	373,107	509,879	1,312,141
Borrowings	721,124	17,932	13,542	40,530	793,127
	2,502,724	286,258	386,649	550,409	3,726,040
Period Gap	\$ (323,787)	\$ 355,191	\$ 174,147	\$ 424,016	\$ 629,567
Cumulative Gap	\$ (323,787)	\$ 31,404	\$ 205,551	\$ 629,567	
IEA/IBL (Cumulative)	.87	1.01	1.06	1.17	

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

Cumulative Gap to IEA	(4.2)%	0.4%	2.6%	8.1%
-----------------------	--------	------	------	------

The cumulative twelve-month IEA to IBL ratio changed slightly to 1.17 for September 30, 2010 from 1.04 for December 31, 2009.

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

The following metrics were calculated using rate shocks, representing immediate rate changes that move all market rates by the same amount. The variance percentages represent the change between the net interest income or EVE calculated under the particular rate shock versus the net interest income or EVE that was calculated assuming market rates as of September 30, 2010.

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, 2010</b>	<b>December 31, 2009</b>	<b>ALCO Guidelines</b>
Net interest income change (12 months):			
+ 200 basis points	1.2%	(1.1)%	+/-5.0%
+ 100 basis points	0.8%	(0.4)%	+/-5.0%
- 100 basis points	(0.3)%	(1.9)%	+/-5.0%
Economic value of equity:			
+ 200 basis points	(1.9)%	(5.9)%	
+ 100 basis points	0.1%	(2.3)%	
- 100 basis points	(0.3)%	(0.9)%	

The Corporation has a neutral interest rate risk position. In the short term, rising rates have a modest positive effect on net interest income. The Corporation has maintained a relatively stable net interest margin despite the recent market rate volatility.

During 2010, the ALCO utilized several strategies to maintain the Corporation's interest rate risk position at a relatively neutral level. For example, the Corporation successfully achieved growth in longer-term certificates of deposit. 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 increased from 57.4% of total loans as of December 31, 2009 to 57.8% of total loans as of September 30, 2010. The investment portfolio is used, in part, to improve the Corporation's interest rate risk position. The average life of the investment portfolio is relatively low at 2.3 years and 2.6 years at September 30, 2010 and December 31, 2009, respectively. Finally, the Corporation has made use of interest rate swaps to lessen its interest rate risk position. The \$89.2 million in notional swap principal originated in 2010 contributed to the increase in adjustable loans and has brought the total to \$457.0 million under this program. For additional information regarding interest rate swaps, see the Derivative Instruments footnote.

OCC Bulletin 2000-16 mandates that banks have their asset/liability models independently validated on a periodic basis. The Corporation's Asset/Liability Management Policy states that the model will be validated at least every three years. A leading asset/liability consulting firm issued a report as of December 31, 2009 after conducting a validation of the model for FNBPA. The model was given an "Excellent" rating, which according to the consultant, indicates that the overall model implementation meets FNBPA's earnings performance assessment and interest rate risk analysis needs.

However, the Corporation recognizes that all asset/liability models have some inherent shortcomings. Furthermore, asset/liability models require certain assumptions to be made, such as prepayment rates on interest earning assets and pricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon the Corporation's experience, business plans and available industry data. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will be achieved.

## **RISK MANAGEMENT**

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

The Corporation supports its risk management process through a governance structure involving its Board of Directors and senior management. The Corporation's Risk Committee, which is comprised of various members of the

---

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

facilitate the identification, assessment and monitoring of risk across the Corporation;

provide support and oversight to the Corporation's businesses; and

identify and implement risk management best practices, as appropriate.

