FNB CORP/FL/
Form 10-K
February 29, 2008

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

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007
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**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting company o

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

The aggregate market value of the registrant s outstanding voting common stock held by non-affiliates on June 30, 2007, determined using a per share closing price on that date of $16.74, as quoted on the New York Stock Exchange, was $950,790,702.

As of January 31, 2008, the registrant had outstanding 60,605,610 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of F.N.B. Corporation to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on May 14, 2008 (Proxy Statement) are incorporated by reference into Part III, items 10, 11, 12, 13 and 14, of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission on or before April 30, 2008.

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PART I

Forward-Looking Statements: From time to time F.N.B. Corporation (the Corporation) has made and may continue to make written or oral forward-looking statements with respect to the Corporation s outlook or expectations for earnings, revenues, expenses, capital levels, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on the Corporation s business operations or performance. This Annual Report on Form 10-K (the Report) also includes forward-looking statements. With respect to all such forward-looking statements, see Cautionary Statement Regarding Forward-Looking Information in Item 7 of this Report.

ITEM 1. BUSINESS

The Corporation was formed in 1974 as a bank holding company. During 2000, the Corporation elected to become and remains a financial holding company under the Gramm-Leach-Bliley Act of 1999 (GLB Act). The Corporation has four reportable business segments: Community Banking, Wealth Management, Insurance and Consumer Finance. As of December 31, 2007, the Corporation had 155 Community Banking offices in Pennsylvania and Ohio and 54 Consumer Finance offices in those states and Tennessee. The Corporation, through its Community Banking affiliate, also had 6 commercial loan production offices in Pennsylvania and Florida and one mortgage loan production office in Tennessee as of that date.

The Corporation, through its subsidiaries, provides a full range of financial services, principally to consumers and small- to medium-sized businesses in its market areas. The Corporation s business strategy focuses primarily on providing quality, community-based financial services adapted to the needs of each of the markets it serves. The Corporation emphasizes its community orientation by allowing local management certain autonomy in decision-making, enabling it to respond to customer requests more quickly and to concentrate on transactions within its market areas. However, while the Corporation seeks to preserve some decision-making at a local level, it has established centralized legal, loan review and underwriting, accounting, investment, audit, loan operations and data processing functions. The centralization of these processes has enabled the Corporation to maintain consistent quality of these functions and to achieve certain economies of scale.

On January 1, 2004, the Corporation spun off its Florida operations into a separate, publicly traded company known as First National Bankshares of Florida, Inc. (Bankshares). Effective January 1, 2004, the Corporation transferred all of its Florida operations, which included a community bank, wealth management and insurance agency, to Bankshares. At the same time, the Corporation distributed all of the outstanding stock of Bankshares to the Corporation s stockholders of record as of December 26, 2003. Stockholders eligible for the distribution received one share of Bankshares common stock for each outstanding share of the Corporation s common stock held. Immediately following the distribution, the Corporation and its subsidiaries did not own any shares of Bankshares common stock and Bankshares became an independent public company. Concurrent with the spin-off of its Florida operations, the Corporation moved its executive offices from Naples, Florida to Hermitage, Pennsylvania on January 1, 2004.

As a result of the spin-off, for periods prior to January 1, 2004, the Florida operations earnings have been reclassified as discontinued operations and assets and liabilities related to these discontinued operations have been disclosed separately in Item 6, Selected Financial Data.

Recent Developments

On November 9, 2007, the Corporation announced the signing of a definitive merger agreement to acquire Omega Financial Corporation (Omega), a diversified financial services company with $1.8 billion in assets based in State College, Pennsylvania. The all-stock transaction is valued at approximately $393.0 million. Under the terms of the merger agreement, Omega shareholders will receive 2.022 shares of F.N.B. Corporation common stock for each share of Omega common stock. The transaction is expected to be completed in the second quarter of 2008, pending regulatory and stockholder approvals and the satisfaction of other closing conditions.

On February 15, 2008, the Corporation announced the signing of a definitive merger agreement to acquire Iron & Glass Bancorp, Inc. (IRGB), a bank holding company with approximately $300.0 million in assets based in

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Pittsburgh, Pennsylvania. The transaction is valued at approximately $86.1 million. Under the terms of the merger agreement, IRGB shareholders will be entitled to receive either $75.00 cash or 5.00 shares of F.N.B. Corporation common stock, or a combination of cash and shares, for each share of IRGB stock, subject to a proration of 45% cash and 55% stock, if either cash or stock is oversubscribed. The transaction is expected to be completed in the third quarter of 2008, pending regulatory approvals, the approval of shareholders of IRGB and the satisfaction of other closing conditions.

Business Segments

In addition to the following information relating to the Corporation s business segments, information is contained in the Business Segments footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. As of December 31, 2007, the Community Banking segment consisted of a regional community bank. The Wealth Management segment, as of that date, consisted of a trust company, a registered investment advisor and a subsidiary that offered broker-dealer services through a third party networking arrangement with a non-affiliated licensed broker-dealer entity. The Insurance segment consisted of an insurance agency and a reinsurer as of that date. The Consumer Finance segment consisted of a multi-state consumer finance company as of that date.

Community Banking

The Corporation s Community Banking affiliate, First National Bank of Pennsylvania (FNBPA), 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 goal of Community Banking is to generate high quality, profitable revenue growth through increased business with its current customers, attract new customer relationships through FNBPA s current branches and loan production offices and expand into new and existing markets through de novo branch openings, acquisitions and the establishment of additional loan production offices. Consistent with this strategy, on May 26, 2006, October 7, 2005 and February 18, 2005, the Corporation completed its acquisitions of The Legacy Bank (Legacy), North East Bancorp, Inc. (North East) and NSD Bancorp, Inc. (NSD), respectively. For information pertaining to these acquisitions, see the Mergers and Acquisitions footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. In addition, the Corporation considers Community Banking a fundamental source of revenue opportunity through the cross-selling of products and services offered by the Corporation s other business segments.

Community Banking also includes five commercial loan production offices in Florida, one commercial loan production office in Pennsylvania and one mortgage loan production office in Tennessee, the underwriting for which is performed centrally.

The lending philosophy of Community Banking is to establish high quality customer relationships while minimizing credit losses by following strict credit approval standards (which include independent analysis of realizable collateral value), diversifying its loan portfolio by industry and borrower and conducting ongoing review and management of the loan portfolio. Commercial loans are generally made to established businesses within the geographic market areas served by Community Banking.

No material portion of the loans or deposits of Community Banking has been obtained from a single or small group of customers, and the loss of any one customer s loans or deposits or a small group of customers loans or deposits by Community Banking would not have a material adverse effect on the Community Banking segment or on the Corporation. The substantial majority of the loans and deposits have been generated within the geographic market areas in which Community Banking operates.

Wealth Management

Wealth Management delivers comprehensive wealth management services to individuals, corporations and retirement funds as well as existing customers of Community Banking. Wealth Management provides services to individuals and corporations located within the Corporation s geographic markets.

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The Corporation s trust subsidiary, First National Trust Company (FNTC), provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. As of December 31, 2007, the market value of trust assets under management totaled approximately $1.7 billion.

The Corporation s Wealth Management segment also includes two other wholly-owned subsidiaries. First National Investment Services Company, LLC offers a broad array of investment products and services for customers of Wealth Management through a networking relationship with a third-party licensed brokerage firm. F.N.B. Investment Advisors, Inc. (Investment Advisors), an investment advisor registered with the Securities and Exchange Commission (SEC), offers customers of Wealth Management objective investment programs featuring mutual funds, annuities, stocks and bonds.

FNTC is required to maintain certain minimum capitalization levels in accordance with regulatory requirements. FNTC periodically measures its capital position to ensure all minimum capitalization levels are maintained.

No material portion of the business of Wealth Management has been obtained from a single or small group of customers, and the loss of any one customer s business or the business of a small group of customers by Wealth Management would not have a material adverse effect on the Wealth Management segment or on the Corporation.

Insurance

The Corporation s Insurance segment operates principally through First National Insurance Agency, LLC (FNIA). FNIA is a full-service insurance brokerage agency offering numerous lines of commercial and personal insurance through major carriers to businesses and individuals primarily within the Corporation s geographic markets. The goal of FNIA is to grow revenue through cross-selling to existing clients of Community Banking and to gain new clients through its own channels.

The Corporation s Insurance segment also includes a reinsurance subsidiary, Penn-Ohio Life Insurance Company (Penn-Ohio). Penn-Ohio underwrites, as a reinsurer, credit life and accident and health insurance sold by the Corporation s lending subsidiaries. Additionally, FNBPA owns a direct subsidiary, First National Corporation (a Pennsylvania corporation), which offers title insurance products.

No material portion of the business of Insurance has been obtained from a single or small group of customers, and the loss of any one customer s business or the business of a small group of customers by Insurance would not have a material adverse effect on the Insurance segment or on the Corporation.

Consumer Finance

The Corporation s Consumer Finance segment operates through its wholly-owned subsidiary, Regency Finance Company (Regency), which is involved principally in making personal installment loans to individuals and purchasing installment sales finance contracts from retail merchants. Such activity is primarily funded through the sale of the Corporation s subordinated notes at Regency s branch offices. The Consumer Finance segment operates in Pennsylvania, Ohio and Tennessee.

No material portion of the business of Consumer Finance has been obtained from a single or small group of customers, and the loss of any one customer s business or the business of a small group of customers by Consumer Finance would not have a material adverse effect on the Consumer Finance segment or on the Corporation.

Other

The Corporation also has five other subsidiaries. F.N.B. Statutory Trust I and F.N.B. Statutory Trust II were established to issue trust preferred securities to third-party investors. Regency Consumer Financial Services, Inc. and FNB Consumer Financial Services, Inc. are the general partner and limited partner, respectively, of FNB Financial Services, LP, a company established to issue, administer and repay subordinated notes. F.N.B. Capital Corporation, LLC (FNB Capital) offers financing options for small- to medium-sized businesses that need financial assistance beyond the parameters of typical commercial bank lending products. Certain financial information concerning these subsidiaries, along with the Parent company and intercompany eliminations, are included in the

Parent and Other category in the Business Segments footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Market Area and Competition

The Corporation primarily operates in Pennsylvania and northeastern Ohio. This area is served by several major interstate highways and is located at the approximate midpoint between New York City and Chicago. The primary market area served by the Corporation also extends to the Great Lakes shipping port of Erie, the Pennsylvania state capital of Harrisburg and the Greater Pittsburgh International Airport. The Corporation also has five commercial loan production offices in Florida, one commercial loan production office in Pennsylvania and one mortgage loan production office in Tennessee. In addition to Pennsylvania and northeastern Ohio, the Corporation s Consumer Finance segment also operates in northern and central Tennessee and central and southern Ohio.

The Corporation s subsidiaries compete for deposits, loans and financial services business with a large number of other financial institutions, such as commercial banks, savings banks, savings and loan associations, credit life insurance companies, mortgage banking companies, consumer finance companies, credit unions and commercial finance and leasing companies, many of which have greater resources than the Corporation. In providing wealth and asset management services, as well as insurance brokerage and merchant banking products and services, the Corporation s subsidiaries compete with many other financial services firms, brokerage firms, mutual fund complexes, investment management firms, merchant and investment banking firms, trust and fiduciary service providers and insurance agencies.

In Regency s market areas of Pennsylvania, Ohio and Tennessee, the active competitors include banks, credit unions and national, regional and local consumer finance companies, some of which have substantially greater resources than that of Regency. The ready availability of consumer credit through charge accounts and credit cards constitutes additional competition. In this market area, competition is based on the rates of interest charged for loans, the rates of interest paid to obtain funds and the availability of customer services.

The ability to access and use technology is an increasingly important competitive factor in the financial services industry. Technology is not only important with respect to delivery of financial services, but also in processing information. The Corporation and each of its subsidiaries must continually make technological investments to remain competitive in the financial services industry.

Mergers and Acquisitions

See the Mergers and Acquisitions footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Employees

As of January 31, 2008, the Corporation and its subsidiaries had 1,513 full-time and 380 part-time employees. Management of the Corporation considers its relationship with its employees to be satisfactory.

Government Supervision and Regulation

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and financial holding companies and their subsidiaries and to companies engaged in securities and insurance activities and provides certain specific information about the Corporation. The bank regulatory framework is intended primarily for the protection of depositors and the Federal Deposit Insurance Funds and not for the protection of security holders. Numerous laws and regulations govern the operations of financial services institutions and their holding companies. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Corporation.

General

The Corporation is a legal entity separate and distinct from its subsidiaries. As a financial holding company and a bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956,

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as amended (BHC Act), and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (FRB). The Corporation is also subject to regulation by the SEC as a result of the Corporation s status as a public company and due to the nature of the business activity of certain of the Corporation s affiliates. The Corporation s common stock is listed on the New York Stock Exchange (NYSE) under the trading symbol FNB and the Corporation is subject to the rules of the NYSE for listed companies.

The Corporation s subsidiary bank (FNBPA) and trust company (FNTC) are organized as national banking associations, which are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC). FNBPA is also subject to certain regulatory requirements of the Federal Deposit Insurance Corporation (FDIC), the FRB and other federal and state regulatory agencies, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, limitations on the types of investments that may be made, activities that may be engaged in and types of services that may be offered. In addition to banking laws, regulations and regulatory agencies, the Corporation and its subsidiaries are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of the Corporation and its ability to make distributions to its stockholders.

As a result of the GLB Act, which repealed or modified a number of significant statutory provisions, including those of the Glass-Steagall Act and the BHC Act which imposed restrictions on banking organizations ability to engage in certain types of activities, bank holding companies such as the Corporation now have broad authority to engage in activities that are financial in nature or incidental to such a financial activity, including insurance underwriting and brokerage; merchant banking; securities underwriting, dealing and market-making; real estate development; and such additional activities as the FRB in consultation with the Secretary of the Treasury determines to be financial in nature or incidental thereto. A bank holding company may engage in these activities directly or through subsidiaries by qualifying as a financial holding company. A financial holding company may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, provided the financial holding company gives the FRB after-the-fact notice of the new activities. The GLB Act also permits national banks, such as FNBPA, to engage in activities considered financial in nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC.

As a regulated financial holding company, the Corporation s relationships and good standing with its regulators are of fundamental importance to the continuation and growth of the Corporation s businesses. The FRB, OCC, FDIC and SEC have broad enforcement powers and authority to approve, deny or refuse to act upon applications or notices of the Corporation or its subsidiaries to conduct new activities, acquire or divest businesses or assets or reconfigure existing operations. In addition, the Corporation, FNBPA and FNTC are subject to examination by various regulators, which results in examination reports (which are not publicly available) and ratings that can impact the conduct and growth of the Corporation s businesses. These examinations consider not only compliance with applicable laws and regulations, including bank secrecy and anti-money laundering requirements, but also loan quality and administration, capital levels, asset quality and risk management ability and performance, earnings, liquidity and various other factors, including, but not limited to, community reinvestment. An examination downgrade by any of the Corporation s federal bank regulators could potentially result in the imposition of significant limitations on the activities and growth of the Corporation and its subsidiaries.

