Parkvale
FINANCIAL CORPORATION

4220 WILLIAM PENN HIGHWAY, MONROEVILLE, PA 15146-2774 (412) 373-7200

March 4, 2009

Mr. Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue NW, Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

In response to your letter of February 6, 2009 (Exhibit 2), Parkvale Financial Corporation (PFC) did become a participant in the United States Department of the Treasury's Troubled Asset Relief Program Capital Purchase Program ("CPP") on December 23, 2008, with the issuance of 31,762 shares of "Series A Fixed Rate Cumulative Perpetual Stock". As of this date, PFC has complied with its obligations under the "Letter Agreement", which incorporates the Security Purchase Agreement and includes but is not limited to changes as necessary to its compensation, bonus, incentive and other benefit plans, arrangements and agreements with respect to Senior Executive Officers during the period that the Treasury holds equity or a debt position in the Company acquired pursuant to the Letter Agreement.

Upon receipt of the $31,762,000 from the United States Treasury on December 23, 2008, PFC downstreamed $30,000,000 of the proceeds to its sole banking subsidiary, Parkvale Bank ("the Bank"), and retained $1,762,000 or 5.5% of the gross proceeds at the holding company for general corporate purposes. The $30,000,000 downstreamed to the Bank qualifies as Tier I capital.

We will respond to your inquiries in the order they appear in your letter.

(1) (a) The Bank intends to use the proceeds from the CPP as it was designed—to continue to meet the credit needs of the communities served by the Bank in a prudent manner.

(1) (b) (4) [redacted] segregating the CPP money and accounting for it from dollar 1 is not practicable at the Bank level. The $1.8 million of proceeds retained by PFC have been segregated from other available funds.

(1) (c) Exhibit 3 attached shows that the Bank's applications for mortgage, consumer and commercial loans received during January 2009 are up $7.1 million or 21% from January 2008. We were able to do this in spite of new home sales and existing home sales being down 10.2 and 5.3 percent respectively in January 2009 from a year ago (Exhibits 4, 5). Applications received nationally during January 2009 are down 16% from January 2008. This $7.1 million increase in loan applications during the first full month of our participation in the CPP represents 23.7% of the total CPP proceeds received by the Bank.

(1) (d) The Bank expects to use the unspent CPP funds as it was originally designed – i.e., to allow the Bank to continue to meet the credit needs of the communities served by it in a prudent manner. The $1.8 million of CPP funds retained by PFC will be used as a source of strength or additional capital for the Bank and will also be used to make dividend payments on the preferred stock issued to the Treasury.

The Bank has initiated a "What can we do to keep you in your home" program, designed after the FDIC's Loan Modification Program, that has allowed us to modify approximately 41 loans since November 1, 2008, that we might not have been able to do if it were not for our participation in the CPP program. An excerpt from the newspaper article that appeared in the Pittsburgh Post Gazette dated February 18, 2009 (Exhibit 6) quoted our Chief Lending Officer describing the objectives of our program:

> "The bank has stepped up efforts to keep customers in their homes through a variety of options, including temporary reductions in interest rates, extending loan maturities, offering interest-only payments and suspending payments until home owners get back on their feet or sell their homes, chief lending officer Robert Stephens said. The important thing is customers have to communicate with their bank," Mr. Stephens said. "We will try to work with people as best we can."

(2) A meeting of the Compensation Committee of PFC and the Bank was held on February 19, 2009. At that meeting, the attached resolutions and certifications were approved as Exhibits 7, 8, and 9:

- Resolutions of the Compensation Committee of PFC
- Compensation Committee Certification of Review under Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA")
- Certification of Chief Executive Officer and Chief Financial Officer

It should be noted that the Company and the Bank's bonus program is not based on specific incentives but is a discretionary program with all amounts being subject to the approval of the Board of Directors. The bonuses that were paid in January 2009 to our senior executive officers for calendar 2008 services represent a substantial decline from the bonuses paid for the prior year.

If you have any question(s) regarding this letter and/or the information contained herein, please call the undersigned at [redacted] the Bank's Chief Financial Officer, Timothy G. Rubritz, at [redacted] or the Bank's Chief Lending Officer, Robert A. Stephens, at [redacted]

To the best of my knowledge and belief, the information and exhibits enclosed in this letter and exhibits are accurate and represent information derived from the operation of the Company and/or the Bank.