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

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

#### **DEPOSITS AND TREASURY MANAGEMENT ACCOUNTS**

Following is a summary of deposits and treasury management accounts (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Non-interest bearing	\$ 1,103,393	\$ 992,298
Savings and NOW	3,307,698	3,182,909
Certificates of deposit and other time deposits	2,186,737	2,205,016
Total deposits	6,597,828	6,380,223
Treasury management accounts	687,139	536,784
Total deposits and treasury management accounts	\$ 7,284,967	\$ 6,917,007

Total deposits and treasury management accounts increased by \$368.0 million or 5.3% to \$7.3 billion at September 30, 2010 compared to December 31, 2009, primarily as a result of an increase in transaction accounts, which are comprised of non-interest bearing, savings and NOW accounts (which includes money market deposit accounts) and treasury management accounts. The increase in transaction accounts is a result of the Corporation's ability to capitalize on competitor disruption in the marketplace, with ongoing marketing campaigns designed to attract new customers to the Corporation's local approach to banking.

#### **LOANS**

The loan portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation's primary market area of Pennsylvania and northeastern Ohio. The portfolio also consists of commercial loans in Florida, which totaled \$213.4 million or 3.6% of total loans as of September 30, 2010 compared to \$243.9 million or 4.2% of total loans as of December 31, 2009. In addition, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio and Tennessee, which totaled \$161.5 million or 2.7% of total loans as of September 30, 2010 compared to \$162.0 million or 2.8% of total loans as of December 31, 2009.

Following is a summary of loans, net of unearned income (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Commercial	\$ 3,299,230	\$ 3,234,738
Direct installment	994,614	985,746
Residential mortgages	612,484	605,219
Indirect installment	519,366	527,818
Consumer lines of credit	473,606	408,469
Other	105,277	87,371
	<b>\$ 6,004,577</b>	<b>\$ 5,849,361</b>

Commercial is comprised of both commercial real estate loans and commercial and industrial loans. 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 mortgage loans for non-commercial properties. Indirect installment is comprised of loans written by third parties, primarily automobile loans. Consumer lines of credit includes 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 primarily comprised of commercial leases, mezzanine loans and student loans.

Unearned income on loans was \$40.3 million and \$38.2 million at September 30, 2010 and December 31, 2009, respectively.

Total loans increased \$155.2 million or 2.7% to \$6.0 billion at September 30, 2010 compared to \$5.8 billion at December 31, 2009. The majority of the increase was due to solid commercial loan growth, although total consumer loans also increased.

The composition of the Corporation's commercial loan portfolio in Florida was comprised of the following as of September 30, 2010: unimproved residential land (14.0%), unimproved commercial land (19.9%), improved land (3.3%), income producing commercial real estate (44.2%), residential construction (5.3%), commercial construction (10.8%), commercial and industrial (1.0%) and owner-occupied (1.5%). Unimproved commercial land, residential construction and commercial construction all experienced decreases from December 31, 2009, while income producing commercial real estate increased from that same period after an \$8.1 million residential construction loan and an \$8.5 million commercial construction loan were both reclassified to the income producing segment after the construction phases were completed and the properties began to lease. All other categories remained generally consistent with the composition at December 31, 2009. The weighted average loan-to-value ratio for this portfolio was 79.6% as of September 30, 2010.

The majority of the Corporation's loan portfolio consists of commercial loans, which is comprised of both commercial real estate loans and commercial and industrial loans. As of September 30, 2010 and December 31, 2009, commercial real estate loans were \$2.1 billion at each date, or 34.3% and 35.4% of total loans, respectively. Approximately 46.0% of the commercial real estate loans are owner-occupied, while the remaining 54.0% are non-owner-occupied. As of September 30, 2010 and December 31, 2009, the Corporation had commercial construction loans of \$209.9 million and \$184.1 million, respectively, representing 3.5% and 3.1% of total loans, respectively.

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

Non-performing loans include non-accrual loans and restructured loans. Non-accrual loans represent loans for which interest accruals have been discontinued. Restructured loans 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.

The Corporation discontinues interest accruals when principal or interest is due and has remained unpaid for 90 to 180 days depending on the loan type. When a loan is placed on non-accrual status, all unpaid interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest has been paid and the ultimate collectibility of the remaining principal and interest is reasonably assured.