The FRB is the umbrella regulator of a financial holding company. In addition, a financial holding company s operating entities, such as its subsidiary broker-dealers, investment managers, merchant banking operations, investment companies, insurance companies and banks, are also subject to the jurisdiction of various federal and state functional regulators.

There are numerous laws, regulations and rules governing the activities of financial institutions and bank holding companies. The following discussion is general in nature and seeks to highlight some of the more significant of these regulatory requirements, but does not purport to be complete or to describe all of the laws and regulations that apply to the Corporation and its affiliates.

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Interstate Banking

Under the BHC Act, bank holding companies, including those that are also financial holding companies, are required to obtain the prior approval of the FRB before acquiring more than five percent of any class of voting stock of any non-affiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking Act), a bank holding company may acquire banks located in states other than its home state without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state.

Subject to certain restrictions, the Interstate Banking Act also authorizes banks to merge across state lines to create interstate banks. The Interstate Banking Act also permits a bank to open new branches in a state in which it does not already have banking operations if such state enacts a law permitting de novo branching. During 2007, the Corporation had one retail subsidiary national bank, FNBPA. FNBPA owns and operates eleven interstate branch offices within Ohio.

Recent Statutory Developments

The Financial Services Regulatory Relief Act of 2006 (Relief Act) was enacted into law on October 13, 2006. The Relief Act is generally designed to remove or reduce various regulatory constraints and compliance orders imposed on the banking industry. The Relief Act, among other things, (i) authorized the FRB to set reserve ratios; (ii) amended regulations relating to the payment of dividends by national banks; (iii) amended then-applicable laws relating to such issues as the making of loans to insiders, regulatory applications, privacy notices, and golden parachute payments; and (iv) expanded and clarified the enforcement authority of federal banking regulators.

Changes in Regulations

Various legislation, including proposals to change substantially the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is introduced from time to time in the U.S. Congress. This legislation may seek to change banking statutes and the operating environment of the Corporation and its subsidiaries in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or change the competitive balance among banks, savings associations, credit unions and other financial institutions. The Corporation cannot predict whether any of this potential legislation will be enacted, and, if enacted, the effect that it, or any implemented regulations, would have on the financial condition or results of operations of the Corporation or any of its subsidiaries. Any change in statutes, regulations or regulatory policies applicable to the Corporation or its subsidiaries could have a material adverse effect on the business of the Corporation and its subsidiaries.

Capital and Operational Requirements

The FRB, the OCC and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth.

The FRB s risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common stockholders equity and qualifying preferred stock, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses of up to 1.25 percent of risk-weighted assets. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the FRB and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank s risk-based capital ratio to fall or remain below the required minimum.

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The Corporation, like other bank holding companies, currently is required to maintain Tier 1 capital and total capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items). Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. At December 31, 2007, the Corporation s Tier 1 and total capital ratios under these guidelines were 10.0% and 11.5%, respectively. At December 31, 2007, the Corporation had $146.5 million of capital securities that qualified as Tier 1 capital and $11.5 million of subordinated debt that qualified as Tier 2 capital.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets (as defined for regulatory purposes). Although the stated minimum ratio is 100 to 200 basis points above three percent, banking organizations are required to maintain a ratio of at least five percent to be classified as well-capitalized. The Corporation s leverage ratio at December 31, 2007 was 7.5%, and as such, the Corporation meets its leverage ratio requirements.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identified five capital categories for insured depository institutions (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital-raising requirements, restrictions on its business and a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and in certain circumstances to the appointment of a conservator or receiver. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well-capitalized institution must have a Tier 1 risk-based capital ratio of at least six percent, a total risk-based capital ratio of at least ten percent and a leverage ratio of at least five percent and not be subject to a capital directive order. Under these guidelines, FNBPA was considered well-capitalized as of December 31, 2007.

The federal bank regulatory authorities risk based capital guidelines are based upon the 1998 Capital Accord of the Basel Committee on Banking Supervision, or Basel I. In 2004, federal bank regulators issued a proposed new framework for risk-based capital adequacy, sometimes referred to as Basel II. In July 2007, regulators announced their current plan for implementing the most advanced approach under Basel II for banks with over $250 billion in assets or over $10 billion in foreign exposure. The plan contemplates that regulators will propose rules allowing smaller financial institutions, such as the Corporation and its bank subsidiaries, to select between the current method of calculating risked-based capital (Basel I) and a standardized approach under Basel II. The Basel II standardized approach would lower risk weightings for certain categories of assets (including mortgages) from the weightings reflected in Basel I, but unlike Basel I would require an explicit capital charge for operational risk. The Corporation and its subsidiaries have not determined whether they would elect to apply the Basel II approach if presented with that option.

Federal regulators must also take into consideration (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution s assets does not match the sensitivity of its liabilities or its off-balance sheet position) and (c) risks from non-traditional activities, as well as an institution s ability to manage those risks when determining the adequacy of an institution s capital. This evaluation is made as a part of the institution s regular safety and soundness examination. In addition, the Corporation, and any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations.

Community Reinvestment Act

The Community Reinvestment Act of 1977, or the CRA, requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as FNBPA. These regulations require financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has instituted economic sanctions which affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules because they are administered by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions target countries in various ways. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country, and prohibitions on U.S. persons engaging in financial transactions which relate to investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the institution.

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Consumer Protection Statutes and Regulations

FNBPA is subject to many federal consumer protection statutes and regulations including the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act and Home Mortgage Disclosure Act. Among other things, these acts:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

Dividend Restrictions

The Corporation s primary source of funds for cash distributions to its stockholders, and funds used to pay principal and interest on its indebtedness, is dividends received from FNBPA. FNBPA is subject to federal laws and regulations governing its ability to pay dividends to the Corporation. FNBPA is subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The appropriate federal regulatory agency may determine under certain circumstances that the payment of dividends would be an unsafe or unsound practice and prohibit payment thereof. In addition to dividends from FNBPA, other sources of parent company liquidity for the Corporation include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries.

In addition, the ability of the Corporation and FNBPA to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA, as described above. The right of the Corporation, its stockholders and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

Source of Strength

According to FRB policy, a financial or bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such subsidiary. Consistent with the source of strength policy, the FRB has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common stockholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the Corporation s capital needs, asset quality and overall financial condition. This support may be required at times when a bank holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default, the other banks that are members of the FDIC may be assessed for the FDIC s loss, subject to certain exceptions.

In addition, if FNBPA was no longer well-capitalized and well-managed within the meaning of the BHC Act and FRB rules (which take into consideration capital ratios, examination ratings and other factors), the expedited processing of certain types of FRB applications would not be available to the Corporation. Moreover, examination ratings of 3 or lower, unsatisfactory ratings, lower capital ratios below well-capitalized levels, regulatory concerns regarding management, controls, assets, operations or other factors can all potentially result in practical limitations on the ability of a bank or bank holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends or continue to conduct existing activities.

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Securities and Exchange Commission

The Corporation is also subject to regulation by the SEC by virtue of the Corporation s status as a public company and due to the nature of certain of its businesses.

The Sarbanes-Oxley Act of 2002 contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with section 302(a) of the Sarbanes-Oxley Act, written certifications by the Corporation s Chief Executive Officer and Chief Financial Officer are required with respect to each of the Corporation s quarterly and annual reports filed with the SEC. These certifications attest that the applicable report does not contain any untrue statement of a material fact. The Corporation also maintains a program designed to comply with Section 404 of the Sarbanes-Oxley Act, which includes the identification of significant processes and accounts, documentation of the design of process and entity level controls and testing of the operating effectiveness of key controls. See Item 9A, Controls and Procedures, of this Report for the Corporation s evaluation of its disclosure controls and procedures.

Investment Advisors is registered with the SEC as an investment advisor and, therefore, is subject to the requirements of the Investment Advisors Act of 1940 and the SEC s regulations thereunder. The principal purpose of the regulations applicable to investment advisors is the protection of investment advisory clients and the securities markets, rather than the protection of creditors and stockholders of investment advisors. The regulations applicable to investment advisors cover all aspects of the investment advisory business, including limitations on the ability of investment advisors to charge performance-based or non-refundable fees to clients, record-keeping, operating, marketing and reporting requirements, disclosure requirements, limitations on principal transactions between an advisor or its affiliates and advisory clients, as well as other anti-fraud prohibitions. The Corporation s investment advisory subsidiary also may be subject to certain state securities laws and regulations.

Additional legislation, changes in or new rules promulgated by the SEC and other federal and state regulatory authorities and self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of Investment Advisors. The profitability of Investment Advisors could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation, homeland security and electronic commerce.

Under various provisions of the federal and state securities laws, including in particular those applicable to broker-dealers, investment advisors and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in a limitation of permitted activities and disqualification to continue to conduct certain activities.

Investment Advisors is also subject to rules and regulations promulgated by the Financial Industry Regulatory Authority (FINRA), among others. The principal purpose of these regulations is the protection of clients and the securities markets, rather than the protection of stockholders and creditors.

Consumer Finance Subsidiary

Regency is subject to regulation under Pennsylvania, Tennessee and Ohio state laws that require, among other things, that it maintain licenses in effect for consumer finance operations for each of its offices. Representatives of the Pennsylvania Department of Banking, the Tennessee Department of Financial Institutions and the Ohio Division of Consumer Finance periodically visit Regency s offices and conduct extensive examinations in order to determine compliance with such laws and regulations. Additionally, the FRB, as umbrella regulator of the Corporation pursuant to the GLB Act, may conduct an examination of Regency s offices or operations. Such examinations include a review of loans and the collateral therefor, as well as a check of the procedures employed for making and collecting loans. Additionally, Regency is subject to certain federal laws that require that certain information relating to credit terms be disclosed to customers and, in certain instances, afford customers the right to rescind transactions.

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Insurance Agencies

FNIA is subject to licensing requirements and extensive regulation under the laws of the Commonwealth of Pennsylvania and the various states in which FNIA conducts business. These laws and regulations are primarily for the benefit of policyholders. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including the violation of such regulations or the conviction of crimes. Possible sanctions that may be imposed for violation of regulations include the suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Penn-Ohio is subject to examination on a triennial basis by the Arizona Department of Insurance. Representatives of the Arizona Department of Insurance periodically determine whether Penn-Ohio has maintained required reserves, established adequate deposits under a reinsurance agreement and complied with reporting requirements under the applicable Arizona statutes.

Merchant Banking

FNB Capital is subject to regulation and examination by the FRB and is subject to rules and regulations issued by the FINRA.

Governmental Policies

The operations of the Corporation and its subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the FRB regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for time and savings deposits. FRB monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future.

Available Information

The Corporation maintains a website at www.fnbcorporation.com. **The Corporation makes available on its website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (and amendments to any of the foregoing) as soon as practicable after such reports are filed with or furnished to the SEC. These reports are available on the Corporation s website at www.fnbcorporation.com and are also available to stockholders, free of charge, upon written request to F.N.B. Corporation, Attn: David B. Mogle, Corporate Secretary, One F.N.B. Boulevard, Hermitage, PA 16148. A fee to cover the Corporation s reproduction costs will be charged for any requested exhibits to these documents.** The Corporation s common stock is traded on the New York Stock Exchange (NYSE) under the symbol FNB . The Corporation filed the certifications of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO) required pursuant to Section 302 of the Sarbanes Oxley Act of 2002 with respect to its Annual Report on Form 10-K for 2006 with the SEC as exhibits to that Report and has filed certifications required by Section 302 of that Act with respect to this Annual Report on Form 10-K as exhibits to this Report. The Corporation s CEO submitted the required annual CEO Certification, without qualification, regarding the NYSE s corporate governance listing standards to the NYSE within 30 days of the 2007 annual shareholders meeting. The Corporation s Code of Business Conduct and Ethics, the Charters of its Audit, Compensation, Corporate Governance and Nominating Committees and the Corporation s Corporate Governance Guidelines are available on the Corporation s website and in printed form upon request.

ITEM 1A. RISK FACTORS

As a financial services organization, the Corporation takes on a certain amount of risk in every business decision and activity. For example, every time FNBPA opens an account or approves a loan for a customer, processes a payment, hires a new employee, or implements a new computer system, FNBPA and the Corporation incur a certain amount of risk. As an organization, the Corporation must balance revenue generation and profitability with the risks associated with its business activities. Risk management is not about eliminating risks, but about identifying and accepting risks and then effectively managing them so as to optimize total shareholder value.

The Corporation has identified five major categories of risk: credit risk, market risk, liquidity risk, operational risk and compliance risk. Credit risk, market risk and liquidity risk, and the program implemented by management to address these risks, are more fully discussed in the Market Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report. Operational risk arises from inadequate information systems and technology, weak internal control systems or other failed internal processes or systems, human error, fraud or external events. Compliance risk relates to each of the other four major categories of risk listed above, but specifically addresses internal control failures that result in non-compliance with laws, rules, regulations or ethical standards.

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

The Corporation s risk management process is supported through a governance structure involving its Board of Directors and senior management. The Corporation s Risk Committee helps insure that business decisions within the organization are executed within the Corporation s desired risk profile. The Risk Committee has the following key roles:

- facilitate the identification, assessment and monitoring of risk across the Corporation;
- provide support and oversight to the Corporation s businesses; and
- identify and implement risk management best practices, as appropriate.

Additionally, FNBPA has a Risk Management Committee comprised of senior management to provide oversight to specific areas of risk with respect to the level of risk and risk management structure. The Risk Management Committee reports on a regular basis to the Corporation s Risk Committee regarding the enterprise risk profile of the Corporation and other relevant risk management issues. The Corporation s audit function performs an independent assessment of the internal control environment. Moreover, the Corporation s audit function plays a critical role in risk management, testing the operation of internal control systems and reporting findings to management and to the Corporation s Audit Committee. Both the Corporation s Risk Committee and FNBPA s Risk Management Committee regularly assess the Corporation s enterprise-wide risk profile and provide guidance on action to address key risk issues.

The following are the most significant risk factors that affect the Corporation. These risk factors are also discussed further in other parts of this Report.

The Corporation s status as a holding company makes it dependent on dividends from its subsidiaries to meet its obligations.

The Corporation is a holding company and conducts almost all of its operations through its subsidiaries. The Corporation does not have any significant assets other than the stock of its subsidiaries. Accordingly, the Corporation depends on dividends from its subsidiaries to meet its obligations and obtain revenue. The Corporation s right to participate in any distribution of earnings or assets of its subsidiaries is subject to the prior claims of creditors of such subsidiaries. Under federal law, FNBPA is limited in the amount of dividends it may pay to the Corporation without prior regulatory approval. Also, bank regulators have the authority to prohibit FNBPA from paying dividends if the bank regulators determine the payment would be an unsafe and unsound banking practice.