Sincerely,

Robert J. McCarthy, Jr.
President and Chief Executive Officer

RJM[redacted]

Attachments

Exhibit 1

Enclosure Summary

Exhibit 1	Enclosure Summary
Exhibit 2	Letter dated February 6, 2009, from Neil M. Barofsky, Special Inspector General
Exhibit 3	Parkvale Bank New Application Report
Exhibit 4	"New Home Sales Hit Record Low". FDIC Reports Industry Decline on Megabank Losses, February 27, 2009.
Exhibit 5	"Existing Home Sales Down in January". Time Features Story on ICBA Meeting with Treasury Secretary, February 26, 2009.
Exhibit 6	"PNC halts mortgage foreclosures until Obama plan kicks in". Pittsburgh Post-Gazette, February 18, 2009.
Exhibit 7	Certified Resolutions of the Compensation Committee of Parkvale Financial Corporation
Exhibit 8	Certification of Review Under Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA")
Exhibit 9	Certification of Chief Executive Officer and Chief Financial Officer of Parkvale Financial Corporation

Exhibit 2

OFFICE OF THE SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

February 6, 2009

Mr. Robert J. McCarthy, Jr.
Parkvale Financial Corporation
4220 William Penn Highway
Monroeville, PA 15146

Dear Mr. Robert J. McCarthy, Jr.,

The Emergency Economic Stabilization Act of 2008 ("EESA") that established the Troubled Asset Relief Program (TARP) also created the Office of the Special Inspector General for Troubled Asset Relief Program (SIGTARP). SIGTARP is responsible for coordinating and conducting audits and investigations of any program established by the Secretary of the Treasury under the act. As part of an audit into TARP recipients' use of funds and their compliance with EESA's executive compensation requirements,

I am requesting that you provide my office, within 30 days of this request, the following information:

(1) A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.

(2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

In connection with this request:

(1) We anticipate that responses might well be quantitative as well as qualitative in nature regarding the impact of having the funds, and we encourage you to make reference to such sources as statements to the media, shareholders, or others concerning your intended or actual use of TARP funds, as well as any internal email, budgets, or memoranda describing your anticipated use of funds. We ask that you segregate and preserve all documents referencing your use or anticipated use of TARP funds such as any internal email, budgets, or memoranda regarding your anticipated or actual use of TARP funds.

(2) Your response should include copies of pertinent supporting documentation (financial or otherwise) to support your response.

(3) Further, I request that, your response be signed by a duly authorized senior executive officer of your company, including a statement certifying the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

(4) Responses should be provided electronically within 30 days to SIGTARP at SIGTARP.response@do.treas.gov, with an original signed certification and any other supporting documentation mailed to: **Special Inspector General – TARP; 1500 Pennsylvania Avenue, NW; Suite 1064; Washington, D.C. 20220.**

We think this initiative is vital to providing transparency the TARP program and the ability of SIGTARP and others to assess the effectiveness of TARP programs over time. If you have any questions regarding this initiative, please feel free to contact Mr. Barry W. Holman, my Deputy Inspector General for Audit at **(202) 927-9936**.

Very truly yours,

Neil M. Barofsky
Special Inspector General

OMB Control No. 1505-0212
(Expires August 2009)

An agency is not authorized to conduct, and persons are not required to respond to, an information collection request unless it displays a valid control number. Response is mandatory for all selected participants in the TARP program.

Exhibit 3

PARKVALE BANK
NEW APPLICATION REPORT

	January 2009 #	January 2009 $	January 2008 #	January 2008 $	January 2007 #	January 2007 $
Mortgage Loans	77	$14,107,510	29	$4,347,115	54	$7,488,728
Consumer Loans	614	11,671,589	526	7,993,827	638	6,120,063
Commercial Loans	62	15,208,638	60	21,539,147	58	9,096,267
Totals	753	$40,987,737	615	$33,880,089	750	$22,705,058

Footnote:

A. Increase in dollar amount of new applications for January 2009 from January 2008 21%

B. Increase in dollar amount of new applications for January 2008 from January 2007 81%

The sale brings the total amount of assets sold utilizing private-public partnership transactions to approximately $3.2 billion over the past year. The FDIC said it expects to utilize this and similar sales strategies in the future.

Exhibit 4

Obama Unveils 2010 Federal Budget
President Obama introduced his $3.55 trillion budget for fiscal year 2010. Obama forecast a $1.75 trillion deficit for the 2009 fiscal year, which equals the largest proportion of the Gross Domestic Product since 1945. Under the spending plan, further details of which will be released in April, the deficit would dip to $1.17 trillion in 2010.

New Home Sales Hit Record Low
New-home sales plummeted 10.2 percent in January to a record-low seasonally adjusted annual rate of 309,000, according to the Commerce Department. Sales were down 48.2 percent and median sales prices were down 13.5 percent in the past year.