Non-performing loans are closely monitored on an ongoing basis as part of the Corporation's loan review and work-out process. The potential risk of loss on these loans is evaluated by comparing the loan balance to the fair value of any underlying collateral or the present value of projected future cash flows. Losses on non-accrual and restructured loans are recognized when appropriate.

Following is a summary of non-performing assets (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Non-accrual loans	\$ 135,661	\$ 133,891
Restructured loans	18,735	11,624
Total non-performing loans	154,396	145,515
Other real estate owned (OREO)	32,345	21,367
Total non-performing loans and OREO	186,741	166,882
Non-performing investments	5,163	4,825
Total non-performing assets	\$ 191,904	\$ 171,707

Asset quality ratios:

Non-performing loans as a percent of total loans	2.57%	2.49%
Non-performing loans + OREO as a percent of total loans + OREO	3.09%	2.84%
Non-performing assets as a percent of total assets	2.13%	1.97%

During the first nine months of 2010, non-performing loans and OREO increased \$19.9 million from \$166.9 million at December 31, 2009 to \$186.7 million at September 30, 2010. This increase in non-performing loans and OREO reflects a \$7.1 million increase in restructured loans primarily relating to the Corporation's Pennsylvania portfolio, and an \$11.0 million increase in OREO, primarily relating to the Corporation's Florida portfolio. The restructured loans have increased primarily due to residential loans to help homeowners retain their residences. Additionally, total non-accrual loans increased \$1.8 million for the same nine month period, as non-accrual loans relating to the Corporation's Florida loan portfolio decreased \$0.5 million and non-accrual loans for Regency decreased \$0.2 million, partially offset by an increase of \$2.5 million in non-accrual loans associated with the Corporation's Pennsylvania loan portfolio. During the quarter, a \$20.0 million commercial relationship in the Corporation's Florida portfolio migrated to non-accrual status, which was somewhat offset by the partial charge down and subsequent transfer to OREO of a \$13.6 million loan also in the Florida portfolio.

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

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Loans 90 days or more past due	\$ 9,194	\$ 12,471
As a percentage of total loans	0.15%	0.21%

Following is a summary of information pertaining to loans considered to be impaired (in thousands):

<b>September 30, 2010</b>	<b>December 31, 2009</b>
-----------------------------------	----------------------------------

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

Impaired loans with an allocated allowance	\$	54,304	\$	38,608
Impaired loans without an allocated allowance		74,263		91,955
Total impaired loans	\$	128,567	\$	130,563
Allocated allowance on impaired loans	\$	12,949	\$	10,644

The majority of the loans deemed impaired were evaluated using the fair value of the collateral as the measurement method. The decline in impaired loans from December 31, 2009 to September 30, 2010 was primarily due to a combination of transfers to OREO, payoffs and the return of a commercial relationship to accruing status.

The following tables provide additional information relating to non-performing loans for the Corporation's loan portfolios (dollars in thousands):

	FNBPA (PA)	FNBPA (FL)	Regency	Total
<b>September 30, 2010</b>				
Non-performing loans	\$75,304	\$71,210	\$7,882	\$154,396
Other real estate owned (OREO)	9,458	21,548	1,339	32,345
Total past due loans	39,853	1,000	4,589	45,442
Non-performing loans/total loans	1.34%	33.36%	4.88%	2.57%
Non-performing loans + OREO/ total loans + OREO	1.50%	39.47%	5.66%	3.09%
<b>December 31, 2009</b>				
Non-performing loans	\$66,160	\$71,737	\$7,618	\$145,515
Other real estate owned (OREO)	9,836	10,341	1,190	21,367
Total past due loans	52,493		5,416	57,909
Non-performing loans/total loans	1.22%	29.41%	4.70%	2.49%
Non-performing loans + OREO/ total loans + OREO	1.39%	32.28%	5.40%	2.84%

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

#### **ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio at a specific point in time. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Additions are made to the allowance through both periodic provisions charged to income and recoveries of losses previously incurred. Reductions to the allowance occur as loans are charged off. Management evaluates the adequacy of the allowance at least quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time.

