FNB CORP/FL/
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2012

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

Commission file number 001-31940

F.N.B. CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**25-1255406**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
One F.N.B. Boulevard, Hermitage, PA	**16148**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at April 30, 2012
Common Stock, $0.01 Par Value	139,554,146 Shares

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F.N.B. CORPORATION

FORM 10-Q

March 31, 2012

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PART I FINANCIAL INFORMATION

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

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except par value

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$ 192,346	$ 197,349
Interest bearing deposits with banks	72,376	11,604
Cash and Cash Equivalents	264,722	208,953
Securities available for sale	1,097,801	640,571
Securities held to maturity (fair value of $1,212,826 and $952,033)	1,178,558	917,212
Residential mortgage loans held for sale	11,618	14,275
Loans, net of unearned income of $44,500 and $47,110	7,802,792	6,856,667
Allowance for loan losses	(102,093)	(100,662)
Net Loans	7,700,699	6,756,005
Premises and equipment, net	146,406	130,043
Goodwill	670,519	568,462
Core deposit and other intangible assets, net	43,657	30,953
Bank owned life insurance	236,753	208,927
Other assets	375,330	311,082
Total Assets	$ 11,726,063	$ 9,786,483
Liabilities		
Deposits:		
Non-interest bearing demand	$ 1,579,340	$ 1,340,465
Savings and NOW	4,706,748	3,790,863
Certificates and other time deposits	2,769,066	2,158,440
Total Deposits	9,055,154	7,289,768
Other liabilities	144,094	143,239
Short-term borrowings	877,828	851,294
Long-term debt	90,308	88,016
Junior subordinated debt	203,980	203,967
Total Liabilities	10,371,364	8,576,284
Stockholders Equity		
Common stock - $0.01 par value		
Authorized 500,000,000 shares		
Issued 139,812,706 and 127,436,261 shares	1,393	1,268
Additional paid-in capital	1,363,956	1,224,572
Retained earnings	37,272	32,925

Accumulated other comprehensive loss	(43,735)	(45,148)
Treasury stock 311,667 and 215,502 shares at cost	(4,187)	(3,418)
Total Stockholders Equity	1,354,699	1,210,199
Total Liabilities and Stockholders Equity	$ 11,726,063	$ 9,786,483

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Dollars in thousands, except per share data

Unaudited

	Three Months Ended March 31,	
	2012	**2011**
Interest Income		
Loans, including fees	$ 93,138	$ 84,710
Securities:		
Taxable	12,037	10,514
Nontaxable	1,721	1,947
Dividends	335	119
Other	56	81
Total Interest Income	107,287	97,371
Interest Expense		
Deposits	11,958	14,595
Short-term borrowings	1,444	1,833
Long-term debt	953	1,628
Junior subordinated debt	2,011	2,032
Total Interest Expense	16,366	20,088
Net Interest Income	90,921	77,283
Provision for loan losses	6,572	8,228
Net Interest Income After Provision for Loan Losses	84,349	69,055
Non-Interest Income		
Service charges	17,165	14,335
Insurance commissions and fees	4,172	4,146
Securities commissions and fees	2,011	1,972
Trust fees	3,734	3,710
Gain on sale of securities	108	54
Gain on sale of residential mortgage loans	809	767
Bank owned life insurance	1,559	1,232
Other	2,187	2,216
Total Non-Interest Income	31,745	28,432
Non-Interest Expense		
Salaries and employee benefits	44,606	38,382
Net occupancy	6,606	5,910
Equipment	5,186	4,475
Amortization of intangibles	2,281	1,796
Outside services	6,367	5,200
FDIC insurance	1,971	2,719
State taxes	1,499	1,936
Merger related	6,994	4,146
Other	11,163	9,993

Total Non-Interest Expense	86,673	74,557
Income Before Income Taxes	29,421	22,930
Income taxes	7,839	5,755
Net Income	$ 21,582	$ 17,175
Net Income per Share Basic	$ 0.16	$ 0.14
Net Income per Share Diluted	0.15	0.14
Cash Dividends per Share	0.12	0.12
Comprehensive Income	$ 22,995	$ 17,228

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Dollars in thousands, except per share data

Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Loss	Treasury Stock	Total
Balance at January 1, 2012	$ 1,268	$ 1,224,572	$ 32,925	$ (45,148)	$ (3,418)	$ 1,210,199
Net income			21,582			21,582
Change in other comprehensive income, net of tax				1,413		1,413
Common stock dividends ($0.12/share)			(16,858)			(16,858)
Issuance of common stock	125	138,052	(377)		(769)	137,031
Restricted stock compensation		998				998
Tax expense of stock-based compensation		334				334
Balance at March 31, 2012	$ 1,393	$ 1,363,956	$ 37,272	$ (43,735)	$ (4,187)	$ 1,354,699
Balance at January 1, 2011	$ 1,143	$ 1,094,713	$ 6,564	$ (33,732)	$ (2,564)	$ 1,066,124
Net income			17,175			17,175
Change in other comprehensive income, net of tax				53		53
Common stock dividends ($0.12/share)			(14,403)			(14,403)
Issuance of common stock	62	59,439			(837)	58,664
Restricted stock compensation		867				867
Tax expense of stock-based compensation		(66)				(66)
Balance at March 31, 2011	$ 1,205	$ 1,154,953	$ 9,336	$ (33,679)	$ (3,401)	$ 1,128,414

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

Unaudited

	Three Months Ended March 31, 2012	2011
Operating Activities		
Net income	$ 21,582	$ 17,175
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	5,454	7,532
Provision for loan losses	6,572	8,228
Deferred taxes	10,195	1,577
Gain on sale of securities	(108)	(54)
Tax expense of stock-based compensation	(334)	66
Net change in:		
Interest receivable	950	(664)
Interest payable	(2,457)	(762)
Trading securities	331,972	110,490
Residential mortgage loans held for sale	2,657	6,446
Bank owned life insurance	(1,637)	(669)
Other, net	(9,046)	3,123
Net cash flows provided by operating activities	365,800	152,488
Investing Activities		
Net change in loans	(31,878)	(79,454)
Securities available for sale:		
Purchases	(474,224)	(33,446)
Sales	15,414	10,849
Maturities	142,435	69,890
Securities held to maturity:		
Purchases	(323,679)	(189,984)
Sales	2,903	
Maturities	72,385	62,355
Purchase of bank owned life insurance	(20,000)	
Withdrawal/surrender of bank owned life insurance	20,701	
Increase in premises and equipment	(2,325)	(2,705)
Net cash received in business combinations	203,538	23,361
Net cash flows used in investing activities	(394,730)	(139,134)
Financing Activities		
Net change in:		
Non-interest bearing deposits, savings and NOW accounts	353,871	222,959
Time deposits	(111,091)	(22,192)
Short-term borrowings	13,593	(40,194)
Increase in long-term debt	5,695	8,244
Decrease in long-term debt	(162,069)	(10,443)
Decrease in junior subordinated debt	13	(108)

Net proceeds from issuance of common stock	1,211	1,186
Tax expense of stock-based compensation	334	(66)
Cash dividends paid	(16,858)	(14,403)
Net cash flows provided by financing activities	84,699	144,983
Net Increase in Cash and Cash Equivalents	55,769	158,337
Cash and cash equivalents at beginning of period	208,953	131,571
Cash and Cash Equivalents at End of Period	$ 264,722	$ 289,908

See accompanying Notes to Consolidated Financial Statements

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F.N.B. CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share data

(Unaudited)

