

FNB CORP/FL/  
Form 10-Q  
August 11, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**(Mark One)**

**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2008**

**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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.

Class	Outstanding at July 31, 2008
Common Stock, \$0.01 Par Value	86,026,592 Shares



**F.N.B. CORPORATION**  
**FORM 10-Q**  
June 30, 2008  
**INDEX**

**PART I FINANCIAL INFORMATION PAGE**

Item 1. Financial Statements

<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Statements of Stockholders' Equity</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Report of Independent Registered Public Accounting Firm</u>	25

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
--	----

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
---	----

<u>Item 4. Controls and Procedures</u>	42
--	----

**PART II OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	43
----------------------------------	----

<u>Item 1A. Risk Factors</u>	43
------------------------------	----

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
--	----

<u>Item 3. Defaults Upon Senior Securities</u>	43
--	----

<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	44
--	----

<u>Item 5. Other Information</u>	44
----------------------------------	----

<u>Item 6. Exhibits</u>	45
-------------------------	----

<u>Signatures</u>	46
-------------------	----

<u>EX-15</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

Dollars in thousands, except par value

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 189,334	\$ 130,235
Interest bearing deposits with banks	3,590	482
Federal funds sold	14,000	
Securities available for sale	479,740	358,421
Securities held to maturity (fair value of \$785,363 and \$665,914)	794,684	667,553
Loans held for sale	18,011	5,637
Loans, net of unearned income of \$32,529 and \$25,747	5,606,409	4,344,235
Allowance for loan losses	(71,483)	(52,806)
<b>Net Loans</b>	<b>5,534,926</b>	<b>4,291,429</b>
Premises and equipment, net	119,269	80,472
Goodwill	478,733	242,120
Core deposit and other intangible assets, net	46,664	19,439
Bank owned life insurance	211,708	133,885
Other assets	205,221	158,348
<b>Total Assets</b>	<b>\$ 8,095,880</b>	<b>\$ 6,088,021</b>
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 901,120	\$ 626,141
Savings and NOW	2,780,685	2,037,160
Certificates and other time deposits	2,196,859	1,734,383
<b>Total Deposits</b>	<b>5,878,664</b>	<b>4,397,684</b>
Other liabilities	76,045	63,760
Short-term borrowings	510,745	449,823
Long-term debt	505,244	481,366
Junior subordinated debt owed to unconsolidated subsidiary trusts	205,724	151,031
<b>Total Liabilities</b>	<b>7,176,422</b>	<b>5,543,664</b>
<b>Stockholders Equity</b>		
Common stock \$0.01 par value		
Authorized 500,000,000 shares		
Issued 86,071,462 and 60,602,218 shares	857	602
Additional paid-in capital	899,067	508,891
Retained earnings	37,332	42,426
Accumulated other comprehensive income	(17,013)	(6,738)

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

Treasury stock 45,620 and 47,970 shares at cost	(785)	(824)
<b>Total Stockholders Equity</b>	919,458	544,357
<b>Total Liabilities and Stockholders Equity</b>	\$ 8,095,880	\$ 6,088,021

See accompanying Notes to Consolidated Financial Statements

2

---

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

Dollars in thousands, except per share data

Unaudited

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest Income</b>				
Loans, including fees	\$ 90,825	\$ 78,731	\$ 167,234	\$ 156,656
Securities:				
Taxable	12,499	10,919	22,929	21,928
Nontaxable	1,580	1,438	3,186	2,818
Dividends	112	74	179	172
Other	281	458	294	533
<b>Total Interest Income</b>	<b>105,297</b>	<b>91,620</b>	<b>193,822</b>	<b>182,107</b>
<b>Interest Expense</b>				
Deposits	28,219	31,329	55,811	61,575
Short-term borrowings	3,024	4,458	7,031	9,186
Long-term debt	5,436	4,745	10,658	9,625
Junior subordinated debt owed to unconsolidated subsidiary trusts	3,061	2,739	5,800	5,452
<b>Total Interest Expense</b>	<b>39,740</b>	<b>43,271</b>	<b>79,300</b>	<b>85,838</b>
<b>Net Interest Income</b>	<b>65,557</b>	<b>48,349</b>	<b>114,522</b>	<b>96,269</b>
Provision for loan losses	10,976	1,838	14,559	3,685
<b>Net Interest Income After Provision for Loan Losses</b>	<b>54,581</b>	<b>46,511</b>	<b>99,963</b>	<b>92,584</b>
<b>Non-Interest Income</b>				
Service charges	14,860	10,212	25,046	19,830
Insurance commissions and fees	4,183	3,230	8,105	7,649
Securities commissions and fees	2,098	1,650	3,618	2,926
Trust fees	3,575	2,118	5,799	4,280
Gain on sale of securities	41	415	795	1,155
Impairment loss on equity securities	(456)	(111)	(466)	(111)
Gain on sale of mortgage loans	530	359	981	726
Bank owned life insurance	1,739	1,025	2,883	1,990
Other	886	1,477	2,863	2,846
<b>Total Non-Interest Income</b>	<b>27,456</b>	<b>20,375</b>	<b>49,624</b>	<b>41,291</b>
<b>Non-Interest Expense</b>				
Salaries and employee benefits	32,320	21,475	57,576	43,741
Net occupancy	4,761	3,667	8,577	7,471

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

Equipment	4,367	3,297	7,482	6,658
Amortization of intangibles	1,219	1,103	2,292	2,206
Other	19,347	12,280	30,450	23,642
<b>Total Non-Interest Expense</b>	62,014	41,822	106,377	83,718
<b>Income Before Income Taxes</b>	20,023	25,064	43,210	50,157
Income taxes	5,518	7,442	12,214	15,165
<b>Net Income</b>	\$ 14,505	\$ 17,622	\$ 30,996	\$ 34,992
<b>Net Income per Common Share</b>				
Basic	\$ 0.17	\$ 0.29	\$ 0.43	\$ 0.58
Diluted	0.17	0.29	0.42	0.58
<b>Cash Dividends per Common Share</b>	0.24	0.235	0.48	0.47
See accompanying Notes to Consolidated Financial Statements				

3



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

Dollars in thousands

Unaudited

	Compre- hensive Income	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Treasury Stock	Total
<b>Balance at January 1, 2008</b>		\$ 602	\$ 508,891	\$ 42,426	\$ (6,738)	\$ (824)	\$ 544,357
Net income	\$ 30,996			30,996			30,996
Change in other comprehensive (loss)	(10,275)				(10,275)		(10,275)
Comprehensive income	\$ 20,721						
Cash dividends declared:							
Common stock \$0.48/share				(35,271)			(35,271)
Issuance of common stock		255	388,988	(213)		39	389,069
Restricted stock compensation			1,236				1,236
Tax benefit of stock-based Compensation			(48)				(48)
Adjustment to initially apply EITF 06-04 and 06-10				(606)			(606)
<b>Balance at June 30, 2008</b>		\$ 857	\$ 899,067	\$ 37,332	\$ (17,013)	\$ (785)	\$ 919,458
<b>Balance at January 1, 2007</b>		\$ 601	\$ 506,024	\$ 33,321	\$ (1,546)	\$ (1,028)	\$ 537,372
Net income	\$ 34,992			34,992			34,992
Change in other comprehensive (loss)	(4,078)				(4,078)		(4,078)
Comprehensive income	\$ 30,914						

Cash dividends declared:							
Common stock \$0.47/share			(28,384)				(28,384)
Purchase of common stock					(5,777)		(5,777)
Issuance of common stock	1	(2)	(1,039)		5,788		4,748
Restricted stock compensation			668				668
Tax benefit of stock-based Compensation			376				376
Cumulative effect of change in accounting for uncertainties in income taxes (FIN 48 see the Income Taxes note)					(1,174)		(1,174)
<b>Balance at June 30, 2007</b>	\$ 602	\$ 507,066	\$ 37,716	\$ (5,624)	\$ (1,017)		\$ 538,743

See accompanying Notes to Consolidated Financial Statements

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

Dollars in thousands

Unaudited

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net income	\$ 30,996	\$ 34,992
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	11,364	7,093
Provision for loan losses	14,559	3,685
Deferred taxes	(1,111)	3,530
Gain on sale of securities	(329)	(1,044)
Tax benefit of stock-based compensation	48	(376)
Net change in:		
Interest receivable	3,280	416
Interest payable	1,270	(953)
Loans held for sale	(12,374)	(4,512)
Trading securities	185,416	
Bank owned life insurance	(1,807)	(1,479)
Other, net	(15,149)	3,592
Net cash flows provided by operating activities	216,163	44,944
<b>Investing Activities</b>		
Net change in:		
Interest bearing deposits with banks	3,176	386
Federal funds sold	(14,000)	
Loans	(185,929)	(44,891)
Securities available for sale:		
Purchases	(230,775)	(170,570)
Sales	1,977	3,162
Maturities	140,491	129,053
Securities held to maturity:		
Purchases	(186,335)	(36,055)
Maturities	82,519	70,081
Purchase of bank owned life insurance	(22)	
Increase in premises and equipment	(8,812)	(2,535)
Net cash received for mergers and acquisitions	50,441	
Net cash flows used in investing activities	(347,269)	(51,369)
<b>Financing Activities</b>		
Net change in:		

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

Non-interest bearing deposits, savings and NOW accounts	234,909	124,806
Time deposits	(45,412)	(43,080)
Short-term borrowings	10,942	50,849
Increase in long-term debt	92,088	49,566
Decrease in long-term debt	(68,210)	(130,012)
Decrease in junior subordinated debt	(169)	
Purchase of common stock		(5,777)
Issuance of common stock	1,376	3,357
Tax benefit of stock-based compensation	(48)	376
Cash dividends paid	(35,271)	(28,384)
Net cash flows provided by financing activities	190,205	21,701
<b>Net Increase in Cash and Due from Banks</b>	<b>59,099</b>	<b>15,276</b>
Cash and due from banks at beginning of period	130,235	122,362
<b>Cash and Due from Banks at End of Period</b>	<b>\$ 189,334</b>	<b>\$ 137,638</b>

See accompanying Notes to Consolidated Financial Statements

**Table of Contents**

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

June 30, 2008

**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 and loan production offices in Pennsylvania, Ohio, Florida and Tennessee. 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 include subsidiaries in which the Corporation has a controlling financial interest. Companies in which the Corporation controls operating and financing decisions (principally defined as owning a voting or economic interest greater than 50%) are also consolidated. Variable interest entities are consolidated if the Corporation is exposed to the majority of the variable interest entity's expected losses and/or residual returns (i.e., the Corporation is considered to be the primary beneficiary). 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, F.N.B. Capital Corporation, LLC and Bank Capital Services, and results for each of these entities are included 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.

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 rules and regulations of the Securities and Exchange Commission (Commission). The interim operating results are not necessarily indicative of operating results 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 Commission on February 29, 2008.

**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 valuation, goodwill and other intangible assets and income taxes.

