FNB CORP/FL/
Form 424B3
March 06, 2006

Table of Contents

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Registration No. 333-131490

MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

Our board of directors has approved an agreement to merge with F.N.B. Corporation. If the merger is completed, our shareholders will receive merger consideration of one share of FNB common stock (NYSE:FNB) for each Legacy share, $18.40 in cash for each Legacy share or a combination of FNB common stock and cash, subject to pro ration because the amount of stock consideration is fixed at 2,468,845 shares. One share of FNB common stock had a value of $17.98 on the day before the merger agreement was signed and had a value of $16.78 on February 27, 2006, the latest practicable date before the mailing of this proxy statement/ prospectus. The value of the merger consideration will fluctuate with the value of FNB stock.

We cannot complete the merger unless our shareholders approve the merger agreement. We will hold a special meeting of our shareholders to vote on the merger agreement. Your vote is important, whether or not you plan to attend our shareholders meeting, please take the time to submit your proxy with voting instructions in accordance with the instructions provided in this proxy statement/ prospectus. The place, date and time of our special meeting is as follows:

April 24, 2006
10:00 a.m., local time
C. Ted Lick Wildwood Conference Center
Harrisburg Area Community College
One HACC Drive
Harrisburg, Pennsylvania 17110

The accompanying proxy statement/ prospectus gives you detailed information about our special meeting, the merger agreement, the transactions contemplated thereby and related matters. **We recommend that you read these materials carefully, including the considerations discussed under Risk Factors beginning on page 17 and the appendices hereto, which include the merger agreement.** You can also obtain information about FNB from documents it has filed with the Securities and Exchange Commission and information about Legacy from documents it has filed with the Federal Deposit Insurance Corporation.

Sincerely,

George H. Groves,
Chairman and Chief Executive Officer
Legacy Bank

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the FNB common stock to be issued under this proxy statement/ prospectus or determined if this proxy statement/ prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

Shares of FNB common stock are not savings or deposit accounts or other obligations of any bank or savings association, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental entity.

The date of this proxy statement/ prospectus is March 6, 2006, and it is first being mailed or otherwise delivered to our shareholders on or about March 6, 2006.

Table of Contents

2600 Commerce Drive
Harrisburg, Pennsylvania 17110

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 24, 2006

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of The Legacy Bank will be held at 10:00 a.m., local time, on Monday, April 24, 2006 at the C. Ted Lick Wildwood Conference Center, Harrisburg Area Community College, One HACC Drive, Harrisburg, Pennsylvania 17110, for the following purposes, all of which are more completely set forth in the accompanying proxy statement/ prospectus:

(1) To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of December 21, 2005, among F.N.B. Corporation (FNB), First National Bank of Pennsylvania (FNB Bank) and us pursuant to which we will merge with and into FNB Bank as described in the accompanying proxy statement/ prospectus and you will be entitled to receive cash or shares of FNB common stock or a combination of both;

(2) To consider and vote upon a proposal to grant discretionary authority to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of our special meeting to approve and adopt the merger agreement; and

(3) To transact such other business as may be properly presented for action at our special meeting and any adjournment, postponement or continuation of our special meeting.

Our board of directors has fixed the close of business on February 27, 2006 as the record date for the determination of our shareholders entitled to notice of, and to vote at, our special meeting and any adjournment, postponement or continuation of our special meeting. A list of our shareholders entitled to vote at our special meeting will be available for examination by any shareholder for any purpose related to our special meeting during normal business hours for ten days prior to our special meeting at our offices at 2600 Commerce Drive, Harrisburg, Pennsylvania 17110.

This notice also constitutes notice of your right to dissent from the merger and, upon compliance with the requirements of the National Bank Act to receive the appraised fair value of your shares. A copy of the relevant sections of the Bank Act regarding appraisal rights is included as Appendix C to the accompanying proxy statement/ prospectus.

You are requested to complete, sign and return the enclosed proxy card in the envelope provided, whether or not you expect to attend our special meeting in person. If you attend our special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

George H. Groves,
Chairman and Chief Executive Officer

Harrisburg, Pennsylvania
March 6, 2006

PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE WHETHER OR NOT YOU PLAN TO ATTEND OUR SPECIAL MEETING.

Table of Contents

ADDITIONAL INFORMATION

This proxy statement/ prospectus incorporates important business and financial information about FNB from other documents that are not included in or delivered with this proxy statement/ prospectus. You can obtain documents incorporated by reference in this proxy statement/ prospectus, other than certain exhibits to those documents, by requesting them in writing or by telephone from FNB at the following address:

F.N.B. Corporation
Attn: Corporate Secretary
One F.N.B. Boulevard
Hermitage, Pennsylvania 16148
(724) 981-6000

You will not be charged for any documents you request. Our shareholders requesting documents from FNB should do so by April 10, 2006 in order to receive them before our special meeting.

See Where You Can Find More Information on page 114.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER AND OUR SPECIAL MEETING

Q. What matters will be considered at our special meeting?

A. At our special meeting, our shareholders will be asked to vote for a proposal to approve and adopt the merger agreement whereby we will merge with and into FNB Bank. We sometimes refer to this proposal as the merger proposal in this proxy statement/ prospectus. Our shareholders will also be asked to vote for a proposal to grant discretionary authority to adjourn our special meeting, if necessary, to solicit additional proxies if we have not received sufficient votes to approve the merger at the time of our special meeting. We sometimes refer to this proposal as the adjournment proposal in this proxy statement/ prospectus.

Q. What will I receive upon consummation of the merger?

A. Upon consummation of the merger in exchange for each share of our common stock, you will have the right to elect to receive the following, subject to possible proration:

one share of FNB common stock; or

$18.40 in cash;

You will also have the right to elect to receive cash in exchange for some of your shares of our common stock and shares of FNB common stock in exchange for other shares of our common stock.

Q. What is the recommendation of our board of directors?

A. Our board of directors has unanimously determined that the merger is fair to you and in the best interests of our shareholders and us and unanimously recommends that you vote for the merger proposal and the adjournment proposal.

In making this determination, our board of directors considered the opinion of Griffin Financial Group, LLC, or Griffin, our independent financial advisor, as to the fairness from a financial point of view of the FNB shares and cash you will receive pursuant to the merger agreement. Our board of directors also reviewed and evaluated the terms and conditions of the merger agreement and the merger with the assistance of our independent legal counsel.

Q. What was the opinion of our financial advisor?

A. Griffin presented an opinion to our board of directors to the effect that, as of December 21, 2005 and based upon the assumptions made by Griffin, the matters it considered and the limitations of its review as set forth in its opinion, the merger consideration provided for in the merger agreement is fair to Legacy from a financial point of view.

Q. What do I need to do now?

A. After you carefully read this proxy statement/ prospectus and decide how you want to vote on the merger proposal and the adjournment proposal, you should complete, date and sign your proxy card and mail it in the enclosed return envelope as soon as possible so that your shares may be represented at our special meeting, even if you plan to attend our special meeting and vote in person.

Q. Why is my vote important?

A. Pennsylvania law and our articles of incorporation require the affirmative vote of the holders of not less than two-thirds of our outstanding common stock in order to approve and adopt the merger proposal. Therefore, if you fail to vote or abstain from voting on the merger proposal, it will have the same effect as a vote against the merger proposal.

Q. How do I vote in person?

A. If you are a stockholder of record, attend our special meeting and wish to vote in person, we will give you a ballot when you arrive at our special meeting.

Q. How do I vote my shares if they are held in street name?

A. If you are not a holder of record but you are a beneficial holder, meaning that your shares are registered in a name other than your own, such as a street name, you must either direct the holder of record of your shares as to how you want your shares to be voted or obtain a proxy from the holder of record so that you may vote yourself.

Q. What if I fail to instruct my broker?

A. Brokers may not vote shares of our common stock that they hold for the benefit of another person either for or against the approval of the merger proposal without specific instructions from the person who beneficially owns those shares. Therefore, if your shares are held by a broker and you do not give your broker instructions on how to vote your shares, this will have the same effect as voting against the approval of the merger proposal.

Q. May I vote electronically over the internet or by telephone?

A. If your shares are registered in the name of a bank or broker, you may be eligible to vote your shares electronically over the internet or by telephone. Many banks and brokerage firms participate in the ADP Investor Communications Services online program. This program provides eligible shareholders who receive a paper copy of this proxy statement/ prospectus the opportunity to vote via the internet or by telephone. If your bank or brokerage firm is participating in ADP s program, your proxy card will provide the instructions. If your proxy card does not reference internet or telephone information, please complete and mail the proxy card in the enclosed self-addressed, postage paid envelope.

Q. May I change my vote after I have mailed my signed proxy?

A. Yes. You may revoke your proxy at any time before the vote is taken at our special meeting. If you have not voted through a bank, broker, nominee or other holder of record, you may revoke your proxy by:

- submitting written notice of revocation to our corporate secretary prior to the voting of that proxy at our special meeting;

- submitting a properly executed proxy with a later date; or

- voting in person at our special meeting.

However, simply attending our special meeting without voting will not revoke an earlier proxy.

If your shares are held in the name of a bank, broker, nominee or other holder of record, you should follow the instructions of the bank, broker, nominee or other holder of record regarding the revocation of proxies.

If you voted your shares by telephone or internet, you can revoke your prior telephone or internet vote by recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last telephone or internet vote.

Q. When do you expect to complete the merger?

A. We anticipate that we will obtain all necessary regulatory approvals to consummate the merger in the second quarter of 2006. However, we cannot assure you when or if the merger will occur. We must first obtain the approval of our shareholders at our special meeting and we and FNB must obtain the requisite regulatory approvals.

Q. Should I send my stock certificates now?

A. No. Holders of our common stock should not submit their Legacy stock certificates for exchange until they receive the transmittal instructions and an election form from the exchange agent.