Interest rate volatility could significantly harm the Corporation s business.

The Corporation s results of operations are affected by the monetary and fiscal policies of the federal government and the regulatory policies of governmental authorities. A significant component of the Corporation s earnings is its net interest income, which is the difference between the income from interest earning assets, such as loans, and the expense of interest bearing liabilities, such as deposits. A change in market interest rates could adversely affect the Corporation s earnings if market interest rates change such that the interest the Corporation pays on deposits and borrowings increases faster or decreases more slowly than the interest it collects on loans and investments. Consequently, the business of the Corporation, along with that of other financial institutions, generally is sensitive to interest rate fluctuations.

The Corporation s results of operations are significantly affected by the ability of its borrowers to repay their loans.

Lending money is an essential part of the banking business, and borrowers do not always repay their loans. The risk of non-payment is affected by:

- credit risks of a particular borrower;
- changes in economic and industry conditions;
- the duration of the loan; and
- in the case of a collateralized loan, uncertainties as to the future value of the collateral.

Generally, commercial/industrial, construction and commercial real estate loans present a greater risk of non-payment by a borrower than other types of loans. For additional information, see the Lending Activity section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report. In addition, consumer loans typically have shorter terms and lower balances with higher yields compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

The Corporation s financial condition and results of operations would be adversely affected if its allowance for loan losses is not sufficient to absorb actual losses.

There is no precise method of predicting loan losses. The Corporation can give no assurance that its allowance for loan losses is or will be sufficient to absorb actual loan losses. Excess loan losses could have a material adverse effect on the Corporation s financial condition and results of operations. The Corporation attempts to maintain an appropriate allowance for loan losses to provide for estimated losses inherent in its loan portfolio. The Corporation periodically determines the amount of its allowance for loan losses based upon consideration of several factors, including:

- a regular review of the quality, mix and size of the overall loan portfolio;
- historical loan loss experience;
- evaluation of non-performing loans;
- assessment of economic conditions and their effects on the Corporation s existing portfolio; and
- the amount and quality of collateral, including guarantees, securing loans.

For additional discussion relating to this matter, refer to the Allowance and Provision for Loan Losses section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report.

The Corporation s financial condition may be adversely affected if it is unable to attract sufficient deposits to fund its anticipated loan growth.

The Corporation funds its loan growth primarily through deposits. To the extent that the Corporation is unable to attract and maintain sufficient levels of deposits to fund its loan growth, the Corporation would be required to raise additional funds through public or private financings. The Corporation can give no assurance that it would be able to obtain these funds on acceptable terms.

The Corporation s controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Corporation s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the

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objectives of the system are met. Any failure or circumvention of the Corporation s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation s business, results of operations and financial condition.

The Corporation could experience significant difficulties and complications in connection with its growth and acquisition strategy.

The Corporation has grown significantly through acquisitions over the last few years and may seek to continue to grow by acquiring financial institutions and branches as well as non-depository entities engaged in permissible activities for its financial institution subsidiaries. However, the market for acquisitions is highly competitive. The Corporation may not be as successful in the future as it has been in the past in identifying financial institution and branch acquisition candidates, integrating acquired institutions or preventing deposit erosion at acquired institutions or branches.

As part of its acquisition strategy, the Corporation may acquire additional banks and non-bank entities that it believes provide a strategic fit with its business. To the extent that the Corporation is successful with this strategy, there can be no assurance that the Corporation will be able to manage this growth adequately and profitably. For example, acquiring any bank or non-bank entity will involve risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of banks and non-bank entities the Corporation acquires;
- exposure to potential asset quality issues of acquired banks and non-bank entities;
- potential disruption to the Corporation s business;
- potential diversion of the time and attention of the Corporation s management; and
- the possible loss of key employees and customers of the banks and other businesses the Corporation acquires.

In addition to acquisitions, FNBPA may expand into additional communities or attempt to strengthen its position in its current markets by undertaking additional de novo branch openings or establishing additional loan production offices. Based on its experience, the Corporation believes that it generally takes up to three years for new banking facilities to achieve operational profitability due to the impact of organizational and overhead expenses and the start-up phase of generating loans and deposits. To the extent that FNBPA undertakes additional de novo branch openings, FNBPA is likely to continue to experience the effects of higher operating expenses relative to operating income from the new banking facilities, which may have an adverse effect on the Corporation s net income, earnings per share, return on average equity and return on average assets.

The Corporation may encounter unforeseen expenses, as well as difficulties and complications in integrating expanded operations and new employees without disruption to its overall operations. Following each acquisition, the Corporation must expend substantial resources to integrate the entities. The integration of non-banking entities often involves combining different industry cultures and business methodologies. The failure to integrate successfully the entities the Corporation acquires into its existing operations may adversely affect its results of operations and financial condition.

The Corporation could be adversely affected by changes in the law, especially changes in the regulation of the banking industry.

The Corporation and its subsidiaries operate in a highly regulated environment and are subject to supervision and regulation by several governmental agencies, including the FRB, the OCC and the FDIC. Regulations are generally intended to provide protection for depositors, borrowers and other customers rather than for investors. The

Corporation is subject to changes in federal and state law, regulations, governmental policies, income tax laws and accounting principles. Changes in regulation could adversely affect the banking and financial services industry as a whole and could limit the Corporation s growth and the return to investors by restricting such activities as:

- the payment of dividends;

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- mergers with or acquisitions of other institutions;
- investments;
- loans and interest rates;
- the provision of securities, insurance or trust services; and
- the types of non-deposit activities in which the Corporation s financial institution subsidiaries may engage.

In addition, legislation may change present capital requirements, which could restrict the Corporation s activities and require the Corporation to raise additional capital.

The Corporation s results of operations could be adversely affected due to significant competition.

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than the Corporation. The Corporation may not be able to compete effectively in its markets, which could adversely affect the Corporation s results of operations. The banking and financial services industry in each of the Corporation s market areas is highly competitive. The competitive environment is a result of:

- changes in regulation;
- changes in technology and product delivery systems; and
- the accelerated pace of consolidation among financial services providers.

The Corporation competes for loans, deposits and customers with various bank and non-bank financial service providers, many of which are larger in terms of total assets and capitalization, have greater access to the capital markets and offer a broader array of financial services than the Corporation. Competition with such institutions may cause the Corporation to increase its deposit rates or decrease its interest rate spread on loans it originates. Loan pricing and credit standards are under competitive pressure as various lenders seek to deploy capital and a broader range of borrowers have access to the capital markets. Likewise, traditional deposit activities are subject to intense pricing pressures and increasing customer migration as the financial service providers compete for consumers investment dollars.

The Corporation s continued pace of growth may require it to raise additional capital in the future, but that capital may not be available when it is needed.

The Corporation is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations (see the Government Supervision and Regulation section included in Item 1 of this Report). As a financial holding company, the Corporation seeks to maintain capital sufficient to meet the well-capitalized standard set by regulators. The Corporation anticipates that its current capital resources will satisfy its capital requirements for the foreseeable future. The Corporation may at some point, however, need to raise additional capital to support continued growth, whether such growth occurs internally or through acquisitions.

The Corporation s ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of the Corporation s control, and on its financial performance. Accordingly, there can be no assurance of the Corporation s ability to raise additional capital, if needed, on acceptable terms. If the Corporation cannot raise additional capital when needed, its ability to expand its operations through internal growth and acquisitions could be materially impaired.

Adverse economic conditions in the Corporation s market area may adversely impact its results of operations and financial condition.

The majority of the Corporation s business is concentrated in Pennsylvania and eastern Ohio, which are traditionally slower growth markets than other areas of the United States. Also, the Corporation originates commercial loans in Florida, which risk factors are discussed in the following paragraph. As a result, FNBPA s loan portfolio and results of operations may be adversely affected by factors that have a significant impact on the economic conditions in these market areas. The local economies of the Pennsylvania and Ohio market areas historically have been less robust than the economy of the nation as a whole and may not be subject to the same

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fluctuations as the national economy. Adverse economic conditions in the Corporation s market areas, including the loss of certain significant employers, could reduce its growth rate, affect its borrowers ability to repay their loans and generally affect the Corporation s financial condition and results of operations. Furthermore, a downturn in real estate values in FNBPA s market areas could cause many of its loans to become inadequately collateralized.

The Corporation may be adversely affected by the recent downturn in Florida real estate markets.

According to published reports, many Florida real estate markets, including the markets in Orlando, Naples, Fort Myers, Sarasota and Tampa, where the Corporation has loan production offices, have declined in value throughout 2007 and may continue to undergo a period of slowdown. The Corporation operates five commercial loan production offices in the Florida market place and is therefore exposed to the weakening real estate conditions in the Florida geographic region. During a period of prolonged general economic downturn in the Florida market, the Corporation in that market may experience a reduction in loan origination activity and increases in non-performing assets, net charge-offs and provisions for loan losses.

The Corporation s information systems may experience an interruption or breach in security.

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation s customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of these information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation s information systems could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation s financial condition and results of operations.

Certain provisions of the Corporation s Articles of Incorporation and By-laws and Florida law may discourage takeovers.

The Corporation s Articles of Incorporation and By-laws contain certain anti-takeover provisions that may discourage or may make more difficult or expensive a tender offer, change in control or takeover attempt that is opposed by the Corporation s Board of Directors. In particular, the Corporation s Articles of Incorporation and By-laws:

- classify its Board of Directors into three classes, so that stockholders elect only one-third of its Board of Directors each year;
- permit stockholders to remove directors only for cause;
- do not permit stockholders to take action except at an annual or special meeting of stockholders;
- require stockholders to give the Corporation advance notice to nominate candidates for election to its Board of Directors or to make stockholder proposals at a stockholders meeting;
- permit the Corporation s Board of Directors to issue, without stockholder approval unless otherwise required by law, preferred stock with such terms as its Board of Directors may determine;
- require the vote of the holders of at least 75% of the Corporation s voting shares for stockholder amendments to its By-laws;
- allow the Board of Directors to increase the number of directors and to fill any open seats created through such an increase;
- require a vote of the holders of at least 75% of the Corporation s voting shares to approve a merger not supported by the Board of Directors; and

require a vote of the holders of at least 75% of the Corporation s voting shares to remove any director without cause.

Under Florida law, the approval of a business combination with a stockholder owning 10% or more of the voting shares of a corporation requires the vote of holders of at least two-thirds of the voting shares not owned by such stockholder, unless the transaction is approved by a majority of the corporation s disinterested directors. In addition, Florida law generally provides that shares of a corporation that are acquired in excess of certain specified thresholds will not possess any voting rights unless the voting rights are approved by a majority of the corporation s disinterested stockholders.

These provisions of the Corporation s Articles of Incorporation and By-laws and of Florida law could discourage potential acquisition proposals and could delay or prevent a change in control, even though a majority of the Corporation s stockholders may consider such proposals desirable. Such provision could also make it more difficult for third parties to remove and replace members of the Corporation s Board of Directors. Moreover, these provisions could diminish the opportunities for stockholders to participate in certain tender offers, including tender offers at prices above the then-current market price of the Corporation s common stock, and may also inhibit increases in the trading price of the Corporation s common stock that could result from takeover attempts.

The Corporation s business and financial performance could be adversely affected, directly or indirectly, by natural disasters, terrorist activities or international hostilities.

The likelihood or impact of natural disasters, terrorist activities and international hostilities cannot be predicted. However, any of these could impact the Corporation directly (for example, by causing significant damage to its facilities or preventing it from conducting its business in the ordinary course), or could impact the Corporation indirectly through a direct impact on its borrowers, depositors, other customers, suppliers or other counterparties. The Corporation also could suffer adverse consequences to the extent that natural disasters, terrorist activities or international hostilities affect the economy and financial and capital markets generally. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in the Corporation experiencing higher levels of non-performing assets, net charge-offs and provisions for loan losses.

The Corporation s ability to mitigate the adverse consequences of such occurrences is, in part, dependent on the quality of its contingency planning, including its ability to anticipate the nature of any such event that occurs. The adverse impact of natural disasters or terrorist activities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses with which the Corporation deals, particularly those on which it depends.

Loss of members of the Corporation s executive team could have a negative impact on business.

The Corporation s success is dependent, in part, on the continued service of its executive officers. The loss of the service of one or more of these executive officers could have a negative impact on the Corporation s business because of their skills, relationships in the banking community and years of industry experience and the difficulty of promptly finding qualified replacement executive officers.

The Corporation may not be able to continue to attract and retain skilled people.

The Corporation s success depends, in large part, on its ability to continue to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Corporation s key personnel could have a material adverse impact on the Corporation s business because of their skills, knowledge of the Corporation s market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Corporation is exposed to risk of environmental liabilities with respect to properties to which it takes title.

Portions of the Corporation s loan portfolio are secured by real property. In the course of its business, the Corporation may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Corporation may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, the Corporation may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination

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emanating from the property. If the Corporation ever becomes subject to significant environmental liabilities, the Corporation s business, financial condition, liquidity and results of operations could be materially and adversely affected.

Recent developments in the mortgage market have increased the volatility of the Corporation s stock price and may affect the Corporation s ability to originate loans as well as the profitability of loans in the Corporation s pipeline.

The mortgage lending industry has experienced a significant increase in delinquencies in recent months. The decline in credit quality is most noteworthy among subprime lenders. Generally, the Corporation has not originated residential mortgage loans with FICO credit scores below 620, except for a minimal number of CRA loans. Recent reports of credit quality, financial solvency and other problems among subprime lenders have increased volatility in the stock market. If the subprime segment continues to have problems in the future and/or credit quality problems spread to other industry segments, including lenders who make reduced documentation loans to prime credit quality borrowers, there could be a prolonged decrease in the demand for the Corporation s loans in the secondary market, adversely affecting the Corporation s earnings and negatively impacting the price of the Corporation s common stock.

Changes in economic conditions and the composition of the Corporation s loan portfolio could lead to higher loan charge-offs or an increase in the Corporation s provision for loan losses and may reduce the Corporation s net income.

Recent changes in national and regional economic conditions could impact the loan portfolios of the Corporation. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities the Corporation serves. Weakness in the market areas served by the Corporation could depress its earnings and consequently its financial condition because customers may not want or need the Corporation s products or services; borrowers may not be able to repay their loans; the value of the collateral securing the Corporation s loans to borrowers may decline; and the quality of the Corporation s loan portfolio may decline. Any of the latter three scenarios could require the Corporation to charge-off a higher percentage of its loans and/or increase its provision for loan losses, which would reduce its net income.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE.

ITEM 2. PROPERTIES

The Corporation owns a six-story building in Hermitage, Pennsylvania that serves as its headquarters, executive and administrative offices. It shares this facility with Community Banking and Wealth Management.