**MERGERS AND ACQUISITIONS**

On April 1, 2008, the Corporation completed its acquisition of Omega Financial Corporation (Omega), a diversified financial services company with \$1.8 billion in assets based in State College, Pennsylvania. The all-stock transaction, valued at approximately \$388.2 million, resulted in the Corporation issuing 25,362,525 shares of its common stock in exchange for 12,544,150 shares of Omega common stock. The assets and liabilities of Omega were recorded on the Corporation's balance sheet at their fair values as of April 1, 2008, the acquisition date, and their results of operations have been included in the Corporation's consolidated statement of income since then. Omega's banking subsidiary, Omega Bank, was merged into FNBPA on April 1, 2008.

**Table of Contents**

The following table shows the calculation of the preliminary purchase price and the resulting goodwill (in thousands):

Fair value of stock issued and stock options assumed		\$ 388,176
Fair value of:		
Tangible assets acquired	1,535,724	
Core deposit and other intangible assets acquired	31,028	
Liabilities assumed	(1,463,715)	
Net cash received in the acquisition	50,441	
Fair value of net assets acquired		153,478
Goodwill recognized		\$ 234,698

The Corporation has not yet finalized its determination of the fair values of certain acquired assets and liabilities and will adjust goodwill upon completion of the valuation process.

The following table summarizes the estimated fair value of the net assets that the Corporation acquired from Omega (in thousands):

	<b>April 1, 2008</b>
Assets	
Cash and due from banks	\$ 50,441
Federal funds sold	52,400
Securities	256,837
Loans	1,090,920
Goodwill and other intangible assets	265,726
Accrued income and other assets	135,567
Total assets	1,851,891
Liabilities	
Deposits	1,291,483
Borrowings	157,241
Accrued expenses and other liabilities	14,991
Total liabilities	1,463,715
Purchase price	\$ 388,176

The following unaudited summary financial information presents the consolidated results of operations of the Corporation on a pro forma basis, as if the Omega acquisition had occurred at the beginning of each of the periods presented (dollars in thousands, except per share data):

<b>Three Months Ended June 30,</b>	<b>Six Months Ended June 30,</b>
--	--------------------------------------

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

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net interest income	\$ 65,557	\$ 65,470	\$ 130,664	\$ 130,491
Provision for loan losses	10,976	2,583	17,994	5,040
Net interest income after provision for loan losses	54,581	62,887	112,670	125,451
Non-interest income	27,456	27,113	56,494	55,158
Non-interest expense	62,014	57,086	123,625	113,890
Income before taxes	20,023	32,914	45,539	66,719
Income taxes	5,518	9,473	12,495	19,469
Net income	\$ 14,505	\$ 23,441	\$ 33,044	\$ 47,250
Net income per common share				
Basic	\$ 0.17	\$ 0.27	\$ 0.39	\$ 0.55
Diluted	0.17	0.27	0.39	0.55

7

**Table of Contents**

The pro forma results include the amortization of the fair value adjustments on loans, deposits and debt and the amortization of the newly created intangible assets and post-merger acquisition related expenses. The pro forma results for the three and six months ended June 30, 2008 also include \$3.6 million pre-tax for certain non-recurring items, including personnel expense for retention bonuses and severance payments. The pro forma results do not reflect cost savings or revenue enhancements anticipated from the acquisition, and are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the periods presented, nor are they necessarily indicative of future consolidated results.

*Pending Acquisition*

On February 15, 2008, the Corporation announced the signing of a definitive merger agreement to acquire Iron and Glass Bancorp, Inc. (IRGB), a bank holding company with approximately \$300.0 million in assets based in Pittsburgh, Pennsylvania. The transaction is valued at approximately \$86.1 million. Under the terms of the merger agreement, IRGB shareholders will be entitled to receive either \$75.00 cash or 5.00 shares of F.N.B. Corporation common stock, or a combination of cash and shares, for each share of IRGB common stock, subject to a proration of 45% cash and 55% stock, if either cash or stock is oversubscribed. The transaction is expected to be completed in the third quarter of 2008, pending regulatory approvals, the approval of shareholders of IRGB and the satisfaction of other closing conditions.

**NEW ACCOUNTING STANDARDS***Disclosures about Derivative Instruments and Hedging Activities*

In March 2008, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement (FAS) 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133*, which enhances disclosures about derivatives and hedging activities and thereby improves the transparency of financial reporting. FAS 161 is effective for the Corporation on January 1, 2009. The Corporation has not yet determined the impact that the adoption of FAS 161 will have on its consolidated financial statements.

*Business Combinations*

In December 2007, the FASB issued FAS 141R, *Business Combinations*, which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. FAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. FAS 141R is effective for the Corporation for acquisitions made after January 1, 2009. The Corporation has not yet determined the impact that the adoption of FAS 141R will have on its consolidated financial statements.

*Noncontrolling Interests in Consolidated Financial Statements*

In December 2007, the FASB issued FAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51*. FAS 160 establishes accounting and reporting standards for ownership interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for the Corporation on January 1, 2009. Earlier adoption is prohibited. The Corporation has not yet determined the impact that the adoption of FAS 160 will have on its consolidated financial statements.

*Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*

In June 2007, the FASB ratified the consensus reached in Emerging Issues Task Force (EITF) 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 applies to companies that have share-based payment arrangements that entitle employees to receive dividends or dividend equivalents on equity-classified nonvested shares when those dividends or dividend equivalents are charged to retained earnings and result in an income tax deduction. Companies that have share-based payment arrangements that fall within the scope of EITF 06-11 will be required to increase capital surplus for any realized income tax benefit associated with dividend or dividend equivalents paid to employees for equity classified nonvested equity awards. Any increase recorded to capital surplus is required to be included in a company's pool of excess tax benefits that are available to absorb potential future tax deficiencies on share-based payment awards. The application of this guidance did not impact the Corporation's consolidated financial statements since dividends accrued on its unvested awards are subject to forfeiture.





**Table of Contents***Accounting for Collateral Assignment Split Dollar Life Insurance*

In March 2007, the FASB ratified EITF 06-10, *Accounting for Collateral Assignment Split Dollar Life Insurance*. EITF 06-10 concludes that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split dollar life insurance arrangement in accordance with either FAS 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*, or APB Opinion No. 12, *Ominbus Opinion 1967*, if the employer has agreed to maintain a life insurance policy during the employee's retirement or to provide the employee with a death benefit based on the substantive arrangement with the employee. EITF 06-10 also concludes that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split dollar life insurance arrangement. The determination of the nature and substance of the arrangement should involve an evaluation of all available information, including an assessment of the future cash flows to which the employer is entitled and the employee's obligation and ability to repay the employer. The Corporation adopted EITF 06-10 on January 1, 2008 resulting in a decrease of \$0.7 million in retained earnings and an increase of \$0.7 million in accrued bank owned life insurance.

*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*

In September 2006, the FASB ratified EITF 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*. EITF 06-04 concludes that an employer should recognize a liability for the future benefits related to an endorsement split dollar life insurance arrangement in accordance with either FAS 106 or APB Opinion No. 12, *Ominbus Opinion 1967*. The Corporation adopted EITF 06-04 on January 1, 2008 resulting in an increase of \$0.1 million in retained earnings and a decrease of \$0.1 million in accrued bank owned life insurance.

*The Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows companies to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a company may elect the fair value option for an eligible financial asset or financial liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A company may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A company's decision to elect the fair value option for an eligible item is irrevocable. The Corporation did not elect the fair value option for eligible financial assets or financial liabilities.

*Fair Value Measurements*

In September 2006, the FASB issued FAS 157, *Fair Value Measurements*, which replaces the different definitions of fair value in existing accounting literature with a single definition, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The statement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Corporation adopted the provisions of FAS 157 on January 1, 2008. For additional information regarding FAS 157, see the Fair Value Measurements footnote included in this Report.

In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, which delays the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP 157-2 are effective for the Corporation on January 1, 2009. The Corporation has not yet determined the impact that the adoption of FAS 157, as it pertains to nonfinancial assets and nonfinancial liabilities, will have on its consolidated financial statements.

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

Following is a summary of the fair value of securities available for sale (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
U.S. Treasury and other U.S. government agencies and corporations	\$ 258,571	\$ 162,839
Mortgage-backed securities of U.S. government agencies	108,066	72,267
States of the U.S. and political subdivisions	70,568	71,490
Corporate debt securities	36,833	46,207
Total debt securities	474,038	352,803
Equity securities	5,702	5,618
	<b>\$ 479,740</b>	<b>\$ 358,421</b>

Following is a summary of the amortized cost of securities held to maturity (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
U.S. Treasury and other U.S. government agencies and corporations	\$ 1,006	\$ 11,004
Mortgage-backed securities of U.S. government agencies	686,467	547,046
States of the U.S. and political subdivisions	100,223	102,179
Corporate and other debt securities	6,988	7,324
	<b>\$ 794,684</b>	<b>\$ 667,553</b>

The Corporation sold \$1.3 million of equity securities at a gain of less than \$0.1 million for the six months ended June 30, 2008 and sold \$2.9 million of equity securities at a gain of \$1.0 million for the six months ended June 30, 2007. Additionally, the Corporation recognized a one-time gain of \$0.7 million relating to the VISA, Inc. initial public offering during the six months ended June 30, 2008. The Corporation recognized a loss of \$0.5 million and \$0.1 million during the six months ended June 30, 2008 and 2007, respectively, due to the write-down to market value of equity securities that were deemed to be other-than-temporarily impaired. The Corporation also recognized a gain of \$0.1 million relating to \$6.6 million of called securities during the six months ended June 30, 2007. None of the security sales or calls were at a loss.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value and management's intent and ability to retain the security for a period of time sufficient to allow for a recovery in market value or maturity. Among the factors that are considered in determining management's intent and ability is a review of the Corporation's capital adequacy, interest rate risk position and liquidity. The assessment of a security's ability to recover any decline in market value, the ability of the issuer to meet contractual obligations and management's intent and ability require considerable judgment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the consolidated statement of income.