Q. What rights do I have to dissent from the merger?

A. If you do not vote in favor of the merger proposal and you comply precisely with the applicable procedural requirements, the Bank Act entitles you to receive the appraised value of your shares. You must carefully and precisely follow the applicable procedures under the Bank Act in order to exercise your appraisal rights. A complete copy of the relevant section of the Bank Act regarding appraisal rights is included in this proxy statement/ prospectus as Appendix C. The fair value of your shares as determined in an appraisal rights proceeding may be more or less than the merger consideration you are entitled to receive from FNB under the merger agreement. For further information, reference is made to The Merger Agreement Appraisal Rights of Dissenting Shareholders.

Q. Who can help answer my questions?

A. If you have additional questions about the merger or would like additional copies of this proxy statement/ prospectus, please call Melissa Tyrrell at (717) 441-3400, extension 107.

Table of Contents

SUMMARY

This summary highlights selected information from this proxy statement/ prospectus. While this summary describes the material aspects you should consider in your evaluation of the merger agreement and the merger, it does not contain all of the information that is important to you. We encourage you to read carefully this entire proxy statement/ prospectus and its appendices as well as the other documents to which we refer in order to fully understand the merger. See Where You Can Find More Information on page 114. In this summary, we have included page references to direct you to a more detailed description of the matters described in this summary.

Throughout this proxy statement/ prospectus, we, us, our or Legacy refer to The Legacy Bank, Legacy Trust refers to The Legacy Trust Company, FNB refers to F.N.B. Corporation, FNB Bank refers to First National Bank of Pennsylvania, FNB s banking subsidiary, and you refers to the shareholders of Legacy.

The Parties

Legacy (Pages 52-58)

The Legacy Bank is a Pennsylvania state-chartered bank that began operations in September 1999. Legacy serves a niche market of small and middle-market businesses and professionals and uses a business model predicated on convenient delivery of banking products and services (ATM networks, courier service, telephone banking, online banking and banking by appointment) by experienced bankers through our branch system and alternate delivery channels that supplement our branch locations. In addition, through its wholly owned subsidiary, The Legacy Trust Company, Legacy provides asset management services, including personal trust and estate planning, retirement and employee benefit planning and investment management. The vision of management is for Legacy to be recognized for its superior service, innovative products and services, professionalism and integrity. Management believes that Legacy s purpose is not to sell products and services to customers; rather, through comprehensive needs analysis, it is to construct solutions to our customer s needs by offering a wide range of commercial banking and asset management services. Legacy s philosophy is to focus on the needs of the customer and building a relationship with that customer. Legacy has eight offices that are located in Harrisburg, Camp Hill, Hazleton, Shenandoah, Drums, McAdoo, Pottsville and Williamsport. The Legacy Trust Company has two offices that are located in Harrisburg and Pottsville.

The principal executive office of Legacy is located at 2600 Commerce Drive, Harrisburg, Pennsylvania 17110. Legacy s telephone number is (717) 441-3400 and its website address is www.thelegacybankonline2.com.

FNB and FNB Bank (Page 59)

FNB is a $5.6 billion financial services holding company incorporated under Florida law and headquartered in Hermitage, Pennsylvania. FNB provides a broad range of financial services to its customers through FNB Bank and FNB s insurance agency, consumer finance and trust company subsidiaries. FNB Bank has 146 banking offices in Western Pennsylvania and Eastern Ohio and maintains six insurance agency locations. Regency Finance, FNB s consumer finance subsidiary, has 22 offices in Pennsylvania, 15 offices in Ohio and 16 offices in Tennessee. Another FNB subsidiary, First National Trust Company, has approximately $1.2 billion of assets under management.

The principal executive offices of FNB and FNB Bank are located at One F.N.B. Boulevard, Hermitage, Pennsylvania 16148. FNB s telephone number is (724) 981-6000 and its website address is www.fnbcorporation.com.

Table of Contents

Our Special Meeting

Date, Time, Place and Purpose of our Special Meeting (Page 48)

Our special meeting will be held at the C. Ted Lick Wildwood Conference Center, Harrisburg Area Community College, One HACC Drive, Harrisburg, Pennsylvania 17110, at 10:00 a.m., local time, on Monday, April 24, 2006.

At our special meeting you will be asked to:

Consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of December 21, 2005, among FNB, FNB Bank and us, pursuant to which we will merge with and into FNB Bank as described in this proxy statement/ prospectus;

Consider and vote upon a proposal to grant discretionary authority to adjourn our special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of our special meeting to approve and adopt the merger agreement; and

Transact such other business as may be properly presented for action at our special meeting or any adjournment, postponement or continuation of our special meeting.

Record Date; Quorum; Outstanding Common Stock Entitled to Vote (Page 48)

Our board of directors has established the close of business on February 27, 2006 as the record date for determining holders of shares of our common stock entitled to vote at our special meeting. You will not be entitled to vote at our special meeting if you are not a shareholder of record as of the close of business on February 27, 2006.

Each share of our common stock is entitled to one vote. On the record date, 3,551,655 shares of our common stock were entitled to vote at our special meeting.

The presence, in person or by properly executed proxy, of the holders of at least a majority of our common stock issued and outstanding on the record date is necessary to constitute a quorum at our special meeting. Abstentions will be counted for the purpose of determining whether a quorum is present. There must be a quorum in order for the vote on the merger proposal to occur.

Required Vote (Page 49)

Under Pennsylvania law, the Bank Act and our articles of incorporation, the merger proposal must receive the affirmative vote of the holders of not less than two-thirds of the outstanding shares of our common stock. The affirmative vote of the holders of a majority of the outstanding shares of our common stock present in person or by proxy at our special meeting is required to approve the proposal to grant discretionary authority to adjourn our special meeting.

As of the record date, our directors and executive officers and their affiliates beneficially owned 703,792 shares of our common stock, or approximately 18.5% of our shares entitled to vote at our special meeting. In addition, as of the record date, FNB s directors and executive officers and their affiliates owned an aggregate of 88,000 shares of our common stock as of the record date, or approximately 2.5% of our shares entitled to vote at our special meeting. FNB does not own any shares of our common stock.

Our board of directors believes that the merger is in the best interests of our shareholders and us and unanimously recommends that you vote for the merger proposal and for the adjournment proposal.

Solicitation (Page 50)

We will pay for the costs of our special meeting and for the mailing of this proxy statement/ prospectus to our shareholders. We and FNB will share equally the costs of printing this proxy statement/ prospectus and the filing fee paid to the Securities and Exchange Commission, or the SEC .

Table of Contents

In addition to soliciting proxies by mail, our directors, officers and employees may also solicit proxies in person or by telephone or e-mail, but will not be specially compensated for doing so.

We have engaged Regan & Associates, Inc. to assist us in the solicitation of proxies and will pay them a fee of $8,000 for their services.

The Merger

Certain Effects of the Merger (Pages 73-74)

Upon consummation of the merger:

- Each share of our common stock will automatically be converted into the right to receive, at your election, subject to the allocation provisions in the merger agreement:
  - one share of FNB common stock; or
  - $18.40 in cash;
  - You will have the right to elect to receive $18.40 in cash in exchange for some of our shares and the right to receive FNB common stock in exchange for the remainder of any shares of our common stock.
- We will cease to exist as a separate legal entity and all of our operations will be conducted by FNB and FNB Bank; and
- The holders of our common stock will no longer have any interest in us, including in any of our future growth or earnings.

Following consummation of the merger, FNB and its shareholders will be the only beneficiaries of any future growth or earnings, but will also bear all of the future risk of any decrease in the value of our business.

Recommendation of Our Board of Directors (Pages 63-64)

Our board of directors has unanimously determined that the terms of the merger agreement and the merger are fair to and in the best interests of our shareholders and us. Our board of directors unanimously recommends that you vote FOR the merger proposal and FOR the adjournment proposal.

Stock Options, Warrants and Convertible Debentures (Page 86)

The merger agreement provides that, at the effective time of the merger, each outstanding option and warrant to purchase our common stock will cease to represent a right to purchase our common stock and will be converted automatically into a right to purchase that number of shares of FNB common stock equal to the number of shares of our common stock subject to the option or warrant at a price equal to the pre-merger exercise price of the option or warrant.

The merger agreement further provides that, at the effective time of the merger, each outstanding Legacy convertible subordinated capital note, or Legacy Note, will cease to be convertible into Legacy common stock and will automatically become convertible into that number of shares of FNB common stock equal to the number of our shares of common stock into which the Legacy Note is currently convertible at a conversion price equal to the pre-merger conversion price. FNB has also agreed to execute a supplemental indenture relating to the Legacy Notes.

Opinion of Griffin as Our Financial Advisor (Pages 64-73)

Griffin, our financial advisor in connection with the merger, delivered its written fairness opinion to our board of directors that, as of December 21, 2005, and based upon and subject to the factors and assumptions set forth in its opinion, the merger consideration is fair to Legacy, from a financial point of view.

Table of Contents

Appendix B to this proxy statement/ prospectus sets forth the full text of the Griffin opinion, which sets forth the assumptions made, the procedures followed, the matters considered and the limitations on the review undertaken by Griffin in connection with its opinion. Griffin provided its opinion for the information and assistance of our board of directors in connection with its consideration of the merger. The Griffin opinion is not a recommendation as to how you should vote with respect to the merger or any related matter. We encourage you to read the opinion in its entirety. Pursuant to an engagement letter between Griffin and us, we agreed to pay Griffin a fee, approximately $206,000 of which has been paid and approximately $619,000 of which is payable upon completion of the merger.