The components of the allowance for loan losses represent estimates based upon ASC Topic 450, *Contingencies*, and ASC Topic 310, *Receivables*. ASC Topic 450 applies to homogeneous loan pools such as consumer installment, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under ASC Topic 310. ASC Topic 310 is applied to commercial loans that are individually evaluated for impairment.

Under ASC Topic 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 loans 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.

In estimating loan loss contingencies, management considers numerous factors, including historical charge-off rates and subsequent recoveries. Management also considers, but is not limited to, qualitative factors that influence the Corporation's credit quality, such as delinquency and non-performing loan trends, changes in loan underwriting guidelines and credit policies, as well as the results of internal loan reviews. Finally, management considers the impact of changes in current local and regional economic conditions in the markets that the Corporation serves. Assessment of relevant economic factors indicates that the Corporation's primary markets historically tend to lag the national economy, with local economies in the Corporation's primary market areas also improving or weakening, as the case may be, but at a more measured rate than the national trends. Regional economic factors influencing

management's estimate of reserves include uncertainty of the labor markets in the regions the Corporation serves as well as the impact of unemployment trends in these areas, which have fluctuated in response to the recent economic cycle. Homogeneous loan pools are evaluated using similar criteria that are based upon historical loss rates for various loan types. Historical

loss rates are adjusted to incorporate changes in existing conditions that may impact, both positively or negatively, the degree to which these loss histories may vary. This determination inherently involves a high degree of uncertainty and considers current risk factors that may not have occurred in the Corporation's historical loan loss experience.

During the fourth quarter of 2009, the Corporation updated the allowance methodology to place a greater emphasis on losses realized within the past two years. The previous methodology emphasized a rolling 15-quarter experience method. This change did not have a material impact on the 2009 provision and allowance, but could indicate higher provisions in future periods if higher losses are experienced.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Balance at beginning of period	\$ 114,040	\$ 99,415	\$ 104,655	\$ 104,730
Addition from acquisitions				15
Charge-offs	(10,210)	(10,617)	(26,495)	(41,855)
Recoveries	484	639	1,951	2,124
Net charge-offs	(9,726)	(9,978)	(24,544)	(39,731)
Provision for loan losses	12,313	16,455	36,516	40,878
Balance at end of period	\$ 116,627	\$ 105,892	\$ 116,627	\$ 105,892

Allowance for loan losses to:

Total loans, net of unearned income	1.94%	1.81%
Non-performing loans	75.54%	79.08%

During the first nine months of 2010, the Corporation reduced its Florida land-related portfolio including OREO by \$9.1 million or 8.8%, reducing total land-related exposure including OREO to \$94.1 million. In addition, the condominium portfolio including OREO stands at \$3.4 million at September 30, 2010. These reductions are consistent with the Corporation's objective to reduce this exposure in the Florida portfolio.

The allowance for loan losses at September 30, 2010 increased \$10.7 million or 10.1% from September 30, 2009 as the provision for loan losses during the 12 months ended September 30, 2010 of \$62.4 million exceeded net charge-offs of \$51.7 million. While there are signs of recovery from the recession in the Corporation's Pennsylvania portfolio, the duration of the slow economic environment in the Corporation's Florida portfolio continues to be a challenge. The allowance for loan losses for the Florida portfolio was \$29.1 million or 13.64% of total loans in that portfolio at September 30, 2010 compared to \$19.8 million or 8.11% of that portfolio at December 31, 2009. The increased Florida allowance is primarily due to additional provision for the Florida land-related portfolio, which totaled \$79.4 million at September 30, 2010. Information collected from recent reappraisals that have occurred to date in 2010 for certain properties in the Florida portfolio along with Florida market data suggest that Florida land valuations have not yet fully stabilized. As a result, the Corporation provided additional reserves to the Florida land portfolio allowance, as a majority of the properties in that portfolio are scheduled to be reappraised during the fourth quarter of 2010. The collective impact of loan migrations, write-downs and transfers to OREO during the first nine months of 2010, as well as the additional provisioning that occurred during that time in anticipation of the reappraisal process, all resulted in a \$10.8 million increase to the Florida land-related allowance. The allowance for the Florida land-related portfolio at September 30, 2010 was \$18.9 million or 23.76% of the land-related portfolio.