**Table of Contents**

Following are summaries of the age of unrealized losses and the associated fair value (in thousands):  
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>June 30, 2008</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 208,359	\$ (2,939)	\$	\$	\$ 208,359	\$ (2,939)
Mortgage-backed securities of U.S. government agencies	40,095	(700)			40,095	(700)
States of the U.S. and political Subdivisions	50,606	(1,458)			50,606	(1,458)
Corporate debt securities	28,273	(9,611)	8,560	(3,877)	36,833	(13,488)
Equity securities	1,912	(250)	44	(22)	1,956	(272)
	\$ 329,245	\$ (14,958)	\$ 8,604	\$ (3,899)	\$ 337,849	\$ (18,857)

**December 31, 2007**

Mortgage-backed securities of U.S. government agencies	\$	\$	\$ 14,673	\$ (138)	\$ 14,673	\$ (138)
States of the U.S. and political Subdivisions	23,806	(155)	11,934	(200)	35,740	(355)
Corporate debt securities	34,407	(3,879)	3,568	(451)	37,975	(4,330)
Equity securities	636	(302)	13	(10)	649	(312)
	\$ 58,849	\$ (4,336)	\$ 30,188	\$ (799)	\$ 89,037	\$ (5,135)

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>June 30, 2008</b>						
Mortgage-backed securities of U.S. government agencies	\$ 386,174	\$ (8,581)	\$ 12,385	\$ (833)	\$ 398,559	\$ (9,414)
States of the U.S. and political Subdivisions	60,483	(984)	40		60,523	(984)
Corporate debt securities	4,858	(576)	100		4,958	(576)
	\$ 451,515	\$ (10,141)	\$ 12,525	\$ (833)	\$ 464,040	\$ (10,974)

**December 31, 2007**

Mortgage-backed securities of U.S. government agencies	\$ 47,051	\$ (432)	\$ 280,433	\$ (3,433)	\$ 327,484	\$ (3,865)
States of the U.S. and political Subdivisions	1,030		37,206	(134)	38,236	(134)
Corporate debt securities	5,726	(101)	120		5,846	(101)
	\$ 53,807	\$ (533)	\$ 317,759	\$ (3,567)	\$ 371,566	\$ (4,100)

As of June 30, 2008, securities with unrealized losses for less than 12 months include 17 investments in U.S. Treasury and other U.S. government agencies and corporations, 73 investments in mortgage-backed securities of U.S. government agencies, 131 investments in states of the U.S. and political subdivision securities, 24 investments in corporate debt securities and 17 investments in equity securities. As of June 30, 2008, securities with unrealized losses of greater than 12 months include 3 investments in mortgage-backed securities of U.S. government agencies, 1 investment in states of the U.S. and political subdivision securities, 5 investments in corporate debt securities and 1 investment in equity securities. The Corporation has concluded that it has both the intent and ability to hold these securities for the time necessary to recover the amortized cost or until maturity.

**Table of Contents**

As of June 30, 2008, management does not believe any unrealized loss individually or in the aggregate represents an other-than-temporary impairment. The unrealized losses at June 30, 2008 were primarily interest rate-related.

**BORROWINGS**

Following is a summary of short-term borrowings (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Securities sold under repurchase agreements	\$ 372,775	\$ 276,552
Federal funds purchased	20,000	60,000
Subordinated notes	117,654	112,779
Other short-term borrowings	316	492
	<b>\$ 510,745</b>	<b>\$ 449,823</b>

Following is a summary of long-term debt (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Federal Home Loan Bank advances	\$ 450,646	\$ 427,099
Subordinated notes	53,777	53,404
Convertible debt	613	658
Other long-term debt	208	205
	<b>\$ 505,244</b>	<b>\$ 481,366</b>

The Corporation's banking affiliate has available credit with the Federal Home Loan Bank (FHLB) of \$1.9 billion, of which \$450.6 million was used as of June 30, 2008. 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 2.12% to 5.75% for the six months ended June 30, 2008 and 2.79% to 5.75% for the year ended December 31, 2007.

**JUNIOR SUBORDINATED DEBT OWED TO UNCONSOLIDATED SUBSIDIARY TRUSTS**

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 and Sun Bancorp Statutory Trust I, of which 100% of the common equity of each is owned by the Corporation. The Trusts are not consolidated because the Corporation is not the primary beneficiary, as evaluated under FAS Interpretation (FIN) 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. The Trusts were formed for the purpose of issuing Corporation-obligated mandatorily redeemable capital securities (trust preferred securities) to third-party investors. The proceeds from the sale of trust preferred securities 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. The Trusts pay dividends on the trust preferred securities at the same rate as the distributions paid by the Corporation on the junior subordinated debt held by the Trusts. Omega Financial Capital Trust and Sun Bancorp Statutory Trust I were acquired as a result of the Omega acquisition.

Distributions on the subordinated debt issued to the Trusts are recorded as interest expense by the Corporation. The trust preferred securities 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 guidelines subject to certain limitations beginning March 31, 2009. The Corporation has entered into agreements which, when taken collectively, fully and unconditionally

guarantee the obligations under the trust preferred securities subject to the terms of each of the guarantees.

**Table of Contents**

The following table provides information relating to the Trusts as of June 30, 2008 (dollars in thousands):

	<b>F.N.B. Statutory Trust I</b>	<b>F.N.B. Statutory Trust II</b>	<b>Omega Financial Capital Trust</b>	<b>Sun Bancorp Statutory 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	35,742	18,950
Stated maturity date	3/31/33	6/15/36	10/18/34	2/22/31
Optional redemption date	3/31/08	6/15/11	10/18/09	2/22/11
Interest rate	8.08%	7.17%	5.98%	10.20%
		fixed until 6/15/11; then LIBOR plus 165 basis points	fixed until 10/09; then LIBOR plus 219 basis points	
	variable; LIBOR plus 325 basis points			

**INTEREST RATE SWAPS**

In February 2005, the Corporation entered into an interest rate swap with a notional amount of \$125.0 million, whereby it paid a fixed rate of interest and received a variable rate based on the London Inter-Bank Offered Rate (LIBOR). The effective date of the swap was January 3, 2006 and the maturity date of the swap was March 31, 2008. The interest rate swap was a designated cash flow hedge designed to convert the variable interest rate to a fixed rate on \$125.0 million of subordinated debentures. The swap was considered to be highly effective and assessment of the hedging relationship was evaluated under Derivative Implementation Group Issue No. G7 using the hypothetical derivative method.

The Corporation's interest rate swap program for commercial loans provides the customer with fixed rate loans while creating a variable rate asset for the Corporation. The notional amount of swaps under this program totalled \$129.2 million as of June 30, 2008.

**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 (in thousands):

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Commitments to extend credit	\$ 1,288,210	\$ 938,277
Standby letters of credit	94,201	76,708

At June 30, 2008, funding of approximately 76.0% 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

**Table of Contents**

loans to customers. The obligations are not recorded in the Corporation's consolidated financial statements. The Corporation's 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 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. It is possible, in the event of unexpected future developments, that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated results of operations for a particular period.

**EARNINGS PER SHARE**

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

Diluted earnings per common share is calculated by dividing net income adjusted for interest expense on convertible debt by the weighted average number of shares of common stock outstanding, adjusted for the dilutive effect of potential common shares issuable for stock options, warrants, restricted shares and convertible debt, as calculated using the treasury stock method. Such 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 share (dollars in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 14,505	\$ 17,622	\$ 30,996	\$ 34,992
Interest expense on convertible debt	5	6	10	12
Net income after assumed conversion				
diluted earnings per share	\$ 14,510	\$ 17,628	\$ 31,006	\$ 35,004
Basic weighted average common shares				
outstanding	85,632,970	60,127,296	72,926,385	60,116,221
Net effect of dilutive stock options, warrants,				
restricted stock and convertible debt	420,724	493,937	396,243	510,896
Diluted weighted average common shares				
outstanding	86,053,694	60,621,233	73,322,628	60,627,117
Basic earnings per share	\$ 0.17	\$ 0.29	\$ 0.43	\$ 0.58

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

Diluted earnings per share	\$	0.17	\$	0.29	\$	.042	\$	0.58
----------------------------	----	------	----	------	----	------	----	------

14

---

**Table of Contents****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 six months ended June 30, 2008, the Corporation issued 245,255 restricted stock awards with a weighted average grant date fair value of \$3.3 million. The Corporation did not issue any restricted stock awards for the six months ended June 30, 2007. The Corporation has available up to 2,998,010 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 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 \$1.3 million and \$0.7 million for the six months ended June 30, 2008 and 2007, the tax benefit of which was \$0.5 million and \$0.2 million, respectively.

The following table summarizes certain information concerning restricted stock awards:

	Six Months Ended June 30,			
	2008	Weighted Average Grant Price	2007	Weighted Average Grant Price
Unvested awards outstanding at beginning of period	387,064	\$ 17.59	302,264	\$ 18.54
Granted	245,255	13.51		
Vested	(114,675)	18.58	(54,448)	18.56
Forfeited	(27,441)	14.67	(531)	16.46
Dividend reinvestment	18,095	14.31	6,911	16.96
Unvested awards outstanding at end of period	508,298	15.44	254,196	18.50

The total fair value of awards vested was \$1.5 million and \$1.0 million for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, there was \$4.5 million of unrecognized compensation cost related to unvested restricted stock awards including \$0.4 million that is subject to accelerated vesting under the plan's immediate vesting upon retirement provision for awards granted prior to the adoption of FAS 123R, *Share-Based Payment*, on January 1, 2006. The components of the restricted stock awards as of June 30, 2008 are as follows (dollars in thousands):

	Service- Based Awards	Performance- Based Awards	Total
Unvested awards	198,556	309,742	508,298
Unrecognized compensation expense	\$ 1,617	\$ 2,913	\$ 4,530

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

Intrinsic value	\$ 2,339	\$ 3,649	\$ 5,988
Weighted average remaining life (in years)	2.36	2.81	2.63

---

15

**Table of Contents***Stock Options*

There were no stock options granted during the six months ended June 30, 2008 or 2007. 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. Shares issued upon the exercise of stock options were 54,317 and 168,850 for the six months ended June 30, 2008 and 2007, respectively.

The following table summarizes certain information concerning stock option awards:

	<b>Six Months Ended June 30,</b>			
	<b>2008</b>	<b>Weighted Average Exercise Price</b>	<b>2007</b>	<b>Weighted Average Exercise Price</b>
	<b>Shares</b>		<b>Shares</b>	
Options outstanding at beginning of period	1,139,845	\$ 11.75	1,450,225	\$ 11.69
Assumed in acquisition	798,371	16.49		
Exercised	(54,320)	11.87	(174,684)	11.74
Forfeited	(55,054)	19.02		
Options outstanding and exercisable at end of period	1,828,842	13.60	1,275,541	11.69

The intrinsic value of outstanding and exercisable stock options at June 30, 2008 was \$0.

*Warrants*

The Corporation assumed warrants to issue 123,394 shares of common stock at an exercise price of \$10.00 in conjunction with a previous acquisition. Such warrants are exercisable and will expire on various dates in 2009. The Corporation has reserved shares of common stock for issuance in the event these warrants are exercised. As of June 30, 2008, warrants to purchase 53,559 shares of common stock remain outstanding.

**RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Corporation sponsors the F.N.B. Corporation 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. The plan amendment resulted in a remeasurement that produced a net unrecognized service credit of \$14.0 million, which is being amortized over the average period of future service of active employees of 13.5 years. Benefits of the RIP for service provided prior to December 31, 2006 are generally based on years of service and the employee's highest compensation for five consecutive years during their last ten years of employment. During 2007, the Corporation amended the RIP such that it is closed to new participants who commence employment with the Corporation on or after January 1, 2008. 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 2008.