The Community Banking offices are located in 24 counties in Pennsylvania and 4 counties in Ohio. Community Banking also has commercial loan production offices located in 5 counties in Florida and one county in Pennsylvania and a mortgage loan production office located in one county in Tennessee. Wealth Management operates in existing Community Banking offices. The Consumer Finance offices are located in 17 counties in Pennsylvania, 16 counties in Tennessee and 13 counties in Ohio. The Insurance offices are located in 6 counties in Pennsylvania. At December 31, 2007, the Corporation s subsidiaries owned 110 of the Corporation s properties and leased 114 properties under operating leases expiring at various dates through the year 2046. For additional information regarding the lease commitments, see the Premises and Equipment footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

ITEM 3. LEGAL PROCEEDINGS

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

Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Corporation does not anticipate, at the present time, that the aggregate liability, if any, arising out of such legal proceedings will have a material adverse effect on the Corporation s consolidated financial position. However, the Corporation cannot determine whether or not any claims asserted against it will have a material adverse effect on its consolidated results of operations in any future reporting period. It is possible, in the event of unexpected future developments, that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation s consolidated results of operations for a particular period.

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

NONE.

EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, position with the Corporation and principal occupation for the last five years of each of the executive officers of the Corporation as of December 31, 2007 is set forth below:

Name	Age	Position with the Corporation and Prior Occupations in Previous Five Years
Stephen J. Gurgovits	64	Chairman of the Corporation since December 2007; President and Chief Executive Officer of the Corporation since 2004; Vice Chairman of the Corporation from 1998 to 2003; Chairman of FNBPA since 2004; President and Chief Executive Officer of FNBPA from 1988 to 2004.
Brian F. Lilly	49	Chief Financial Officer of the Corporation since 2004; Chief Administrative Officer of FNBPA since 2003; Chief Financial Officer of Billingzone, LLC, Pittsburgh, Pennsylvania from 2000 to 2003.
Gary J. Roberts	58	President and Chief Executive Officer of FNBPA since 2004; Senior Executive Vice President and Chief Operating Officer of FNBPA from 2003 to 2004; Senior Executive Vice President of FNBPA from 2002 to 2003.
David B. Mogle	57	Corporate Secretary of the Corporation since 1994; Treasurer of the Corporation from 1986 to 2004; Secretary and Senior Vice President of FNBPA since 1994; Treasurer of FNBPA from 1999 to 2004.
Vincent J. Calabrese	45	Corporate Controller of the Corporation since 2007; Senior Vice President, Controller and Chief Accounting Officer of Peoples Bank, Connecticut, from 2003 to 2007.
James G. Orie	49	Chief Legal Officer of the Corporation since 2004; Corporate Counsel of the Corporation from 1996 to 2003; Senior Vice President of FNBPA since 2003.

Scott D. Free	44	Treasurer of the Corporation since 2005; Chief Financial Officer of FNBPA since 2007; Treasurer and Senior Vice President of FNBPA since 2005; Senior Vice President of First Merit Corporation, Ohio from 1994 to 2004.

There are no family relationships among any of the above executive officers, and there is no arrangement or understanding between any of the above executive officers and any other person pursuant to which he was selected as an officer. The executive officers are elected by and serve at the pleasure of the Corporation s Board of Directors.

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation s common stock is listed on the New York Stock Exchange (NYSE) under the symbol FNB. The accompanying table shows the range of high and low sales prices per share of the common stock as reported by the NYSE for 2007 and 2006. The table also shows dividends per share paid on the outstanding common stock during those periods. As of January 31, 2008, there were 10,257 holders of record of the Corporation s common stock.

	Low	High	Dividends
Quarter Ended 2007			
March 31	$ 16.21	$ 18.79	$ 0.235
June 30	16.41	17.91	0.235
September 30	14.05	18.24	0.240
December 31	13.85	17.92	0.240
Quarter Ended 2006			
March 31	$ 15.74	$ 17.70	$ 0.235
June 30	15.19	17.24	0.235
September 30	15.15	17.00	0.235
December 31	16.31	18.85	0.235

The information required by this Item 5 with respect to securities authorized for issuance under equity compensation plans is set forth in Part III, Item 12 of this Report.

The Corporation did not purchase any of its own equity securities during the fourth quarter of 2007.

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STOCK PERFORMANCE GRAPH

Comparison of Total Return on F.N.B. Corporation s Common Stock with Certain Averages

The following five-year performance graph compares the cumulative total shareholder return (assuming reinvestment of dividends) on the Corporation s common stock (u) to the NASDAQ Bank Index (n) and the Russell 2000 Index (5). This stock performance graph assumes $100 was invested on December 31, 2002, and the cumulative return is measured as of each subsequent fiscal year end.

F.N.B. Corporation Five-Year Stock Performance
Total Return, Including Stock and Cash Dividends

Total Return Performance

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ITEM 6. SELECTED FINANCIAL DATA

Dollars in thousands, except per share data

Year Ended December 31	**2007**	**2006**	**2005**	**2004**	**2003**
Total interest income	$368,890	$342,422	$295,480	$253,568	$256,102
Total interest expense	174,053	153,585	108,780	84,390	86,990
Net interest income	194,837	188,837	186,700	169,178	169,112
Provision for loan losses	12,693	10,412	12,176	16,280	17,155
Total non-interest income	81,609	79,275	57,807	77,326	67,319
Total non-interest expense	165,614	160,514	155,226	140,892	183,272
Income from continuing operations	69,678	67,649	55,258	61,795	27,038
Income from discontinued operations, net of tax					31,751
Net income	69,678	67,649	55,258	61,795	58,789
At Year-End					
Total assets	$6,088,021	$6,007,592	$5,590,326	$5,027,009	$8,308,310
Assets of discontinued operations					3,751,136
Net loans	4,291,429	4,200,569	3,698,340	3,338,994	3,213,058
Deposits	4,397,684	4,372,842	4,011,943	3,598,087	3,439,510
Short-term borrowings	449,823	363,910	378,978	395,106	232,966
Long-term and junior subordinated debt	632,397	670,921	662,569	636,209	584,808
Liabilities of discontinued operations					3,386,021
Total stockholders equity	544,357	537,372	477,202	324,102	606,909
Per Common Share (1)					
Basic earnings per share					
Continuing operations	$1.16	$1.15	$0.99	$1.31	$0.58
Discontinued operations					0.69
Net income	1.16	1.15	0.99	1.31	1.27
Diluted earnings per share					
Continuing operations	1.15	1.14	0.98	1.29	0.57
Discontinued operations					0.68
Net income	1.15	1.14	0.98	1.29	1.25
Cash dividends declared	0.95	0.94	0.925	0.92	0.93
Book value (2)	8.99	8.90	8.31	6.47	13.10
Ratios					
Return on average assets (2)	1.15%	1.15%	.99%	1.29%	0.74%
Return on average tangible assets (2)	1.25	1.25	1.07	1.34	0.79
Return on average equity (2)	12.89	13.15	12.44	23.54	9.66

Return on average tangible equity (2)	26.23	26.30	23.62	30.42	16.81
Dividend payout ratio (2)	82.45	81.84	94.71	72.56	72.90
Average equity to average assets (2)	8.93	8.73	7.97	5.50	7.66

(1) Per share amounts for 2003 have been restated for the common stock dividend declared on April 28, 2003.

(2) Effective January 1, 2004, F.N.B. Corporation spun off its Florida operations into a separate independent public company. As a result of the spin-off, the Florida operations earnings for prior years have been classified as discontinued operations on the Corporation s consolidated income statements and the assets and liabilities related to the discontinued operations have been disclosed separately on the Corporation s consolidated balance sheets for prior years. In addition, note that the book value at period end, stockholders equity, the return on average assets ratio, the return on average tangible assets ratio, the return on average equity ratio, return on average tangible equity ratio and the dividend payout ratio for 2003 include the discontinued operations.

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QUARTERLY EARNINGS SUMMARY (Unaudited)
Dollars in thousands, except per share data

Quarter Ended 2007	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Total interest income	$90,487	$91,620	$93,949	$92,834
Total interest expense	42,567	43,271	44,791	43,424
Net interest income	47,920	48,349	49,158	49,410
Provision for loan losses	1,847	1,838	3,776	5,232
Gain on sale of securities	740	415		
Impairment loss on equity securities		(111)	(7)	
Other non-interest income	20,176	20,071	19,689	20,636
Total non-interest expense	41,896	41,822	41,278	40,618
Net income	17,370	17,622	17,624	17,062
Per Common Share				
Basic earnings per share	$0.29	$0.29	$0.29	$0.28
Diluted earnings per share	0.29	0.29	0.29	0.28
Cash dividends declared	0.235	0.235	0.24	0.24

Quarter Ended 2006	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Total interest income	$77,621	$83,465	$90,576	$90,760
Total interest expense	31,802	36,772	42,209	42,802
Net interest income	45,819	46,693	48,367	47,958
Provision for loan losses	2,958	2,497	2,428	2,529
Gain on sale of securities	547	340	510	405
Other non-interest income	19,082	19,998	19,502	18,891
Total non-interest expense	39,771	40,723	40,625	39,395
Net income	15,802	16,635	17,619	17,593
Per Common Share				
Basic earnings per share	$0.28	$0.29	$0.29	$0.29
Diluted earnings per share	0.27	0.28	0.29	0.29
Cash dividends declared	0.235	0.235	0.235	0.235

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis represents an overview of the consolidated results of operations and financial condition of the Corporation. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes presented in Item 8 of this Report. Results of operations for the periods included in this review are not necessarily indicative of results to be obtained during any future period.

Important Note Regarding Forward-Looking Statements

Certain statements in this 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 continue or the negatives tl 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 in which it operates 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 in or implied by 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.

Application of Critical Accounting Policies

The Corporation s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies followed by the Corporation are presented in the Summary of Significant Accounting Policies footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the consolidated financial statements. Management currently views the determination of the allowance for loan losses, securities valuation, goodwill and other intangible assets and income taxes to be critical accounting policies.

Allowance for Loan Losses

The allowance for loan losses addresses credit losses inherent in the existing loan portfolio and is presented as a reserve against loans on the consolidated balance sheet. Loan losses are charged off against the allowance for loan losses, with recoveries of amounts previously charged off credited to the allowance for loan losses. Provisions for loan losses are charged to operations based on management s periodic evaluation of the adequacy of the allowance.

Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change.

Management s assessment of the adequacy of the allowance for loan losses considers individual impaired loans, pools of homogeneous loans with similar risk characteristics and other risk factors concerning the economic environment. The allowance established for individual impaired loans reflects expected losses resulting from analyses developed through specific credit allocations for individual loans. The specific credit allocations are based on regular analyses of all loans over a fixed dollar amount where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, current market value of the loan and collateral values. Independent loan review results are evaluated and considered in estimating reserves as well as other qualitative risk factors that may affect the loan. The evaluation of this component of the allowance requires considerable judgment in order to estimate inherent loss exposures.

Pools of homogeneous loans with similar risk characteristics are also assessed for probable losses. A loss migration and historical charge-off analysis is performed quarterly and loss factors are updated regularly based on actual experience. This analysis examines historical loss experience, the related internal ratings of loans charged off and considers inherent but undetected losses within the portfolio. Inherent but undetected losses may arise due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates and risk factors that have not yet manifested themselves in loss allocation factors. The Corporation has grown through acquisition and expanded the geographic footprint in which it operates. As a result, historical loss experience data used to establish loss estimates may not precisely correspond to the current portfolio. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical loss experience used in the migration and historical charge-off analysis may not be representative of actual unrealized losses inherent in the portfolio.

Management also evaluates the impact of various factors concerning the economic environment which pose additional risks that may not adequately be addressed in the analyses described above. Such factors could include: levels of, and trends in, consumer bankruptcies, delinquencies, impaired loans, charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off and recovery; experience, ability and depth of lending management and staff; national and local economic trends and conditions; industry and geographic conditions; concentrations of credit such as, but not limited to, local industries, their employees or suppliers; or any other common risk factor that might affect loss experience across one or more components of the portfolio. The determination of this component of the allowance requires considerable management judgment.

There are many factors affecting the allowance for loan losses; some are quantitative, while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses could be required that could adversely affect the Corporation s earnings or financial position in future periods.

The Allowance and Provision for Loan Losses section of this financial review includes a discussion of the factors driving changes in the allowance for loan losses during the current period.

Securities Valuation

Investment securities, which are composed of debt securities and certain equity securities, comprise a significant portion of the Corporation s consolidated balance sheet. Such securities can be classified as Trading, Securities Held to Maturity or Securities Available for Sale. As of December 31, 2007 and 2006, the Corporation did not hold any trading securities.

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Securities held to maturity are comprised of debt securities, which were purchased with management s positive intent and ability to hold such securities until their maturity. Such securities are carried at cost, adjusted for related amortization of premiums and accretion of discounts through interest income from securities.

Securities that are not classified as trading or held to maturity are classified as available for sale. The Corporation s available for sale securities portfolio is comprised of debt securities and marketable equity securities. Such securities are carried at fair value with net unrealized gains and losses not deemed other-than-temporary reported separately as a component of other comprehensive income, net of tax. Realized gains and losses on the sale of available for sale securities and other-than-temporary impairment charges are recorded within non-interest income in the consolidated statement of income. Realized gains and losses on the sale of securities are determined using the specific-identification method.

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

Goodwill and Other Intangible Assets

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the businesses acquired. The majority of the Corporation s goodwill relates to value inherent in its Community Banking and Insurance segments. The amount of goodwill is impacted by the fair value of underlying assets and liabilities acquired, including loans, deposits and long-term debt, which is significantly influenced by management s estimates and assumptions which are judgmental in nature.

The Corporation tests goodwill for impairment at least annually, or when indicators of impairment exist, to determine whether impairment may exist. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental in nature and often involve the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The Corporation performs an internal valuation analysis and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows analyses, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the risk inherent in future cash flows, growth rates and determination and evaluation of appropriate market comparables.

The value of goodwill is dependent upon the Corporation s ability to provide quality, cost-effective services in the face of competition. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the Corporation s inability to deliver cost effective services over sustained periods can lead to impairment of goodwill which could result in additional expense and adversely impact earnings in future periods.

Other intangible assets that have finite lives, such as core deposit intangibles and customer and renewal lists, are amortized over their estimated useful lives and are also subject to periodic impairment testing.

Income Taxes

The Corporation is subject to the income tax laws of the U.S., its states and other jurisdictions where it conducts business. The laws are complex and subject to different interpretations by the taxpayer and various taxing

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authorities. In determining the provision for income taxes, management must make judgments and estimates about the application of these inherently complex tax statutes, related regulations and case law. In the process of preparing the Corporation s tax returns, management attempts to make reasonable interpretations of the tax laws. These interpretations are subject to challenge by the taxing authorities based on audit results or to change based on management s ongoing assessment of the facts and evolving case law.

The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize a benefit from its deferred tax assets, or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management s assessments of realizable deferred tax assets.