Freddie: Mortgage Rates Edge Up
Freddie Mac said the 30-year fixed-rate mortgage averaged 5.07 percent with an average 0.7 point for the week ending Feb. 26, up from 5.04 percent the previous week. Last year at this time, the 30-year FRM averaged 6.24 percent.

ICBA Makes News

- ICBA Chairman Cynthia Blankenship was quoted in business journals on the difference between community banks and large financial institutions.
- ICBA President and CEO Cam Fine was quoted in a *Time.com* article on his meeting with Treasury Secretary Timothy Geithner.
- ICBA Executive Vice President of Government Relations Karen Thomas was quoted by *American Banker* on the TARP.
- ICBA Vice President and Senior Regulatory Counsel Chris Cole was quoted by Reuters on the FDIC's plans to raise deposit insurance premiums.
- ICBA Director of Payments and Technology Policy Cary Whaley was quoted by several publications on data breaches.
- ICBA's efforts against "cramdown" provisions in H.R. 1106 were cited by BNA's *Daily Report for Executives*.

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1615 L Street NW
Suite 900

Insurance Program through Sept. 30, 2009. It also boosts funding for USDA Rural Development Business and Industry, single-family and multifamily guaranteed loans.

Bernanke Plays Down Bank Nationalization

In his monetary policy update to the House Financial Services Committee, Federal Reserve Chairman Ben Bernanke said that although the federal government may take significant stakes in large financial institutions, it isn't planning "anything like" full-scale bank nationalization.

Bernanke also said policymakers need to figure out how to use mark-to-market accounting standards on assets that aren't traded in liquid markets. He said some large banks won't need new capital injections after regulators complete stress tests under the Capital Assistance Program. The committee meets again today to hear a panel of economists.

Obama Calls for Regulatory Reform

President Obama said an overhaul of the U.S. financial regulatory system is needed to prevent further economic crises. He said 20th century regulations cannot sustain 21st century markets and new rules should protect consumers without hindering hinder financial institutions. His remarks followed a meeting with Treasury Secretary Timothy Geithner and leading members of Congress. Obama has set a goal of preparing a reform proposal before the Group of 20 industrialized and developing nations meets in April.

FinCEN Releases Mortgage Fraud Report

The Financial Crimes Enforcement Network latest mortgage fraud analysis, *Filing Trends in Mortgage Loan Fraud*, shows suspicious activity reports filed on suspected mortgage fraud increased 44 percent in the 12 months ending in June 2008. From July 1, 2007, through June 30, 2008, financial institutions filed 62,084 SARs reporting mortgage loan fraud, up from 43,054 in the previous year and 9 percent of all depository institution SARs filed during the period.

Obama Nominates Commerce Secretary

President Obama nominated former Washington Gov. Gary Locke for Commerce Secretary. New Mexico Gov. Bill Richardson and Sen. Judd Gregg (R-N.H.) previously withdrew.

Existing-Home Sales Down in January

Existing-home sales dropped 5.3 percent to a seasonally adjusted annual rate of 4.49 million in January, according to the National Association of Realtors, the lowest pace in 12 years. Sales are down 8.6 percent in the past year. January new-home sales will be released today by the Commerce Department.

Obama Releases Budget Today

President Obama presents his fiscal year 2010 budget to Congress today. The budget will offer details on the president's plan to

Exhibit 5

Survey:
Participate in ICBA's survey of financial literacy efforts.

Audio Conferences & Webinars

March 10—Call Report

March 11—BSA Professionals

March 26—Robbery

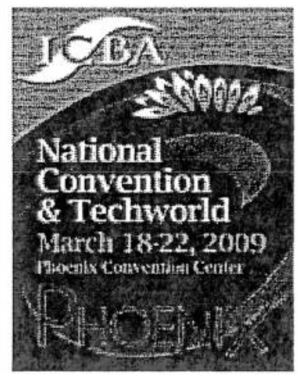

Exhibit 6

PNC halts mortgage foreclosures until Obama plan kicks in

By Patricia Sabatini
Pittsburgh Post-Gazette

PNC Financial Services Group yesterday joined a growing list of big banks temporarily halting home mortgage foreclosures until the Obama administration steps in with its plan to stop an increasing number of distressed borrowers from losing their homes.

Pittsburgh-based PNC, the nation's fifth-largest bank and the biggest in Pennsylvania, said the moratorium on new and pending foreclosures was effective through March 13, or until the U.S. government's mortgage rescue plan kicks in. President Obama was set to announce details of the plan today, which is expected to include at least $50 billion for foreclosure prevention and national guidelines for modifying home loans to lower monthly payments. Unlike previous mortgage aide plans, it was expected that borrowers would not have to be in default to qualify.