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 who are designated by the Board of Directors. 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 qualified 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.

**Table of Contents**

The net periodic benefit cost for the defined benefit plans includes the following components (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ 792	\$ 849	\$ 1,584	\$ 1,698
Interest cost	1,648	1,544	3,296	3,088
Expected return on plan assets	(2,186)	(2,143)	(4,372)	(4,286)
Amortization:				
Unrecognized net transition asset	(23)	(23)	(46)	(46)
Unrecognized prior service (credit) cost	(273)	(272)	(546)	(544)
Unrecognized loss	184	215	368	430
Net periodic pension benefit cost	\$ 142	\$ 170	\$ 284	\$ 340

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 completing 90 days of service and having attained age 21. As an offset to the decrease in RIP benefits, beginning with 2007, 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, the automatic contribution for substantially all new full-time employees was increased from two percent to four percent. The Corporation's contribution expense was \$2.0 million and \$1.6 million for the six months ended June 30, 2008 and 2007, respectively.

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

The Corporation sponsors a 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 are age 60 or older as of January 1, 2007 are eligible for employer paid coverage. The postretirement plan amendment resulted in a remeasurement that produced a net unrecognized service credit of \$2.7 million, which has been amortized over the remaining service period of eligible employees of 1.3 years and was fully recognized during 2007. 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 (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Service cost	\$ 15	\$ 14	\$ 30	\$ 28
Interest cost	28	33	56	66
Amortization:				
Unrecognized prior service credit		(421)		(842)
Unrecognized net transition asset	1		2	
Net periodic postretirement benefit cost	\$ 44	\$ (374)	\$ 88	\$ (748)



The net periodic postretirement benefit cost increased for the six months ended June 30, 2008 compared to the same period in 2007 due to the unrecognized service credit resulting from the postretirement plan amendment effective January 1, 2007 being fully amortized in 2007.

**Table of Contents****COMPREHENSIVE INCOME**

The components of comprehensive income, net of related tax, are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 14,505	\$ 17,622	\$ 30,996	\$ 34,992
Other comprehensive (loss) income:				
Unrealized (losses) gains on securities:				
Arising during the period	(8,199)	(2,031)	(9,780)	(2,452)
Less: reclassification adjustment for losses (gains) included in net income	265	(198)	(219)	(679)
Unrealized (loss) gain on swap		(69)	(128)	(295)
Pension and postretirement amortization	(72)	(326)	(148)	(652)
Other comprehensive (loss) income	(8,006)	(2,624)	(10,275)	(4,078)
Comprehensive income	\$ 6,499	\$ 14,998	\$ 20,721	\$ 30,914

The amount of the reclassification adjustment for losses (gains) included in net income differs from the amount shown in the consolidated statement of income because it does not include gains or losses realized on securities that were purchased and then sold during 2008.

The accumulated balances related to each component of other comprehensive income (loss) are as follows (in thousands):

<b>June 30</b>	<b>2008</b>	<b>2007</b>
Unrealized (losses) gains on securities	\$ (10,620)	\$ (508)
Unrealized gain on swap		678
Unrecognized pension and postretirement obligations	(6,393)	(5,794)
Accumulated other comprehensive income (loss)	\$ (17,013)	\$ (5,624)

**CASH FLOW INFORMATION**

Following is a summary of supplemental cash flow information (in thousands):

<b>Six Months Ended June 30</b>	<b>2008</b>	<b>2007</b>
Interest paid on deposits and other borrowings	\$75,011	\$86,791
Income taxes paid	13,500	13,282
Transfers of loans to other real estate owned	3,673	1,297
Transfers of other real estate owned to loans	391	18

Supplemental non-cash information relating to the Corporation's acquisition of Omega is included in the Mergers and Acquisitions section of this Report.

**Table of Contents****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 is primarily involved in making installment loans to individuals and purchasing 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 (in thousands). 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 reconciling to the consolidated amounts.

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Three Months Ended June 30, 2008</b>						
Interest income	\$ 96,809	\$ 13	\$ 137	\$ 7,853	\$ 485	\$ 105,297
Interest expense	35,360	1		1,355	3,024	39,740
Net interest income	61,449	12	137	6,498	(2,539)	65,557
Provision for loan losses	9,123			1,394	459	10,976
Non-interest income	19,491	5,933	3,580	517	(2,065)	27,456
Non-interest expense	49,530	3,995	2,986	3,858	426	60,795
Intangible amortization	999	90	130			1,219
Income tax expense (benefit)	6,040	660	221	636	(2,039)	5,518
Net income (loss)	15,248	1,200	380	1,127	(3,450)	14,505
Total assets	7,901,578	18,913	26,035	157,679	(8,325)	8,095,880
Total intangibles	497,503	12,907	13,178	1,809		525,397

**Table of Contents**

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Three Months Ended June 30, 2007</b>						
Interest income	\$ 84,211	\$ 29	\$ 117	\$ 7,842	\$ (579)	\$ 91,620
Interest expense	39,424	3		1,596	2,248	43,271
Net interest income	44,787	26	117	6,246	(2,827)	48,349
Provision for loan losses	996			842		1,838
Non-interest income	14,033	4,093	2,730	495	(976)	20,375
Non-interest expense	31,894	2,966	2,471	3,508	(120)	40,719
Intangible amortization	985	6	112			1,103
Income tax expense (benefit)	7,441	410	102	855	(1,366)	7,442
Net income (loss)	17,504	737	162	1,536	(2,317)	17,622
Total assets	5,891,808	6,688	24,024	153,387	(14,658)	6,061,249
Total intangibles	249,589	1,265	11,102	1,809		263,765

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Six Months Ended June 30, 2008</b>						
Interest income	\$ 177,477	\$ 31	\$ 242	\$ 15,706	\$ 366	\$ 193,822
Interest expense	70,883	3		2,864	5,550	79,300
Net interest income	106,594	28	242	12,842	(5,184)	114,522
Provision for loan losses	11,653			2,447	459	14,559
Non-interest income	34,983	9,938	6,942	1,142	(3,381)	49,624
Non-interest expense	83,787	7,057	5,632	7,442	167	104,085
Intangible amortization	1,955	96	241			2,292
Income tax expense (benefit)	12,678	999	479	1,472	(3,414)	12,214
Net income (loss)	31,504	1,814	832	2,623	(5,777)	30,996
Total assets	7,901,578	18,913	26,035	157,679	(8,325)	8,095,880
Total intangibles	497,503	12,907	13,178	1,809		525,397

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Parent and Other</b>	<b>Consolidated</b>
<b>At or for the Six Months Ended June 30, 2007</b>						
Interest income	\$ 167,425	\$ 65	\$ 246	\$ 15,614	\$ (1,243)	\$ 182,107
Interest expense	78,199	5		3,179	4,455	85,838

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

Net interest income	89,226	60	246	12,435	(5,698)	96,269
Provision for loan losses	1,867			1,818		3,685
Non-interest income	27,611	7,798	6,420	1,072	(1,610)	41,291
Non-interest expense	63,794	5,817	4,967	7,351	(417)	81,512
Intangible amortization	1,970	13	223			2,206
Income tax expense (benefit)	14,919	724	535	1,557	(2,570)	15,165
Net income (loss)	34,287	1,304	941	2,781	(4,321)	34,992
Total assets	5,891,808	6,688	24,024	153,387	(14,658)	6,061,249
Total intangibles	249,589	1,265	11,102	1,809		263,765

20

**Table of Contents****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, other real estate owned (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. FAS 157 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 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 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 under FAS 157 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
- Level 3 valuation techniques that require inputs that are both significant to the fair value measurement and unobservable

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 valuation methodologies used for financial instruments recorded at fair value on either a recurring or nonrecurring basis:

*Securities Available For Sale*

Securities available for sale are recorded at fair value on a recurring basis using a market approach. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are obtained from an independent pricing service. The pricing service uses a variety of techniques to arrive at fair value including market maker bids and quotes of significantly similar securities and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for specific securities but comparing the securities to benchmark or comparable securities.

Fair values for investment securities based on quoted market prices on an active exchange are classified as Level 1. Level 2 fair values include substantially all of the Corporation's fixed income investments. These fair values are obtained through third-party data service providers who use alternative approaches to determine fair value when

**Table of Contents**

market quotes are not readily accessible or available. Securities classified as Level 3 are not listed on any exchange, are based on unobservable inputs and include situations where there is limited market activity.

*Derivative Financial Instruments*

Fair value for derivatives is determined 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.

To comply with the provisions of FAS 157, 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 has considered 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 June 30, 2008, 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.

*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 and is classified as Level 2.

*Impaired Loans*

Certain commercial and commercial real estate loans considered impaired as defined in FAS 114 are reserved for at the time the loan is identified as impaired according to the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including equipment, inventory and accounts receivable.

The value of real estate is determined based on appraisals by qualified licensed appraisers. The value of business assets is generally based on amounts reported on the business's financial statements. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation and/or management's knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 2 or Level 3 based on the lowest level of input that is significant to the fair value measurement.

Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, 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. OREO acquired in settlement of indebtedness is recorded at the lower of carrying amount of the loan or fair value less costs to sell. Subsequently, these assets are carried at the lower of carrying value or fair value less costs to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by qualified licensed appraisers and is classified as Level 2.

**Table of Contents**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2008 (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets measured at fair value:				
Securities available for sale	\$ 1,832	\$ 477,445	\$ 463	\$ 479,740
Other assets (interest rate swaps)		3,240		3,240
	\$ 1,832	\$ 480,685	\$ 463	\$ 482,980
Liabilities measured at fair value:				
Other liabilities (Interest rate swaps)		\$ 3,227		\$ 3,227
		\$ 3,227		\$ 3,227

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 (in thousands):

Balance at December 31, 2007	\$ 14,338
Total gains (losses) realized/unrealized:	
Included in earnings	
Included in other comprehensive income	(1,755)
Purchases, issuances and settlements	267
Transfers in and/or (out) of Level 3	(12,387)
Balance at June 30, 2008	\$ 463

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 during the quarter in which the changes occur.

At March 31, 2008, there were approximately \$12.4 million of trust preferred securities transferred from Level 3 to Level 2. These securities were classified as Level 2 because all significant assumptions in their valuation at March 31, 2008 were observable and continue to be observable at June 30, 2008. Valuations at December 31, 2007 used significant unobservable assumptions. These unobservable assumptions reflected the Corporation's own estimates of assumptions that market participants would use in pricing the securities.

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 market 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 during the first six months of 2008 that were still held in the balance sheet at June 30, 2008, the following table provides the hierarchy level and the fair value of the related assets or portfolios (in thousands):

	<b>Total Losses for the Six Months Ended June</b>
<b>Fair Value at June 30, 2008</b>	



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

	<b>Level</b>			<b>Total</b>	<b>30, 2008</b>
	<b>1</b>	<b>Level 2</b>	<b>Level 3</b>		
Impaired loans	\$	\$ 7,435	\$ 9,994	\$ 17,429	\$ 6,098
Other real estate owned		1,010		1,010	356
					\$ 6,454

**Table of Contents**

Impaired loans with a carrying amount of \$20.7 million were written down to \$14.6 million through the allowance for loan losses (fair value of \$17.4 million less estimated costs to sell of \$2.8 million), resulting in a loss of \$6.1 million, which was included in the provision for loan losses for the six months ended June 30, 2008.

