

FNB CORP/FL/  
Form 10-Q  
May 09, 2007

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**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 March 31, 2007**

**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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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 April 30, 2007
Common Stock, \$0.01 Par Value	60,363,207 Shares

**F.N.B. CORPORATION**  
**FORM 10-Q**  
 March 31, 2007  
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**Table of Contents****F.N.B. CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

Dollars in thousands, except par value

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 122,051	\$ 122,362
Interest bearing deposits with banks	525	1,472
Securities available for sale	278,312	258,279
Securities held to maturity (fair value of \$752,944 and \$766,295)	760,673	776,079
Mortgage loans held for sale	3,383	3,955
Loans, net of unearned income of \$25,475 and \$26,704	4,259,121	4,253,144
Allowance for loan losses	(51,964)	(52,575)
<b>Net Loans</b>	4,207,157	4,200,569
Premises and equipment, net	84,654	86,532
Goodwill	242,519	242,479
Core deposit and other intangible assets, net	22,753	23,859
Bank owned life insurance	132,417	131,391
Other assets	161,360	160,615
<b>Total Assets</b>	<b>\$ 6,015,804</b>	<b>\$ 6,007,592</b>
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 650,926	\$ 654,617
Savings and NOW	1,982,325	1,944,707
Certificates and other time deposits	1,761,778	1,773,518
<b>Total Deposits</b>	4,395,029	4,372,842
Other liabilities	66,518	62,547
Short-term borrowings	364,258	363,910
Long-term debt	500,676	519,890
Junior subordinated debt owed to unconsolidated subsidiary trusts	151,031	151,031
<b>Total Liabilities</b>	<b>5,477,512</b>	<b>5,470,220</b>
<b>Stockholders Equity</b>		
Common stock \$0.01 par value		
Authorized 500,000,000 shares		
Issued 60,451,533 shares	602	601
Additional paid-in capital	506,624	506,024
Retained earnings	35,121	33,321
Accumulated other comprehensive income	(3,000)	(1,546)
Treasury stock 60,125 and 57,254 shares at cost	(1,055)	(1,028)

<b>Total Stockholders Equity</b>	538,292	537,372
<b>Total Liabilities and Stockholders Equity</b>	\$ 6,015,804	\$ 6,007,592

See accompanying Notes to Consolidated Financial Statements

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**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 March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Interest Income</b>		
Loans, including fees	\$ 77,925	\$ 64,020
Securities:		
Taxable	11,009	12,251
Nontaxable	1,380	1,112
Dividends	98	172
Other	75	66
<b>Total Interest Income</b>	<b>90,487</b>	<b>77,621</b>
<b>Interest Expense</b>		
Deposits	30,246	20,979
Short-term borrowings	4,728	3,597
Long-term debt	4,880	4,895
Junior subordinated debt owed to unconsolidated subsidiary trusts	2,713	2,331
<b>Total Interest Expense</b>	<b>42,567</b>	<b>31,802</b>
<b>Net Interest Income</b>	<b>47,920</b>	<b>45,819</b>
Provision for loan losses	1,847	2,958
<b>Net Interest Income After Provision for Loan Losses</b>	<b>46,073</b>	<b>42,861</b>
<b>Non-Interest Income</b>		
Service charges	9,618	9,690
Insurance commissions and fees	4,419	4,100
Securities commissions and fees	1,276	947
Trust	2,162	1,844
Gain on sale of securities	740	547
Gain on sale of mortgage loans	367	298
Bank owned life insurance	965	777
Other	1,369	1,426
<b>Total Non-Interest Income</b>	<b>20,916</b>	<b>19,629</b>
<b>Non-Interest Expense</b>		
Salaries and employee benefits	22,266	21,318
Net occupancy	3,804	3,366
Equipment	3,361	3,312
Amortization of intangibles	1,103	931
Other	11,362	10,844

<b>Total Non-Interest Expense</b>	41,896	39,771
<b>Income Before Income Taxes</b>	25,093	22,719
Income taxes	7,723	6,917
<b>Net Income</b>	\$ 17,370	\$ 15,802
<b>Net Income per Common Share</b>		
Basic	\$ 0.29	\$ 0.28
Diluted	0.29	0.27
<b>Cash Dividends per Common Share</b>	0.235	0.235
See accompanying Notes to Consolidated Financial Statements		

**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	Accumu- lated Other Compre- hensive Income (Loss)	Deferred Stock Compen- sation	Treasury Stock	Total
<b>Balance at January 1, 2007</b>		\$ 601	\$ 506,024	\$ 33,321	\$ (1,546)		\$ (1,028)	\$ 537,372
Net income	\$ 17,370			17,370				17,370
Change in other comprehensive (loss)	(1,454)				(1,454)			(1,454)
Comprehensive income	\$ 15,916							
Cash dividends declared:								
Common stock \$0.235/share				(14,193)				(14,193)
Purchase of common stock							(3,665)	(3,665)
Issuance of common stock		1	(43)	(203)			3,638	3,393
Restricted stock compensation			340					340
Tax benefit of stock-based compensation			303					303
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 March 31, 2007</b>		\$ 602	\$ 506,624	\$ 35,121	\$ (3,000)		\$ (1,055)	\$ 538,292
<b>Balance at January 1, 2006</b>		\$ 575	\$ 454,546	\$ 24,376	\$ 3,597	\$ (4,154)	\$ (1,738)	\$ 477,202



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Net income	\$ 15,802			15,802			15,802
Change in other comprehensive income	464			464			464
Comprehensive income	\$ 16,266						
Cash dividends declared:							
Common stock \$0.235/share				(13,503)			(13,503)
Purchase of common stock						(1,013)	(1,013)
Issuance of common stock	1	57		(286)		2,045	1,817
Restricted stock compensation		246					246
Tax benefit of stock-based compensation		249					249
Reclassification arising from the adoption of FAS 123R	(3)	(4,151)				4,154	
<b>Balance at March 31, 2006</b>	\$ 573	\$ 450,947	\$ 26,389	\$ 4,061	\$	\$ (706)	\$ 481,264

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>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net income	\$ 17,370	\$ 15,802
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	3,895	3,452
Provision for loan losses	1,847	2,958
Deferred taxes	3,241	36
Gain on sale of securities	(740)	(547)
Gain on sale of loans	(367)	(298)
Proceeds from sale of loans	25,594	19,682
Loans originated for sale	(24,655)	(18,491)
Tax benefit of stock-based compensation	(303)	(249)
Net change in:		
Interest receivable	(249)	(1,628)
Interest payable	(554)	(332)
Other, net	1,996	5,868
Net cash flows provided by operating activities	27,075	26,253
<b>Investing Activities</b>		
Net change in:		
Interest bearing deposits with banks	947	112
Federal funds sold		(5,000)
Loans	(9,290)	(82,516)
Bank owned life insurance	(1,026)	(1,007)
Securities available for sale:		
Purchases	(110,683)	(3,500)
Sales	2,145	2,381
Maturities	88,205	1,724
Securities held to maturity:		
Purchases	(19,980)	
Maturities	35,075	28,225
Increase in premises and equipment	(545)	(944)
Net cash flows used in investing activities	(15,152)	(60,525)
<b>Financing Activities</b>		
Net change in:		
Non-interest bearing deposits, savings and NOW accounts	33,927	88,678