On a quarterly basis, management assesses the reasonableness of the Corporation s effective tax rate based on management s current best estimate of net income and the applicable taxes for the full year. Deferred tax assets and liabilities are assessed on an annual basis, or sooner, if business events or circumstances warrant.

Recent Accounting Pronouncements and Developments

The New Accounting Standards footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by the Corporation in 2007 and the expected impact of accounting pronouncements recently issued or proposed but not yet required to be adopted.

Financial 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 retail and commercial banking business through a full service branch network in Pennsylvania and Ohio, commercial loan production offices in Pennsylvania and Florida and a mortgage loan production office in Tennessee, and conducts selected consumer finance business in Pennsylvania, Ohio and Tennessee.

During 2007, the Corporation opened two additional commercial loan production offices, one in Pennsylvania and one in Florida, in order to continue to supplement the Corporation s core market loan production.

The economic environment made 2007 another challenging year for the banking industry, particularly in the lending business. The Corporation s practice of conservative underwriting has helped it to substantially avoid the types of losses from certain loans, such as subprime residential mortgages, which have recently impacted other financial institutions.

Despite a challenging economic environment, the Corporation delivered a strong financial performance in 2007. Net interest income on a fully taxable equivalent (FTE) basis increased by $6.7 million and the net interest margin increased 2 basis points compared to 2006. The provision for loan losses increased by $2.3 million compared to 2006, primarily as the result of recording a specific reserve of $2.0 million associated with one loan. Non-interest income increased by $2.3 million or 2.9% and non-interest expense increased by $5.1 million or 3.2% from 2006.

Both total average loans and deposits increased as a result of a combination of organic growth and the Legacy acquisition in 2006. On the loan side, the Corporation s growth is focused on its desirable customer relationship oriented higher yielding commercial loan portfolio offset by a decline in the indirect loan portfolio. For deposits, the Corporation s expanded suite of deposit products continues to attract customers.

The Corporation s asset quality measures continue to be strong despite actions taken with one developer in the Florida market during the latter part of 2007. The year end non-performing assets include $9.9 million related to this one developer relationship and accounts for the declines in credit measures from historically low figures earlier in 2007.

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Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net income for 2007 was $69.7 million or $1.15 per diluted share, an increase of $2.0 million or 3.0% from net income for 2006 of $67.6 million or $1.14 per diluted share. The increase in net income is a result of several factors, including loan growth, recurring fee income and controlling expenses, as well as the full year impact of the Legacy acquisition. Additionally, the 2007 income taxes were favorably impacted by $0.9 million due to the expiration of an uncertain tax position.

The Corporation s return on average equity was 12.89%, its return on average tangible equity (net income less amortization of intangibles, net of tax, divided by average equity less average intangibles) was 26.23%, its return on average assets was 1.15% and its return on tangible assets (net income less amortization of intangibles, net of tax, divided by average assets less average intangibles) was 1.25% for 2007, as compared to 13.15%, 26.30%, 1.15% and 1.25%, respectively, for 2006.

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

	Year Ended December 31							
	2007			2006			2005	
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense
earning assets:								
bearing deposits								
nks	$ 1,588	$ 78	4.89%	$ 1,540	$ 76	4.97%	$ 1,643	$ 50
funds sold	10,429	547	5.17	23,209	1,184	5.03	8,615	357
investment								
es (1)	874,130	44,188	5.04	965,533	47,424	4.92	1,111,743	49,417
able investment								
es (1)(2)	165,406	8,795	5.32	145,858	7,529	5.16	136,944	6,873
2)(3)	4,305,158	319,940	7.43	4,059,936	290,143	7.15	3,685,073	242,246
terest earning								
	5,356,711	373,548	6.97	5,196,076	346,356	6.67	4,944,018	298,943
d due from banks	113,314			116,643			113,075	
nce for loan losses	(52,346)			(52,757)			(52,106)	
s and equipment	84,106			85,791			82,639	
ssets	553,599			544,172			484,351	
	$ 6,055,384			$ 5,889,925			$ 5,571,977	
ies								
bearing liabilities:								
s:								
bearing demand	$ 1,441,316	36,734	2.55	$ 1,256,829	29,793	2.37	$ 980,267	10,680
	589,298	9,881	1.68	627,522	8,911	1.42	692,736	6,236
ates and other time	1,744,691	77,661	4.45	1,729,836	67,975	3.93	1,574,464	49,196
y management								
s	266,726	12,150	4.49	213,045	9,099	4.21	182,779	4,693
hort-term								
ngs	147,439	7,285	4.87	145,064	6,686	4.55	266,839	9,808
rm debt	467,047	19,360	4.15	542,208	20,752	3.83	566,757	19,872
ubordinated debt	151,031	10,982	7.27	142,286	10,369	7.29	128,866	8,295
terest bearing								
s	4,807,548	174,053	3.61	4,656,790	153,585	3.29	4,392,708	108,780
erest bearing								
	634,537			649,191			661,668	
abilities	72,830			69,581			73,362	

	5,514,915			5,375,562			5,127,738		
olders equity	540,469			514,363			444,239		
	$ 6,055,384			$ 5,889,925			$ 5,571,977		
of interest earning ver interest bearing s	$ 549,163			$ 539,286			$ 551,310		
rest income (FTE)		199,495			192,771			190,163	
ivalent adjustment		4,658			3,934			3,463	
rest income		$ 194,837			$ 188,837			$ 186,700	
rest spread			3.36%			3.38%			
rest margin (2)			3.73%			3.71%			

(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 35.0% for each period presented. The yield on earning assets and the net interest margin are presented on an FTE 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.

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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 and federal funds sold) and interest expense paid on liabilities (deposits, treasury management accounts and short- and long-term borrowings). In 2007, net interest income, which comprised 70.5% of net revenue (net interest income plus non-interest income) as compared to 70.4% in 2006, was affected by the general level of interest rates, changes in interest rates, the shape of the yield curve and changes in the amount and mix of interest earning assets and interest bearing liabilities.

Net interest income, on an FTE basis, increased $6.7 million or 3.5% from $192.8 million for 2006 to $199.5 million for 2007. Average interest earning assets increased $160.6 million or 3.1% and average interest bearing liabilities increased $150.8 million or 3.2% from 2006 due to organic commercial loan and deposit growth and the Legacy acquisition. The Corporation s net interest margin increased by 2 basis points from 2006 to 3.73% for 2007 as higher rates on interest earning assets were partially offset by increased rates paid on interest bearing liabilities and lower balances of non-interest bearing demand deposits. Details on changes in tax equivalent net interest income attributed to changes in interest earning assets, interest bearing liabilities, yields and cost of funds can be found in the preceding table.

The following table sets forth certain information regarding changes in net interest income attributable to changes in the average volumes and yields earned on interest earning assets and the average volumes and rates paid for interest bearing liabilities for the periods indicated (in thousands):

	2007 vs 2006			2006 vs 2005		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Interest bearing deposits with banks	$ 2	$	$ 2	$ (3)	$ 29	$ 26
Federal funds sold	(670)	33	(637)	728	99	827
Securities	(3,644)	1,674	(1,970)	(7,028)	5,691	(1,337)
Loans	18,652	11,145	29,797	25,461	22,436	47,897
	14,340	12,852	27,192	19,158	28,255	47,413
Interest Expense						
Deposits:						
Interest bearing demand	4,591	2,350	6,941	3,699	15,414	19,113
Savings	290	680	970	255	2,420	2,675
Certificates and other time	526	9,160	9,686	5,417	13,362	18,779
Treasury management accounts	2,414	637	3,051	880	3,526	4,406
Other short-term borrowings	176	423	599	(5,308)	2,186	(3,122)
Long-term debt	(3,027)	1,635	(1,392)	(886)	1,766	880
Junior subordinated debt	636	(23)	613	914	1,160	2,074
	5,606	14,862	20,468	4,971	39,834	44,805
Net Change	$ 8,734	$ (2,010)	$ 6,724	$ 14,187	$ (11,579)	$ 2,608

(1) The amount of change not solely due to rate or volume 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 35.0% for each period presented. The Corporation believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

Interest income, on an FTE basis, of $373.5 million in 2007, increased by $27.2 million or 7.9% from 2006. This increase was caused by an improvement in the yield on interest earning assets of 30 basis points to 6.97% for 2007 and an increase in average interest earning assets of $160.6 million or 3.1% from 2006. The increase in average interest earning assets was driven by an increase of $245.2 million in average loans, partially offset by a decrease of $71.9 million in average investment securities. The increase in average loans was a result of a combination of organic growth and the Legacy acquisition while the decrease in average investment securities partially funded loan growth.

Interest expense of $174.1 million for 2007 increased by $20.5 million or 13.3% from 2006. This increase was primarily attributable to an increase of 32 basis points in the Corporation s cost of funds to 3.61% for 2007. Also, average interest bearing liabilities increased $150.8 million or 3.2% to $4.8 billion for 2007. This growth was primarily attributable to a combined increase of $146.3 million or 7.8% in the core deposit categories of average interest bearing demand deposit and savings, a $53.7 million or 25.2% increase in average treasury management accounts and an increase in average certificates and other time deposits of $14.9 million or 0.9%. Average 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 Legacy acquisition. Average treasury management accounts increased primarily due to the implementation of a strategic initiative to increase and expand commercial deposit relationships. The average balance for junior subordinated debt owed to unconsolidated subsidiary trusts also increased by $8.7 million or 6.1% for 2007 due to the issuance of $21.5 million of new debt in mid-2006 to partially finance the Legacy acquisition. Partially offsetting these increases was a decline in average long-term debt of $75.2 million or 13.9% from 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 existing loan portfolio, after giving consideration to charge-offs and recoveries for the period.

The provision for loan losses of $12.7 million in 2007 increased $2.3 million or 21.9% from 2006 primarily due to actions taken during late 2007 relating to one developer relationship in the Florida market. These actions included the charge-off of $0.9 million relating to one project and the recording of a specific reserve of $2.0 million relating to a second project. Additionally, the Corporation transferred the remaining $1.7 million relating to the first project to other real estate owned and transferred the entire $8.2 million balance of the second project to non-accrual status. In 2007, net charge-offs totaled $12.5 million or 0.29% of average loans compared to $11.6 million or 0.29% of average loans in 2006. The ratio of non-performing loans to total loans was 0.75% at December 31, 2007, compared to 0.66% at December 31, 2006, and the ratio of non-performing assets to total assets was 0.67% and 0.57%, respectively, at these same dates. For additional information, refer to the Allowance and Provision for Loan Losses section of this financial review.

Non-Interest Income

Total non-interest income of $81.6 million in 2007 increased $2.3 million or 2.9% from 2006. This increase resulted primarily from increases in all major fee businesses except for insurance-related fees, partially offset by decreases in gain on sale of securities and other non-interest income.

Service charges on loans and deposits of $40.8 million for 2007 increased $0.8 million or 1.9% from 2006, reflecting expansion of the Corporation s customer base as a result of the Legacy acquisition in 2006 and also due to higher activity in check card and business demand deposit account fees.

Insurance commissions and fees were $14.0 million for 2007, which remained stable compared to 2006 as growth in the book of business was offset by lower commissions. As a result of a soft renewal market in the insurance industry, many account renewal commissions have declined due to lower premiums charged by insurance carriers.

Securities commissions of $6.3 million for 2007 increased by $1.5 million or 30.0% from 2006 levels primarily due to higher organic annuity and securities sales.

Trust fees of $8.6 million in 2007 increased by $0.8 million or 10.2% from 2006 due to growth in assets under management resulting from organic growth in overall trust assets, higher equity valuations and the Legacy acquisition in 2006.

Gain (loss) on sale of securities of $1.2 million decreased $0.6 million or 35.9% from 2006 as management did not sell any equity securities during the second half of 2007 due to unfavorable market prices in the bank stock portfolio.

Gain on sale of mortgage loans of $1.7 million for 2007 increased by $0.1 million or 6.7% from 2006 due to an increase in mortgage origination volume in 2007.

Income from bank owned life insurance of $4.1 million for 2007 increased by $0.7 million or 22.2% from 2006 due to a combination of a higher crediting rate in 2007 and the Legacy acquisition in 2006.

Other income of $5.0 million for 2007 decreased $0.8 million or 13.6% from 2006. The primary reason for this decrease was $0.8 million in lower gains on settlements of impaired loans acquired in previous acquisitions. In 2006, the Corporation recognized gains on settlements of impaired loans of $1.3 million compared to $0.5 million in 2007. The Corporation also recognized a loss of $0.5 million in 2007 on the sale of a building acquired in a previous merger. Offsetting these decreases was a $0.4 million increase in customer swap fee income.

Non-Interest Expense

Total non-interest expense of $165.6 million in 2007 increased $5.1 million or 3.2% from 2006. This increase was primarily attributable to operating expenses resulting from the Legacy acquisition in 2006.

Salaries and employee benefits of $87.2 million in 2007 increased $3.6 million or 4.3% from 2006. This increase was primarily attributable to normal annual compensation and benefit increases, additional costs associated with the employees retained from the Corporation s acquisition of Legacy in 2006, higher commission expense tied to growth in securities commission revenue and an increase in stock compensation expense related to the issuance of restricted stock, partially offset by lower expense due to the amendment to the Corporation s pension and postretirement benefit plans and lower medical expenses.

Combined net occupancy and equipment expense of $27.7 million in 2007 increased $0.2 million or 0.6% from the combined 2006 level. This increase was primarily due to additional operating costs associated with the Corporation s acquisition of Legacy in 2006, the opening of a new branch in 2006 and several new loan production offices in 2006 and 2007, partially offset by lower depreciation on equipment.

Amortization of intangibles expense of $4.4 million in 2007 increased $0.3 million or 6.2% from 2006 due to the amortization of additional core deposit and other intangibles as a result of the Corporation s acquisition of Legacy in 2006.

State taxes of $5.5 million in 2007 increased $0.8 million or 16.4% from 2006 primarily due to higher net worth based taxes resulting from the Corporation s acquisition of Legacy in 2006.

Advertising and promotional expense of $2.9 million in 2007 increased $0.1 million or 2.4% from 2006 due to the Corporation s acquisition of Legacy in 2006.

The Corporation recorded merger-related expenses of $0.2 million in 2007 relating to the pending acquisition of Omega Financial Corporation (Omega) and $0.6 million in 2006 related to costs incurred as a result of the acquisition of Legacy. The pending acquisition of Omega is discussed in the Mergers and Acquisitions footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Other non-interest expenses of $35.4 million in 2007 increased $0.9 million or 2.5% from 2006. This increase was primarily due to additional operating costs associated with the Corporation s acquisition of Legacy in 2006 and higher fees for outside professional services.