The allowance for loan losses as a percentage of non-performing loans increased from 71.92% as of December 31, 2009 to 75.54% as of September 30, 2010. While the allowance for loan losses increased \$12.0 million or 11.4% since December 31, 2009, non-performing loans increased \$8.9 million or 6.1% over the same period.



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

	FNBPA (PA)	FNBPA (FL)	Regency	Total
<b>At or for the Three Months Ended September 30, 2010</b>				
Provision for loan losses	\$ 4,796	\$ 5,867	\$1,650	\$ 12,313
Allowance for loan losses	80,729	29,114	6,784	116,627
Net loan charge-offs	4,462	3,694	1,570	9,726
Net loan charge-offs (annualized)/ average loans	0.32%	6.59%	3.84%	0.64%
Allowance for loan losses/total loans	1.43%	13.64%	4.20%	1.94%
Allowance for loan losses/ non-performing loans	107.20%	40.88%	86.07%	75.54%
<b>At or for the Three Months Ended December 31, 2009</b>				
Provision for loan losses	\$10,420	\$13,463	\$2,041	\$ 25,924
Allowance for loan losses	78,061	19,789	6,805	104,655
Net loan charge-offs	5,122	20,301	1,738	27,161
Net loan charge-offs (annualized)/ average loans	0.37%	31.25%	4.30%	1.83%
Allowance for loan losses/total loans	1.43%	8.11%	4.20%	1.80%
Allowance for loan losses/ non-performing loans	117.99%	27.59%	89.33%	72.99%

At September 30, 2010 and 2009, the Corporation had \$3.9 million and \$9.6 million of loans, respectively, that were impaired loans acquired with no associated allowance for loan losses as they were accounted for in accordance with FASB ASC Topic 310-30, *Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

#### **CAPITAL RESOURCES AND REGULATORY MATTERS**

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

The Corporation has an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, the Corporation may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities or TPS. As of September 30, 2010, the Corporation has issued 24,150,000 common shares in a public equity offering under the shelf registration statement.

On September 9, 2009, the Corporation redeemed all of the 100,000 outstanding shares of its preferred stock originally issued to the UST in conjunction with the CPP. Between receiving the CPP funds on January 9, 2009 and September 9, 2009, the Corporation paid the UST \$3.3 million in cash dividends. Upon redemption, the difference of \$4.3 million between the preferred stock redemption amount and the recorded amount of discount amortization was charged to retained earnings as a non-cash deemed preferred stock dividend. This non-cash deemed preferred stock dividend had no impact on total equity, but reduced 2009 earnings per diluted common share by \$0.04. In total, CPP costs reduced earnings per diluted common share by \$0.05 during 2009.

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, 2010 and December 31, 2009, the Corporation and FNBPA met all capital adequacy requirements to which either of them was subject.

As of September 30, 2010, 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.

Following are the capital ratios as of September 30, 2010 and December 31, 2009 for the Corporation and FNBPA (dollars in thousands):

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>September 30, 2010</b>						
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$822,582	12.9%	\$638,683	10.0%	\$510,946	8.0%
FNBPA	757,017	12.3	615,110	10.0	492,088	8.0
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	724,569	11.3	383,210	6.0	255,473	4.0
FNBPA	679,709	11.1	369,066	6.0	246,044	4.0
Leverage Ratio:						
F.N.B. Corporation	724,569	8.6	419,986	5.0	335,989	4.0
FNBPA	679,709	8.3	410,349	5.0	328,280	4.0
<b>December 31, 2009</b>						
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$795,372	12.9%	\$617,447	10.0%	\$493,958	8.0%
FNBPA	745,183	12.4	602,810	10.0	482,248	8.0
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	705,188	11.4	370,468	6.0	246,979	4.0
FNBPA	669,543	11.1	361,686	6.0	241,124	4.0
Leverage Ratio:						
F.N.B. Corporation	705,188	8.7	406,314	5.0	325,052	4.0
FNBPA	669,543	8.5	395,647	5.0	316,517	4.0

#### REGULATORY REFORM

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, enhanced authority over troubled and failing banks and their holding companies;

increased capital and liquidity requirements;

increased regulatory examination fees;

increases to the assessments banks must pay the FDIC for federal deposit insurance; and

57

---

numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector.