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Time deposits	(11,740)	(10,683)
Short-term borrowings	348	(40,134)
Increase in long-term debt	27,381	6,611
Decrease in long-term debt	(46,595)	(6,936)
Purchase of common stock	(3,665)	(4,921)
Issuance of common stock	2,000	1,817
Tax benefit of stock-based compensation	303	249
Cash dividends paid	(14,193)	(13,503)
Net cash flows provided by financing activities	(12,234)	21,178
<b>Net (Decrease) Increase in Cash and Due from Banks</b>	(311)	(13,094)
Cash and due from banks at beginning of period	122,362	131,604
<b>Cash and Due from Banks at End of Period</b>	<b>\$ 122,051</b>	<b>\$ 118,510</b>

See accompanying Notes to Consolidated Financial Statements

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

March 31, 2007

**BUSINESS**

F.N.B. Corporation (the Corporation) is a diversified financial services company headquartered in Hermitage, Pennsylvania. Its primary businesses include commercial and retail banking, consumer finance, asset management and insurance. The Corporation operates its commercial and retail banking business through a full service branch network in Pennsylvania and Ohio and loan production offices in Florida and Tennessee. It also conducts selected consumer finance business in Pennsylvania, Ohio and Tennessee.

**BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries. 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 and F.N.B. Capital Corporation, LLC.

The accompanying consolidated financial statements include all adjustments, consisting only of normal recurring accruals 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.

The Corporation's consolidated financial statements include subsidiaries in which the Corporation has a controlling financial interest. Investments in companies in which the Corporation controls operating and financing decisions (principally defined as owning a voting or economic interest greater than 50%) are 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).

**USE OF ESTIMATES**

The accounting and reporting policies of the Corporation conform with U.S. generally accepted accounting principles (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.

**MERGERS AND ACQUISITIONS**

On May 26, 2006, the Corporation completed its acquisition of The Legacy Bank (Legacy), a commercial bank and trust company headquartered in Harrisburg, Pennsylvania, with \$375.1 million in assets, including \$297.3 million in loans and \$256.5 million in deposits. Consideration paid by the Corporation totaled \$72.4 million comprised primarily of 2,682,053 shares of the Corporation's common stock and \$21.1 million in exchange for 3,831,505 shares of Legacy common stock. At the time of the acquisition, Legacy was merged into FNBPA. Based on the purchase price allocation, the Corporation recorded \$46.8 million in goodwill and \$4.3 million in core deposit intangible as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

The assets and liabilities of Legacy were recorded on the balance sheet at their estimated fair values as of the acquisition date. The consolidated financial statements include the results of operations of Legacy from the acquisition date.

**Table of Contents****NEW ACCOUNTING STANDARDS***The Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement (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. A company that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option. The Corporation will be required to apply the new guidance prospectively beginning January 1, 2008. The Corporation is currently evaluating the effect that the adoption of FAS 159 will have, if any, on its consolidated financial statements.

*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

In September 2006, the FASB issued FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends FAS 87 and FAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under FAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under FAS 87 and FAS 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income, net of taxes, until they are amortized as a component of net periodic cost. The Corporation complied with the requirement under FAS 158 to measure plan assets and benefit obligations as of December 31, 2006 resulting in a \$4.7 million reduction to equity within accumulated other comprehensive income, a decrease in prepaid pension asset of \$9.4 million and a decrease in accrued postretirement benefit obligation of \$1.5 million.

*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 will be required to apply the new guidance prospectively beginning January 1, 2008. The Corporation is currently evaluating the effect, if any, that the adoption of FAS 157 will have on its consolidated financial statements.

*Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB issued FAS Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Corporation adopted FIN 48 effective January 1, 2007. Details relating to the adoption of FIN 48 and the impact on the Corporation's consolidated financial statements are more fully discussed in the note under the caption *Income Taxes*.

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

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
U.S. Treasury and other U.S. government agencies and corporations	\$ 111,592	\$ 143,441
Mortgage-backed securities of U.S. government agencies	62,393	27,184
States of the U.S. and political subdivisions	49,676	37,028
Corporate debt securities	47,618	40,929
Total debt securities	271,279	248,582
Equity securities	7,033	9,697
	 \$ 278,312	 \$ 258,279

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
U.S. Treasury and other U.S. government agencies and corporations	\$ 89,434	\$ 89,378
Mortgage-backed securities of U.S. government agencies	554,860	559,658
States of the U.S. and political subdivisions	108,229	112,226
Corporate and other debt securities	8,150	14,817
	 \$ 760,673	 \$ 776,079

The Corporation sold \$2.1 million of equity securities at a gain of \$0.6 million for the three months ended March 31, 2007 and sold \$2.4 million of equity securities at a gain of \$0.5 million for the three months ended March 31, 2006. The Corporation also recognized a gain of \$0.1 million relating to \$6.1 million of called securities during the three months ended March 31, 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, length of time and extent to which the market value has been less than cost, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations, 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 recovery in market value or maturity. Among the factors that are considered in determining 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 requires 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.

Following are summaries of the age of unrealized losses and the associated fair value (in thousands):  
Securities available for sale:

<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>		<b>Total</b>	
<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>

**March 31, 2007**

U.S. Treasury and other U.S. government agencies and corporations	\$ 46,954	\$ (64)	\$ 36,468	\$ (23)	\$ 83,422	\$ (87)
Mortgage-backed securities of U.S. government agencies	20,884	(126)	25,091	(273)	45,975	(399)
States of the U.S. and political subdivisions	12,011	(125)	632	(3)	12,643	(128)
Corporate debt securities	5,055	(12)	6,987	(77)	12,042	(89)
Equity securities	1,127	(51)			1,127	(51)
	\$ 86,031	\$ (378)	\$ 69,178	\$ (376)	\$ 155,209	\$ (754)

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	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2006</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 88,537	\$ (91)	\$ 54,904	\$ (57)	\$ 143,441	\$ (148)
Mortgage-backed securities of U.S. government agencies			25,602	(296)	25,602	(296)
States of the U.S. and political subdivisions	12,031	(107)	1,135	(3)	13,166	(110)
Corporate debt securities	6,971	(57)	9,077	(30)	16,048	(87)
Equity securities	301	(9)	152	(6)	453	(15)
	\$ 107,840	\$ (264)	\$ 90,870	\$ (392)	\$ 198,710	\$ (656)