Income Taxes

The Corporation s income tax expense of $28.5 million for 2007 decreased by $1.1 million or 3.6% from 2006. The effective tax rate of 29.0% for 2007 declined from 30.4% for the prior year. The income tax expense for 2007 was favorably impacted by $0.9 million due to the expiration of an uncertain tax position. The lower effective tax rate also reflects benefits resulting from tax-exempt income on investments, loans and bank owned life insurance. 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.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net income for 2006 was $67.6 million or $1.14 per diluted share, compared to net income for 2005 of $55.3 million or $0.98 per diluted share. Net income increased by $12.4 million or 22.4% primarily due to the Corporation s acquisitions in 2005 and 2006 and as a result of a balance sheet repositioning, an other-than-temporary impairment loss on an equity security and efficiency improvement charges, all of which reduced 2005 net income by $10.9 million after-tax. Also, net income increased from improved profitability of the Corporation s insurance, securities and trust businesses.

Net income for the years 2006 and 2005 was favorably impacted by the acquisition of Legacy on May 26, 2006 and the Penn Group Insurance, Inc. (Penn Group), North East and NSD acquisitions on November 1, 2005, October 7, 2005 and February 18, 2005, respectively. The favorable impact of the Corporation s acquisitions in 2005 and 2006 was substantially offset by the 14 basis point decrease in the net interest margin.

The balance sheet repositioning, completed during the fourth quarter of 2005, reduced the Corporation s exposure to an anticipated rise in interest rates and resulted in a realized loss of $8.6 million after-tax from the sale of fixed rate available for sale debt securities. The Corporation also recorded an other-than-temporary impairment loss on an equity security of $1.3 million after-tax in 2005. For additional information related to the balance sheet restructuring and other-than-temporary impairment loss refer to the Balance Sheet Repositioning, Efficiency Improvement Charges and Merger Expenses and Securities footnotes in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report. Also, 2005 income taxes were favorably impacted by $1.0 million due to the expiration of an uncertain tax position.

The Corporation s return on average equity was 13.15%, its return on average tangible equity was 26.30% and its return on average assets was 1.15% for 2006, as compared to 12.44%, 23.62% and .99%, respectively, for 2005.

Net Interest Income

In 2006, net interest income, which comprised 70.4% of net revenue as compared to 76.4% in 2005, was negatively affected by the general level of interest rates, changes in interest rates, the flattening of the yield curve and the changes in the amount and mix of interest earning assets and interest bearing liabilities.

Net interest income, on a fully taxable equivalent basis increased $2.6 million from $190.2 million for 2005 to $192.8 million for 2006. The increase primarily resulted from an increase in average interest earning assets offset by a decrease in the net interest margin. Average interest earning assets increased $252.1 million or 5.1% and average interest bearing liabilities increased $264.1 million or 6.0% from 2005 due to organic commercial loan and deposit growth and the acquisitions in 2005 and 2006. However, the Corporation s net interest margin decreased by 14 basis points from 2005 to 3.71% for 2006 and was negatively impacted by a flattening of the yield curve which became slightly inverted in the latter half of 2006. As such, the Corporation experienced less opportunity to earn higher rates on interest earning assets compared to the need to increase rates on its deposits and treasury management accounts driven by interest rates and competitive pricing.

Interest income, on a fully taxable equivalent basis, of $346.4 million in 2006 increased by $47.4 million or 15.9% from 2005. This increase was caused by an improvement in the yield on interest earning assets of 62 basis points to 6.67% for 2006 and an increase in average interest earning assets of $252.1 million, or 5.1%, from 2005. The increase in average interest earning assets was driven by an increase of $374.9 million in average loans, partially offset by a decrease of $146.3 million in average investment securities. The increase in average loans was a result of a combination of organic growth and the Corporation s acquisitions in 2005 and 2006, while the decrease in average investment securities was a result of a planned reduction to provide funding for loan growth.

Interest expense of $153.6 million for 2006 increased by $44.8 million or 41.2% from 2005. This increase was primarily attributable to an increase of 81 basis points in the Corporation s cost of funds to 3.29% for 2006. Also, interest bearing liabilities increased $264.1 million or 6.0% to average $4.7 billion for 2006. This growth was

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primarily attributable to a combined increase of $211.3 million or 12.6% in the core deposit categories of average interest bearing demand deposit and savings, a $30.3 million or 16.6% increase in average treasury management accounts and an increase in average certificates and other time deposits of $155.4 million or 9.9%. Average 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 acquisitions in 2005 and 2006. Average treasury management accounts increased primarily due to the implementation of a strategic initiative to increase and expand commercial deposit relationships. The average balance for junior subordinated debt owed to unconsolidated subsidiary trusts also increased by $13.4 million or 10.4% for 2006 due to the issuance of $21.5 million of new debt to partially finance the Legacy acquisition. Offsetting these increases were declines in average short-term borrowings of $121.8 million or 45.6% from 2005 and average long-term debt of $24.5 million or 4.3% from 2005.

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 $10.4 million in 2006 decreased $1.8 million or 14.5% from 2005 primarily due to continued improvement in credit quality. Improving trends in non-accrual loans and the commercial and consumer loan portfolios continued to produce lower levels of expected losses. More specifically, in 2006 net charge-offs totaled $11.6 million or 0.29% as a percentage of average loans compared to $16.9 million or 0.46% as a percentage of average loans in 2005. The 2005 results included the charge-off of a $1.5 million loan or .05% that was on non-accrual and was previously fully reserved for in the allowance for loan losses. The ratio of non-performing loans to total loans was 0.66% at December 31, 2006 compared to 0.88% at December 31, 2005 and the ratio of non-performing assets to total assets was .57% and .71%, respectively, for these same periods. For additional information, refer to the Allowance and Provision for Loan Losses section of this financial review.

Non-Interest Income

Total non-interest income of $79.3 million in 2006 increased $21.5 million or 37.1% from 2005. This increase resulted primarily from a $1.8 million gain on the sale of securities in 2006 compared to a loss of $11.7 million in 2005. Also, the Corporation recorded an other-than-temporary impairment loss on an equity security of $2.0 million in 2005. Additionally, the year over year increase in total non-interest income was due to modest increases in charges and fees.

Service charges on loans and deposits of $40.1 million increased $1.9 million or 5.1% from 2005 primarily because the Corporation s customer base expanded as a result of the acquisitions in 2006 and 2005 and also due to selected fee increases. Insurance commissions and fees of $14.0 million increased $1.2 million or 9.3% from 2005 principally due to an increase in contingent fees of $0.3 million, organic customer growth and the Penn Group acquisition in the fourth quarter of 2005. Securities commissions of $4.9 million for 2006 increased by $0.4 million or 8.5% from 2005 levels, primarily due to higher annuity and securities sales and also was benefited by the Legacy acquisition in 2006. Trust fees of $7.8 million in 2006 increased by $0.7 million or 9.2% from 2005 due to growth in assets under management resulting from higher equity valuations in 2006 compared to 2005, growth in overall trust assets and the number of trust accounts and from the acquisition of Legacy in 2006. Gain on sale of securities of $1.8 million increased $13.5 million from a loss of $11.7 million in 2005. During the fourth quarter of 2005, management changed its intent with respect to certain available for sale securities and as a result sold $559.6 million of fixed-rate securities resulting in a $13.3 million loss. These 2005 sales were part of the Corporation s initiative to improve its interest rate risk position and improve future income levels. The Corporation recognized an other-than-temporary impairment loss of $2.0 million on an equity security classified as available for sale in 2005. The Corporation recognized no such impairment loss in 2006. Gain on sale of mortgage loans of $1.6 million for 2006 increased by $0.2 million or 15.4% from 2005 due to increased mortgage origination volume in 2006. Other income of $5.8 million for 2006 increased $1.6 million or 37.0% from 2005. The increase was primarily attributable to gains on settlements of impaired loans acquired of $1.3 million. Also, income from non-marketable equity securities

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increased $0.7 million from 2005 which was partially offset by a decrease in gains on the sale of fixed assets of $0.4 million from 2005.

Non-Interest Expense

Total non-interest expense of $160.5 million in 2006 increased $5.3 million or 3.4% from 2005. This increase was primarily attributable to operating expenses resulting from the acquisitions in 2006 and 2005. As a result of improvements in its customer service model, the Corporation recorded an expense of $1.5 million for severance costs related to staff reductions implemented in 2005. This amount also included early retirement and supplemental retirement benefit costs for former employees as well as other miscellaneous items.

Salaries and employee benefits of $83.6 million in 2006 increased $2.6 million or 3.2% from 2005. This increase was the result of additional costs associated with the employees retained from the acquisitions in 2006 and 2005, combined with normal compensation and benefit expense increases partially offset by lower salary and benefit costs due to staff reductions in the fourth quarter of 2005 and lower pension and postretirement plan costs due to the changes in the Corporation s retirement plans. Combined net occupancy and equipment expense of $27.6 million in 2006 increased $2.0 million or 7.8% from the combined 2005 level. The increase was primarily due to additional operating costs associated with the acquisitions in 2006 and 2005 and the opening of new branches and loan production offices. Amortization of intangibles expense of $4.1 million in 2006 increased $0.4 million or 10.8% from 2005. This increase was attributable to the amortization of additional core deposit and other intangibles resulting from the acquisitions in 2006 and 2005. State taxes of $4.7 million in 2006 increased $0.7 million or 18.5% from 2005 primarily due to higher net worth based taxes resulting from the Corporation s acquisitions in 2005 and 2006. Advertising and promotional expense of $2.8 million in 2006 decreased $0.4 million or 11.4% from 2005 resulting from ongoing expense management by concentrating on the most effective delivery methods. The Corporation recorded merger-related expenses of $0.6 million in 2006 related to costs incurred as a result of the acquisition of Legacy and $1.3 million in 2005 relating to the acquisitions of NSD and North East. Other non-interest expenses of $34.5 million in 2006 increased $0.8 million or 2.2% from 2005. This increase was primarily the result of higher expenses due to the acquisitions in 2006 and 2005.

Income Taxes

The Corporation s income tax expense of $29.5 million in 2006 was at an effective tax rate of 30.4% while the 2005 income tax expense of $21.8 million was at an effective tax rate of 28.3%. Both years 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. The 2005 income taxes were also favorably impacted by $1.0 million due to the expiration of an uncertain tax position.

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, investment securities and other assets. The Corporation continues to originate mortgage loans, most of which are sold in the secondary market. Mortgage loan originations totaled $163.5 million and $144.8 million for 2007 and 2006, respectively. Proceeds from the sale of mortgage loans totaled $117.4 million for 2007 compared to $108.1 million for 2006.

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Liquidity sources from liabilities are generated primarily through deposits. As of December 31, 2007 and 2006, deposits comprised 79.3% 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, treasury management accounts and public funds. In addition, the Corporation has the ability to borrow funds from the Federal Home Loan Bank (FHLB), Federal Reserve Bank and the capital markets. FHLB advances are a competitively priced and reliable source of funds. As of December 31, 2007, outstanding FHLB advances declined $42.0 million to $427.1 million, or 7.0% of total assets, while the total availability from these sources was $1.9 billion, or 30.4% of total assets. At 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 the parent company s cash flow is dividends from its subsidiaries. These dividends may be impacted by the parent s or the subsidiaries capital needs, statutory laws and regulations, corporate policies, contractual restrictions and other factors. The parent also may draw on approved lines of credit of $90.0 million with several major domestic banks, which were unused as of December 31, 2007. In addition, the Corporation also issues subordinated notes on a regular basis.

The Corporation periodically repurchases shares of its common stock for re-issuance under various employee benefit plans and the Corporation s dividend reinvestment plan. During 2007, the Corporation purchased 535,000 shares of its common stock for a total purchase price of $9.2 million and received $7.5 million upon re-issuance of 549,884 shares. In 2006, the Corporation purchased 572,800 shares of its common stock for a total purchase price of $9.6 million and received $9.0 million upon re-issuance of 610,091 shares. In 2005, the Corporation purchased 576,100 shares of its common stock for a total purchase price of $10.9 million and received $10.3 million upon re-issuance of 639,485 shares.

The ALCO regularly monitors various liquidity ratios and forecasts of cash position. Management believes the Corporation has sufficient liquidity available to meet its normal operating and contingency funding cash needs.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The Corporation is primarily exposed to interest rate risk inherent in its lending and deposit taking activities as a financial intermediary. To succeed in this capacity, the Corporation offers an extensive variety of financial products to meet the diverse needs of its customers. These products sometimes contribute to interest rate risk for the Corporation when product groups do not complement one another. For example, depositors may want short-term deposits while borrowers desire long-term loans.

Changes in market interest rates may result in changes in the fair value of the Corporation s financial instruments, cash flows and net interest income. The ALCO is responsible for market risk management: devising policy guidelines, risk measures and limits, and managing the amount of interest rate risk and its effect on net interest income and capital. The Corporation s Treasury Department manages interest rate risk. The Corporation uses derivative financial instruments for market risk management purposes (principally interest rate risk) and not for trading or speculative purposes.

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

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

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

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

The following table presents the amounts of interest earning assets and interest bearing liabilities as of December 31, 2007 that are subject to repricing within the periods indicated (dollars in thousands):

	Within 1 Month	**2-3 Months**	**4-6 Months**	**7-12 Months**	**Total 1 Year**
Interest Earning Assets (IEA)					
Loans	$ 1,150,448	$ 302,624	$ 343,033	$ 503,468	$ 2,299,573
Investments	44,234	102,232	92,178	141,638	380,282
	1,194,682	404,856	435,211	645,106	2,679,855
Interest Bearing Liabilities (IBL)					
Non-maturity deposits	990,122				990,122
Time deposits	99,464	202,118	256,426	457,961	1,015,969
Borrowings	353,835	167,360	23,636	42,306	587,137
	1,443,421	369,478	280,062	500,267	2,593,228
Period Gap	$ (248,739)	$ 35,378	$ 155,149	$ 144,839	$ 86,627
Cumulative Gap	$ (248,739)	$ (213,361)	$ (58,212)	$ 86,627	
IEA/IBL (Cumulative)	0.83	0.88	0.97	1.03	
Cumulative Gap to IEA	(4.63)%	(3.98)%	(1.08)%	1.61%	

The cumulative twelve-month, IEA to IBL ratio changed to 1.03 for December 31, 2007 from 0.97 for December 31, 2006.

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 changes in interest rates:

December 31	2007	2006	ALCO Guidelines
Net interest income change (12 months):			
+ 200 basis points	(2.0)%	(2.2) %	+/−5.0%
+ 100 basis points	(0.5)%	0.2 %	+/−5.0%
− 100 basis points	(1.7)%	(0.2) %	+/−5.0%
− 200 basis points	(4.7)%	(1.8) %	+/−5.0%
Economic value of equity:			
+ 200 basis points	(4.9)%	(5.7) %	
+ 100 basis points	(1.5)%	(1.8) %	
− 100 basis points	(3.3)%	(0.4) %	
− 200 basis points	(9.7)%	(4.1) %	

The measures were calculated using rate shocks, representing immediate rate changes that move all market rates by the same amount. The variance percentages represent the change between the net interest income or EVE calculated under the particular rate shock versus the net interest income or EVE that was calculated assuming market rates as of December 31, 2007.