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

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

*Interest on Demand Deposits.* The Dodd-Frank Act also provides that, effective one year after the date of its enactment, depository institutions may pay interest on demand deposits. Although the Corporation has not determined the ultimate impact of this aspect of the legislation, the Corporation expects interest costs associated with demand deposits to increase.

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

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

*Debit Card Interchange Fees.* The Dodd-Frank Act gives the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. While the Corporation would not be directly subject to these rules so long as it did not have assets in excess of \$10 billion, the Corporation's activities as a debit card issuer may nevertheless be indirectly impacted by the change in the applicable debit card market caused by these regulations, which may lead to Corporation to match any new lower fee structure implemented by larger financial institutions to remain competitive. Such lower fees could impact the revenue the Corporation earns from debit interchange fees, which were equal to \$3.9 million and \$11.2 million, respectively, for the three and nine month periods ended September 30, 2010.

*Increased Capital Standards and Enhanced Supervision.* The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no less strict than existing regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, become higher once the agencies promulgate the new standards. Compliance



with heightened capital standards may reduce the Corporation's ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations.

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

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

*Enhanced Lending Limits.* The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Federal banking law currently limits a national bank's ability to extend credit to one person or group of related persons to an amount that does not exceed certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements and securities lending and borrowing transactions. It also will eventually prohibit state-chartered banks from engaging in derivative transactions unless the state lending limit laws take into account credit exposure to such transactions.

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

grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation;

enhances independence requirements for compensation committee members;

requires companies listed on national securities exchanges to adopt clawback policies for incentive-based compensation plans applicable to executive officers; and

provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as directors and requires such companies to include such nominees in its proxy materials.

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

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

The information called for by this item is provided under the caption *Market Risk* in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. There are no material changes in the information provided under Item 7A, Quantitative and Qualitative Disclosures About Market Risk included in the Corporation's 2009 Annual Report on Form 10-K as filed with the SEC.



#### **ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** The Corporation's management, with the participation of the Corporation's principal executive and financial officers, evaluated the Corporation's disclosure controls and procedures (as defined in Rule 13(a)-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, 2010, as required by paragraph (d) of Rules 13a-15(e) and 15d-15(e) 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.

#### **PART II**

#### **ITEM 1. LEGAL PROCEEDINGS**

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

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

**ITEM 1A. RISK FACTORS**

There are no material changes in the risk factors previously disclosed in the Corporation's 2009 Annual Report on Form 10-K as filed with the SEC, other than as set forth below.

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements the Dodd-Frank Act authorizes will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the federal banking agencies may implement the provisions of the Dodd-Frank Act, the full extent of the impact such requirements may have on the Corporation's operations is unclear at this time. The changes resulting from the Dodd-Frank Act may impact the Corporation's profitability, require changes to certain of the Corporation's business practices, impose more stringent capital, liquidity and leverage requirements upon the Corporation or otherwise adversely affect the Corporation's business. These changes may also require the Corporation to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. The Corporation cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on the Corporation. For further discussion of the Dodd-Frank Act and its potential impact on the Corporation, please see information provided under the caption *Regulatory Reform* in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

- 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. (filed herewith).
- 32.2 Certification of Chief Financial Officer Sarbanes-Oxley Act Section 906. (filed herewith).
- 101 The following materials from F.N.B. Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2010, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements tagged as blocks of text. \*

\* This information is deemed furnished, not filed.



**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 5, 2010

/s/Stephen J. Gurgovits  
Stephen J. Gurgovits  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 5, 2010

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

Dated: November 5, 2010

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