March 31, 2012

BUSINESS

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

BASIS OF PRESENTATION

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

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

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

USE OF ESTIMATES

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

COMMON STOCK

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

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MERGERS AND ACQUISITIONS

On January 1, 2012, the Corporation completed its acquisition of Parkvale Financial Corporation (Parkvale), a unitary savings and loan holding company based in Monroeville, Pennsylvania. On the acquisition date, Parkvale had $1,815,663 in assets, which included $937,350 in loans, and $1,505,671 in deposits. The acquisition, net of equity offering costs, was valued at $136,818 and resulted in the Corporation issuing 12,159,312 shares of its common stock in exchange for 5,582,846 shares of Parkvale common stock. The assets and liabilities of Parkvale were recorded on the Corporation s balance sheet at their preliminary estimated fair values as of January 1, 2012, the acquisition date, and Parkvale s results of operations have been included in the Corporation s consolidated statement of income since that date. Parkvale s banking affiliate, Parkvale Bank, was merged into FNBPA on January 1, 2012. In conjunction with the completion of this acquisition, the Corporation fully repaid the $31,762 of Parkvale preferred stock previously issued to the U.S. Department of the Treasury (UST) under the Capital Purchase Program (CPP). The warrant issued by Parkvale to the UST has been converted into a warrant to purchase up to 819,640 shares of the Corporation s common stock. The warrant expires December 23, 2018 and has an exercise price of $5.81. Based on a preliminary purchase price allocation, the Corporation recorded $101,543 in goodwill and $14,984 in core deposit intangible as a result of the acquisition. The Corporation has recorded estimates of the fair values of acquired assets and liabilities. The fair values for loans, goodwill and other intangible assets, other assets and other liabilities are provisional amounts based on third party valuations that are currently under review. None of the goodwill is deductible for income tax purposes.

During the first three months of 2012, the Corporation recorded merger and integration charges of $6,994 associated with the Parkvale acquisition.

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

Fair value of stock issued, net of offering costs		$ 136,818
Fair value of:		
Tangible assets acquired	$ 1,526,097	
Core deposit and other intangible assets acquired	14,984	
Liabilities assumed	(1,709,147)	
Net cash received in the acquisition	203,341	
Fair value of net assets acquired		35,275
Goodwill recognized		$ 101,543

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

Assets	
Cash and due from banks	$ 203,538
Securities	486,233
Loans	922,056
Goodwill and other intangible assets	116,527
Accrued income and other assets	117,611
Total assets	1,845,965
Liabilities	
Deposits	1,525,253
Borrowings	171,606
Accrued expenses and other liabilities	12,288
Total liabilities	1,709,147

Purchase price	$	136,818

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

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the acquisition date, and CBI s results of operations have been included in the Corporation s consolidated statement of income since that date. CBI s banking affiliate, Community Bank and Trust Company, was merged into FNBPA on January 1, 2011. Based on the purchase price allocation, the Corporation recorded $40,256 in goodwill and $4,785 in core deposit intangible as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

NEW ACCOUNTING STANDARDS

Comprehensive Income

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

Amendments to Fair Value Measurements

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

SECURITIES

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

Securities Available For Sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
U.S. Treasury and other U.S. government agencies and corporations	$ 366,075	$ 406	$ (632)	$ 365,849
Residential mortgage-backed securities:				
Agency mortgage-backed securities	337,045	5,675	(66)	342,654
Agency collateralized mortgage obligations	299,109	3,221		302,330
Non-agency collateralized mortgage obligations	3,866	1	(25)	3,842
States of the U.S. and political subdivisions	33,359	1,532		34,891
Collateralized debt obligations	36,161	418	(13,774)	22,805
Other debt securities	23,853	567	(1,398)	23,022
Total debt securities	1,099,468	11,820	(15,895)	1,095,393
Equity securities	2,055	369	(16)	2,408
	$ 1,101,523	$ 12,189	$ (15,911)	$ 1,097,801

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

Securities Held To Maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
U.S. Treasury and other U.S. government agencies and corporations	$ 4,441	$ 340	$	$ 4,781
Residential mortgage-backed securities:				
Agency mortgage-backed securities	888,484	29,006	(471)	917,019
Agency collateralized mortgage obligations	115,104	731	(88)	115,747
Non-agency collateralized mortgage obligations	19,652	107	(1,313)	18,446
States of the U.S. and political subdivisions	147,990	6,236	(81)	154,145
Collateralized debt obligations	1,563		(176)	1,387
Other debt securities	1,324		(23)	1,301
	$ 1,178,558	$ 36,420	$ (2,152)	$ 1,212,826
December 31, 2011				
U.S. Treasury and other U.S. government agencies and corporations	$ 4,523	$ 360	$	$ 4,883
Residential mortgage-backed securities:				
Agency mortgage-backed securities	683,100	28,722		711,822
Agency collateralized mortgage obligations	54,319	573	(11)	54,881
Non-agency collateralized mortgage obligations	24,348	143	(1,373)	23,118
States of the U.S. and political subdivisions	147,748	6,877		154,625
Collateralized debt obligations	1,592		(314)	1,278
Other debt securities	1,582	25	(181)	1,426
	$ 917,212	$ 36,700	$ (1,879)	$ 952,033