Interests of Our Directors and Executive Officers in the Merger (Pages 81-82)

In considering our board of directors recommendation that you vote FOR the merger proposal, you should be aware that certain of our executive officers and directors have interests in the merger that are different from, or in addition to, your interests as a shareholder. These interests relate to or arise from, among other things:

the continued indemnification of our current directors and executive officers under the merger agreement and providing these individuals with directors and officers errors and omissions insurance;

the execution of an employment agreement between FNB Bank and each of George H. Groves, our Chairman and Chief Executive Officer, who will serve as Chairman of FNB s Harrisburg Region; Thomas W. Lennox, our President, who will serve as President of FNB s Harrisburg Region, and Joseph L. Paese, the President and Chief Executive Officer of Legacy Trust, who will serve as Market Executive of Wealth Management of FNB s Harrisburg Region.

the receipt of change of control payments by certain of our senior officers;

the members of our board of directors will be offered an opportunity to serve as members of an advisory board for FNB s Harrisburg region for which service they will receive fees, and the advisory board would have the power to enforce specifically certain covenants in the merger agreement; and

one member of our board of directors, George H. Groves, will be appointed to FNB Bank s board of directors.

Conditions to the Merger (Pages 92-93)

Currently, we expect to complete the merger in the second quarter of 2006. However, as more fully described in this proxy statement/ prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:

approval of the merger proposal by the holders of not less than two-thirds of our outstanding common stock;

the receipt of all regulatory approvals needed to complete the merger, including the approval of the Office of the Comptroller of the Currency, or the OCC , the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, and the furnishing of appropriate notices to the Pennsylvania Department of Banking, or the Department;

the absence of any law or injunction that would effectively prohibit the merger; and

the receipt of legal opinions from FNB s and our legal counsel as to the tax treatment of the merger.

We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Table of Contents

Amendment of the Merger Agreement (Pages 93-94)

The merger agreement may be amended at any time prior to completion of the merger by the written agreement of FNB, FNB Bank and us, provided, however, that no amendment that would materially adversely affect the Legacy shareholders may be made after our special meeting without obtaining the approval of the Legacy shareholders.

Termination of the Merger Agreement (Pages 93-94)

We may agree to terminate the merger agreement before completing the merger, even after our shareholders approve the merger proposal, if the termination is approved by our board of directors and the board of directors of FNB.

Either FNB or we may terminate the merger agreement, even after our shareholders approve the merger proposal under certain circumstances, if certain conditions have not been met, such as:

- failure to obtain the necessary regulatory approvals for the merger;
- the other party s material breach of a representation, warranty, covenant or agreement, provided the terminating party is not then in material breach of any of its representations, warranties, covenants or agreements;
- failure to complete the merger by September 30, 2006, unless the reason the merger has not been consummated by that date is a breach of the merger agreement by the party seeking to terminate the merger agreement; or
- failure of the holders of not less than two-thirds of our outstanding common stock to approve the merger proposal, provided we are not in material breach of our obligations to have our board of directors recommend approval of the merger proposal and to take all reasonable lawful actions to solicit such shareholder approval.

FNB may terminate the merger agreement at any time prior to our special meeting if we have:

- breached our obligation not to initiate, solicit or encourage, or take any action to facilitate, another proposal to acquire us, participate in any discussions or negotiations relating to another proposal to acquire us or, except as permitted by and subject to certain terms of, the merger agreement, to enter into an agreement relating to a proposal to acquire us on terms and conditions superior to those in the merger agreement or approve, recommend or enter into any agreement relating to another proposal to acquire us;
- failed to have our board of directors recommend approval of the merger proposal to our shareholders or our board of directors shall have changed such recommendation, except as permitted by the merger agreement with respect to a proposal to acquire us on terms and conditions superior to those in the merger agreement;
- our board of directors shall have recommended approval of another proposal to acquire us; or
- failed to call and hold our special meeting.

We may terminate the merger agreement if the average closing price of FNB common stock during a specified period before receipt of the last required regulatory approval of the merger is less than $14.38 and FNB common stock underperforms the Nasdaq Bank Index by 20% and FNB does not elect to increase the exchange ratio as provided in the merger agreement.

Except as provided below with respect to termination fees and expenses and the parties respective confidentiality obligations, none of the parties will have any liability or obligation other than liabilities for damages incurred by a party as a result of another party s willful breach of any of its respective representations, warranties, covenants or agreements contained in the merger agreement.

Table of Contents

Expenses; Termination Fee (Page 92 and Pages 94-95)

The merger agreement provides that we will pay FNB a break-up fee of $3,000,000 if:

we terminate the merger agreement in order to enter into an agreement relating to an acquisition transaction that has terms superior to those of the merger agreement from the perspective of our shareholders;

FNB terminates the merger agreement because we have breached our obligation not to solicit superior proposals, we have failed to hold our special meeting or our board of directors has not recommended approval of the merger proposal or has changed its recommendation or has recommended that we enter into an agreement relating to another proposal to acquire us;

the merger agreement is terminated following the commencement of a tender or exchange offer for 25% or more of our common stock and our board of directors fails to send a statement to our shareholders recommending rejection of that offer within 10 days after the offer has been made; or

FNB or we terminate the merger agreement because

our shareholders did not approve the merger proposal;

a proposal to acquire us is made after December 21, 2005 and is not withdrawn prior to termination of the merger agreement; and

within 18 months thereafter we are acquired by that third party or other specified events occur.

Appraisal Rights (Pages 84-85)

If you do not vote in favor of approval of the merger proposal, and you fulfill the other procedural requirements, the Bank Act entitles you to receive the appraised value of your shares. You must carefully and precisely follow the applicable procedures in order to be entitled to appraisal rights. A copy of the provisions of the Bank Act applicable to appraisal rights is included as Appendix C to this proxy statement/ prospectus.

Material Federal Income Tax Consequences of the Merger (Pages 95-99)

We expect the merger to qualify as a tax-free reorganization for United States federal income tax purposes. In general, this means that our shareholders who receive FNB common stock will not recognize any gain or loss on the exchange of their common stock in the merger, except to the extent they receive cash instead of fractional shares in addition to FNB common stock. Our shareholders who receive all cash in exchange for their Legacy common stock in the merger will recognize gain or loss to the extent the cash received exceeds, or is less than, their tax basis in their stock. Our shareholders who receive a combination of cash and FNB common stock, including those who receive a combination as a result of prorations under the merger agreement, will realize gain to the extent that the amount of cash received plus the value of the FNB common stock received exceeds their tax basis in the Legacy common stock. Our shareholders who receive a combination of cash and FNB common stock will recognize gain, but not loss, in an amount equal to the lesser of the amount of the gain realized or the amount of the cash received.

Dividends (Page 99)

During 2005, FNB paid cash dividends on its common stock totaling $0.925 per share. Based on the 1.0 share exchange ratio and FNB s current dividend rate, holders of our common stock would experience an anticipated annual dividend of $0.94 per share, an increase of $0.94 per share per year. Although FNB has no current plan or intention to increase its dividend rate, FNB s board of directors may, subject to applicable law, change its dividend rate in the future. FNB s ability to pay dividends on its common stock is subject to various legal and regulatory limitations.

Table of Contents

Certain Differences in Rights of Shareholders (Pages 100-110)

When the merger is completed, the rights of our shareholders who receive FNB common stock will be governed by Florida law and FNB s articles of incorporation and by-laws rather than Pennsylvania law and our articles of incorporation and by-laws.

Future FNB Acquisitions (Pages 18-19)

As part of its growth strategy, FNB may acquire other bank or financial services institutions to expand or strengthen its market position. Risks associated with this strategy are described in Risk Factors.

Comparative Market Prices and Dividends (Page 110)

FNB common stock is listed on the New York Stock Exchange under the symbol FNB . Prices for our common stock are quoted on the OTC Bulletin Board of the National Association of Securities Dealers under the symbol LBOH . The table on page 110 lists the quarterly price range of FNB common stock and our common stock since 2004 as well as the quarterly cash dividends FNB has paid. The following table shows the closing price of FNB common stock and our common stock as reported on December 20, 2005, the last trading day before we announced the merger, and on February 27, 2006, the last practicable trading day before the date of this proxy statement/ prospectus. This table also shows the implied value of the merger consideration proposed for each share of Legacy common stock, which we calculated by multiplying the closing price of FNB common stock on those dates by 1.0 (the exchange ratio in the merger).

	FNB Common Stock	Legacy Common Stock	Implied Value of One Share of Legacy Common Stock
December 20, 2005	$ 17.98	$ 13.10	$ 17.98
February 27, 2006	$ 16.78	$ 16.89	$ 16.78

The market price of FNB common stock may change at any time. Consequently, the total dollar value of the FNB common stock that you will be entitled to receive as a result of the merger may be significantly higher or lower than its current value.

Questions and Additional Information (Pages 114-115)

If you have questions about the merger or how to submit your proxy card, or if you need additional copies of this proxy statement/ prospectus or the enclosed proxy card, please call Melissa Tyrrell at (717) 441-3400, extension 107.

Table of Contents

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF FNB

Set forth below are highlights from FNB s consolidated financial data as of and for the years December 31, 2000 through 2004 and FNB s unaudited consolidated financial data as of and for the nine months ended September 30, 2004 and 2005. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results of operations for the full year or any other interim period. FNB management prepared the unaudited information on the same basis as it prepared FNB s audited consolidated financial statements. In the opinion of FNB s management, this information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data for these periods. You should read this information in conjunction with FNB s consolidated financial statements and related notes included in FNB s Annual Report on Form 10-K for the year ended December 31, 2004 and FNB s Quarterly Report on Form 10-Q for the nine months ended September 30, 2005 which are incorporated by reference in this proxy statement/ prospectus and from which this information is derived. See Where You Can Find More Information on page 114.