OREO with a carrying amount of \$1.3 million were written down to \$0.9 million (fair value of \$1.0 million less \$0.1 million estimated costs to sell), resulting in a loss of \$0.4 million, which was included in earnings for the six months ended June 30, 2008.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

F.N.B. Corporation

We have reviewed the condensed consolidated balance sheet of F.N.B. Corporation and subsidiaries (F.N.B. Corporation) as of June 30, 2008, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2008 and 2007 and the consolidated statements of shareholders' equity and cash flows for the six-month periods ended June 30, 2008 and 2007. These financial statements are the responsibility of F.N.B. Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of F.N.B. Corporation as of December 31, 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated February 26, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Ernst & Young LLP  
Pittsburgh, Pennsylvania  
August 6, 2008

**Table of Contents****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 and six months ended June 30, 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future period.

**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 exposure to regulatory and legislative changes. The above factors in some cases have affected, and in the future 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 publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

**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 2007 Annual Report on Form 10-K under the heading Application of Critical Accounting Policies. There have been no significant changes in critical accounting policies since the year ended December 31, 2007.

**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 in Pennsylvania and Ohio and loan production offices in Pennsylvania, Ohio, Florida and Tennessee. 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.

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. On April 1, 2008, the Corporation completed its acquisition of Omega Financial Corporation (Omega), a diversified financial services company with \$1.8 billion in assets based in State College, Pennsylvania.

**RESULTS OF OPERATIONS*****Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007***

Net income for the six months ended June 30, 2008 was \$31.0 million or \$0.42 per diluted share, compared to net income for the same period of 2007 of \$35.0 million or \$0.58 per diluted share. The Corporation's return on average equity was 8.43%, return on average tangible equity (which is calculated by dividing net income less amortization of intangibles by average equity less average intangibles) was 18.30%, return on average assets was 0.88% and return on average tangible assets (which is calculated by dividing net income less amortization of intangibles by average assets less average intangibles) was 0.98% for the six months ended June 30, 2008, compared to 13.09%, 26.80%, 1.17% and 1.28%, respectively, for the same period in 2007.

**Table of Contents**

The following table provides information regarding the average balances and yields earned on interest earning assets and the average balances and rates paid on interest bearing liabilities (dollars in thousands):

	<b>Six Months Ended June 30,</b>					
	<b>2008</b>			<b>2007</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	\$ 3,923	\$ 61	3.14%	\$ 1,379	\$ 30	4.38%
Federal funds sold	22,240	233	2.07	19,230	503	5.20
Taxable investment securities (1)	945,313	22,945	4.84	874,488	21,968	5.01
Non-taxable investment securities (2)	177,809	4,917	5.53	162,503	4,278	5.26
Loans (2) (3)	5,001,312	168,537	6.77	4,256,978	157,615	7.46
Total interest earning assets (2)	6,150,597	196,693	6.42	5,314,578	184,394	6.98
Cash and due from banks	129,063			113,337		
Allowance for loan losses	(60,819)			(52,495)		
Premises and equipment	95,490			85,316		
Other assets	732,334			555,261		
	\$ 7,046,665			\$ 6,015,997		
<b>Liabilities</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 1,670,006	12,921	1.56	\$ 1,395,794	17,995	2.60
Savings	683,190	3,532	1.04	598,918	4,967	1.67
Certificates and other time	1,982,789	39,358	3.99	1,757,223	38,613	4.43
Treasury management accounts	330,530	4,156	2.49	255,165	5,957	4.64
Other short-term borrowings	149,356	2,875	3.81	129,055	3,229	4.98
Long-term debt	498,747	10,658	4.30	484,005	9,625	4.01
Junior subordinated debt	178,419	5,800	6.54	151,031	5,452	7.28
Total interest bearing liabilities (2)	5,493,037	79,300	2.90	4,771,191	85,838	3.62
Non-interest bearing demand	736,559			633,577		
Other liabilities	77,705			72,032		
	6,307,301			5,476,800		
<b>Stockholders equity</b>	739,364			539,197		
	\$ 7,046,665			\$ 6,015,997		

Excess of interest earning assets over interest bearing liabilities	\$ 657,560	\$ 543,387
Fully tax-equivalent net interest income	117,393	98,556
Net interest spread	3.52%	3.36%
Net interest margin (2)	3.83%	3.73%
Tax-equivalent adjustment	2,871	2,287
Net interest income	\$ 114,522	\$ 96,269

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

(2) The interest income amounts are reflected on a fully taxable equivalent (FTE) basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized

basis. The rates paid on interest bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

- (3) Average balances include non-accrual loans. Loans consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

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

Net interest income, which is the Corporation's major source of revenue, is the difference between interest income from earning assets (loans, securities, federal funds sold and interest bearing deposits with banks) and interest expense paid on liabilities (deposits, treasury management accounts, short- and long-term borrowings and junior subordinated debt). For the six months ended June 30, 2008, net interest income, which comprised 69.8% of net revenue (net interest income plus non-interest income) as compared to 70.0% for the same period in 2007, was affected by the Omega acquisition, the general level of interest rates, changes in interest rates, the shape of the yield curve and changes in the amount and mix of interest earning assets and interest bearing liabilities.

Net interest income, on an FTE basis, was \$117.4 million for the six months ended June 30, 2008 and \$98.6 million for the six months ended June 30, 2007. Average earning assets increased \$836.0 million or 15.7% and average interest bearing liabilities increased \$721.8 million or 15.1% from the same period in 2007. The Corporation's net interest margin improved to 3.83% for the first six months in 2008 from 3.73% for the same period in 2007. Lower yields on interest earning assets were more than offset by lower rates paid on interest bearing liabilities. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds can be found 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 six months ended June 30, 2008 compared to the six months ended June 30, 2007 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ 42	\$ (11)	\$ 31
Federal funds sold	69	(339)	(270)
Securities	2,154	(538)	1,616
Loans	26,571	(15,649)	10,922
	28,836	(16,537)	12,299
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	3,088	(8,162)	(5,074)
Savings	526	(1,961)	(1,435)
Certificates and other time	4,735	(3,990)	745
Treasury management accounts	1,460	(3,261)	(1,801)
Other short-term borrowings	421	(775)	(354)
Long-term debt	308	725	1,033
Junior subordinated debt	935	(587)	348
	11,473	(18,011)	(6,538)
Net Change	\$ 17,363	\$ 1,474	\$ 18,837

(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 \$196.7 million for the six months ended June 30, 2008 increased by \$12.3 million or 6.7% from the same period of 2007. Average interest earning assets of \$6.2 billion for the first six months of 2008 grew \$836.0 million or 15.7% from the same period of 2007 primarily driven by the Omega acquisition which added \$1.1 billion on April 1, 2008. The yield on interest earning assets decreased 56 basis points to 6.42% for the first six months of 2008 reflecting changes in interest rates.

Interest expense of \$79.3 million for the six months ended June 30, 2008 decreased by \$6.5 million or 7.6% from the same period of 2007. The rate paid on interest bearing liabilities decreased 72 basis points to 2.90% during the first six months of 2008 reflecting changes in interest rates. Average interest bearing liabilities increased \$721.8 million



**Table of Contents**

or 15.1% to average \$5.5 billion for the first six months of 2008. This growth was primarily attributable to the Omega acquisition, which added \$1.2 billion in interest bearing liabilities, with \$1.3 billion in total deposits. On an organic basis, total deposits increased 1.5% compared to the first six months of 2007.

*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 loan portfolio, after giving consideration to charge-offs and recoveries for the period.

The provision for loan losses of \$14.6 million for the six months ended June 30, 2008 increased \$10.9 million or 295.1% from the same period of 2007. This increase reflects a second quarter provision for loan losses of \$11.0 million, which includes \$5.4 million related to the Corporation's Florida loan portfolio and \$1.0 million related to loans acquired in the Omega transaction. Of the total \$5.4 million additional provision relating to the Florida portfolio, \$2.2 million is related to one construction project in which the Corporation is a participant, and the other \$3.2 million was allocated across the remaining Florida portfolio in recognition of a forecasted prolonged economic recovery. The provision for Omega relates to aligning the former Omega reserve methodology with that of the Corporation. During the first six months of 2008, net charge-offs totaled \$7.1 million or 0.29% (annualized) as a percentage of average loans compared to \$5.0 million or 0.24% (annualized) as a percentage of average loans for the same period of 2007. The ratio of non-performing loans to total loans was 1.10% at June 30, 2008 compared to 0.56% at June 30, 2007 and the ratio of non-performing assets to total loans plus OREO was 1.27% and 0.68%, respectively, for those same periods. For additional information, refer to the Allowance for Loan Losses section of this discussion and analysis.

*Non-Interest Income*

Total non-interest income of \$49.6 million for the six months ended June 30, 2008 increased \$8.3 million or 20.2% from the same period of 2007. This increase resulted primarily from increases in all major fee businesses combined with increases in bank owned life insurance and other non-interest income.

Service charges on loans and deposits of \$25.0 million for the first six months of 2008 increased \$5.2 million or 26.3% from the same period of 2007 primarily as a result of the Omega acquisition combined with higher volume.

Insurance commissions and fees of \$8.1 million for the first six months of 2008 increased \$0.5 million or 6.0% from the same period of 2007 primarily due to the Omega acquisition partially offset by a decrease in contingent fee income.

Securities commissions and fees of \$2.6 million for the first six months of 2008 increased \$0.7 million or 23.7% compared to the same period of 2007 primarily due to the Omega acquisition and an increase in annuity revenue due to the declining interest rate environment.

Trust fees of \$5.8 million for the first six months of 2008 increased \$1.5 million or 35.5% compared to the same period of 2007 due to the Omega acquisition combined with increases in estate accounts.

Gain on sale of securities of \$0.8 million for the first six months of 2008 decreased \$0.4 million or 31.2% compared to the same period of 2007. During 2008, most of the gain related to the Visa, Inc. initial public offering. The Corporation is a member of Visa USA since it issues Visa debit cards. As such, a portion of the Corporation's ownership interest in Visa was redeemed in exchange for \$0.7 million. This entire amount was recorded as gain on sale of securities since the Corporation's cost basis in Visa is zero.

Impairment loss on equity securities of \$0.5 million for the first six months of 2008 increased \$0.4 million compared to the same period of 2007 as a result of the write-down to market value of three bank stock investments for the first six months of 2008 and one bank stock investment for the same period of 2007.