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>March 31, 2007</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$	\$	\$ 88,690	\$ (236)	\$ 88,690	\$ (236)
Mortgage-backed securities of U.S. government agencies	226		411,668	(7,259)	411,894	(7,259)
States of the U.S. and political subdivisions	5,317	(4)	80,703	(937)	86,020	(941)
Corporate debt securities			4,454	(56)	4,454	(56)
	\$ 5,543	\$ (4)	\$ 585,515	\$ (8,488)	\$ 591,058	\$ (8,492)

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2006</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 87,591	\$ (279)	\$ 979	\$ (21)	\$ 88,570	\$ (300)
Mortgage-backed securities of U.S. government agencies	67,397	(122)	410,078	(8,808)	477,475	(8,930)
	2,611	(8)	80,232	(834)	82,843	(842)



States of the U.S. and political subdivisions						
Corporate debt securities	3,683	(4)	8,614	(225)	12,297	(229)
	\$ 161,282	\$ (413)	\$ 499,903	\$ (9,888)	\$ 661,185	\$ (10,301)

As of March 31, 2007, securities with unrealized losses for less than 12 months include 3 investments in U.S. Treasury and other U.S. government agencies and corporations securities, 2 investments in mortgage-backed securities of U.S. government agencies, 22 investments in states of the U.S. and political subdivision securities, 2 investments in corporate debt securities and 3 investments in equity securities. As of March 31, 2007, securities with unrealized losses of greater than 12 months include 11 investments in U.S. Treasury and other U.S. government agencies and corporations securities, 82 investments in mortgage-backed securities of U.S. government agencies, 102 investments in states of the U.S. and political subdivision securities and 7 investments in corporate debt securities. The Corporation has concluded that it has both the intent and ability to hold these securities for a time necessary to recover any decline in market value or until maturity.

**Table of Contents****BORROWINGS**

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Securities sold under repurchase agreements	\$ 253,798	\$ 252,064
Subordinated notes	110,205	108,118
Other short-term borrowings	255	3,728
	<b>\$ 364,258</b>	<b>\$ 363,910</b>

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Federal Home Loan Bank advances	\$ 448,724	\$ 469,064
Subordinated notes	50,932	49,808
Convertible debt	705	705
Other long-term debt	315	313
	<b>\$ 500,676</b>	<b>\$ 519,890</b>

The Corporation's banking affiliate has available credit with the Federal Home Loan Bank (FHLB) of \$1.8 billion, of which \$448.7 million was used as of March 31, 2007. These advances are secured by loans collateralized by 1-4 family mortgages and the security portfolio and are scheduled to mature in various amounts periodically through the year 2017. Effective interest rates on these advances range from 2.79% to 5.75% at both March 31, 2007 and December 31, 2006.

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

The Corporation has two unconsolidated subsidiary trusts (collectively, the Trusts), F.N.B. Statutory Trust I (Statutory Trust I) and F.N.B. Statutory Trust II (Statutory Trust II), 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 FIN 46. 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.

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 (Federal Reserve Board) guidelines. 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.

The trust preferred securities of Statutory Trust I bear interest at a floating rate per annum equal to the three-month London Inter-Bank Offered Rate (LIBOR) plus 325 basis points. The interest rate in effect at March 31, 2007 was 8.61%. The subordinated debt of \$128.9 million issued to Statutory Trust I is first redeemable, in whole or in part, by the Corporation on or after March 31, 2008 and matures on March 31, 2033.

The trust preferred securities of Statutory Trust II, which were issued in the second quarter of 2006, bear interest at a fixed rate per annum equal to 7.17% through June 15, 2011, at which time the issue converts to a floating rate of the three-month LIBOR plus 165 basis points. The subordinated debt of \$22.2 million issued to Statutory Trust II is first redeemable, in whole or in part, by the Corporation on or after June 15, 2011 and matures on June 15, 2036.

**Table of Contents****INTEREST RATE SWAP**

In February 2005, the Corporation entered into an interest rate swap with a notional amount of \$125.0 million, whereby it pays a fixed rate of interest and receives a variable rate based on LIBOR. The effective date of the swap was January 3, 2006 and the maturity date of the swap is March 31, 2008. The interest rate swap is 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 is considered to be highly effective and assessment of the hedging relationship is evaluated under Derivative Implementation Group Issue No. G7 using the hypothetical derivative method. At March 31, 2007, the swap had a fair value of \$1.1 million which has been recorded in other assets, and other comprehensive income, net of tax.

**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>March 31, 2007</b>	<b>December 31, 2006</b>
Commitments to extend credit	\$893,022	\$879,707
Standby letters of credit	86,514	91,685

At March 31, 2007, funding of approximately 80.0% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation that may require payment at a future date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The obligations are not recorded in the Corporation's consolidated financial statements. The Corporation's 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 legal proceedings arising from the conduct of their business activities. 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 engaged in other business activities. Although the ultimate outcome 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 believes that the eventual outcome of all claims against the Corporation and its subsidiaries will not, individually or in the aggregate, have a material adverse effect on the Corporation's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated results of operations for a particular period.

**Table of Contents****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. 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>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net income basic earnings per share	\$ 17,370	\$ 15,802
Interest expense on convertible debt	6	
Net income after assumed conversion diluted earnings per share	\$ 17,376	\$ 15,802
Basic weighted average common shares outstanding	60,105,023	57,177,923
Net effect of dilutive stock options, warrants, restricted stock and convertible debt	528,880	409,555
Diluted weighted average common shares outstanding	60,633,903	57,587,478
Basic earnings per share	\$ 0.29	\$ 0.28
Diluted earnings per share	\$ 0.29	\$ 0.27

**STOCK INCENTIVE PLANS***Restricted Stock*

The Corporation issues restricted shares of common stock to key employees under its 2001 Incentive Plan. The grant date fair value of the restricted shares is equal to the price of the Corporation's common stock on the grant date. The Corporation has available up to 2,582,472 shares to issue under its 2001 Incentive Plan.

Under this plan, half of the shares awarded to management are earned if the Corporation meets or exceeds certain financial performance results when compared to its peers. The remaining service-based portion of the shares are expensed ratably over a three-year restricted period while performance-related shares are expensed ratably from the date that the likelihood of meeting the performance measure is probable through the end of a four-year restricted period. The Corporation also issues discretionary service-based awards to employees that vest twenty percent each year over five years. All of these awards are subject to certain accelerated vesting provisions if there is a change of control as defined in the plan. The unvested shares of restricted stock are eligible to receive cash dividends which are used to purchase additional shares of stock. The additional shares of stock are subject to forfeiture if the requisite service period is not completed or the specified performance criteria are not met.