JP Morgan Chase, Citigroup, Morgan Stanley and Bank of America were among other major financial institutions agreeing to temporarily suspend foreclosures in recent days after House Financial Services Committee Chairman Barney Frank asked bank executives to do so at a hearing Feb. 11. The government-backed mortgage finance companies Freddie Mac and Fannie Mae took similar action last week.

PNC would not say how many borrowers were affected by the move, which covers mortgages

SEE **PNC,** PAGE A-5

PNC halts foreclosures until Obama plan kicks in

PNC, FROM PAGE A-1

owned and serviced by PNC. The bulk of PNC's mortgage loan portfolio was acquired when it took over ailing Cleveland-based National City Corp. Dec. 31.

In addition to the moratorium, PNC said it was being "very aggressive" in helping customers modify a variety of loans so they were more affordable, including mortgage, credit card, education, automobile and personal loans.

Those actions include reducing rates, extending payback terms, temporarily suspending payments and arranging payment plans. The bank determines which customers are eligible for help on a case-by-case basis, spokesman Pat McMahon said.

Among other area banks, Citizens Financial Group, parent of Citizens Bank of Pennsylvania, said it was suspending foreclosures until March 12. The action covers Citizens-owned mortgages on owner-occupied residences and mortgages serviced by Citizens for which understandings with investors have been reached, the bank said.

Cincinnati-based Fifth Third Bank has not decided whether to join a moratorium, a spokeswoman said. Bank of New York Mellon is not in the residential mortgage business.

Downtown-based Dollar Bank does not plan to halt foreclosures, but encourages customers with payment problems to ask about enrolling in the bank's existing foreclosure prevention program, spokesman Jim Carroll said.

Monroeville-based Parkvale Bank said it was not planning a moratorium, either. But the bank has stepped up efforts to keep customers in their homes through a variety of options, including temporary reductions in interest rates, extending loan maturities, offering interest-only payments and suspending payments until home owners get back on their feet or sell their homes, chief lending officer Robert Stephens said.

"The important thing is customers have to communicate with their bank," Mr. Stephens said. "We will try to work with people as best we can."

Indiana, Pa.-based First Commonwealth Financial has not seen a spike in mortgage delinquencies and would not be suspending foreclosures, spokeswoman Susie Barbour said.

Foreclosures soared 81 percent nationwide last year affecting some 2.3 million home owners. Experts project that number could balloon to 10 million in coming years depending on how wobbly the economy gets. Even though mortgage rates are low, many home owners can not refinance because they owe more than their homes are worth due to plunging home prices.

Locally, home owners bucked the national foreclosure trend. Residential foreclosures in the five-county Pittsburgh region dropped by about 7 percent last year to 3,949, down from 4,229 in 2007, according to RealSTATs, a real estate information company. In Allegheny County, there were 2,358 foreclosures last year, down from 2,669 the previous year.

Patricia Sabatini can be reached at psabatini@post-gazette.com or 412-263-3066. The Associated Press contributed to this story.

Exhibit 7

CERTIFIED RESOLUTIONS OF THE

COMPENSATION COMMITTEE OF

PARKVALE FINANCIAL CORPORATION

WHEREAS, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 ("EESA") for purposes of participation in the Capital Purchase Program ("CPP") of the Troubled Assets Relief Program ("TARP"), the compensation committee of a financial institution, or a committee acting in a similar capacity, must promptly, and in no case more than 90 days, after a purchase by the United States Treasury Department ("Treasury") under the CPP review the financial institution's senior executive officer ("SEO") incentive compensation arrangements with the financial institution's senior risk officers, or other personnel acting in a similar capacity, to ensure that the SEO incentive compensation arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the financial institution;

WHEREAS, at least on a semi-annual basis following the completion of the initial review referenced above, the compensation committee, or a committee acting in a similar capacity, must meet with senior risk officers, or individuals acting in a similar capacity, to discuss and review the relationship between the financial institution's risk management policies and practices and the SEO incentive compensation arrangements;

WHEREAS, the completion of the initial review of the SEO incentive compensation arrangements and each of the annual reviews of such arrangements during the period in which a financial institution is a TARP participant must be certified by the compensation committee, or a committee acting in a similar capacity;

WHEREAS, on December 23, 2008, Parkvale Financial Corporation (the "Company") completed a private placement of 31,762 shares of its preferred stock and a warrant to purchase 376,327 shares of its common stock with the United States Department of the Treasury as part of the CPP; and

WHEREAS, as a CPP participant, the Company is required to undertake the reviews and provide the certifications required pursuant to Section 111(b)(4) of EESA as described above.