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Gross gains	$ 349	$ 250
Gross losses	(241)	(196)
	$ 108	$ 54

As of March 31, 2012, the amortized cost and fair value of securities, by contractual maturities, were as follows:

	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due in one year or less	$ 27,164	$ 27,213	$ 7,731	$ 7,826
Due from one to five years	346,262	346,200	12,313	12,873
Due from five to ten years	21,405	22,401	43,678	45,470
Due after ten years	64,617	50,753	91,596	95,445
	459,448	446,567	155,318	161,614
Residential mortgage-backed securities:				
Agency mortgage-backed securities	337,045	342,654	888,484	917,019
Agency collateralized mortgage obligations	299,109	302,330	115,104	115,747
Non-agency collateralized mortgage obligations	3,866	3,842	19,652	18,446
Equity securities	2,055	2,408		
	$ 1,101,523	$ 1,097,801	$ 1,178,558	$ 1,212,826

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 March 31, 2012 and December 31, 2011, securities with a carrying value of $587,865 and $547,727, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of $747,289 and $680,212 at March 31, 2012 and December 31, 2011, respectively, were pledged as collateral for short-term borrowings.

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

Securities available for sale:

	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	Greater than 12 Months Fair Value	Greater than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2012						
U.S. Treasury and other U.S. government agencies and corporations	$ 169,327	$ (632)	$	$	$ 169,327	$ (632)
Residential mortgage-backed securities:						
Agency mortgage-backed securities	76,778	(66)			76,778	(66)
Non-agency collateralized mortgage obligations	3,812	(25)			3,812	(25)

Collateralized debt obligations	8,453	(544)	6,042	(13,230)	14,495	(13,774)
Other debt securities			5,467	(1,398)	5,467	(1,398)
Equity securities	729	(16)			729	(16)
	$ 259,099	$ (1,283)	$ 11,509	$ (14,628)	$ 270,608	$ (15,911)

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

Securities held to maturity:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2012						
Residential mortgage-backed securities:						
Agency mortgage-backed securities	$ 143,873	$ (471)	$	$	$ 143,873	$ (471)
Agency collateralized mortgage obligations	19,943	(88)			19,943	(88)
Non-agency collateralized mortgage obligations	5,202	(114)	4,322	(1,199)	9,524	(1,313)
States of the U.S. and political subdivisions	4,455	(81)			4,455	(81)
Collateralized debt obligations			1,387	(176)	1,387	(176)
Other debt securities			1,301	(23)	1,301	(23)
	$ 173,473	$ (754)	$ 7,010	$ (1,398)	$ 180,483	$ (2,152)
December 31, 2011						
Residential mortgage-backed securities:						
Agency collateralized mortgage obligations	$ 12,911	$ (11)	$	$	$ 12,911	$ (11)
Non-agency collateralized mortgage obligations	5,374	(64)	4,351	(1,309)	9,725	(1,373)
Collateralized debt obligations			1,278	(314)	1,278	(314)
Other debt securities			1,144	(181)	1,144	(181)
	$ 18,285	$ (75)	$ 6,773	$ (1,804)	$ 25,058	$ (1,879)

As of March 31, 2012, securities with unrealized losses for less than 12 months include 10 investments in U.S. Treasury and other U.S. government agencies and corporations, 15 investments in residential mortgage-backed securities (10 investments in agency mortgage-backed securities, 1 investment in an agency collateralized mortgage obligation (CMO) and 4 investments in non-agency CMOs), 3 investments in states of the U.S. and political subdivisions, 8 investments in collateralized debt obligations (CDOs) and 2 investments in equity securities. Securities with unrealized losses of greater than 12 months include 1 investment in a residential mortgage-backed security (non-agency CMO), 13 investments in CDOs, and 5 investments in other debt securities as of March 31, 2012. The Corporation does not intend to sell the debt securities and it is not more likely than not the Corporation will be required to sell the securities before recovery of their amortized cost basis.