Share-based compensation expense recognized under FAS 123R, *Share-Based Payment*, related to restricted stock awards was \$0.3 million for both the three months ended March 31, 2007 and 2006.

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The following table summarizes certain information concerning restricted stock awards:

	<b>Three Months Ended March 31,</b>			
	<b>2007</b>	<b>Weighted Average Grant Price</b>	<b>2006</b>	<b>Weighted Average Grant Price</b>
	<b>Shares</b>		<b>Shares</b>	
Unvested shares outstanding at beginning of period	302,264	\$ 18.54	296,457	\$ 18.52
Vested	(54,448)	18.56	(10,499)	15.24
Forfeited	(442)	16.91	(389)	19.39
Dividend reinvestment	3,452	16.89	4,018	16.72
Unvested shares outstanding at end of period	250,826	18.52	289,587	18.62

As of March 31, 2007, there was \$2.4 million of unrecognized compensation cost related to unvested restricted stock awards granted including \$1.0 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. The components of which are as follows (dollars in thousands):

	<b>Service- Based Awards</b>	<b>Performance- Based Awards</b>	<b>Total</b>
Unvested shares	113,990	136,836	250,826
Unrecognized compensation expense	\$ 931	\$ 1,483	\$ 2,414
Intrinsic value	\$ 1,921	\$ 2,305	\$ 4,226
Weighted average remaining life (in years)	1.9	2.0	2.0

*Stock Options*

Stock options have been granted at a price equal to the fair market value at the date of the grant and are primarily exercisable within ten years from the date of the grant. All stock options were fully vested as of January 1, 2006.

The following table summarizes certain information concerning stock option awards:

	<b>Three Months Ended March 31,</b>			
	<b>2007</b>	<b>Weighted Average Exercise Price</b>	<b>2006</b>	<b>Weighted Average Exercise Price</b>
	<b>Shares</b>		<b>Shares</b>	
Options outstanding at beginning of period	1,450,225	\$ 11.69	1,622,864	\$ 11.54
Exercised	(134,814)	11.72	(79,278)	9.24
Options outstanding and exercisable at end of period	1,315,411	11.69	1,543,586	11.66

The intrinsic value of outstanding and exercisable stock options at March 31, 2007 was \$7.0 million.

**Table of Contents****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. The RIP covers employees who satisfy minimum age and length of service requirements. At the end of the second quarter of 2006, the Corporation amended the RIP to provide 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 an employee's highest compensation for five consecutive years during the employee's last ten years of employment. The RIP's funding policy 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 and the 2006 plan amendment, the Corporation does not expect to make contributions to the RIP in 2007.

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 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 and the RIP.

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 849	\$ 1,215
Interest cost	1,544	1,779
Expected return on plan assets	(2,143)	(2,007)
Amortization of unrecognized net transition asset	(23)	(23)
Amortization of unrecognized prior service (credit) cost	(272)	8
Amortization of unrecognized loss	215	399
Net periodic pension benefit cost	\$ 170	\$ 1,371

The net periodic pension cost decreased \$1.2 million for the three months ended March 31, 2007 compared to the same period in 2006 due to lower service and interest costs and the amortization of the unrecognized service credit primarily resulting from the RIP amendment at the end of the second quarter of 2006.

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 in the first quarter of 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. As a result, the Corporation's contribution expense of \$0.8 million for the three months ended March 31, 2007 increased by \$0.4 million from \$0.4 million for the three months ended March 31, 2006.

The Corporation sponsors a pre-Medicare eligible postretirement medical insurance plan for retirees of certain affiliates between the ages of 62 and 65. At the end of the second quarter of 2006, the Corporation amended the plan to provide that only employees who are age 60 or older as of January 1, 2007 are eligible for coverage. The

postretirement plan amendment resulted in a remeasurement that produced a net unrecognized service credit of \$2.7 million which is being amortized over the remaining service period of eligible employees of 1.3 years. 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



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periods in which employees provide the service for such benefits. The Corporation reserves the right to terminate the plan or make additional plan changes at any time.

The net periodic postretirement benefit cost includes the following components (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 14	\$ 94
Interest cost	33	85
Amortization of unrecognized net transition asset		8
Amortization of unrecognized prior service (credit) cost	(421)	8
Net periodic postretirement benefit cost	\$ (374)	\$ 195

The net periodic postretirement benefit cost decreased for the three months ended March 31, 2007 compared to the same period in 2006 due to lower service and interest costs and the amortization of the unrecognized service credit resulting from the postretirement plan amendment at the end of the second quarter of 2006.

**INCOME TAXES**

The Corporation adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of FIN 48, the Corporation recognized an increase of \$1.2 million in the liability for unrecognized tax benefits including \$0.1 million related to interest. The cumulative effect of adoption was accounted for as a decrease to the January 1, 2007 balance of retained earnings. On January 1, 2007, the Corporation's unrecognized tax benefits totaled \$3.6 million, of which \$2.7 million relates to tax positions, the recognition of which would affect the Corporation's effective income tax rate. As of March 31, 2007, the liability for unrecognized tax benefits totaled \$3.6 million, of which \$0.3 million relates to interest and \$2.6 million relates to tax positions, the recognition of which would affect the Corporation's effective income tax rate.

The Corporation recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest is not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

The Corporation files numerous consolidated and separate income tax returns in the United States federal jurisdiction and in several state jurisdictions. With limited exception, the Corporation is no longer subject to U.S. federal or state income tax examinations for years prior to 2003. Federal and state income tax returns for 2003 through 2006 are currently subject to examination. Management does not anticipate that federal or state examinations will result in a material change to its financial position or results of operations. It is reasonably possible that a reduction in the unrecognized tax benefit of up to \$1.5 million may occur in the next twelve months from the outcome of examinations and/or the expiration of statutes of limitations.