The Corporation s overall level of interest rate risk is considered to be relatively low and stable. The Corporation has a slightly liability-sensitive interest rate risk position. In other words, in the short run, more liabilities reprice than assets. This is why net interest income and EVE decrease under higher rate shock scenarios. The Corporation also has various asset categories with call options, which grant option holders the right to prepay when rates decline. The extreme nature of rate shock scenarios triggers a high level of asset prepayments, causing net interest income and EVE to decrease under lower rate shock scenarios.

The Corporation s yield curve shifted lower during 2007. This was primarily the result of the economic weakness caused by the subprime mortgage crisis. Applying the down rate shocks to these lower interest rates as of December 31, 2007 caused higher asset prepayments for the measurement period. The -200 basis point shock lowers long term rates to historically low levels, creating the higher asset prepayments. The ALCO deems this scenario to be improbable and will continue to manage its exposure to asset prepayment risk in a gradual manner. With the increased economic weakness and lower rates, loan customers typically prefer to lock-in long-term, fixed rates with the Corporation, creating pressure for a higher sensitivity to higher rates.

Throughout 2007, the ALCO utilized several strategies to maintain the Corporation s interest rate risk position at an acceptable level. For example, the Corporation successfully promoted longer-term certificates of deposit and utilized long-term FHLB advances. On the lending side, the Corporation regularly sells long-term, fixed-rate residential mortgages to the secondary market and has been focusing on the origination of commercial loans with short-term repricing characteristics. The investment portfolio is used, in part, to supplement the Corporation s interest rate risk position. For 2007, the average life and duration of new investment activity was lower than the existing portfolio, helping to reduce interest rate risk. Finally, the Corporation has made use of interest rate swaps to lessen its interest rate risk position. For additional information regarding the interest rate swaps, see the Interest Rate Swaps footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

The Corporation recognizes that asset/liability models such as those used by the Corporation to measure its interest rate risk are based on methodologies that may have inherent shortcomings. Furthermore, asset/liability models require certain assumptions be made, such as prepayment rates on interest earning assets and pricing impact on non-maturity deposits, which may differ from actual experience. These business assumptions are based upon the Corporation s experience, business plans and published industry experience. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will be achieved.

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Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

The following table sets forth contractual obligations of principal that represent required and potential cash outflows as of December 31, 2007 (in thousands):

	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Deposits without a stated maturity	$ 2,663,301	$	$	$	$ 2,663,301
Certificates and other time deposits	1,012,069	475,372	230,822	16,120	1,734,383
Operating leases	4,118	5,695	3,691	15,293	28,797
Long-term debt	101,279	295,041	83,597	1,449	481,366
	$ 3,780,767	$ 776,108	$ 318,110	$ 32,862	$ 4,907,847

The following table sets forth the amounts and expected maturities of commitments to extend credit and standby letters of credit as of December 31, 2007 (in thousands):

	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Commitments to extend credit	$ 783,459	$ 42,152	$ 42,082	$ 75,584	$ 943,277
Standby letters of credit	38,873	26,318	11,111	406	76,708
	$ 822,332	$ 68,470	$ 53,193	$ 75,990	$ 1,019,985

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements because while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. For additional information relating to commitments to extend credit and standby letters of credit, see the Commitments, Credit Risk and Contingencies footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Lending Activity

The loan portfolio consists principally of loans to individuals and small- and medium-sized businesses within the Corporation s primary market area of Pennsylvania and northeastern Ohio. The Corporation, through its banking affiliate, also operates commercial loan production offices in Pennsylvania and Florida, as well as a mortgage loan production office in Tennessee. The Corporation had commercial loans in Florida totaling $264.3 million or 6.1% of total loans as of December 31, 2007. In addition, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio and Tennessee, which totaled $150.3 million or 3.5% of total loans as of December 31, 2007.

Following is a summary of loans (in thousands):

December 31	2007	2006	2005	2004	2003

Commercial	$ 2,232,860	$ 2,111,752	$ 1,613,960	$ 1,440,674	$ 1,297,559
Direct installment	941,249	926,766	890,288	820,886	776,716
Consumer lines of credit	251,100	254,054	262,969	251,037	229,005
Residential mortgages	465,881	490,215	485,542	479,769	468,173
Indirect installment	427,663	461,214	493,740	389,754	452,170
Other	25,482	9,143	2,548	7,341	35,574
	$ 4,344,235	$ 4,253,144	$ 3,749,047	$ 3,389,461	$ 3,259,197

Total loans at December 31, 2007 increased by $91.1 million or 2.1% to $4.3 billion as compared to December 31, 2006. The commercial loan segment grew by $121.1 million due to the Corporation s focus on growth in the Florida market as well as the Pittsburgh and Harrisburg, Pennsylvania markets.

Total loans at December 31, 2006 increased by $504.1 million or 13.4% to $4.3 billion as compared to December 31, 2005. The Corporation focused on the commercial loan segment which grew by $497.8 million as a result of organic growth combined with the acquisition of Legacy.

The majority of the Corporation s loan portfolio consists of commercial real estate loans as well as commercial and industrial loans. As of December 31, 2007 and 2006, commercial real estate loans were $1.4 billion and $1.3 billion, respectively, or 32.1% and 29.9% of total loans. As of December 31, 2007 and 2006, there were no concentrations of loans relating to any industry in excess of 10% of total loans.

Following is a summary of the maturity distribution of certain loan categories based on remaining scheduled repayments of principal as of December 31, 2007 (in thousands):

	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial	$ 293,637	$ 623,832	$ 1,315,391	$ 2,232,860
Residential mortgages	1,156	20,612	444,113	465,881
	$ 294,793	$ 644,444	$ 1,759,504	$ 2,698,741

The total amount of loans due after one year includes $1.7 billion with floating or adjustable rates of interest and $724.8 million with fixed rates of interest.

For additional information relating to lending activity, see the Loans footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Non-Performing Loans

Non-performing loans include non-accrual loans and restructured loans. Non-accrual loans represent loans on 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, unless the loan is both well secured and in the process of collection. When a loan is placed on non-accrual status, all unpaid interest is reversed. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid.

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 loans (dollars in thousands):

December 31	2007	2006	2005	2004	2003
Non-accrual loans	$ 29,211	$ 24,636	$ 28,100	$ 27,029	$ 22,449

Restructured loans	3,468	3,492	5,032	4,993	5,719
	$ 32,679	$ 28,128	$ 33,132	$ 32,022	$ 28,168
Non-performing loans as a percentage of total loans	0.75%	0.66%	0.88%	0.94%	0.86%

Following is a table showing the amounts of contractual interest income and actual interest income related to non-accrual and restructured loans (in thousands):

December 31	**2007**	**2006**	**2005**	**2004**	**2003**
Gross interest income:					
Per contractual terms	$ 2,378	$ 2,046	$ 3,179	$ 2,076	$ 2,227
Recorded during the year	362	458	528	727	923

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

December 31	**2007**	**2006**	**2005**	**2004**	**2003**
Loans 90 days or more past due	$ 7,540	$ 5,528	$ 5,755	$ 5,113	$ 5,100
As a percentage of total loans	0.17%	0.13%	0.15%	0.15%	0.16%

Allowance and Provision for Loan Losses

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

The components of the allowance for loan losses represent estimates based upon Financial Accounting Standards Board Statement (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, residential mortgages and consumer lines of credit, as well as commercial loans that are not individually evaluated for impairment under FAS 114. FAS 114 is applied to commercial loans that are considered impaired.

Under FAS 114, a loan is impaired when, based upon current information and events, it is probable that the loan will not be repaid according to its contractual terms, including both principal and interest. Management performs individual assessments of impaired loans to determine the existence of loss exposure and, where applicable, the extent of loss exposure based upon the present value of expected future cash flows available to pay the loan, or based upon the estimated realizable collateral where a loan is collateral dependent. Commercial loans less than $250,000 are excluded from FAS 114 individual impairment analysis and 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.

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

Year Ended December 31	2007	2006	2005	2004	2003
Balance at beginning of period	$ 52,575	$ 50,707	$ 50,467	$ 46,139	$ 46,984
Additions due to acquisitions	21	3,035	4,996	4,354	
Reductions due to branch sales			(59)	(54)	
Charge-offs:					
Commercial	(3,034)	(2,642)	(3,422)	(2,333)	(2,447)
Installment	(9,413)	(9,811)	(14,847)	(14,736)	(15,769)
Residential mortgage	(2,766)	(2,215)	(966)	(639)	(571)
Other		(12)	(472)	(1,088)	(1,457)
Total charge-offs	(15,213)	(14,680)	(19,707)	(18,796)	(20,244)
Recoveries:					
Commercial	430	764	650	667	505
Installment	1,850	1,919	1,891	1,651	1,482
Residential mortgage	400	319	144	94	53
Other	50	99	149	132	204
Total recoveries	2,730	3,101	2,834	2,544	2,244
Net charge-offs	(12,483)	(11,579)	(16,873)	(16,252)	(18,000)
Provision for loan losses	12,693	10,412	12,176	16,280	17,155
Balance at end of period	$ 52,806	$ 52,575	$ 50,707	$ 50,467	$ 46,139
Net charge-offs as a percent of average loans, net of unearned income	0.29%	0.29%	0.46%	0.50%	0.56%
Allowance for loan losses as a percent of total loans, net of unearned income	1.22%	1.24%	1.35%	1.49%	1.42%
Allowance for loan losses as a percent of non-performing loans	161.59%	186.91%	153.05%	157.60%	163.80%

The installment category in the above table includes direct installment, consumer lines of credit and indirect installment loans. The other category in the above table includes lease financing.

The allowance for loan losses increased $0.2 million during 2007 representing a 0.4% increase in reserves for loan losses between December 31, 2006 and December 31, 2007. Net charge-offs increased $0.9 million or 7.8% reflecting higher commercial loan charge-offs, including $0.9 million relating to a Florida loan, and higher residential mortgage loan charge-offs, partially offset by lower installment loan charge-offs. These actions included the charge-off of $0.9 million relating to one project and the recording of another specific reserve of $2.0 million relating to a second project.

The allowance for loan losses increased $1.9 million during 2006 representing a 3.7% increase in reserves for loan losses between December 31, 2005 and December 31, 2006. The Legacy acquisition brought with it $297.0 million in loans and an associated allowance for loan losses of $3.0 million, which represented 1.0% of Legacy s loans. Offsetting the acquired reserves were net charge-offs of $11.6 million and a provision for loan losses of $10.4 million. This decrease in net charge-offs and the provision for loan losses is a result of the Corporation s continued improvement in asset quality.

Management considers numerous factors when estimating reserves for loan losses, including historical charge-off rates and subsequent recoveries. Consideration is given to the impact of changes in qualitative factors that influence the Corporation s credit quality, such as the local and regional economies that the Corporation serves. Assessment of relevant economic factors indicates that the Corporation s primary markets historically tend to lag the national economy, with local economies in the Corporation s primary 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

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higher loan payments. Higher interest rates and energy costs also affect consumer loan customers who carry historically high debt levels. Consumer credit risk and loss exposures are evaluated using a combination of historical loss experience and an analysis of the rate at which delinquent loans ultimately result in charge-offs to estimate credit quality migration and expected losses within the homogeneous loan pools.

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

	Dec 31, 2007	% of Loans in each Category to Total Loans	Dec 31, 2006	% of Loans in each Category to Total Loans	Dec. 31, 2005	% of Loans in each Category to Total Loans	Dec. 31, 2004	% of Loans in each Category to Total Loans	Dec. 31, 2003	% of Loans in each Categor to Total Loans
ommercial	$ 32,607	51%	$ 30,813	50%	$ 27,112	43%	$ 28,271	43%	$ 23,332	40%
irect installment	11,387	21	11,445	22	11,631	24	10,947	24	9,429	24
onsumer lines of redit	2,310	6	2,343	6	2,486	7	1,280	7	1,282	7
esidential mortgages	2,621	11	3,068	11	2,958	13	632	14	579	14
direct installment	3,766	10	4,649	11	6,324	13	9,072	12	8,432	14
her	115	1	257		196		265		939	1
nallocated portion									2,146	
	$ 52,806	100%	$ 52,575	100%	$ 50,707	100%	$ 50,467	100%	$ 46,139	100%

The amount allocated to commercial loans increased in 2007 due to a combination of the increased loan balance and the additional $2.0 million in specific reserves recorded in relation to the previously mentioned developer relationship in the Florida market.

The amount allocated to commercial loans increased in 2006 due to the increased loan balance while the amount allocated to indirect installment loans decreased due to an improvement in credit quality as a result of improved underwriting guidelines and a planned run-off in loan balances.

The amount allocated to commercial loans decreased in 2005 due to the charge-off of a $1.5 million loan that was previously fully reserved while the amount allocated to indirect installment loans decreased due to an improvement in credit quality as a result of improved underwriting guidelines. The amounts allocated to consumer lines of credit and residential mortgages increased in 2005 primarily as a result of the increased loan balances associated with the NSD acquisition.

Investment Activity

Investment activities serve to enhance the overall yield on interest earning assets while supporting interest rate sensitivity and liquidity positions. Securities purchased with the intent and ability to retain until maturity are categorized as securities held to maturity and carried at amortized cost. All other securities are categorized as securities available for sale and are recorded at fair value. Securities, like loans, are subject to similar interest rate and credit risk. In addition, by their nature, securities classified as available for sale are also subject to market value risks that could negatively affect the level of liquidity available to the Corporation, as well as stockholders equity. A change in the value of securities held to maturity could also negatively affect the level of stockholders equity if there was a decline in the underlying creditworthiness of the issuers and an other-than-temporary impairment is deemed or a change in the Corporation s intent and ability to hold the securities to maturity.

As of December 31, 2007, securities totaling $358.4 million and $667.6 million were classified as available for sale and held to maturity, respectively. During 2007, securities available for sale increased by $100.1 million and securities held to maturity decreased by $108.5 million from December 31, 2006. The decrease in securities held to maturity resulted from maturities and repayments.

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The following table indicates the respective maturities and weighted-average yields of securities as of December 31, 2007 (dollars in thousands):

	Amount	Weighted Average Yield
Obligations of U.S. Treasury and other U.S. Government agencies:		
Maturing within one year	$ 10,496	4.69%
Maturing after one year but within five years	162,840	5.15
Maturing after ten years	507	5.61
States of the U.S. and political subdivisions:		
Maturing within one year	3,823	5.54
Maturing after one year but within five years	43,660	4.91
Maturing after five years but within ten years	56,841	5.29
Maturing after ten years	69,345	5.95
Corporate and other debt securities:		
Maturing within one year	1,264	5.74
Maturing after one year but within five years	526	6.89
Maturing after ten years	51,741	6.47
Mortgage-backed securities	619,313	5.04
Equity securities	5,618	4.97
	$ 1,025,974	5.20

The weighted average yields for tax-exempt securities are computed on a tax equivalent basis using the federal statutory tax rate of 35.0%. The weighted average yields for securities available for sale are based on amortized cost.