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

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Other-Than-Temporary Impairment

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

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

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

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

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

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

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

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

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

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

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

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

The Corporation s portfolio of trust preferred CDOs consists of 29 pooled issues and six single issue securities. Two of the pooled issues are senior tranches; the remaining 27 are mezzanine tranches. At March 31, 2012, the 29 pooled TPS had an estimated fair value of $24,192 while the single-issuer TPS had an estimated fair value of $7,786. The Corporation has concluded from the analysis performed at March 31, 2012 that it is probable that the Corporation will collect all contractual principal and interest payments on all of its single-issuer and pooled TPS sufficient to recover the amortized cost basis of the securities.

The Corporation did not recognize any impairment losses on securities for the three months ended March 31, 2012 and 2011.

At March 31, 2012, nine of the 12 pooled TPS on which OTTI has been previously recognized were classified as non-performing investments. The other three of the 12 investments on which OTTI was taken in prior years have returned to performing status due to improvements in expected cash flows with income of $133 accreted beginning in the first quarter of 2012.

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

	March 31, 2012	December 31, 2011
Beginning balance of the amount related to credit loss for which a portion of OTTI was recognized in other comprehensive income	$ (18,398)	$ (18,332)
Additions related to credit loss for securities with previously recognized OTTI		(37)
Additions related to credit loss for securities with initial OTTI		(29)
Ending balance of the amount related to credit loss for which a portion of OTTI was recognized in other comprehensive income	$ (18,398)	$ (18,398)

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

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The following table provides information relating to the Corporation s TPS as of March 31, 2012:

$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13
me	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Ratings	Number of Issuers Currently Performing	Actual Defaults (as a percent of original collateral)	Actual Deferrals (as a percent of original collateral)	Projected Recovery Rates on Current Deferrals (1)	Expected Defaults (%) (2)	Exc Subord (a perc of cu colla (3
	C1	$ 5,500	$ 2,312	$ 958	$ (1,354)	C	43	21	13	41	11	
	C1	4,889	2,794	785	(2,009)	C	44	16	14	30	12	
	C1	5,561	4,218	1,145	(3,073)	C	46	13	10	33	13	
	C1	3,994	2,891	822	(2,069)	C	51	15	9	38	13	
	MEZ	474	297	215	(82)	C	14	19	7	75	10	
	MEZ	1,909	999	571	(428)	C	14	21	15	39	11	
	B3	2,000	726	319	(407)	C	19	29	13	47	10	
	B1	3,028	2,386	682	(1,704)	C	49	14	21	41	12	
	C	5,048	756	238	(518)	C	33	14	31	42	11	
	C	507	461	63	(398)	C	47	13	19	31	11	
	C	2,010	788	112	(676)	C	39	16	17	42	13	
	A4L	2,000	645	132	(513)	C	22	16	26	53	12	
OTTI		36,920	19,273	6,042	(13,231)		421	17	16	40	12	
	SNR	1,506	1,564	1,387	(177)	BBB	11	15	14	43	10	
	C1	5,219	866	909	43	C	43	21	13	41	11	
	A2A	5,000	1,995	1,948	(47)	CCC	44	16	14	30	12	
	C1	4,781	1,064	985	(79)	C	46	13	10	33	13	
	C1	5,260	1,010	1,083	73	C	51	15	9	38	13	
	C1	5,190	837	706	(131)	C	56	14	18	33	14	
	C1	3,206	320	173	(147)	C	42	19	15	37	14	
	C	3,339	504	618	114	C	35	15	19	33	15	
	B	2,069	559	549	(10)	C	34	12	25	33	16	
	B2	5,000	2,145	2,176	31	CCC	21	0	8	10	10	
	MEZ	1,894	567	566	(1)	C	14	21	15	39	11	
	B2	1,000	268	270	2	C	47	13	15	27	14	
	B	4,008	895	933	38	C	39	16	17	42	13	
	SNR	4,344	2,534	2,511	(23)	CCC	50	21	7	40	12	
	B	5,000	1,195	1,202	7	C	17	16	8	32	11	
	C1	5,531	1,120	1,015	(105)	C	27	15	13	41	10	
	C1	5,606	1,008	1,119	111	C	26	16	13	48	11	
lot OTTI		67,953	18,451	18,150	(301)		603	15	13	35	13	
ooled TPS		$ 104,873	$ 37,724	$ 24,192	$ (13,532)		1,024	16	14	38	12	