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net income	\$ 17,370	\$ 15,802
Other comprehensive (loss) income:		
Unrealized (losses) gains on securities:		
Arising during the period	(421)	288
Less: reclassification adjustment for gains included in net income	(481)	(356)
Unrealized (loss) gain on swap	(226)	532
Pension and postretirement amortization	(326)	
Other comprehensive (loss) income	(1,454)	464
Comprehensive income	\$ 15,916	\$ 16,266

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

	<b>2007</b>	<b>2006</b>
<b>March 31</b>		
Unrealized gains on securities	\$ 1,721	\$ 3,428
Unrealized gain on swap	747	1,504
Unrecognized pension and postretirement obligations	(5,468)	
Minimum pension liability adjustment		(871)
Accumulated other comprehensive income (loss)	\$ (3,000)	\$ 4,061

**CASH FLOW INFORMATION**

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

	<b>2007</b>	<b>2006</b>
<b>Three Months Ended March 31</b>		
Interest paid on deposits and other borrowings	\$43,121	\$32,134
Transfers of loans to other real estate owned	760	1,204
Transfers of other real estate owned to loans		199

**Table of Contents****BUSINESS SEGMENTS**

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

The Community Banking segment offers 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. 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 "Other" includes the Corporation, other non-bank subsidiaries and eliminations, which is 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>Other</b>	<b>Consolidated</b>
<b>At or for the Three Months Ended March 31, 2007</b>						
Interest income	\$ 83,214	\$ 36	\$ 129	\$ 7,772	\$ (664)	\$ 90,487
Interest expense	38,775	2		1,583	2,207	42,567
Provision for loan losses	871			976		1,847
Non-interest income	13,578	3,705	3,690	577	(634)	20,916
Non-interest expense	31,900	2,851	2,496	3,843	(297)	40,793
Intangible amortization	985	7	111			1,103
Income tax expense (benefit)	7,478	314	433	702	(1,204)	7,723
Net income (loss)	16,783	567	779	1,245	(2,004)	17,370
Total assets	5,848,147	6,611	24,980	152,598	(16,532)	6,015,804
Total intangibles	250,979	1,271	11,213	1,809		265,272

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Other</b>	<b>Consolidated</b>
<b>At or for the Three Months Ended March 31, 2006</b>						
Interest income	\$ 70,582	\$ 30	\$ 133	\$ 7,563	\$ (687)	\$ 77,621
Interest expense	28,528	2		1,363	1,909	31,802
Provision for loan losses	1,390			1,568		2,958

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Non-interest income	12,920	3,023	3,660	557	(531)	19,629
Non-interest expense	30,414	2,360	2,563	3,672	(169)	38,840
Intangible amortization	820		111			931
Income tax expense (benefit)	6,864	247	399	535	(1,128)	6,917
Net income (loss)	15,486	444	720	982	(1,830)	15,802
Total assets	5,465,215	6,212	27,976	146,365	(14,355)	5,631,413
Total intangibles	205,367		11,644	1,809		218,820

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**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 March 31, 2007, and the related condensed consolidated statements of income, stockholders' equity and cash flows for the three-month periods ended March 31, 2007 and 2006. 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, 2006, 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 23, 2007, 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, 2006, 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  
May 8, 2007

**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 results of operations and financial condition of the Corporation. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto.

**IMPORTANT NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this quarterly 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 continuation thereof or other 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 2006 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, 2006.

**OVERVIEW**

The Corporation is a diversified financial services company headquartered in Hermitage, Pennsylvania. Its primary businesses include commercial and retail banking, consumer finance, asset management and insurance. The Corporation operates its commercial and retail banking business through a full service branch network in Pennsylvania and Ohio, commercial loan production offices in Florida and a mortgage loan production office in Tennessee. It also conducts selected consumer finance business in Pennsylvania, Ohio and Tennessee.

The Corporation owns and operates FNBPA, First National Trust Company, First National Investment Services Company, LLC, F.N.B. Investment Advisors, Inc., First National Insurance Agency, LLC, Regency Finance Company and F.N.B. Capital Corporation, LLC.

**RESULTS OF OPERATIONS*****Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006***

Net income for the three months ended March 31, 2007 was \$17.4 million or \$0.29 per diluted share, compared to net income for the same period of 2006 of \$15.8 million or \$0.27 per diluted share. The Corporation's return on average equity was 13.06%, return on average tangible equity (which is calculated by dividing net income less amortization of intangibles by average equity less average intangibles) was 26.79% and return on average assets was 1.17% for the three months ended March 31, 2007, compared to 13.33%, 25.45% and 1.14%, respectively, for the same period in 2006.

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

	<b>Three Months Ended March 31</b>					
	<b>2007</b>			<b>2006</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	\$ 1,609	\$ 17	4.36%	\$ 1,571	\$ 16	4.24%
Federal funds sold	4,433	58	5.17	4,729	50	4.22
Taxable investment securities (1)	882,819	11,031	4.99	1,006,249	12,279	4.86
Non-taxable investment securities (2)	160,502	2,112	5.26	141,706	1,830	5.17
Loans (2) (3)	4,255,063	78,386	7.46	3,789,368	64,408	6.88
<b>Total interest earning assets (2)</b>	<b>5,304,426</b>	<b>91,604</b>	<b>6.98</b>	<b>4,943,623</b>	<b>78,583</b>	<b>6.42</b>
Cash and due from banks	114,194			114,143		
Allowance for loan losses	(52,856)			(51,464)		
Premises and equipment	80,150			86,606		
Other assets	560,985			506,264		
	<b>\$ 6,006,899</b>			<b>\$ 5,599,172</b>		
<b>Liabilities</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 1,362,696	8,644	2.57	\$ 1,091,164	4,961	1.84
Savings	602,931	2,513	1.69	647,051	1,907	1.20
Certificates and other time	1,762,630	19,089	4.39	1,645,730	14,111	3.48
Repurchase agreements	257,582	2,987	4.64	194,700	1,772	3.64
Other short-term borrowings	138,898	1,741	5.01	175,225	1,825	4.17
Long-term debt	497,948	4,880	3.98	534,061	4,895	3.72
Junior subordinated debt	151,031	2,713	7.29	128,866	2,331	7.34
<b>Total interest bearing liabilities (2)</b>	<b>4,773,716</b>	<b>42,567</b>	<b>3.61</b>	<b>4,416,797</b>	<b>31,802</b>	<b>2.92</b>
Non-interest bearing demand	622,048			638,232		
Other liabilities	71,743			63,472		
	<b>5,467,507</b>			<b>5,118,501</b>		
<b>Stockholders equity</b>	<b>539,392</b>			<b>480,671</b>		
	<b>\$ 6,006,899</b>			<b>\$ 5,599,172</b>		
	<b>\$ 530,710</b>			<b>\$ 526,826</b>		

Excess of interest earning assets over  
interest bearing liabilities

Fully tax-equivalent net interest income	49,037	46,781
Net interest spread	3.37%	3.51%
Net interest margin (2)	3.73%	3.82%
Tax-equivalent adjustment	1,117	962
Net interest income	\$ 47,920	\$ 45,819

(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, repurchase agreements, short- and long-term borrowings and junior subordinated debt). For the three months ended March 31, 2007, net interest income, which comprised 69.6% of net revenue (net interest income plus non-interest income) as compared to 70.0% for the same period in 2006, was affected by the general level of interest rates, changes in interest rates, the steepness of the yield curve and the changes in the amount and mix of earning assets and interest bearing liabilities.