Selected Consolidated Historical Financial Data of FNB

	Nine Months Ended September 30,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share amounts)						
Summary of Earnings Data:							
Interest income	$ 219,531	$ 187,442	$ 254,448	$ 257,019	$ 275,853	$ 301,638	$ 300,514
Interest expense	78,380	61,702	84,390	86,990	98,372	134,984	136,775
Net interest income	141,151	125,740	170,058	170,029	177,481	166,654	163,739
Provision for loan losses	8,465	11,812	16,280	17,155	13,624	26,727	12,393
Net interest income after provision for loan losses	132,686	113,928	153,778	152,874	163,857	139,927	151,346
Non-interest income	55,537	56,940	78,141	68,155	66,145	52,015	43,704
Non-interest expense	116,555	103,970	142,587	185,025	185,003	149,259	136,248
Income before income taxes	71,668	66,898	89,332	36,004	44,999	42,683	58,802
Income taxes	21,131	20,915	27,537	8,966	13,728	10,914	16,649
Income from continuing operations	50,537	45,983	61,795	27,038	31,271	31,769	42,153
Earnings from discontinued operations, net of taxes				31,751	32,064	21,216	19,755

Net income	$ 50,537	$ 45,983	$ 61,795	$ 58,789	$ 63,335	$ 52,985	$ 61,908
Per Share Data(1):							
Basic earnings per share:							
Continuing operations	$ 0.91	$ 0.99	$ 1.31	$ 0.58	$ 0.68	$ 0.71	$ 0.94
Discontinued operations				0.69	0.69	0.48	0.44
Net income	0.91	0.99	1.31	1.27	1.37	1.19	1.38
Diluted earnings per share:							
Continuing operations	0.90	0.98	1.29	0.57	0.67	0.70	0.92
Discontinued operations				0.68	0.68	0.47	0.43
Net income	0.90	0.98	1.29	1.25	1.35	1.17	1.35
Dividends paid	0.69	0.69	0.92	0.93	0.81	0.68	0.61
Book value per share at period end(2)	8.26	5.56	6.47	13.10	12.93	12.37	10.87
Average number of shares outstanding:							
Basic	55,260,092	46,326,420	47,180,471	46,080,966	46,012,908	44,289,772	44,748,338
Diluted	55,981,672	47,155,413	48,012,339	46,972,863	47,073,785	45,385,495	45,690,289

Table of Contents

	Nine Months Ended September 30,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share amounts)						
Statement of Condition Data (at end of period):							
Assets	$ 5,703,659	$ 4,733,542	$ 5,027,009	$ 8,308,310	$ 7,090,232	$ 6,488,383	$ 6,126,792
Assets of discontinued operations				3,751,136	2,735,204	2,202,004	2,125,737
Net loans	3,704,603	3,173,584	3,338,994	3,213,058	3,188,223	3,061,936	2,980,248
Deposits	3,922,220	3,424,477	3,598,087	3,439,510	3,304,105	3,338,913	3,227,249
Short-term borrowings	523,926	345,879	395,106	232,966	255,370	209,912	177,580
Long-term debt	726,845	639,113	636,209	584,808	400,056	276,802	198,907
Liabilities of discontinued operations				3,386,021	2,467,123	2,022,538	1,954,863
Total Shareholders equity(2)	467,028	259,529	324,102	606,909	598,596	572,407	503,422
Significant Ratios:							
Return on average assets(2)	1.22%	1.31%	1.29%	0.74%	0.93%	0.84%	1.03%
Return on average equity(2)	15.55	25.23	23.54	9.66	10.97	9.81	12.28
Ratio of average equity to average assets(2)	7.85	5.21	5.50	7.66	8.51	8.58	8.42
Dividend payout ratio(2)	76.91	69.60	70.36	72.90	59.03	52.81	45.36

(1) Per share amounts for 2003, 2002, 2001 and 2000 have been restated for the common stock dividend declared on April 28, 2003.

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

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF LEGACY

Set forth below are highlights from Legacy s consolidated financial data as of and for the years December 31, 2000 through 2004 and Legacy s unaudited consolidated financial data as of and for the nine months ended September 30, 2004 and 2005. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results of operations of Legacy for the full year. Legacy management prepared the unaudited information on the same basis as it prepared Legacy s audited consolidated financial statements. In the opinion of Legacy s management, this information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data for these periods. You should read this information in conjunction with Legacy s consolidated financial statements and related notes included in Legacy s Annual Report on Form 10-K for the year ended December 31, 2004, and Legacy s Quarterly Reports on Form 10-Q for the nine months ended September 30, 2005 which are included elsewhere in this proxy statement/ prospectus and from which this information is derived. See Where You Can Find More Information on page 114 and Index to Legacy Financial Statements on page F-1.

Selected Consolidated Historical Financial Data of Legacy

	Nine Months Ended September 30,		Year Ended December 31,				
	2005	**2004**	**2004**	**2003**	**2002**	**2001**	**2000**
	(Dollars in thousands, except per share amounts)						
Summary of Earnings Data:							
Interest income	$ 14,501	$ 11,964	$ 16,269	$ 13,775	$ 7,535	$ 5,867	$ 2,969
Interest expense	5,923	3,947	5,516	5,009	3,715	3,248	1,677
Net interest income	8,578	8,017	10,753	8,766	3,820	2,619	1,292
Provision for loan losses	350	798	1,115	428	540	502	330
Net interest income after provision for loan losses	8,228	7,219	9,638	8,338	3,280	2,117	962
Non-interest income	1,885	1,684	2,383	1,602	745	525	75
Non-interest expense	8,279	7,959	10,497	9,228	4,253	3,843	2,601
Income (loss) before income	1,834	944	1,524	712	(228)	(1,201)	(1,564)

taxes													
Income taxes		570		(621)		(831)		(317)		(485)		(81)	
Net income (loss)	$	1,264	$	1,565	$	2,355	$	1,029	$	257	$	(1,120)	$	(1,564)
Per Share Data(1):													
Earnings per share:													
Basic	$	0.35	$	0.44	$	0.66	$	0.37	$	0.19	$	(0.89)	$	(1.53)
Diluted		0.34		0.43		0.64		0.37		0.19		(0.89)		(1.53)
Dividends paid													
Book value per share at period end		10.35		10.00		10.17		9.54		7.35		6.84		7.54
Average number of shares outstanding:													
Basic		3,603,000		3,574,000		3,582,000		2,785,000		1,337,000		1,258,000		1,025,000
Diluted		3,722,000		3,679,000		3,685,000		2,802,000		1,342,000		1,258,000		1,025,000
Statement of Condition Data													
(at end of period):													
Assets	$	382,139	$	319,571	$	338,590	$	305,486	$	151,405	$	106,501	$	53,145
Net loans		279,998		244,487		249,019		226,155		108,090		84,365		39,615
Deposits		288,236		246,287		244,464		240,080		124,778		92,077		40,656
Short-term borrowings		7,575		7,000		23,425		10,187						
Long-term debt		48,442		28,530		32,500		19,285		16,000		5,000		3,000
Total stockholders equity		36,513		36,030		36,725		33,872		9,890		8,882		9,051
Significant Ratios:													
Return on average assets		0.47%		0.68%		0.76%		0.39%		0.21%		(1.40)%		(4.14)%
Return on average equity		4.54		6.03		6.69		4.06		2.68		(12.56)		(20.41)
Ratio of average equity to		10.39		11.34		11.30		9.65		7.80		11.16		20.28

average
assets
Dividend
payout
ratio

10

Table of Contents

SELECTED CONSOLIDATED UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table sets forth information about FNB s financial condition and results of operations, including per share data and financial ratios, after giving effect to the October 7, 2005 merger of North East Bancshares, Inc. (North East) and February 18, 2005 merger of NSD Bancorp, Inc. (NSD) both with and into FNB and the merger of Legacy with and into FNB Bank. This information is called pro forma financial information in this proxy statement/ prospectus. The table shows the information as if the mergers had become effective on September 30, 2005, in the case of balance sheet data, and on January 1, 2004, in the case of income statement data. This pro forma information assumes that the mergers are accounted for using the purchase method of accounting and represents a current estimate based on available information about FNB s and Legacy s results of operations. See Accounting Treatment on page 95. The pro forma financial information includes adjustments to record the assets and liabilities of North East and Legacy at their estimated fair value and is subject to further adjustment as additional information becomes available and as further analyses are completed. The pro forma income statements do not include any amount for merger-related costs that will be incurred to combine the operations of Legacy with those of FNB. These charges will be recorded based on the nature and timing of the integration. This table should be read in conjunction with, and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Legacy and FNB included in or incorporated by reference in this proxy statement/ prospectus. See Where You Can Find More Information on page 114.

The pro forma financial information does not include any adjustment for the FNB balance sheet restructuring described in FNB s Current Report on Form 8-K filed with the SEC on December 12, 2005.

The pro forma financial information, while helpful in illustrating the combined financial condition and results of operations of North East, NSD, Legacy, and FNB once the merger with Legacy is completed under a particular set of assumptions, does not reflect the impact of possible revenue enhancements, expense efficiencies and asset dispositions, among other possibilities, that may occur as a result of the mergers and, accordingly, does not attempt to predict future results. The pro forma financial information also does not necessarily reflect what the combined historical results of operations of North East, Legacy and FNB would have been had they been merged during these periods.