Gain on sale of mortgage loans of \$1.1 million for the first six months of 2008 increased \$0.3 million or 35.1% from the same period of 2007 due to higher volume and better prices on mortgage sales in 2008 partially offset by a loss on the sale of student loans during the first six months of 2007.

**Table of Contents**

Income from bank owned life insurance of \$2.9 million for the first six months of 2008 increased \$0.9 million or 44.9% from the same period of 2007. This increase was primarily attributable to the Omega acquisition combined with increases in crediting rates paid on the insurance policies.

Other non-interest income of \$2.9 million for the first six months of 2008 remained constant compared to the same period of 2007. Other non-interest income for the first six months of 2008 includes a \$0.4 million loss related to a market decline in the Corporation's investment in a limited partnership that invests in bank stocks.

*Non-Interest Expense*

Total non-interest expense of \$106.4 million for the first six months of 2008 increased \$22.7 million or 27.1% from the same period of 2007. This increase resulted from increases in all non-interest expense categories due to the Omega acquisition.

Salaries and employee benefits of \$57.6 million for the first six months of 2008 increased \$13.8 million or 3.2% from the same period of 2007. This increase was attributable to the Omega acquisition combined with normal annual compensation and benefit increases combined with additional costs associated with the transition of the Corporation's senior leadership and higher accrued expense for the Corporation's long-term restricted stock program. The Corporation also recorded \$1.1 million relating to the retirement of an executive during the second quarter of 2008. Additionally, the first six months of 2007 included a credit of \$0.8 million relating to the restructuring of the postretirement benefit plan.

Combined net occupancy and equipment expense of \$16.1 million for the first six months of 2008 increased \$1.9 million or 13.7% from the same period of 2007 primarily the result of the Omega acquisition.

Amortization of intangibles expense of \$2.2 million for the first six months of 2008 increased slightly from \$2.2 million for the same period of 2007 due to higher intangible balances resulting from the Omega acquisition.

Other non-interest expenses of \$30.5 million for the first six months of 2008 increased \$6.8 million or 28.8% from the same period of 2007. The increase was primarily due to the Omega acquisition. The Corporation recorded \$3.6 million during the second quarter in merger-related costs associated with the Omega acquisition.

*Income Taxes*

The Corporation's income tax expense of \$12.2 million for the six months ended June 30, 2008 decreased by \$3.0 million from the same period in 2007. Income taxes and the effective tax rate for the six months ended June 30, 2008 were favorably impacted by \$0.2 million due to the resolution of a previously uncertain tax position. The effective tax rate was 28.3% for the six months ended June 30, 2008 and 30.2% for the same period in the prior year. 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.

***Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007***

Net income for the three months ended June 30, 2008 was \$14.5 million or \$0.17 per diluted share, compared to net income for the same period of 2007 of \$17.6 million or \$0.29 per diluted share. The Corporation's return on average equity was 6.26%, return on average tangible equity (which is calculated by dividing net income less amortization of intangibles by average equity less average intangibles) was 14.34%, return on average assets was 0.73% and return on average tangible assets (which is calculated by dividing net income less amortization of intangibles by average assets less average intangibles) was 0.82% for the three months ended June 30, 2008, compared to 13.11%, 26.81%, 1.17% and 1.28%, respectively, for the same period in 2007.

**Table of Contents**

The following table provides information regarding the average balances and yields earned on interest earning assets and the average balances and rates paid on interest bearing liabilities (dollars in thousands):

	<b>Three Months Ended June 30</b>					
	<b>2008</b>			<b>2007</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	\$ 6,406	\$ 50	3.16%	\$ 1,151	\$ 13	4.42%
Federal funds sold	44,183	231	2.07	33,864	445	5.21
Taxable investment securities (1)	1,062,709	12,504	4.70	866,249	10,937	5.03
Non-taxable investment securities (2)	175,953	2,485	5.65	164,481	2,166	5.27
Loans (2) (3)	5,594,922	91,633	6.58	4,258,872	79,229	7.46
Total interest earning assets (2)	6,884,173	106,903	6.24	5,324,617	92,790	6.98
Cash and due from banks	152,222			112,490		
Allowance for loan losses	(68,308)			(52,138)		
Premises and equipment	110,341			84,767		
Other assets	910,743			555,258		
	\$ 7,989,171			\$ 6,024,994		
<b>Liabilities</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 1,880,726	6,029	1.29	\$ 1,428,529	9,351	2.63
Savings	779,431	1,679	0.87	594,948	2,454	1.65
Certificates and other time	2,223,657	20,511	3.71	1,751,875	19,524	4.47
Treasury management accounts	367,502	1,860	2.00	252,776	2,970	4.65
Other short-term borrowings	127,630	1,164	3.61	119,320	1,488	4.94
Long-term debt	520,579	5,436	4.20	470,215	4,745	4.05
Junior subordinated debt	205,806	3,061	5.98	151,031	2,739	7.27
Total interest bearing liabilities (2)	6,105,331	39,740	2.61	4,768,694	43,271	3.63
Non-interest bearing demand	870,592			644,980		
Other liabilities	80,718			72,316		
	7,056,641			5,485,990		
<b>Stockholders equity</b>	932,530			539,004		
	\$ 7,989,171			\$ 6,024,994		

Excess of interest earning assets over interest bearing liabilities	\$ 778,842	\$ 555,923
Fully tax-equivalent net interest income	67,163	49,519
Net interest spread	3.62%	3.35%
Net interest margin (2)	3.92%	3.73%
Tax-equivalent adjustment	1,606	1,170
Net interest income	\$ 65,557	\$ 48,349

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

(2) The interest income amounts are reflected on a fully taxable equivalent (FTE) basis which adjusts for the tax benefit of income on certain tax-exempt loans and investments using the federal statutory tax rate of 35% for each period presented. The yields on earning assets and the net interest margin are presented on an FTE and annualized

basis. The rates paid on interest bearing liabilities are also presented on an annualized basis. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

- (3) Average balances include non-accrual loans. Loans consist of average total loans less average unearned income. The amount of loan fees included in interest income on loans is immaterial.

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

For the three months ended June 30, 2008, net interest income, which comprised 70.5% of net revenue as compared to 70.4% for the same period in 2007, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve and changes in the amount and mix of interest earning assets and interest bearing liabilities.

Net interest income, on an FTE basis, was \$67.2 million for the three months ended June 30, 2008 and \$49.5 million for the three months ended June 30, 2007. Average earning assets increased \$1.6 billion or 29.3% and average interest bearing liabilities increased \$1.3 billion or 28.0% from the same period in 2007. Approximately 16 basis points of this increase were realized through the merger with Omega. The Corporation's net interest margin was 3.92% for the second quarter of 2008 and 3.73% for the second quarter of 2007. Lower yields on interest earning assets were more than offset by lower rates paid on interest bearing liabilities. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds can be found 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 June 30, 2008 compared to the three months ended June 30, 2007 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$ 42	\$ (5)	\$ 37
Federal funds sold	105	(319)	(214)
Securities	2,516	(630)	1,886
Loans	22,766	(10,362)	12,404
	25,429	(11,316)	14,113
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	2,366	(5,688)	(3,322)
Savings	410	(1,185)	(775)
Certificates and other time	4,667	(3,680)	987
Treasury management accounts	983	(2,093)	(1,110)
Other short-term borrowings	93	(417)	(324)
Long-term debt	510	181	691
Junior subordinated debt	868	(546)	322
	9,897	(13,428)	(3,531)
Net Change	\$ 15,532	\$ 2,112	\$ 17,644

(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 \$106.9 million for the three months ended June 30, 2008 increased by \$14.1 million or 15.2% from the same period of 2007. Average interest earning assets of \$6.9 billion for the second quarter of 2008 grew \$1.6 billion or 29.3% from the same period of 2007 primarily as a result of the Omega acquisition. The yield on interest earning assets decreased 74 basis points to 6.24% for the second quarter of 2008 reflecting changes in interest rates.

Interest expense of \$39.7 million for the three months ended June 30, 2008 decreased by \$3.5 million or 8.2% from the same period of 2007. This decrease was primarily attributable to a decrease of 102 basis points in the Corporation's cost of funds to 2.61% during the second quarter of 2008 reflecting changes in interest rates. Also,

**Table of Contents**

average interest bearing liabilities increased \$1.3 billion or 28.0% to \$6.1 billion for the second quarter of 2008. This growth was primarily attributable to the Omega acquisition.

*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 loan portfolio, after giving consideration to charge-offs and recoveries for the period.

The provision for loan losses of \$11.0 million for the three months ended June 30, 2008 increased \$9.1 million or 497.2% from the same period of 2007. The increase in the provision for loan losses includes \$5.4 million related to the Corporation's Florida loan portfolio and \$1.0 million related to loans acquired in the Omega transaction. Of the total \$5.4 million provision relating to the Florida portfolio, \$2.2 million is related to one construction project in which the Corporation is a participant, and the other \$3.2 million was allocated across the remaining Florida portfolio in recognition of a forecasted prolonged economic recovery. The provision for Omega relates to aligning the former Omega reserve methodology with that of the Corporation. During the second quarter of 2008, net charge-offs totaled \$4.1 million or 0.30% (annualized) as a percentage of average loans compared to \$2.6 million or 0.24% (annualized) as a percentage of average loans for the same period of 2007. The ratio of non-performing loans to total loans was 1.10% at June 30, 2008 compared to 0.56% at June 30, 2007 and the ratio of non-performing assets to total loans plus OREO was 1.27% and 0.68%, respectively, for those same periods. For additional information, refer to the Allowance for Loan Losses section of this discussion and analysis.

*Non-Interest Income*

Total non-interest income of \$27.5 million for the three months ended June 30, 2008 increased \$7.1 million or 34.8% from the same period of 2007. This increase resulted primarily from increases in all major fee businesses combined with a increases in bank owned life insurance and other non-interest income.

Service charges on loans and deposits of \$14.9 million for the second quarter of 2008 increased \$4.6 million or 45.5% from the same period of 2007 primarily as a result of the Omega acquisition combined with higher NSF fees and check card fees.

Insurance commissions and fees of \$4.2 million for the second quarter of 2008 increased \$1.0 million or 29.5% from the same period of 2007 primarily due to the Omega acquisition and higher contingent fee income, which is primarily recognized during the first quarter.

Securities commissions and fees of \$2.1 million for the second quarter of 2008 increased \$0.4 million or 27.2% compared to the same period of 2007 primarily due to the Omega acquisition and favorable annuity sales due the declining interest rate environment.

Trust fees of \$3.6 million for the second quarter of 2008 increased \$1.5 million or 68.8% compared to the same period of 2007 due to the Omega acquisition combined with increased estate revenues and assets under management.

Gain on sale of securities of \$0 decreased \$0.4 million or 90.1% compared to the same period of 2007 as management sold fewer equity securities during the second quarter of 2008 due to unfavorable market prices for the bank stock portfolio.