Net interest income, on a fully taxable equivalent basis, was \$49.0 million for the three months ended March 31, 2007 and \$46.8 million for the three months ended March 31, 2006. The average earning assets increased \$360.8 million or 7.3% and average interest bearing liabilities increased \$356.9 million or 8.1% from the same period in 2006 primarily due to the acquisition of Legacy in the second quarter of 2006. However, the Corporation's net interest margin decreased by 9 basis points from 2006 to 3.73% for the first quarter of 2007 and was negatively impacted by a flattening of the yield curve which became slightly inverted during the latter half of 2006 and continued into 2007. As such, the Corporation experienced less opportunity to earn higher rates on earning assets compared to the need to increase rates on its deposits and repurchase agreements driven by market rates and competitive pricing. Details on changes in tax equivalent net interest income attributed to changes in 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 March 31, 2007 compared to the three months ended March 31, 2006 (in thousands):

	Volume	Rate	Net
<b>Interest Income</b>			
Interest bearing deposits with banks	\$	\$ 1	\$ 1
Federal funds sold	(3)	11	8
Securities	(1,272)	306	(966)
Loans	8,519	5,459	13,978
	7,244	5,777	13,021
<b>Interest Expense</b>			
Deposits:			
Interest bearing demand	1,423	2,260	3,683
Savings	220	386	606
Certificates and other time	1,084	3,894	4,978
Repurchase agreements	657	558	1,215
Other short-term borrowings	(406)	322	(84)
Long-term debt	(343)	328	(15)
Junior subordinated debt	398	(16)	382
	3,033	7,732	10,765
Net Change	\$ 4,211	\$ (1,955)	\$ 2,256

(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 a fully taxable equivalent basis, of \$91.6 million for the three months ended March 31, 2007 increased by \$13.0 million or 16.6% from the same period of 2006. Average earning assets of \$5.3 billion for the first three months of 2007 grew \$360.8 million or 7.3% from the same period of 2006 driven by an increase of \$465.7 million in average loans, partially offset by a decrease of \$104.6 million in investment securities. The increase in average loans was the result of a combination of organic growth and the Corporation's acquisition of Legacy in the second quarter of



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2006, while the decrease in average investment securities was a result of a planned reduction to provide funding for loan growth and repayment of long-term debt. Also, there was an improvement in the yield on earning assets of 56 basis points to 6.98% for the first three months of 2007. In addition, interest income for the first three months of 2007 included \$0.8 million of interest received on previously non-accruing loans.

Interest expense of \$42.6 million for the three months ended March 31, 2007 increased by \$10.8 million or 33.9% from the same period of 2006. This increase was primarily attributable to an increase of 69 basis points in the Corporation's cost of funds to 3.61% during the first three months of 2007. Also, average interest bearing liabilities increased \$356.9 million or 8.1% to average \$4.8 billion for the first three months of 2007. This growth was primarily attributable to a combined increase of \$227.4 million or 13.1% in the core deposit categories of interest bearing demand deposit and savings, a \$62.9 million increase in customer repurchase agreements and an increase in certificates and other time deposits of \$116.9 million or 7.1%. Interest bearing demand, savings and certificates and other time deposits increased due to organic growth resulting from an expanded suite of deposit products designed to attract and retain customers and from the acquisition of Legacy in the second quarter of 2006. Customer repurchase agreements increased primarily due to the implementation of a strategic initiative to increase and expand commercial customer relationships. The average balance for junior subordinated debt owed to unconsolidated subsidiary trusts also increased by \$22.2 million or 17.2% from the first three months of 2006 due to the issuance of \$21.5 million of new debt to partially finance the Legacy acquisition in the second quarter of 2006. Offsetting these increases were declines in average short-term borrowings of \$36.3 million or 20.7% and average long-term debt of \$36.1 million or 6.8% from the first three months of 2006.

*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 \$1.8 million for the three months ended March 31, 2007 decreased \$1.1 million or 37.6% from the same period of 2006 primarily due to continued improvement in credit quality. Improving trends in non-accrual loans and the commercial and consumer loan portfolios produced lower levels of estimated losses. More specifically, during the first three months of 2007, net charge-offs totaled \$2.5 million or 0.23% (annualized) as a percentage of average loans, an improvement from \$3.5 million or 0.37% (annualized) as a percentage of average loans for the same period of 2006. The ratio of non-performing loans to total loans was 0.63% at March 31, 2007, an improvement from 0.81% at March 31, 2006 and the ratio of non-performing assets to total assets was 0.54% and 0.66%, 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 \$20.9 million for the three months ended March 31, 2007 increased \$1.3 million or 6.6% from the same period of 2006. This increase resulted primarily from increases in insurance commissions and fees, securities commissions and fees, trust fees, gain on sale of securities and bank owned life insurance.

Service charges on loans and deposits of \$9.6 million for the first three months of 2007 decreased slightly from the same period of 2006 due to changes in customer behavior with respect to managing their accounts to reduce overdraft fees.

Insurance commissions and fees of \$4.4 million for the first three months of 2007 increased \$0.3 million or 7.8% from the same period of 2006 primarily due to a slight increase in contingent fee income and the result of efforts made to better match available insurance products with the preferences of the Corporation's commercial customers.

Securities commissions and fees of \$1.3 million for the first three months of 2007 increased \$0.3 million or 34.7% compared to the same period of 2006 primarily due to higher annuity and securities sales and the Corporation's acquisition of Legacy in the second quarter of 2006.

Trust fees of \$2.2 million for the first three months of 2007 increased \$0.3 million or 17.2% from the same period of 2006 due to growth in assets under management resulting from higher equity valuations, growth in overall trust assets and the number of trust accounts and the Corporation's acquisition of Legacy in the second quarter of 2006.



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Gain on sale of securities of \$0.7 million for the first three months of 2007 increased \$0.2 million or 35.3% from the same period of 2006 primarily due to gains recognized on called securities.

Gain on sale of mortgage loans of \$0.4 million for the first three months of 2007 increased \$0.1 million or 23.2% from the same period of 2006 due to increased mortgage loan origination volume in 2007.

Bank owned life insurance income of \$1.0 million for the first three months of 2007 increased \$0.2 million or 24.2% from the same period of 2006. This increase was primarily attributable to increases in crediting rates paid on the insurance policies.

*Non-Interest Expense*

Total non-interest expense of \$41.9 million for the first three months of 2007 increased \$2.1 million or 5.3% from the same period of 2006. This increase resulted from an increase in salaries and employee benefit costs, net occupancy expense, amortization of intangibles and other expenses in the first three months of 2007 compared to the same period in 2006.

Salaries and employee benefits of \$22.3 million for the first three months of 2007 increased \$0.9 million or 4.4% from the same period of 2006. This increase was primarily attributable to normal annual compensation and benefit increases and the additional costs associated with the employees retained from the Corporation's acquisition of Legacy in the second quarter of 2006, partially offset by lower expenses due to the modernization of the Corporation's pension and postretirement benefit plans.