	As of September 30, 2005						
	FNB	North East	Pro Forma Adjustments	FNB Pro Forma	Legacy	Pro Forma Adjustments	Pro Forma Combined
	(Dollars in thousands, except per share amounts)						
Assets							
Cash and equivalents	$ 123,459	$ 8,501	$ (168)	$ 131,792	$ 5,955	$ 389G	$ 138,136
Investment securities	1,333,477	3,529		1,337,006	70,541		1,407,547
Loans, net of unearned income	3,754,861	49,925	731	3,805,517	283,252	418A	4,089,187
Allowance for loan losses	(50,258)	(1,820)		(52,078)	(3,254)	A	(55,332)
Net loans	3,704,603	48,105	731	3,753,439	279,998	418	4,033,855
	83,506	5,269		88,775	5,510		94,285

Premises and equipment							
Goodwill	185,985		8,437	194,422	6,481	30,664C	231,567
Other intangibles	23,998	27	83	24,108	1,384	3,341B	28,833
Other assets	248,631	1,140		249,771	12,270	574	262,615
Total assets	$ 5,703,659	$ 66,571	$ 9,083	$ 5,779,313	$ 382,139	$ 35,386	$ 6,196,838
Liabilities							
Deposits	$ 3,922,220	$ 59,778	$ 48	$ 3,982,046	$ 288,236	$ (403)E	$ 4,269,879
Borrowings	1,250,771	290	32	1,251,093	56,017	20,407F,G	1,327,517
Other liabilities	63,640	141		63,781	1,373	5,926D,H	71,080
Total liabilities	5,236,631	60,209	80	5,296,920	345,626	25,930	5,668,476
Shareholders equity	467,028	6,362	9,003	482,393	36,513	9,456I	528,362
Total liabilities and shareholders equity	$ 5,703,659	$ 66,571	$ 9,083	$ 5,779,313	$ 382,139	$ 35,386	$ 6,196,838
Book value per share	$ 8.26	$ 43.83		$ 8.41	$ 10.35		$ 8.83
Shares outstanding	56,520,245	145,168	717,526	57,382,939	3,527,322	(1,058,197)	59,852,064
Capital ratios							
Tangible equity/tangible assets	4.68%	9.52%		4.75%	7.65%		4.51%
Leverage capital ratio	7.01%	9.38%		7.05%	7.90%		7.06%

See Notes to Selected Consolidated Unaudited Pro Forma Financial Information

Table of Contents

	For the Nine Months Ended September 30, 2005						
	FNB	North East	Pro Forma Adjustments	FNB Pro Forma	Legacy	Pro Forma Adjustments	Pro Forma Combined
	(Dollars in thousands, except per share amounts)						
Total interest income	$ 219,531	$ 2,935	$ (108)	$ 222,358	$ 14,501	$ (235)A	$ 236,624
Total interest expense	78,380	703	(27)	79,056	5,923	1,832E,F,G	86,811
Net interest income	141,151	2,232	(81)	143,302	8,578	(2,067)	149,813
Provision for loan losses	8,465	(47)		8,418	350		8,768
Net interest income after provision for loan losses	132,686	2,279	(81)	134,884	8,228	(2,067)	141,045
Non-interest income	55,537	469		56,006	1,885		57,891
Non-interest expense	116,555	3,178	6	119,739	8,279	501B	128,519
Income (loss) before income taxes	71,668	(430)	(87)	71,151	1,834	(2,568)	70,417
Income taxes	21,131		(30)	21,101	570	(899)J	20,772
Net income (loss)	$ 50,537	$ (430)	$ (57)	$ 50,050	$ 1,264	$ (1,669)	$ 49,645
Per common share:							
Basic	$ 0.91	$ (2.96)		$ 0.89	$ 0.35		$ 0.85
Diluted	$ 0.90	$ (2.96)		$ 0.88	$ 0.34		$ 0.83
Ratios:							
Return on average assets	1.22%	(0.86)%		1.19%	0.47%		1.11%
Return on average equity	15.55%	(8.59)%		14.86%	4.54%		13.40%
Dividend payout ratio	76.91%			77.66%			78.29%

See Notes to Selected Consolidated Unaudited Pro Forma Financial Information

12

Table of Contents

For the Year Ended December 31, 2004

	FNB	NSD	North East	Pro Forma Adjustments	FNB Pro Forma	Legacy	Pro Forma Adjustments	Pro Forma Combined
	(Dollars in thousands, except per share amounts)							
Total interest income	$ 254,448	$ 25,699	$ 3,642	$ (380)	$ 283,409	$ 16,269	$ (314)A	$ 299,364
Total interest expense	84,390	10,175	757	(1,081)	94,241	5,516	2,446E,F,G	102,203
Net interest income	170,058	15,524	2,885	701	189,168	10,753	(2,760)	197,161
Provision for loan losses	16,280	436	849		17,565	1,115		18,680
Net interest income after provision for loan losses	153,778	15,088	2,036	701	171,603	9,638	(2,760)	178,481
Non-interest income	78,141	5,399	643		84,183	2,383		86,566
Non-interest expense	142,587	14,567	3,699	872	161,725	10,497	667B	172,889
Income (loss) before income taxes	89,332	5,920	(1,020)	(171)	94,061	1,524	(3,427)	92,158
Income taxes	27,537	1,603		(60)	29,080	(831)	(1,199)	27,050
Net income (loss)	$ 61,795	$ 4,317	$ (1,020)	$ (111)	$ 64,981	$ 2,355	$ (2,228)	$ 65,108
Earnings (loss) per common share:								
Basic	$ 1.31	$ 1.27	$ (7.03)		$ 1.20	$ 0.66		$ 1.15
Diluted	$ 1.29	$ 1.25	$ (7.03)		$ 1.18	$ 0.64		$ 1.13
Ratios:								
Return on average assets	1.29%	0.85%	(1.36)%		1.18%	0.76%		1.12%
	23.54%	10.91%	(13.89)%		15.97%	6.69%		14.73%

Return on average equity				
Dividend payout ratio	70.36%	68.54%	71.46%	71.32%

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note A Basis of Pro Forma Presentation

The following tables set forth information about FNB s financial condition and results of operations, including per share data and financial ratios, after giving effect to the October 7, 2005 merger of North East Bancshares, Inc. (North East) and February 18, 2005 merger of NSD Bancorp, Inc. (NSD) both with and into FNB, and the merger of Legacy with and into FNB Bank. This information is called pro forma financial information in this proxy statement/ prospectus. The table shows the information as if the mergers had become effective on September 30, 2005, in the case of balance sheet data, and on January 1, 2004, in the case of income statement data.

The estimated purchase price of $63,786,000 for Legacy is based on 30% cash payout at $18.40 per share and 70% conversion of shares into FNB stock using an exchange ratio of one to one. The per share price value for FNB common stock was $17.95, which was the average of the closing prices of FNB common stock for the period commencing 4 trading days before, and ending 4 trading days after December 21, 2005, the date of the merger agreement. The purchase price does not contemplate the potential conversion of $4,442,500 in outstanding convertible subordinated debentures of Legacy at $12.50 per share into 355,400 shares of FNB common stock as they are convertible only at the election of the holder.

The merger will be accounted for using the purchase method of accounting; accordingly, FNB s cost to acquire Legacy will be allocated to the assets acquired (including identifiable intangible assets) and liabilities assumed from Legacy at their respective fair values on the date the merger is completed. This table should be read in conjunction with, and is qualified in its entirety by, the historical financial statements, including the notes thereto, of Legacy and FNB included in or incorporated by reference in this proxy statement/ prospectus. See Where You Can Find More Information on page 114.

The unaudited pro forma condensed combined financial information includes estimated adjustments to record the assets and liabilities of Legacy at their respective fair values and represents management s estimates based on available information. The pro forma adjustments included herein may be revised as additional information becomes available and as additional analysis are performed. The final allocation of the purchase price will be determined after the merger is completed and after completion of a final analysis to determine the fair values of Legacy s tangible, and identifiable intangible, assets and liabilities as of the closing date. Accordingly, the final purchase accounting adjustments and integration charges may be materially different from the pro forma adjustments presented in this document. Increases or decreases in the fair value of the net assets, commitments, contracts and other items of Legacy as compared to the information shown in this document may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact the statement of income due to adjustments in yield and/or amortization of the adjusted assets or liabilities.

The unaudited pro forma condensed consolidated financial information presented in this document does not necessarily indicate the results of operations or the combined financial position that would have resulted had the merger been completed at the beginning of the applicable period presented, does not reflect the impact of possible revenue enhancements, expense efficiencies or asset dispositions, and is not indicative of the results of operations in future periods or the future financial position of the combined company.

Note B Pro Forma Adjustments

The unaudited pro forma combined financial information for the merger includes the pro forma balance sheet as of September 30, 2005 assuming the merger was completed on September 30, 2005. The pro forma income statements for the nine months ended September 30, 2005 and the year ended December 31, 2004 were prepared assuming the merger was completed on January 1, 2004.

Legacy

The unaudited pro forma condensed combined financial information reflects the issuance of 2,469,125 shares of FNB common stock with an aggregate value of $44,315,000 and the conversion of approximately 406,100 Legacy stock options and warrants with a value of approximately $2,720,000 at September 30 2005. Substantially all of the Legacy stock options and warrants are vested and will be converted into FNB stock options. Common stock used in the exchange was valued as discussed in Note A above.

Table of Contents

The allocation of the purchase price follows:

Cash, assuming 30% of Legacy shares paid at $18.40 per share	$	19,471,000
Value of Legacy shares converted at an exchange ratio of one to one		44,315,000
Incremental direct costs associated with transaction		4,086,000
Fair value of outstanding employee and non-employee stock options		2,720,000
Total cost of acquisition		70,592,000
Legacy net assets acquired:		
Stockholders equity		36,513,000
Elimination of recorded goodwill and other intangibles, net of deferred taxes		(7,381,000)
Legacy s tangible book value		29,132,000
Estimated adjustments to reflect assets acquired and liabilities assumed at fair value:		
Total fair value adjustments		6,639,000
Associated deferred income taxes		(2,324,000)
Fair value of net assets acquired		4,315,000
Goodwill resulting from the merger	$	37,145,000

The pro forma adjustments included in the unaudited pro forma condensed combined financial information are as follows:

(A) Adjustment to fair value of the loan portfolio. The adjustment will be recognized over the estimated remaining life of the loan portfolio. The impact of the adjustment was to decrease interest income by approximately $235,000 and $314,000 for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively. No adjustment has been made to Legacy s loans or allowance for loan losses pursuant to Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Such adjustment will be made by FNB following consummation of the transaction as part of its integration process.

(B) Adjustment to write off historical Legacy core deposit intangible and to record intangible assets (other than goodwill) resulting from the merger based on estimated fair values. Management is studying the nature, amount and amortization method of various possible identified intangibles. The adjustments reflected herein are based on current assumptions and valuations, which are subject to change. For purposes of the pro forma adjustments shown here, the estimated fair value of the intangibles is $4,725,000 and consists of a core deposit intangible of $4,125,000 and a trust customer list of $600,000. It is estimated that the core deposit intangible and customer list will be amortized on an accelerated basis over 10 years. Material changes are possible when our analysis is completed. The net impact of the adjustment was to increase non-interest expense by approximately $501,000 and $667,000 for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively.