Impairment loss on equity securities of \$0.5 million for the second quarter of 2008 increased \$0.4 million or 310.8% compared to the same period of 2007 as a result of the write-down to market value of two bank stock investments for the second quarter of 2008 and one bank stock investment for the same period of 2007.

Gain on sale of mortgage loans of \$0.5 million for the second quarter of 2008 increased \$0.2 million or 47.6% from the same period of 2007 due to higher volume and better prices on mortgage sales in 2008 partially offset by a loss on the sale of student loans during the second quarter of 2007.

Income from bank owned life insurance of \$1.7 million for the second quarter of 2008 increased \$0.7 million or 69.7% from the same period of 2007. This increase was primarily attributable to the Omega acquisition combined with increases in crediting rates paid on the insurance policies.

**Table of Contents**

Other non-interest income of \$0.9 million for the second quarter of 2008 decreased \$0.6 million or 40.0% compared to the same period of 2007 primarily due to a loss of \$0.4 million related to a market decline in the Corporation's investment in a limited partnership that invests in bank stocks.

*Non-Interest Expense*

Total non-interest expense of \$62.0 million for the second quarter of 2008 increased \$20.2 million or 48.3% from the same period of 2007. This increase resulted in increases in all non-interest expense categories due to the Omega acquisition.

Salaries and employee benefits of \$32.3 million for the second quarter of 2008 increased \$10.8 million or 50.5% from the same period of 2007. This increase was attributable to the Omega acquisition and normal annual compensation and benefit increases combined with additional costs associated with the transition of the Corporation's senior leadership and higher accrued expense for the Corporation's long-term restricted stock program. The Corporation also recorded \$1.1 million relating to the retirement of an executive during the second quarter of 2008.

Combined net occupancy and equipment expense of \$9.1 million for the second quarter of 2008 increased \$2.2 million or 31.1% from the same period of 2007 primarily the result of the Omega acquisition.

Amortization of intangibles expense of \$1.2 for the second quarter of 2008 increased slightly from \$1.1 million for the same period of 2007 due to higher intangible balances resulting from the Omega acquisition.

Other non-interest expenses of \$19.3 million for the second quarter of 2008 increased \$7.1 million or 57.5% from the same period of 2007. The increase was primarily due to the Omega acquisition. The Corporation recorded \$3.6 million during the second quarter in merger-related costs associated with the Omega acquisition.

*Income Taxes*

The Corporation's income tax expense of \$5.5 million for the three months ended June 30, 2008 decreased by \$2.2 million from the same period in 2007. The effective tax rate was 27.6% for the three months ended June 30, 2008 and 29.7% for the same period in the prior year. The decrease in the effective tax rate is primarily due to Omega's low-income tax credits. 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 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 Corporation 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. The Corporation continues to originate mortgage loans, most of which are sold in the secondary market. Mortgage loan originations totaled \$100.7 million and \$87.1 million for the six months ended June 30, 2008 and 2007, respectively. Proceeds from the sale of mortgage loans totaled \$61.4 million and \$55.8 million for the six months ended June 30, 2008 and 2007, respectively. Liquidity sources from liabilities are generated primarily through deposits. As of June 30, 2008 and December 31, 2007, deposits represented 72.6% and 72.2% of total assets, respectively. In addition, the Corporation offers repurchase agreements through its treasury management services, which as of June 30, 2008 and December 31, 2007, represented 4.6% and 4.5% of total assets, respectively.

**Table of Contents**

The Corporation also has substantial access to reliable and cost-effective wholesale sources of liquidity. These funds can be acquired quickly to help fund normal business operations as well as serve as contingency funding in the unlikely event that the Corporation would be faced with a liquidity crisis. As of June 30, 2008 and December 31, 2007, the Corporation had unused wholesale availability of \$2.1 billion or 26.2% of total assets and \$1.9 billion or 31.2% of total assets, respectively. These sources include the availability to borrow from the FHLB, the Federal Reserve Bank and bank lines. If needed, the Corporation could also access funding in the capital markets. As of June 30, 2008, outstanding advances from the FHLB were \$450.6 million or 5.6% of total assets. As of December 31, 2007, outstanding FHLB advances were \$427.1 million or 7.0% of total assets.

The principal source of the parent company's cash flow is dividends from its subsidiaries. These dividends may be impacted by the parent's or the subsidiaries' capital needs, statutory laws and regulations, corporate policies, contractual restrictions and other factors. The parent also may draw on approved lines of credit of \$90.0 million with several major domestic banks, which were unused as of June 30, 2008. In addition, the Corporation also issues subordinated notes on a regular basis.

The Corporation periodically repurchases shares of its common stock for re-issuance under various employee benefit plans and the Corporation's dividend reinvestment plan. During the six months ended June 30, 2008, the Corporation did not purchase any shares of its common stock in the open market, however, it paid \$0.1 million upon the re-issuance of 2,350 shares, as a result of the net share election for the payment of taxes due to the vesting of restricted stock. For the same period of 2007, the Corporation purchased 335,000 shares of its common stock totaling \$5.8 million and received \$4.8 million as a result of re-issuance of 339,130 shares.

The ALCO regularly monitors various liquidity ratios and forecasts of cash 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 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: 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's Treasury Department manages interest rate risk. The Corporation uses derivative financial instruments for market risk management purposes (principally interest rate risk) 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. The Corporation's current financial position is combined with assumptions regarding future business to calculate net

interest

35

---

**Table of Contents**

income under various hypothetical rate scenarios. The ALCO reviews earnings simulations over multiple years under various interest rate scenarios. Reviewing these various measures provides the Corporation with a comprehensive view of its interest rate profile.

The following gap analysis 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.

The following table presents the amounts of IEA and IBL as of June 30, 2008 that are subject to repricing within the periods indicated (dollars in thousands):

	<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	\$ 1,539,115	\$ 365,192	\$ 425,482	\$ 621,551	\$ 2,951,340
Investments	48,420	82,354	87,915	255,226	473,915
	1,587,535	447,546	513,397	876,777	3,425,255
<b>Interest Bearing Liabilities (IBL)</b>					
Non-maturity deposits	856,226	323,763			1,179,989
Time deposits	126,741	324,129	481,571	490,466	1,422,907
Borrowings	524,030	24,061	19,584	69,981	637,656
	1,506,997	671,953	501,155	560,447	3,240,552
Period Gap	\$ 80,538	\$ (224,407)	\$ 12,242	\$ 316,330	\$ 184,703
Cumulative Gap	\$ 80,538	\$ (143,869)	\$ (131,627)	\$ 184,703	
IEA/IBL (Cumulative)	1.05	0.93	0.95	1.06	
Cumulative Gap to IEA	1.17%	(2.08)%	(1.90)%	2.67%	

The cumulative twelve-month IEA to IBL ratio changed to 1.06 for June 30, 2008 from 1.03 for December 31, 2007.

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 current allocation is representative of the estimated sensitivities for a +/- 100 basis point change in market rates.

The measures 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 June 30, 2008.

**Table of Contents**

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>	<b>ALCO Guidelines</b>
Net interest income change (12 months):			
+ 200 basis points	(1.4)%	(2.0)%	+/-5.0%
+ 100 basis points	(0.2)%	(0.5)%	+/-5.0%
- 100 basis points	(1.9)%	(1.7)%	+/-5.0%
- 200 basis points	(7.0)%	(4.7)%	+/-5.0%
Economic value of equity:			
+ 200 basis points	(3.2)%	(4.9)%	
+ 100 basis points	(0.6)%	(1.5)%	
- 100 basis points	(2.9)%	(3.3)%	
- 200 basis points	(7.5)%	(9.7)%	

The Corporation's overall level of interest rate risk is considered to be relatively low and stable. This is evidenced by a stable net interest margin despite the recent market rate volatility. The Corporation has a relatively neutral interest rate risk position.

The Corporation also has various asset categories with call options, which grant option holders the right to prepay when rates decline. The extreme nature of rate shock scenarios triggers a high level of asset prepayments, causing net interest income and EVE to decrease under lower rate shock scenarios. The yield curve continued to decline and steepen during the first half of 2008. This was primarily the result of the economic weakness caused by the subprime mortgage crisis. Applying the down rate shocks to these lower interest rates as of June 30, 2008 caused higher asset prepayments for the measurement period. For example, the -200 basis points rate shock reduces the 3-month Treasury and the 10-year Treasury to 0.25% and 2.00%, respectively. Further, spreads on assets are assumed to be static for all rate scenarios. A widening of spreads, which is typical in lower rate environments, would slow asset prepayments. In addition, taking short-term rates to such low levels constrains deposit rate reductions as various rates reach assumed floor levels. The Board Risk Committee deems the -200 rate shock scenario to be improbable and approved that no immediate actions were necessary to address the policy exception caused by that rate scenario. The ALCO will continue to manage its exposure to asset prepayment risk in a gradual manner. With the increased economic weakness and lower rates, loan customers typically prefer to lock-in long-term, fixed rates with the Corporation, possibly creating pressure for a future higher sensitivity to higher rates.

During the first six months of 2008, the ALCO has utilized several strategies to maintain the Corporation's interest rate risk position at an acceptable level. For example, the Corporation successfully promoted longer-term certificates of deposit and utilized long-term FHLB advances. 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 commercial loans with short-term repricing characteristics. The investment portfolio is used, in part, to improve the Corporation's interest rate risk position. The duration of the investment portfolio is relatively low at 3.1 years. Finally, the Corporation has made use of interest rate swaps to lessen its interest rate risk position. For additional information regarding interest rate swaps, see the Interest Rate Swaps footnote included in this Report.

The Corporation recognizes that asset/liability models such as those used by the Corporation to measure its interest rate risk are based on methodologies that may have inherent shortcomings. Furthermore, asset/liability models require certain assumptions 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 published industry experience. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will be achieved.





**Table of Contents****DEPOSITS AND TREASURY MANAGEMENT ACCOUNTS**

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Non-interest bearing	\$ 901,120	\$ 626,141
Savings and NOW	2,780,685	2,037,160
Certificates of deposit and other time deposits	2,196,859	1,734,383
Total deposits	5,878,664	4,397,684
Treasury management accounts	372,775	276,552
Total deposits and treasury management accounts	\$ 6,251,439	\$ 4,674,236

Total deposits and treasury management accounts increased by \$1.6 billion or 33.7% to \$6.3 billion at June 30, 2008 compared to December 31, 2007, primarily as a result of the Omega acquisition which added \$1.3 billion in deposits as of April 1, 2008.

**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 Corporation, through its banking affiliate, also operates commercial loan production offices in Pennsylvania and Florida as well as mortgage loan production offices in Ohio and Tennessee. In addition, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio and Tennessee, which totaled \$150.6 million or 2.7% of total loans as of June 30, 2008.

The Corporation had commercial loans in Florida totaling \$298.5 million or 5.3% of total loans as of June 30, 2008, which was comprised of the following: unimproved residential land (21.0%), unimproved commercial land (23.3%), income producing commercial real estate (20.2%), residential construction (12.7%), improved land (12.6%), commercial construction (6.9%) and commercial and industrial (3.3%). The weighted average loan-to-value ratio for this portfolio is 66.1% as of June 30, 2008.