NOW, THEREFORE, BE IT RESOLVED, that the Company's compensation committee has reviewed the SEO incentive compensation arrangements with the Company's senior risk officers to ensure compliance with the standards set forth in Section 111(b) of EESA;

BE IT FURTHER RESOLVED, as part of its review of the SEO incentive compensation arrangements, the compensation committee has (a) discussed with the Company's senior risk officers, or other personnel acting in a similar capacity, the risks (including long-term as well as short-term risks) that the Company faces that could threaten the value of the Company, (b) identified the features in the Company's SEO incentive compensation arrangements that could lead SEOs to take such risks, and (c) limited any such features that were identified in order to ensure that the SEOs are not encouraged to take risks that are unnecessary or excessive;

BE IT FURTHER RESOLVED, that because the amount of the bonuses paid to the Company's SEOs is subject to the sole discretion of the Board of Directors, the compensation committee believes that the incentive compensation arrangements do not present unnecessary or excessive risks;

BE IT FURTHER RESOLVED, that the compensation committee believes that the cash bonuses paid in January 2009 for 2008 services were not inconsistent with EESA or the TARP and were not otherwise contrary to the public interest, particularly in light of the substantial reduction in the amount of such bonuses compared to the prior two years and the fact that the amount of the bonuses were substantially below one-third of each SEO's total compensation;

BE IT FURTHER RESOLVED, the compensation committee acknowledges the restrictions in EESA as amended on paying bonuses to the Company's five most highly-compensated employees, and the compensation committee agrees that the Company will comply with such restrictions for as long as required;

BE IT FURTHER RESOLVED, that the compensation committee will review the Company's SEO incentive compensation arrangements on at least a semi-annual basis following its initial review to ensure continued compliance with the standards set forth in Section 111(b) of EESA for so long as the Treasury holds an equity or debt position with the Company acquired under the CPP;

BE IT FURTHER RESOLVED, that following each of its reviews required pursuant to Section 111(b) of EESA, the Company's compensation committee will certify (to the extent required by regulations) to the completion of the review by execution of a certification, a form of which is attached hereto as Exhibit A; and

BE IT FURTHER RESOLVED, that the certification attached as Exhibit A shall be provided in the certifications in the compensation committee report required pursuant to Item 407(e) of Regulation S-K under the federal securities laws.

IN WITNESS WHEREOF, I, Deborah M. Cardillo, certify the actions taken by the compensation committee on this 19th day of February, 2009.

D M Cardillo

Corporate Secretary
Compensation Committee

Exhibit 8

CERTIFICATION OF REVIEW UNDER SECTION 111(b) OF THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008 ("EESA")

We, the undersigned members of the Compensation Committee of Parkvale Financial Corporation (the "Company"), do hereby certify that we have reviewed with the Company's senior risk officers the Company's senior executive officer incentive compensation arrangements pursuant to the standards set forth in Section 111(b) of EESA on February 19, 2009 and have made reasonable efforts to ensure that such arrangements do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company.

Compensation Committee of
Parkvale Financial Corporation

February 19, 2009	Chairman	Attest
February 19, 2009	Member	Attest
February 19, 2009	Member	Attest
February 19, 2009	Member	Attest
February 19, 2009	Member	Attest
February 19, 2009	Member	Attest

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF PARKVALE FINANCIAL CORPORATION

Exhibit 9

Each of Robert J. McCarthy, Jr., the President and Chief Executive Officer of Parkvale Financial Corporation (the "Company"), and Timothy G. Rubritz, the Vice President, Treasurer and Chief Financial Officer of the Company, hereby certify, based on his knowledge, that the compensation committee of the Company reviewed within 90 days of the Department of the Treasury's purchase of Fixed Rate Cumulative Perpetual Preferred Stock, Series A of the Company (the "Preferred Stock") under the Capital Purchase Program the incentive compensation arrangements of the senior executive officers, as defined in Section 111 of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009, and regulations and guidance issued thereunder (the "SEOs"), of the Company with senior risk officers of the Company to ensure that the SEO incentive compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company.

In WITNESS WHEREOF, the undersigned have executed this Certification as of this 19th day of February, 2009.

By: Robert J. McCarthy, Jr.
Robert J. McCarthy, Jr.
President and Chief Executive Officer

By: Timothy G. Rubritz
Timothy G. Rubritz
Vice President, Treasurer and Chief Financial Officer