(C) Adjustment to write off historical Legacy goodwill and record goodwill created as a result of the merger.

(D) Adjustment to record the deferred tax liability created as a result of the fair value adjustments using FNB s statutory tax rate of 35%.

(E) Adjustment to fair value of time deposit liabilities based on current interest rates for similar instruments. The adjustment will be recognized over the estimated remaining term of the related deposit liability. The impact of the adjustment was to increase interest expense by approximately $330,000 and

$443,000 for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively.

(F) Adjustment to fair value of outstanding long-term debt instruments. The adjustment will be recognized over the remaining life of the long-term debt instruments. The impact of the adjustment was to increase interest expense by $454,000 and $605,000 for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively.

(G) Adjustment to reflect the anticipated issuance of long-term debt totaling $21,500,000 to cover the 30% cash portion of Legacy shares acquired. The impact of the debt issuance was to increase interest expense by $1,048,000 and $1,398,000 for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively.

(H) Adjustment to reflect the liability for incremental direct costs associated with the merger. These costs include accountant and attorney fees, investment banker services, payout of employee contracts and severance payments to displaced Legacy personnel. These liabilities have been recorded pursuant to EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination .

(I) Adjustment to eliminate Legacy s historical shareholders equity, the adjustment reflects the issuance of FNB common stock and the conversion of Legacy s stock options into FNB stock options.

(J) Adjustment to record the tax effect of the pro forma adjustments using FNB s statutory tax rate of 35%.

(K) Weighted average shares were calculated using the historical weighted average shares outstanding of Legacy and FNB, adjusted using the exchange ratio, to the equivalent shares of FNB common stock, for the year ended December 31, 2004 and the nine months ended September 30, 2005. Earnings per share data have been computed based on the combined historical income of Legacy and FNB and the impact of purchase accounting adjustments.

North East and NSD

The pro forma adjustments for North East and NSD are as follows:

The adjustment to fair value for loans, deposits and borrowings for North East as of September 30, 2005 were $731,000, $48,000 and $32,000, respectively.

The impact of the North East fair value adjustments for the nine months ended September 30, 2005 on loans was to decrease interest income by $108,000 and on deposits and borrowings was to decrease interest expense by $27,000. The impact of the North East fair value adjustment on the core deposit intangible was to increase non-interest expense by $6,000 for the nine months ended September 30, 2005.

The impact of the North East and NSD fair value adjustments the year ended December 31, 2004 on loans was to decrease interest income by $380,000 and on deposits and borrowings was to decrease interest expense by $1,081,000. The impact of the North East and NSD fair value adjustment on the core deposit intangible was to increase non-interest expense by $872,000 for the year ended December 31, 2004.

Note C Merger Related Charges and Benefits

In connection with the merger, a plan is being developed to integrate FNB and Legacy s operations. The total integration costs have not yet been determined and have not been included in the pro forma adjustments. The specific details of these plans will continue to be refined over the next several months. Currently, our merger integration team is assessing the two companies operations, including information systems, premises, equipment, benefit plans, service contracts and personnel to determine optimum strategies to realize additional cost savings.

Table of Contents

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this proxy statement/ prospectus, you should carefully consider the following risk factors in deciding whether to vote in favor of the merger proposal.

Risks Specifically Related to the Merger

FNB may encounter integration difficulties or may fail to realize the anticipated benefits of the merger.

FNB and Legacy may not be able to integrate their operations without encountering difficulties, including, without limitation, the loss of key employees and customers, the disruption of their respective ongoing businesses or possible inconsistencies in standards, controls, procedures and policies.

In determining that the merger is in the best interests of FNB and Legacy, their respective boards of directors considered that enhanced earnings may result from the consummation of the merger, including from reduction of duplicate costs, improved efficiency and cross-marketing opportunities.

If the merger is not completed, Legacy will have incurred substantial expenses without realizing the expected benefits of the merger.

Legacy has incurred substantial expenses in connection with the merger described in this proxy statement/ prospectus. The completion of the merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals. If the merger is not completed, these expenses could have a significant impact on Legacy s financial condition because it would not have realized the expected benefits of the merger.

Because the market price of FNB common stock may fluctuate, you cannot be certain of the market value of the common stock that you will receive in the merger.

Upon completion of the merger, each share of our common stock will be converted into the right to receive one share of FNB common stock or $18.40 in cash. Any change in the price of FNB common stock prior to the merger will affect the market value of the stock that you will receive in the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in FNB s businesses, operations and prospects and regulatory considerations.

The prices of FNB common stock and our common stock at the closing of the merger may vary from their respective prices on the date the merger agreement was executed, on the date of this proxy statement/ prospectus and on the date of our special meeting. As a result, the value represented by the exchange ratio will also vary. For example, based on the range of closing prices of FNB common stock during the period from December 20, 2005, the last full trading day before public announcement of the merger, through February 27, 2006, the last practicable full trading day prior to the date of the printing of this proxy statement/ prospectus, the exchange ratio represented a value ranging from a high of $17.98 on December 21, 2005 to a low of $16.16 on February 6, 2006 for each share of our common stock. Because the date the merger will be completed will be later than the date of our special meeting, at the time of our special meeting you will not know what the market value of FNB s common stock will be upon completion of the merger, although we have a right to terminate the merger agreement if the price of FNB common stock declines by more than a specified amount and also underperforms the Nasdaq Bank Index by a specified percentage during a specified period before the receipt of the last required regulatory approval.

Future results of the combined companies may materially differ from the pro forma financial information presented in this proxy statement/ prospectus.

Future results of the combined FNB and Legacy may be materially different from those shown in the pro forma financial statements that show only a combination of their historical results. The costs FNB will incur in connection with the merger may be higher or lower than FNB has estimated, depending upon how costly or difficult it is to integrate FNB and Legacy. Furthermore, these charges may decrease the capital of FNB after the merger that could be used for profitable, income-earning investments in the future.

Table of Contents

The merger agreement limits our ability to pursue alternatives to the merger.

The merger agreement contains provisions that, subject to limited exceptions, limit our ability to discuss, facilitate or enter into agreements with third parties to acquire us. In general, if we avail ourselves of those limited exceptions, we will be obligated to pay FNB a break-up fee of $3,000,000. These provisions could discourage a potential competing acquiror that might have an interest in acquiring us from proposing or considering our acquisition even if that potential acquiror were prepared to pay a higher price to our shareholders than the price FNB proposes to pay under the merger agreement.

Risks Related to Owning FNB Common Stock

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

FNB is a holding company and conducts almost all of its operations through its subsidiaries. FNB s principal subsidiaries are FNB Bank, Regency Finance Company and First National Insurance Agency, Inc. First National Trust Company is a subsidiary of FNB Bank. FNB does not have any significant assets other than the stock of its subsidiaries. Accordingly, FNB depends on dividends from its subsidiaries to meet its obligations. FNB 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 and state law, FNB Bank is limited in the amount of dividends it may pay to FNB without prior regulatory approval. Also, bank regulators have the authority to prohibit FNB Bank from paying dividends if the bank regulators determine the payment would be an unsafe and unsound banking practice.

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

FNB has grown significantly 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. FNB 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 this acquisition strategy, FNB may acquire additional banks and non-bank entities that it believes provide a strategic fit with its business. 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 FNB acquires;
- exposure to potential asset quality issues of acquired banks and non-bank entities;
- potential disruption to FNB s business;
- potential diversion of the time and attention of FNB s management; and
- the possible loss of key employees and customers of the banks and other businesses FNB acquires.

In addition to acquisitions, FNB Bank may expand into additional communities or attempt to strengthen its position in its current markets by undertaking additional de novo branch openings. Based on its experience, FNB 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 FNB Bank undertakes additional de novo branch openings, FNB Bank 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 FNB s net income, earnings per share, return on average shareholders equity and return on average assets.

FNB 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, FNB 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 FNB acquires into its existing operations may adversely affect its results of operations and financial condition.

FNB 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.

FNB is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. As a financial holding company, FNB seeks to maintain capital sufficient to meet the well capitalized standard set by regulators. FNB anticipates that its current capital resources will satisfy its capital requirements for the foreseeable future. FNB may at some point, however, need to raise additional capital to support continued growth, both internally and through acquisitions.

FNB s ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside FNB s control, and on its financial performance. If FNB 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 FNB s market area may adversely impact its results of operations and financial condition.

The majority of FNB s business is concentrated in western Pennsylvania and eastern Ohio, which are traditionally slower growth markets than other areas of the United States. As a result, FNB Bank s loan portfolio and results of operations may be adversely affected by factors that have a significant impact on the economic conditions in this market area. The local economies of this market area historically have been less robust than the economy of the nation as a whole and may not be subject to the same fluctuations as the national economy. Adverse economic conditions in FNB s market area, including the loss of certain significant employers, could reduce its growth rate, affect its borrowers ability to repay their loans and generally affect FNB s financial condition and results of operations. Furthermore, a downturn in real estate values in FNB Bank s market area could cause many of its loans to become inadequately collateralized.

Certain provisions of FNB s articles of incorporation and bylaws and Florida law may discourage takeovers.

The articles of incorporation and by-laws of FNB, which is incorporated under Florida law, 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 FNB s board of directors. In particular, FNB s articles of incorporation and by-laws:

- classify its board of directors into three classes, so that shareholders elect only one-third of its board of directors each year;
- permit shareholders to remove directors only for cause;
- do not permit shareholders to take action except at an annual or special meeting of shareholders;
- require shareholders to give FNB advance notice to nominate candidates for election to its board of directors or to make shareholder proposals at a shareholders meeting;
- permit FNB s board of directors to issue, without shareholder approval unless otherwise required by law, preferred stock with such terms as its board of directors may determine; and
- require the vote of the holders of at least 75% of FNB s voting shares for shareholder amendments to its by-laws.