Net occupancy expense of \$3.8 million for the first three months of 2007 increased \$0.4 million or 13.0% from the same period of 2006. The increase was primarily due to additional operating costs associated with the Corporation's acquisition of Legacy in the second quarter of 2006, the opening of a new branch in 2006 and several new loan production offices in 2006 and 2007.

Amortization of intangibles expense of \$1.1 million for the first three months of 2007 increased \$0.2 million or 18.4% from the same period in the prior year due to the amortization of additional core deposit and other intangibles as a result of the Corporation's acquisition of Legacy in the second quarter of 2006.

Other non-interest expenses of \$11.4 million for the first three months of 2007 increased \$0.5 million or 4.8% from the same period of 2006. The increase was primarily due to higher shares tax and additional operating costs associated with the Corporation's acquisition of Legacy in the second quarter of 2006 and higher outside services.

*Income Taxes*

The Corporation's income tax expense of \$7.7 million for the three months ended March 31, 2007 increased by \$0.8 million from the same period in 2006. The effective tax rate was 30.8% for the three months ended March 31, 2007 and 30.4% 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.

**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. This policy designates 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.

Liquidity sources from assets include payments from loans and investments as well as the ability to securitize, pledge or sell loans and investment securities. The Corporation continues to originate mortgage loans, most of which are sold in the secondary market. Mortgage loan originations totaled \$35.0 million and \$25.0 million for the three months

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ended March 31, 2007 and 2006, respectively. Proceeds from the sale of mortgage loans totaled \$25.6 million and \$19.7 million for the three months ended March 31, 2007 and 2006, respectively.

Liquidity sources from liabilities are generated primarily through deposits. As of March 31, 2007 and December 31, 2006, deposits comprised 80.2% and 79.9% of total liabilities, respectively. To a lesser extent, the Corporation also makes use of wholesale sources of liquidity that include federal funds purchased, repurchase agreements and public funds. In addition, the Corporation has the ability to borrow funds from the FHLB, Federal Reserve Bank and the capital markets. FHLB advances are a competitively priced and reliable source of funds. As of March 31, 2007, total availability from the FHLB was \$1.8 billion, or 30.6% of total assets while outstanding advances were \$448.7 million, or 7.5% of total assets. As of December 31, 2006, outstanding FHLB advances were \$469.1 million, or 7.8% of total assets, while the total availability from these sources was \$1.9 billion, or 31.7% of total assets.

The principal source of cash for the parent company is dividends from its subsidiaries. The parent also has approved lines of credit of \$90.0 million with several major domestic banks, which were unused as of March 31, 2007. In addition, the Corporation also issues subordinated debt on a regular basis.

The Corporation has repurchased shares of its common stock for re-issuance under various employee benefit plans and the Corporation's dividend reinvestment plan since 1991. During the three months ended March 31, 2007, the Corporation purchased 210,000 treasury shares totaling \$3.7 million and received \$2.8 million upon re-issuance of 207,128 shares. For the same period of 2006, the Corporation purchased 60,800 treasury shares totaling \$1.0 million and received \$1.8 million as a result of re-issuance of 115,205 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 which results from its role 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 measures interest rate risk and manages interest rate risk on a daily basis.

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 indices, 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 income under various hypothetical rate scenarios. The ALCO reviews earnings simulations over multiple



years under various interest

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rate scenarios. Reviewing these various measures provides the Corporation with a reasonably comprehensive view of its interest rate profile.

The following gap analysis compares the difference between the amount of interest earning assets and interest bearing liabilities subject to repricing over a period of time. The ratio of rate sensitive assets to rate sensitive liabilities repricing within a one year period was 0.90 and 0.97 at March 31, 2007 and December 31, 2006, respectively. A ratio of more than one indicates a higher level of repricing assets over repricing liabilities over the next twelve months.

Following is the gap analysis as of March 31, 2007 (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	\$ 1,128,624	\$ 274,212	\$ 265,831	\$ 524,019	\$ 2,192,686
Investments	33,559	85,254	31,721	216,895	367,429
	1,162,183	359,466	297,552	740,914	2,560,115
<b>Interest Bearing Liabilities (IBL)</b>					
Non-maturity deposits	882,631				882,631
Time deposits	142,956	289,452	383,675	485,695	1,301,778
Borrowings	271,683	76,598	68,413	239,385	656,079
	1,297,270	366,050	452,088	725,080	2,840,488
Period Gap	\$ (135,087)	\$ (6,584)	\$ (154,536)	\$ 15,834	\$ (280,373)
Cumulative Gap	\$ (135,087)	\$ (141,671)	\$ (296,207)	\$ (280,373)	
IEA/IBL (Cumulative)	0.90	0.91	0.86	0.90	
Cumulative Gap to IEA	(2.55)%	(2.67)%	(5.59)%	(5.29)%	

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 following table presents an analysis of the potential sensitivity of the Corporation's annual net interest income and EVE to sudden and parallel changes (shocks) in market rates compared to a scenario with unchanged rates:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Net interest income change (12 months):		
+ 100 basis points	(0.5)%	0.2%
- 100 basis points	0.8%	(0.2)%

Economic value of equity:

+ 100 basis points	(2.3)%	(1.8)%
- 100 basis points	(0.1)%	(0.4)%

The overall level of interest rate risk is considered to be relatively low and stable.

The ALCO is responsible for the identification and management of interest rate risk exposure. As such, the ALCO continuously evaluates strategies to manage the Corporation's exposure to interest rate fluctuations. Since 2004, short-term interest rates have risen significantly while long-term interest rates have increased only slightly. This flattening of the yield curve has made short-term deposits and long-term loans more attractive to customers: a situation that created additional interest rate risk for the Corporation. In order to keep the risk measures in an acceptable position, the ALCO crafted several strategies to mitigate the Corporation's risk position. During February 2005, the Corporation entered into a forward starting interest rate swap with a notional amount of \$125.0 million. Under the agreement, the Corporation pays a

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fixed rate of interest and receives a variable rate based on LIBOR. The effective date of the swap was January 3, 2006 and the maturity date is March 31, 2008. During 2005, the Corporation repositioned its investment portfolio in order to reduce its interest rate risk. The transaction lowered the level of mortgage-related assets held by the Corporation which reduced the repricing risk and options risk of the Corporation. The transaction also reduced the average duration of the portfolio, which equaled approximately 3.1 years and 2.9 years at March 31, 2007 and December 31, 2006, respectively. The Corporation has implemented an interest rate swap program for commercial loans. In effect, the program provides the customer with fixed rate loans while creating a variable rate asset for the Corporation. The notional amount of swaps from this program was \$18.5 million as of March 31, 2007. In addition, the Corporation regularly sells fixed-rate, residential mortgages to the secondary mortgage loan market in order to manage its holdings of long-term, fixed-rate loans. The Corporation's holdings of variable rate loans as a percentage of total loans were 22.7% at March 31, 2007 and 23.7% at December 31, 2006.