For additional information relating to investment activity, see the Securities footnote in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Deposits and Short-Term Borrowings

As a bank holding company, the Corporation s primary source of funds is deposits. Those deposits are provided by businesses, municipalities and individuals located within the markets served by the Corporation s subsidiaries.

Total deposits increased $24.8 million to $4.4 billion at December 31, 2007, compared to December 31, 2006, as a result of organic growth resulting from an expanded suite of deposit products that has attracted additional customers. The Corporation also experienced a shift in its deposit mix during 2007, as non-interest bearing demand and certificates of deposit decreased $28.5 million or 4.4% and $39.1 or 2.2%, respectively, while savings and NOW increased $92.5 million or 4.8%, compared to 2006.

Short-term borrowings, made up of treasury management accounts, federal funds purchased, subordinated notes and other short-term borrowings, increased by $85.9 million to $449.8 million at December 31, 2007 compared to

December 31, 2006. This increase is the result of increases of $60.0 million, $24.5 million and $4.7 million in federal funds purchased, treasury management accounts and subordinated notes, respectively. At December 31, 2006, the Corporation did not have any federal funds purchased. The increase in treasury management accounts is the result of the Corporation s strategic initiative to increase and expand its commercial lending relationships.

Treasury management accounts and subordinated notes are the largest components of short-term borrowings. At December 31, 2007, treasury management accounts and subordinated notes represented 61.5% and 25.1%, respectively, of total short-term borrowings.

Following is a summary of selected information relating to treasury management accounts (dollars in thousands):

	2007	2006	2005
Balance at year-end	$ 276,552	$ 252,064	$ 182,517
Maximum month-end balance	291,200	252,064	196,470
Average balance during year	266,726	213,045	182,779
Weighted average interest rates:			
At end of year	3.71%	4.64%	3.49%
During the year	4.56	4.27	2.57

The treasury management accounts have next day maturities.

For additional information relating to deposits and short-term borrowings, see the Deposits and Short-Term Borrowings footnotes in the Notes to Consolidated Financial Statements, which is included in Item 8 of this Report.

Capital Resources

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

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

The Corporation has an effective shelf registration statement filed with the SEC. Pursuant to this registration statement, the Corporation may, from time to time, issue and sell in one or more offerings any combination of common stock, preferred stock, debt securities or trust preferred securities having a total dollar value up to $200.0 million. As of December 31, 2007, the Corporation has not issued any such stock or securities.

Capital management is a continuous process. Both the Corporation and FNBPA are subject to various regulatory capital requirements administered by federal banking agencies. For additional information, see the Regulatory Matters footnote in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report. Book value per share was $8.99 at December 31, 2007, compared to $8.90 at December 31, 2006. From time to time, the Corporation issues shares, that were initially acquired by the Corporation as treasury stock, in connection with its various benefit plans.

In late 2005, the four federal banking agencies, the OCC, FRB, the FDIC and the Office of Thrift Supervision, published an interagency advance notice of proposed rulemaking regarding potential revisions to the existing risk-based capital framework. These changes would apply to banks, bank holding companies and savings associations. The Corporation will continue to monitor these potential changes to the risk-based capital standards and will make the necessary changes to ensure that it remains well-capitalized.

The Corporation may continue to grow through acquisitions, which can potentially impact its capital position. The Corporation may issue additional common stock in order maintain its well-capitalized status.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided in the Market Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Report.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Report on Internal Control Over Financial Reporting

F.N.B. Corporation (the Corporation) is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this Annual Report. The consolidated financial statements and notes included in this Annual Report have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP).

We, as management of the Corporation, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with U.S. GAAP. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Corporation s system of internal control over financial reporting as of December 31, 2007 in relation to criteria set forth for effective internal control over financial reporting as described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that as of December 31, 2007, the Corporation s internal control over financial reporting is effective and meets the criteria of the Internal Control Integrated Framework. Ernst & Young LLP, independent registered public accounting firm, has issued an audit report on the Corporation s internal control over financial reporting.

/s/Stephen J. Gurgovits	/s/Brian F. Lilly
Stephen J. Gurgovits Chief Executive Officer	Brian F. Lilly Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F.N.B. Corporation

We have audited the accompanying consolidated balance sheets of F.N.B. Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of F.N.B. Corporation and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in footnote 2 to the consolidated financial statements, F.N.B. Corporation changed its method of accounting for defined benefit pension and other postretirement plans as of December 31, 2006, in accordance with Financial Accounting Standards Board Statement No, 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* and adopted the provisions of Staff Accounting Bulletin No, 108. *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* in 2006, and changed its method of accounting for uncertain tax positions on January 1, 2007, in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), F.N.B. Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2008, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Pittsburgh, Pennsylvania
February 26, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F.N.B. Corporation

We have audited F.N.B. Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). F.N.B. Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because management s assessment and our audit were conducted to also meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management s assessment and our audit of F.N.B. Corporation s internal control over financial reporting included controls over the preparation of financial statements in accordance with the instructions for the preparation of Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, F.N.B Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of F.N.B. Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007, and our report dated February 26, 2008 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Pittsburgh, Pennsylvania
February 26, 2008

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F.N.B. Corporation and Subsidiaries
Consolidated Balance Sheets
Dollars in thousands, except par values

	December 31 2007	December 31 2006
Assets		
Cash and due from banks	$ 130,235	$ 122,362
Interest bearing deposits with banks	482	1,472
Securities available for sale	358,421	258,279
Securities held to maturity (fair value of $665,914 and $766,295)	667,553	776,079
Mortgage loans held for sale	5,637	3,955
Loans, net of unearned income of $25,747 and $26,704	4,344,235	4,253,144
Allowance for loan losses	(52,806)	(52,575)
Net Loans	4,291,429	4,200,569
Premises and equipment, net	80,472	86,532
Goodwill	242,120	242,479
Core deposit and other intangible assets, net	19,439	23,859
Bank owned life insurance	133,885	131,391
Other assets	158,348	160,615
Total Assets	$ 6,088,021	$ 6,007,592
Liabilities		
Deposits:		
Non-interest bearing demand	$ 626,141	$ 654,617
Savings and NOW	2,037,160	1,944,707
Certificates and other time deposits	1,734,383	1,773,518
Total Deposits	4,397,684	4,372,842
Other liabilities	63,760	62,547
Short-term borrowings	449,823	363,910
Long-term debt	481,366	519,890
Junior subordinated debt owed to unconsolidated subsidiary trusts	151,031	151,031
Total Liabilities	5,543,664	5,470,220
Stockholders Equity		
Common stock $0.01 par value		
Authorized 500,000,000 shares		
Issued 60,602,218 and 60,451,533	602	601
Additional paid-in capital	508,891	506,024
Retained earnings	42,426	33,321
Accumulated other comprehensive loss	(6,738)	(1,546)
Treasury stock 47,970 and 57,254 shares at cost	(824)	(1,028)

Total Stockholders Equity		544,357		537,372
Total Liabilities and Stockholders Equity	$	6,088,021	$	6,007,592

See accompanying Notes to Consolidated Financial Statements

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F.N.B. Corporation and Subsidiaries
Consolidated Statements of Income
Dollars in thousands, except per share data

	Year Ended December 31		
	2007	**2006**	**2005**
Interest Income			
Loans, including fees	$ 318,015	$ 288,553	$ 240,966
Securities:			
Taxable	44,128	47,319	49,275
Nontaxable	5,828	4,757	4,138
Dividends	294	533	694
Other	625	1,260	407
Total Interest Income	368,890	342,422	295,480
Interest Expense			
Deposits	124,276	106,679	66,112
Short-term borrowings	19,435	15,785	14,501
Long-term debt	19,360	20,752	19,872
Junior subordinated debt owed to unconsolidated subsidiary trusts	10,982	10,369	8,295
Total Interest Expense	174,053	153,585	108,780
Net Interest Income	194,837	188,837	186,700
Provision for loan losses	12,693	10,412	12,176
Net Interest Income After Provision for Loan Losses	182,144	178,425	174,524
Non-Interest Income			
Service charges	40,827	40,053	38,121
Insurance commissions and fees	13,994	13,988	12,794
Securities commissions and fees	6,326	4,871	4,490
Trust	8,577	7,780	7,125
Bank owned life insurance	4,117	3,368	3,301
Gain on sale of mortgage loans	1,715	1,607	1,393
Gain (loss) on sale of securities	1,155	1,802	(11,703)
Impairment loss on equity securities	(118)		(1,953)
Other	5,016	5,806	4,239
Total Non-Interest Income	81,609	79,275	57,807
Non-Interest Expense			
Salaries and employee benefits	87,219	83,649	81,035
Net occupancy	14,676	13,963	12,666
Equipment	13,061	13,600	12,911
Amortization of intangibles	4,406	4,148	3,743
State taxes	5,451	4,682	3,951
Advertising and promotional	2,914	2,845	3,210
Insurance claims paid	2,309	2,558	2,654

Merger related	210	564	1,303
Other	35,368	34,505	33,753
Total Non-Interest Expense	165,614	160,514	155,226
Income Before Income Taxes	98,139	97,186	77,105
Income taxes	28,461	29,537	21,847
Net Income	$ 69,678	$ 67,649	$ 55,258
Net Income per Common Share			
Basic	$ 1.16	$ 1.15	$ 0.99
Diluted	$ 1.15	$ 1.14	$ 0.98
Cash Dividends Paid per Common Share	$ 0.95	$ 0.94	$ 0.925

See accompanying Notes to Consolidated Financial Statements

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F.N.B. Corporation and Subsidiaries
Consolidated Statements of Stockholders Equity
Dollars in thousands

	Compre-hensive Income	Com-mon Stock	Addi-tional Paid-In Capital	Retained Earnings	Accumu-lated Other Compre-hensive Income	Deferred Stock Compen-sation	Treasury Stock	Total
Balance at January 1, 2005		$ 502	$ 300,555	$ 22,847	$ 4,965	$ (1,428)	$ (3,339)	$ 324,102
Net income	$ 55,258			55,258				55,258
Change in other comprehensive income (loss)	(1,368)				(1,368)			(1,368)
Comprehensive income	$ 53,890							
Common dividends declared: $0.925/share				(52,336)				(52,336)
Purchase of common stock							(10,926)	(10,926)
Issuance of common stock		73	152,210	(1,393)			12,527	163,417
Tax benefit of stock-based compensation			1,781					1,781
Change in deferred stock compensation						(2,726)		(2,726)
Balance at December 31, 2005		575	454,546	24,376	3,597	(4,154)	(1,738)	477,202
Net income	$ 67,649			67,649				67,649
Change in other comprehensive income (loss)	(438)				(438)			(438)
Comprehensive income	$ 67,211							
Cumulative effect of change in accounting for pension and postretirement obligations					(4,705)			(4,705)
Cumulative effect of change in accounting				(1,599)				(1,599)

from adoption of SAB 108								
Common dividends declared: $0.94/share				(55,362)				(55,362)
Purchase of common stock							(9,649)	(9,649)
Issuance of common stock		29	53,803	(1,743)			10,359	62,448
Restricted stock compensation			1,203					1,203
Tax benefit of stock-based compensation			623					623
Reclassification arising from adoption of FAS 123R		(3)	(4,151)			4,154		
Balance at December 31, 2006		601	506,024	33,321	(1,546)		(1,028)	537,372
Net income	$ 69,678			69,678				69,678
Change in other comprehensive income (loss)	(5,192)				(5,192)			(5,192)
Comprehensive income	$ 64,486							
Common dividends declared: $0.95/share				(57,450)				(57,450)
Purchase of common stock							(9,175)	(9,175)
Issuance of common stock		1	1	(1,949)			9,379	7,432
Restricted stock compensation			2,231					2,231
Tax benefit of stock-based compensation			635					635
Adjustment to initially apply FIN 48, net of tax				(1,174)				(1,174)
Balance at December 31, 2007		$ 602	$ 508,891	$ 42,426	$ (6,738)	$ 0	$ (824)	$ 544,357

See accompanying Notes to Consolidated Financial Statements

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F.N.B. Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Dollars in thousands

	Year Ended December 31		
	2007	2006	2005
Operating Activities			
Net income	$ 69,678	$ 67,649	$ 55,258
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation, amortization and accretion	13,433	14,467	15,315
Provision for loan losses	12,693	10,412	12,176
Deferred income taxes	3,080	955	5,881
(Gain) loss on sale of securities	(1,155)	(1,802)	11,703
Tax benefit of stock-based compensation	(635)	(623)	1,781
Net change in:			
Interest receivable	117	(2,952)	916
Interest payable	(3,095)	1,698	(8,677)
Mortgage loans held for sale	(1,682)	784	1,079
Bank owned life insurance	(2,494)	(756)	(1,482)
Other, net	9,885	27,164	(23,919)
Net cash flows provided by operating activities	99,825	116,996	70,031
Investing Activities			
Net change in:			
Interest bearing deposits with banks	990	(846)	2,295
Loans	(108,119)	(224,556)	(20,692)
Securities available for sale:			
Purchases	(265,278)	(42,918)	(398,976)
Sales	3,162	27,081	649,144
Maturities	158,805	75,181	101,260
Securities held to maturity:			
Purchases	(87,600)	(26,761)	(356,655)
Maturities	195,454	130,532	118,945
Increase in premises and equipment	(2,761)	(4,222)	(5,677)
Net cash (paid) received for mergers and acquisitions		(17,123)	12,571
Net cash flows (used in) provided by investing activities	(105,347)	(83,632)	102,215
Financing Activities			
Net change in:			
Non-interest bearing deposits, savings, and NOW accounts	63,977	120,491	(98,945)
Time deposits	(39,135)	(3,251)	73,148
Short-term borrowings	85,913	(67,417)	(31,073)
Proceeds from the issuance of junior subordinated debt owed to unconsolidated subsidiary trusts		22,165	

Increase in long-term debt	230,428	29,749	64,031
Decrease in long-term debt	(268,952)	(81,484)	(103,788)
Purchase of common stock	(9,175)	(9,649)	(10,926)
Issuance of common stock	7,154	1,529	18,408
Tax benefit of stock-based compensation	635	623	
Cash dividends paid	(57,450)	(55,362)	(52,336)
Net cash flows provided by (used in) financing activities	13,395	(42,606)	(141,481)
Net Increase (Decrease) in Cash and Due from Banks	7,873	(9,242)	30,765
Cash and due from banks at beginning of year	122,362	131,604	100,839
Cash and Due from Banks at End of Year	$ 130,235	$ 122,362	$ 131,604

See accompanying Notes to Consolidated Financial Statements

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F.N.B. Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Nature of Operations

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 retail and commercial banking business through a full service branch network in Pennsylvania and Ohio and loan production offices in Pennsylvania, Florida and Tennessee, and conducts selected consumer finance business in Pennsylvania, Ohio and Tennessee.