Under Florida law, the approval of a business combination with shareholders 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 shareholder, unless the transaction is approved by a majority of the corporation s disinterested

Table of Contents

directors. In addition, Florida law generally provides that shares of a corporation acquired in excess of certain specified thresholds will not possess any voting rights unless the voting rights are approved by a majority vote of the corporation s disinterested shareholders.

These provisions of FNB 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 FNB s shareholders may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace the members of FNB s board of directors. Moreover, these provisions could diminish the opportunities for shareholders to participate in certain tender offers, including tender offers at prices above the then-current market price of FNB s common stock, and may also inhibit increases in the trading price of FNB s common stock that could result from takeover attempts.

Loss of members of FNB s executive team could have a negative impact on its business.

FNB s success is dependent, in part, on the continued service of its executive officers, including Peter Mortensen, its Chairman of the Board, and Stephen J. Gurgovits, its President and Chief Executive Officer. The loss of the services of either of these executive officers could have a negative impact on FNB 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF LEGACY S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides management s analysis of Legacy s financial condition and results of operations for the nine month periods ended September 30, 2005 and 2004 and for the years ended December 31, 2004, 2003 and 2002. The Legacy financial statements and accompanying notes included elsewhere in this proxy statement/ prospectus are an integral part of this discussion and should be read in conjunction with it. Legacy is referred to as the Bank in this section.

Critical Accounting Estimates

Allowance for Loan Losses

The allowance for loan losses is based on management s ongoing evaluation of the loan portfolio and reflects an amount considered by management to be its best estimate of known and inherent losses in the portfolio. Management considers a variety of factors when establishing the allowance, such as the impact of current economic conditions, diversification of the loan portfolios, delinquency statistics, results of loan review and related classifications, and historic loss rates. In addition, certain individual loans which management has identified as problematic are specifically provided for, based upon an evaluation of the borrower s perceived ability to pay, the estimated adequacy of the underlying collateral and other relevant factors. In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for loan losses. They may require additions to the allowance based upon their judgments about information available to them at the time of examination. Although provisions have been established and segmented by type of loan, based upon management s assessment of their differing inherent loss characteristics, the entire allowance for loan losses is available to absorb loan losses in any category.

Management uses significant estimates to determine the allowance for loan losses. Since the allowance for loan losses is dependent, to a great extent, on conditions that may be beyond the Bank s control, it is at least reasonably possible that management s estimate of the allowance for loan losses and actual results could differ in the near term.

Intangible Assets

The costs of acquired banks or branches in excess of the fair value of net assets at the acquisition date are recorded as goodwill. Goodwill is not amortized, but is tested at least annually for impairment. Other identifiable intangible assets are amortized over their estimated useful lives.

As a result of this accounting treatment, operating results are significantly impacted by the amount of purchase price that is allocated to goodwill versus amortizable assets, management s assessment of impairment, and for amortizable assets, the useful lives, which are subjective in nature and require management to make certain estimates and assumptions.

Deferred Tax Asset

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The benefit to the Bank of operating loss carryforwards and future deductible items exceeds future taxable items at September 30, 2005 and December 31, 2004, resulting in the recognition of a net deferred tax asset. A valuation allowance is established against deferred tax assets when in the judgment of management, it is more likely than not that such deferred tax assets will not be realizable based on the expected level of taxable income through the expiration date of the operating losses. Management s judgment about the level of future taxable income is dependent to a great extent on matters that may be beyond the Bank s control.

Table of Contents

Therefore, it is at least reasonably possible that management s judgment about the need for a valuation allowance for deferred taxes could change in the near term.

Stock Based Compensation

The Bank follows the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation expense for option grants has been recognized in the financial statements of the Bank. If compensation expense for stock options had been recognized: (i) net income for the nine months ended September 30, 2005 would have been reduced by $233,000 from $1,264,000 to $1,031,000 and diluted earnings per share would have been reduced from $.34 to $.28 for the nine month period ended September 30, 2005, and (ii) net income for the year 2004 would have been reduced by $194,000 from $2,355,000 to $2,161,000 and diluted earnings per share for the year 2004 would have been reduced from $.64 to $.59.

The Bank calculates the compensation cost of the options by using the Black-Scholes method to determine the fair value of the options granted. In calculating the fair value of the options, the Bank makes assumptions regarding the risk-free rate of return, the expected volatility of the Bank s common stock and the expected life of the options. These assumptions impact the compensation cost of the options and the pro-forma impact to net income. Effective January 1, 2006, the compensation cost of certain option grants will require expense recognition according to the terms of SFAS No. 123R, Accounting for Stock-Based Compensation. Management expects the adoption of SFAS No. 123R to have an insignificant impact on the Bank s financial condition and results of operations.

Segment Reporting

Management has determined that it operates in only one segment, commercial banking.

NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

Results of Operations

Overview

The Bank posted net income of $1,264,000 for the nine months ended September 30, 2005 as compared to $1,565,000 for the same period in 2004. Net income per dilutive share was $0.34 in 2005 as compared to $.43 in 2004. The primary component of the decrease was the recognition of income tax expense of $570,000 in 2005 versus an income tax benefit of $621,000 recorded in 2004 as accumulated net operating loss deductions were fully utilized by the end of 2004.

Net Interest Income

Net interest income is the difference between interest income earned on loans and investment securities and the interest expense incurred on deposits and borrowings, and is the Bank s primary revenue source. Net interest income is affected by the changes in asset and liability volume, the changes in the relative mix of individual asset and liability components, and the interest rate environment.

Average earning assets were $332.5 million for the nine month period ended September 30, 2005, an increase of $42.5 million or 14.7% over the 2004 average balance of $290.0 million. The increase in 2005 came primarily from strong commercial loan growth during the twelve months ended September 30, 2005. Average interest-bearing deposits grew to $249.5 million for the nine month period ended September 30, 2005, up from $207.9 million in 2004. The deposit growth came primarily in time deposits and, to a lesser extent, savings and money market deposits.

Table of Contents

Primarily as a result of the balance sheet growth noted above, net interest income increased $561,000 or 7.0% to $8,578,000 for the nine month period ended September 30, 2005, up from $8,017,000 in 2004. However, the net interest margin ratio declined to 3.47% in 2005 from 3.64% in 2004 primarily due to the flattening of the market interest rate curve following Federal Reserve short-term rate increases totaling 3.0% since June, 2004. The Table following this paragraph presents the Bank s average asset and liability balances, interest income and expense amounts, and related interest yield and cost percentages for the nine-month periods ended September 30, 2005 and 2004.

TABLE Distribution of Interest Bearing Assets and Liabilities

	Nine Months Ended September 30,					
	2005			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)					
Assets:						
Federal funds sold	$ 1,240	$ 30	3.19%	$ 717	$ 4	0.75%
Short term investments	22	0	0.00%	22	2	13.02%
Investments	62,516	1,739	3.72%	54,194	1,368	3.37%
Loans	268,698	12,773	6.36%	235,093	10,590	5.94%
Total interest earning assets	332,476	14,542	5.85%	290,026	11,964	5.45%
Allowance for loan losses	(3,327)			(3,485)		
Cash and due from banks	5,601			4,836		
Other assets	23,566			14,349		
TOTAL ASSETS	$ 358,316			$ 305,726		
Liabilities and Shareholders Equity:						
Deposits:						
Demand	$ 11,048	$ 41	0.50%	$ 11,198	$ 48	0.53%
Savings	74,168	1,070	1.93%	63,020	411	0.87%
Time	164,308	3,764	3.06%	133,718	2,672	3.18%
Total	249,524	4,875	2.61%	207,936	3,131	1.99%
Short term borrowings	7,333	163	2.97%	7,738	81	1.40%
Long term borrowings	27,401	716	3.45%	20,661	556	3.54%
Convertible subordinated debenture	4,499	169	5.02%	4,763	179	5.02%
Total interest bearing liabilities	288,757	5,923	2.74%	241,098	3,947	2.17%
Demand deposits	30,838			28,062		
Other liabilities	1,503			1,887		
Shareholders equity	37,218			34,679		
	$ 358,316			$ 305,726		

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY						
Net Interest Spread			3.11%			3.28%
Net Interest Margin (Tax Equivalent)	$	8,619	3.47%	$	8,017	3.64%
Tax-equivalent adjustment		(41)			0	
Net Interest Spread as reported	$	8,578		$	8,017	

Note: Average loans include non-accrual loans.

Table of Contents

Provision for Loan Losses

The Bank s loan loss provision totaled $350,000 for the nine month period ended September 30, 2005 as compared to $798,000 in 2004. As noted previously, the bank adjusts the provision for loan losses periodically as considered necessary to maintain the allowance for loan losses at a level deemed sufficient to meet the risk characteristics existing in the loan portfolio. Refer to the Asset Quality and Allowance for Loan Losses sections for additional information.

Non-interest Income

Non-interest income totaled $1,885,000 for the nine month period ended September 30, 2005, an increase of $201,000 or 11.9% from $1,684,000 for the comparable 2004 period. Asset management fees increased $126,000 or 20.8% and net deposit and loan fee income increased $49,000. Also, the Bank recorded BOLI income totaling $213,000 in 2005 as compared to $0 in 2004. The 2004 period included a $196,000 gain on the sale of two branches.

Non-interest Expenses

Non-interest expenses were $8,279,000 for the nine month period ended September 30, 2005 as compared to $7,959,000 for the comparable prior year. Salaries and employee benefits were up $407,000 primarily due to key staffing enhancements as well as benefit cost increases and normal merit raises. Other expenses also increased $296,000 primarily due to increased loan and deposit account servicing costs associated with strong portfolio growth. Offsetting these increases were decreases in occupancy and equipment and data processing expense associated with the sale of two branches in June 2004 and cost savings in advertising and marketing.