The Corporation recognizes that asset/liability models are based on methodologies that may have inherent shortcomings. Furthermore, asset/liability models require certain assumptions be made, such as prepayment rates on 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 approximate actual results.

**DEPOSITS AND REPURCHASE AGREEMENTS**

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Non-interest bearing	\$ 650,926	\$ 654,617
Savings and NOW	1,982,325	1,944,707
Certificates of deposit and other time deposits	1,761,778	1,773,518
Total deposits	4,395,029	4,372,842
Securities sold under repurchase agreements	253,798	252,064
Total deposits and repurchase agreements	\$ 4,648,827	\$ 4,624,906

Total deposits and repurchase agreements increased by \$23.9 million or 0.5% to \$4.6 billion at March 31, 2007 compared to December 31, 2006. The growth in savings and NOW deposits due to an expanded suite of deposit products was offset by lower balances in certificates of deposit and a slight seasonal decline in non-interest bearing demand accounts.

**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 Florida and a mortgage loan production office in Tennessee. In addition, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio and Tennessee.

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Commercial	\$ 2,153,697	\$ 2,111,752
Direct installment	910,531	926,766
Consumer lines of credit	251,472	254,054
Residential mortgages	485,341	490,215

Indirect installment	438,938	461,214
Other	19,142	9,143
	\$ 4,259,121	\$ 4,253,144

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The above loan totals include unearned income of \$25.5 million and \$26.7 million at March 31, 2007 and December 31, 2006, respectively.

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 both March 31, 2007 and December 31, 2006, commercial real estate loans were \$1.3 billion, or 60.3% and 60.2% of commercial loans, respectively.

Total loans increased by \$6.0 million or 0.1% to \$4.3 billion at March 31, 2007. This growth was driven by solid commercial loan growth of \$41.9 million or 2.0%, which was offset by a seasonal reduction in the direct installment portfolio and weak automobile sales, which drove a decline in the indirect installment portfolio.

**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>March 31, 2007</b>	<b>December 31, 2006</b>
Non-accrual loans	\$ 23,050	\$ 24,636
Restructured loans	3,591	3,492
Total non-performing loans	26,641	28,128
Other real estate owned	5,659	5,948
Total non-performing assets	\$ 32,300	\$ 34,076

Asset quality ratios:

Non-performing loans as a percent of total loans	0.63%	0.66%
Non-performing assets as a percent of total assets	0.54%	0.57%

**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. Management evaluates the adequacy of the allowance at least quarterly, and in doing so relies on various factors including, but not limited to, assessment of historical loss experience, delinquency and non-accrual trends, portfolio growth, underlying collateral coverage and current economic conditions. This evaluation is subjective and requires material estimates that may change over time.

The components of the allowance for loan losses represent estimates based upon 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.

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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 estimated realizable collateral where a loan is collateral dependent. 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.

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 March 31,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 52,575	\$ 50,707
Charge-offs	(3,282)	(4,309)
Recoveries	824	822
Net charge-offs	(2,458)	(3,487)
Provision for loan losses	1,847	2,958
Balance at end of period	\$ 51,964	\$ 50,178
Allowance for loan losses to:		
Total loans, net of unearned income	1.22%	1.31%
Non-performing loans	195.05%	162.13%

The allowance for loan losses at March 31, 2007 increased \$1.8 million or 3.6% from March 31, 2006 primarily due to the Legacy acquisition in the second quarter of 2006. The allowance for loan losses at March 31, 2007 decreased \$0.6 million or 1.2% from December 31, 2006. This decrease in the allowance for loan losses was due to improving trends in non-accrual loans and the commercial and consumer portfolios which produced lower levels of expected losses.

The provision for loan losses of \$1.8 million for the three months ended March 31, 2007 decreased \$1.1 million or 37.6% from the same period of 2006 as a result of improved credit quality, including lower charge-offs.

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 three months of 2007 decreased \$1.0 million from the same period in the prior year to \$3.3 million. Net charge-offs (annualized) as a percentage of average loans decreased to 0.23% for the first three months of 2007 compared to 0.37% for the same period of 2006 reflecting improved performance in the commercial and consumer portfolios.

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 tend to lag the national economy, with local



economies in the Corporation's market areas also improving, 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

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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 \$200.0 million shelf registration statement filed with the Securities and Exchange Commission. Pursuant to this shelf registration statement, the Corporation may, from time to time, issue any combination of common stock, preferred stock, debt securities or trust preferred securities in one or more offerings up to a total dollar amount of \$200.0 million.

The Corporation and FNBPA are subject to various regulatory capital requirements administered by various 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 applicable regulations) to risk-weighted assets (as defined in the applicable regulations) and of leverage ratio (as defined in the applicable regulations). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Corporation's 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 March 31, 2007, the Corporation and FNBPA met all capital adequacy requirements to which either of them were subject and therefore satisfied the requirements to be considered well-capitalized under the regulatory framework.

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

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$486,233	11.4%	\$427,558	10.0%	\$342,046	8.0%
FNBPA	449,161	10.9%	413,348	10.0%	330,678	8.0%
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	423,560	9.9%	256,535	6.0%	171,023	4.0%
FNBPA	403,563	9.8%	248,009	6.0%	165,339	4.0%
Leverage Ratio:						
F.N.B. Corporation	423,560	7.4%	287,062	5.0%	229,650	4.0%
FNBPA	403,563	7.2%	279,357	5.0%	223,485	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 2006 Annual Report on Form 10-K.



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**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** The Corporation's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Report, 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, 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 March 31, 2007, 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 legal proceedings arising from the conduct of their business activities. 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 engaged in other business activities. Although the ultimate outcome 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 believes that the eventual outcome of all claims against the Corporation and its subsidiaries will not, individually or in the aggregate, have a material adverse effect on the Corporation's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible 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 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The following table provides information about purchases of equity securities by the Corporation:

		<b>Issuer Purchases of Equity Securities (1)</b>			
<b>Period</b>		<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1	31, 2007	15,000	\$18.06	N/A	N/A
February 1	28, 2007	75,000	17.78	N/A	N/A
March 1	31, 2007	120,000	17.09	N/A	N/A

(1) All shares were purchased in open-market transactions under SEC Rule 10b-18, and were not purchased as part of a publicly announced purchase plan or program. The Corporation has funded the shares required for employee benefit plans and the Corporation's dividend reinvestment plan through open-market transactions or purchases directed from the Corporation. This practice may be discontinued at the Corporation's discretion.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

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

NONE

**ITEM 5. OTHER INFORMATION**

NONE

**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.

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**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: May 8, 2007

/s/Stephen J. Gurgovits

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

Dated: May 8, 2007

/s/Brian F. Lilly

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

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