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Commercial	\$ 3,034,558	\$ 2,232,860
Direct installment	1,102,654	941,249
Residential mortgages	638,972	465,881
Indirect installment	464,825	427,663
Consumer lines of credit	307,881	251,100
Other	57,519	25,482
	\$ 5,606,409	\$ 4,344,235

Unearned income on loans was \$32.5 million and \$25.7 million at June 30, 2008 and December 31, 2007, respectively.

Total loans increased by \$1.3 billion or 29.1% to \$5.6 billion at June 30, 2008. This growth was primarily the result of the Omega acquisition which added \$1.1 billion in loans as of April 1, 2008.

The majority of the Corporation's loan portfolio consists of commercial loans, which includes commercial real estate loans and commercial and industrial loans. As of June 30, 2008 and December 31, 2007, commercial real estate loans were \$1.9 billion and \$1.4 billion, or 33.1% and 32.1% of total loans, respectively. Approximately 45.0% of the

commercial real estate loans are owner occupied, while the remaining 55.0% are non-owner occupied.

**Table of Contents****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.

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.

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 are recognized where appropriate.

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Non-accrual loans	\$ 58,215	\$ 29,211
Restructured loans	3,631	3,468
Total non-performing loans	61,846	32,679
Other real estate owned	9,291	8,052
Total non-performing assets	\$ 71,137	\$ 40,731

Asset quality ratios:

Non-performing loans as a percent of total loans	1.10%	0.75%
Non-performing assets as a percent of total loans + OREO	1.27%	0.94%

The \$29.0 million increase in non-performing loans is primarily the result of two Florida loans totaling \$15.5 million being placed on non-accrual during the second quarter of 2008 combined with \$11.9 million in non-accrual loans acquired from Omega on April 1, 2008. As of June 30, 2008, non-performing loans in the Florida portfolio totaled \$24.3 million, with \$23.7 million related to three developers. Other real estate owned in Florida as of June 30, 2008 totaled \$1.7 million.

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Loans 90 days or more past due	\$ 7,733	\$ 7,540
As a percentage of total loans	0.14%	0.17%

**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, which includes estimated 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 or periodic reductions are reversed. 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.

**Table of Contents**

The components of the allowance for loan losses represent estimates based upon FAS 5, *Accounting for Contingencies*, and FAS 114, *Accounting by Creditors for Impairment of a Loan*. FAS 5 applies to homogeneous loan pools such as consumer installment loans, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under FAS 114. FAS 114 is applied to commercial loans that are considered impaired.

Under FAS 114, a loan is impaired when, based upon current information and events, it is probable that the loan will not be repaid according to its 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 collateral less estimated selling costs where a loan is collateral dependent. The fair value of collateral is measured in accordance with FAS 157. Commercial loans excluded from FAS 114 individual impairment analysis are collectively evaluated by management to estimate reserves for loan losses inherent in those loans in accordance with FAS 5. Additional information relating to these measures is available in the Fair Value Measurements section of this Report.

In estimating loan loss contingencies, management applies historical loan loss rates and also considers how the loss rates may be impacted by changes in current economic conditions, delinquency and non-performing loan trends, changes in loan underwriting guidelines and credit policies, as well as the results of internal loan reviews. Homogeneous loan pools are evaluated using similar criteria that are based upon historical loss rates of 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.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 53,396	\$ 51,964	\$ 52,806	\$ 52,575
Addition from acquisitions	11,243	21	11,243	21
Charge-offs	(5,298)	(3,224)	(9,030)	(6,506)
Recoveries	1,166	653	1,905	1,477
Net charge-offs	(4,132)	(2,571)	(7,125)	(5,029)
Provision for loan losses	10,976	1,838	14,559	3,685
Balance at end of period	\$ 71,483	\$ 51,252	\$ 71,483	\$ 51,252

Allowance for loan losses to:

Total loans, net of unearned income	1.28%	1.19%
Non-performing loans	115.58%	213.93%

At June 30, 2008 and 2007, there were \$11.0 million and \$3.5 million of loans, respectively, that were impaired loans acquired and have no associated allowance for loan losses as they were accounted for in accordance with American Institute of Certified Public Accountants' Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*.

The allowance for loan losses at June 30, 2008 increased \$20.2 million, representing a 39.5% increase in the reserve for loan losses since June 30, 2007. The allowance for loan losses at June 30, 2008 increased \$18.7 million or 35.4% from December 31, 2007. The increase in the allowance reflects an \$11.0 million provision for loan losses recorded in the second quarter of 2008, which included \$5.4 million related to the Corporation's Florida loan portfolio

and \$1.0 million related to loans acquired in the Omega transaction. Of the total \$5.4 million provision relating to the Florida portfolio, \$2.2 million is related to one construction project in which the Corporation is a participant, and the other \$3.2 million was allocated across the remaining Florida portfolio in recognition of a forecasted prolonged economic recovery. The provision for Omega relates to aligning the former Omega reserve methodology with that of the Corporation.

**Table of Contents**

Charge-offs reflect the realization of losses in the portfolio that were estimated previously through provisions for credit losses. Loans charged off during the first six months of 2008 increased \$2.3 million from the same period in 2007 to \$8.8 million. Total charge-offs for the six months ended June 30, 2008 included \$5.5 million at FNBPA and \$3.3 million at Regency. Net charge-offs (annualized) as a percentage of average loans increased to 0.29% for the first six months of 2008 compared to 0.24% for the same period of 2007.

Management considers numerous factors when estimating reserves for loan losses, including historical charge-off rates and subsequent recoveries. Consideration is given to the impact of changes in qualitative factors that influence the Corporation's credit quality, such as the local and regional economies 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 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 and a contracting labor force due, in part, to productivity growth and industry consolidations. Higher interest rates and energy costs directly affect borrowers having floating rate loans as increasing debt service requirements pressure customers that now face higher loan payments. Higher interest rates and energy costs also affect consumer loan customers who carry historically high debt levels. Consumer credit risk and loss exposures are evaluated using a combination of historical loss experience and an analysis of the rate at which delinquent loans ultimately result in charge-offs to estimate credit quality migration and expected losses within the homogeneous loan pools.

**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 Securities and Exchange Commission. 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 trust preferred securities having a total dollar value up to \$200.0 million. As of June 30, 2008, the Corporation has not issued any such stock or securities.

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 actions, 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 June 30, 2008 and December 31, 2007, the Corporation and FNBPA met all capital adequacy requirements to which either of them were subject.

As of June 30, 2008, 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 management believes have changed this categorization.

**Table of Contents**

Following are the capital ratios as of June 30, 2008 and December 31, 2007 for the Corporation and FNBPA (dollars in thousands):

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2008</b>						
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$694,142	12.0%	\$578,897	10.0%	\$463,117	8.0%
FNBPA	627,813	11.1%	563,343	10.0%	450,675	8.0%
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	610,599	10.6%	347,338	6.0%	231,559	4.0%
FNBPA	561,687	10.0%	338,006	6.0%	225,337	4.0%
Leverage Ratio:						
F.N.B. Corporation	610,599	8.2%	373,586	5.0%	298,869	4.0%
FNBPA	561,687	7.7%	364,144	5.0%	291,315	4.0%
<b>December 31, 2007</b>						
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$501,400	11.5%	\$437,905	10.0%	\$350,324	8.0%
FNBPA	460,834	10.8%	426,062	10.0%	340,849	8.0%
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	436,758	10.0%	262,743	6.0%	175,162	4.0%
FNBPA	414,228	9.7%	255,637	6.0%	170,425	4.0%
Leverage Ratio:						
F.N.B. Corporation	436,758	7.5%	292,482	5.0%	233,985	4.0%
FNBPA	414,228	7.3%	284,200	5.0%	227,360	4.0%

**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 2007 Annual Report on Form 10-K, filed with the Commission on February 29, 2008.

**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 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 and Chief Financial Officer, 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 Securities and Exchange Commission 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 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,

**Table of Contents**

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 CFO have evaluated the changes to the Corporation's internal controls over financial reporting that occurred during the Corporation's fiscal quarter ended June 30, 2008, as required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

**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 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. It is possible, in the event of unexpected future developments, that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated results of operations for a particular period.

**ITEM 1A. RISK FACTORS**

There are no material changes in the risk factors previously disclosed in the Corporation's 2007 Annual Report on Form 10-K filed with the Commission on February 29, 2008.

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

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Annual Meeting of Shareholders of F.N.B. Corporation was held on May 14, 2008. Proxies were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to the Corporation's solicitations.

The ratification of Ernst & Young as the Corporation's independent registered public accounting firm for 2008 was approved with 47,806,887 voted for, 487,910 voted against and 125,838 abstentions.

The eight director nominees proposed by the Board of Directors were elected with the following vote:

	<b>Shares For</b>	<b>Shares Withhold</b>
<u>Class I Director (term expiring at the 2011 Annual Meeting)</u>		
D. Stephen Martz	47,831,375	589,260
Henry M. Ekker	47,550,632	870,003
Dawne S. Hickton	47,709,153	711,482
Peter Mortensen	47,631,642	788,993
Earl K. Wahl, Jr.	47,685,700	734,935
<u>Class II Directors (terms expiring at the 2009 Annual Meeting)</u>		
Robert V. New, Jr.	47,662,887	757,748
Phillip E. Gingerich	47,739,652	680,983
<u>Class III Director (term expiring at the 2010 Annual Meeting)</u>		
Stanton R. Sheetz	47,723,525	697,110
Other directors whose term of office as a director continued after the meeting date were as follows:		
<u>Class II Directors (terms expiring at the 2009 Annual Meeting)</u>		
Robert B. Goldstein		
David J. Malone		
Arthur J. Rooney, II		
William J. Strimbu		
<u>Class III Directors (terms expiring at the 2010 Annual Meeting)</u>		
Stephen J. Gurgovits		
William B. Campbell		
Harry F. Radcliffe		
John W. Rose		

**ITEM 5. OTHER INFORMATION**

NONE

**Table of Contents**

**ITEM 6.**

**EXHIBITS**

- 11 Computation of Per Share Earnings \*
- 15 Letter Re: Unaudited Interim Financial Information. (filed herewith).
- 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).

\* This information is provided under the heading Earnings Per Share in Item 1, Part I in this Report on Form 10-Q.

**Table of Contents**

**SIGNATURES**

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

F.N.B. Corporation

(Registrant)

Dated: August 6, 2008

/s/ Robert V. New, Jr.

Robert V. New, Jr.  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: August 6, 2008

/s/ Brian F. Lilly

Brian F. Lilly  
Chief Financial Officer  
(Principal Financial Officer)

Dated: August 6, 2008

/s/ Vincent J. Calabrese

Vincent J. Calabrese  
Corporate Controller  
(Principal Accounting Officer)