Following is information about the Corporation s PCI loans:

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$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,532)	$(13,53
Name	Class	Current Par Value	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Ratings	Number of Issuers Currently Performing	Actual Defaults (as a percent of original collateral)	Actual Deferrals (as a percent of original collateral)	Projected Recovery Rates on Current Deferrals (1)	Expected Defaults (%) (2)	Exce Subordi (as a pe of curr collatera
e r												
		$ 2,000	$ 1,950	$ 1,400	$ (550)	BB	1					
		2,000	1,916	1,522	(394)	BBB	1					
		1,000	954	1,018	64	BB-	1					
		2,000	2,000	1,840	(160)	BB	1					
		1,000	999	705	(294)	BB	1					
		1,300	1,324	1,301	(23)	BB	1					
e r		$ 9,300	$ 9,143	$ 7,786	$ (1,357)		6					
TPS		$ 114,173	$ 46,867	$ 31,978	$ (14,889)		1,030					

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

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States of the U.S. and Political Subdivisions

The Corporation s municipal bond portfolio of $182,881 as of March 31, 2012 is highly rated with an average rating of AA and 99.8% of the portfolio rated A or better. General obligation bonds comprise 99.5% of the portfolio. Geographically, the municipal bonds support the Corporation s footprint as 76.8% of the securities are from municipalities located throughout Pennsylvania. The average holding size of the securities in the municipal bond portfolio is $1,010. This portfolio is also supported by underlying insurance as 77.4% of the securities have credit support.

Non-Agency CMOs

The Corporation purchased $161,151 of non-agency CMOs from 2003 through 2005. At the time of purchase, these securities were all rated AAA, with an original average loan-to-value (LTV) ratio of 66.1% and original credit score of 724. At origination, the credit support, or the amount of loss the collateral pool could absorb before the AAA securities would incur a credit loss, ranged from 2.0% to 7.0%. Since the time of these original purchases, all of which are classified as held to maturity, two holdings have been sold and one holding has paid off. The Corporation acquired an additional $42,870 of non-agency CMOs from acquisitions, retaining $4,298 and selling $38,572. These acquired securities are classified as available for sale. Non-agency CMOs have a book value of $23,518 at March 31, 2012. Paydowns during the first three months of 2012 amounted to $2,704, an annualized paydown rate of 37.7%. The credit support range at March 31, 2012 was 4.0% to 20.5%, due to paydowns, continued good credit performance and the sale of one non-agency CMO having a book value of $2,848 during the first quarter of 2012. National delinquencies, an early warning sign of potential default, have been increasing for the past five years. The slight upward trend of the rate of delinquencies throughout 2011 has continued through the first quarter of 2012. All non-agency CMO holdings are current with regards to principal and interest.

The rating agencies monitor the underlying collateral performance of these non-agency CMOs for delinquencies, foreclosures and defaults. They also factor in trends in bankruptcies and housing values to ultimately arrive at an expected loss for a given piece of defaulted collateral. 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, six of the eleven non-agency CMOs have been downgraded since the original purchase date.

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

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The following table provides information relating to the Corporation s non-agency CMOs as of March 31, 2012:

							Subordination Data								
			Credit Rating		Credit Support %		Delinquency %						%	Original	Original
Security	Original Year	Book Value (1)	S&P	Moody s	Original	Current	. 30 Day	60 Day	90 Day	% Foreclosure	% OREO	% Bankruptcy	Total Delinquency	% LTV	Credit Score
1	2003	$ 2,368	AAA	n/a	2.5	6.3	1.1	0.4	0.8	0.9	0.0	1.6	4.9	51.3	736
2	2003	1,759	AAA	n/a	4.3	17.0	2.2	1.2	3.6	3.3	0.7	1.3	12.2	55.3	709
3	2003	1,075	AAA	n/a	2.0	7.0	0.5	0.6	0.3	3.6	0.0	0.5	5.5	46.4	740
4	2003	&													