Income Taxes

The Bank recorded income tax expense of $570,000 for the nine month period ended September 30, 2005 resulting in an effective income tax rate of 31.1% on income before taxes of $1,834,000. This compared to an income tax benefit of $621,000 for 2004, which resulted in an effective tax benefit of 65.8% on income before taxes of $944,000. As noted previously, the relative change occurred in the Bank s tax position as accumulated net operating loss deductions were fully utilized by the end of 2004. Also, during 2005, the Bank s effective tax rate was below the statutory federal tax rate of 34% primarily due to the effect of tax-exempt income from municipal bond investments and bank owned life insurance investments.

Financial Condition

Balance Sheet Review

The Bank s total assets increased $43.5 million or 12.8% to $382.1 million at September 30, 2005 from $338.6 million on December 31, 2004.

Securities

The securities portfolio provides supplemental revenue and liquidity to the Bank, as well as collateral for deposits of local government entities and borrowings at the Federal Home Loan Bank. Securities purchases and sales are governed by an investment policy which includes liquidity, interest rate sensitivity, and credit risk standards. In accordance with the investment policy, management emphasizes long-term objectives, while prudently managing near-term interest rate risk, liquidity, and overall balance sheet strategies.

Total balances in the securities portfolio were $70.5 million and $63.1 million at September 30, 2005 and December 31, 2004, respectively. The balance at September 30, 2005 includes $17.1 million in bank-qualified municipal bonds that were acquired during the second and third quarters of 2005 to enhance the Bank s tax efficiency. The Bank funded the bond acquisitions primarily with repayments from other securities, excess cash, and certificates of deposits.

Table of Contents

Loan Portfolio

Net loans totaled $280.0 million on September 30, 2005, an increase of $31.0 million or 16.6% on an annualized basis from $249.0 million on December 31, 2004. The Bank continues to experience strong loan demand and believes this success accrues from the efforts of its highly-experienced and skilled lending professionals, its focus on target markets and customer segments, and its attractive array of competitive products and rates.

The loan portfolio represented 73.3% and 73.5% of total assets on September 30, 2005 and December 31, 2004, respectively. The loan portfolio is composed of commercial loans, residential loans, and consumer loans. The commercial loan portfolio represented 78.2% and 78.5% of total loans as of September 30, 2005 and December 31, 2004, respectively, and is comprised of lines of credit, equipment loans, real estate loans for various purposes and working capital loans. A significant portion of commercial loans are secured by real estate. Residential mortgages comprised 11.3% and 10.4% of the loan portfolio as of September 30, 2005 and December 31, 2004, respectively and include primarily loans secured by in-market real estate. As of September 30, 2005 and December 31, 2004, respectively, consumer and other loans represented 10.5% and 11.1% of total loans. Consumer and other loans include direct installment loans for purposes such as vehicle purchases, debt consolidations, home improvements, and other personal needs. Home equity loans are also a part of the consumer loan portfolio. The Bank does not engage in foreign lending nor does it engage in speculative real estate and land development lending. The primary areas of lending are Dauphin, Cumberland, Lycoming, Luzerne, and Schuylkill Counties of Pennsylvania and contiguous areas.

Asset Quality

Assets that are classified as non-performing include loans on non-accrual, loans accruing interest that are past due by 90 days or more, and real estate and other assets which have been foreclosed upon and are in the process of liquidation. As of September 30, 2005, non-accrual loans totaled $1,192,000 as compared to $1,037,000 on December 31, 2004. Non-accrual loans to total loans were .42% and .41% on September 30, 2005 and December 31, 2004, respectively. Accruing loans, past due 90 days or more were $208,000 on September 30, 2005 and $42,000 at December 31, 2004. There were no real estate and other assets which have been foreclosed upon and are in the process of liquidation on September 30, 2005 or December 31, 2004.

The Bank s loan charge-offs totaled $627,000 during the nine months ended September 30, 2005 as compared to $491,000 for the comparable period in 2004. The 2005 charge-offs related primarily to specific reserves previously established within the allowance for loan losses for certain non-performing loans. This charge-off activity, in conjunction with other factors including improved general economic trends that favorably affected the Bank s estimate of inherent losses in the loan portfolio, resulted in a reduction of the allowance, particularly when expressed as a percentage of loans. Improved market economic trends and other factors favorably influencing losses inherent in the portfolio resulted in less required provision expense for loan losses for the nine months ended September 30, 2005 versus the comparable period in 2004.

Table of Contents

Allowance for Loan Losses

	As of or for the Nine Months Ended September 30, 2005	As of or for the Nine Months Ended September 30, 2004
	(In thousands)	
Allowance for loan losses, beginning balance	$ 3,461	$ 3,430
Less charge-offs:		
Commercial and commercial real estate	617	369
Residential real estate		
Consumer	10	122
Total charge offs	627	491
Plus recoveries:		
Commercial and commercial real estate	9	35
Residential real estate		
Consumer		3
Total recoveries	9	38
Net loans charged off	618	453
Provision for loan losses	350	798
Purchase (sale) of loans	61	(310)
Balance at end of year	$ 3,254	$ 3,465
Average total loans	$ 268,698	$ 235,093
Allowance for loan losses to period end total loans	1.15%	1.40%
Allowance for loan losses to non-performing loans	232.4%	319.1%
Net charge-offs to average loans, annualized	0.31%	0.26%

Based on all relevant information available, management believes the allowance for loan losses as stated at September 30, 2005 is adequate to cover estimated loan losses inherent in the loan portfolio, but there can be no assurance that the allowance will prove to be adequate or that significant additions to the allowance will not be required. While management feels that the Bank s allowance for loan losses is adequate based on information currently available, future adjustments may be necessary due to changes in economic conditions or changes in management s assumptions.

Funding Sources

Deposits

Deposits are the Bank s primary source of funding for its loan and investment portfolios. Total deposits increased $43.8 million or 23.8% on an annualized basis during the nine months ended September 30, 2005. The deposit growth for the nine months ended September 30, 2005 came primarily in the Bank s time deposit, savings and money market deposit portfolios. Also, $13.8 million of deposits were acquired with the April, 2005 purchase of the McAdoo branch.

Borrowed Funds

Borrowings remain an important source of funding and serve to support the Bank s balance sheet management. The Bank has a total of $12.0 million available for borrowing in short-term lines of credit established with six banks as of September 30, 2005, of which no amounts were outstanding at September 30, 2005 and December 31, 2004. The Bank had short-term borrowings totaling $7.6 million and $23.4 million from the Federal Home Loan Bank at September 30, 2005, and December 31, 2004, respectively. Long-term borrowings consist of advances from the Federal Home Loan Bank, which totaled $44.0 million and

26

Table of Contents

$28.0 million at September 30, 2005 and December 31, 2004, respectively. During 2005, the Bank refinanced short-term balances totaling $15.8 million on a net basis with long-term FHLB advances to partially reduce the increase in borrowed interest costs that would occur if short-term interest rates continue to rise. Convertible subordinated debentures were $4.4 million and $4.5 million as of September 30, 2005 and December 31, 2004, respectively. The debentures are convertible by the holders into common stock.

Shareholders Equity

The Bank s total shareholders equity was $36.5 million at September 30, 2005, a decrease from $36.7 million at December 31, 2004. During the nine months ended September 30, 2005, equity decreases from treasury stock purchases totaling $1.6 million and an additional $.2 million after-tax loss in the value of securities available for sale offset equity increases of $1.3 million from net income and $.3 million from stock compensation plan activity and subordinated debenture conversions. Regarding the Bank s share repurchase plan announced in April, 2005, 109,627 shares were acquired as of September 30, 2005 at an average cost of $14.25 per share. As of September 30, 2005, 70,373 shares remain available for repurchase of the 180,000 shares authorized for repurchase under the plan during the twelve month period commencing May, 2005 and ending May, 2006. The Bank has no other share repurchase plans that have expired or terminated.

The Bank maintains regulatory capital ratios in excess of the thresholds defined as Well Capitalized, pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. There are no conditions or events that management believes have occurred that would change the Well Capitalized rating.

Risk-Based Capital

	Actual Capital		Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
September 30, 2005						
Total capital to risk-weighted assets	$ 36,767	12.8%	$ 22.977	8.0%	$ 28,721	10.0%
Tier I capital to risk-weighted assets	$ 29,070	10.1%	$ 11,488	4.0%	$ 17,233	6.0%
Tier I capital to average assets	$ 29,070	7.9%	$ 14,714	4.0%	$ 18,393	5.0%
December 31, 2004						
Total capital to risk-weighted assets	$ 37,698	14.7%	$ 20,573	8.0%	$ 25,717	10.0%
Tier I capital to risk-weighted assets	$ 29,980	11.7%	$ 10,287	4.0%	$ 15,430	6.0%
Tier I capital to average assets	$ 29,980	9.4%	$ 12,762	4.0%	$ 15,952	5.0%

Liquidity

The Bank s ability to generate funds needed to support loan demand and deposit withdrawals is monitored by the Asset and Liability Management Committee (ALCO). As part of this process, the Bank has established several liquidity-related policy limits and ALCO monitors the Bank s actual results against these thresholds as indicated in the following table:

	As of September 30, 2005	Policy Limitation
Loans divided by deposits	98.3%	Less than 110.0%

Investments divided by deposits	24.5%	Less than 50.0%
Borrowed funds divided by loans	18.2%	Less than 50.0%
Loans divided by capital	7.8 times	Less than 10 times

Table of Contents

As noted in the table, the Bank s liquidity measures were within policy limitations as of September 30, 2005. Also, at September 30, 2005, the Bank could borrow an additional $87.0 million from the Federal Home Loan Bank.

Off Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for letters of credit and commitments to extend credit is represented by the contractual amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	September 30, 2005	December 31, 2004
	(In thousands)	
Commitments to grant loans	$ 21,792	$ 20,760
Unfunded commitments under lines of credit	65,764	50,020
Unfunded letters of credit	2,331	2,741
	$ 89,887	$ 73,521

Many of these commitments are expected to expire without being drawn upon. The amounts do not necessarily represent future cash requirements and are expected to be funded without impairing liquidity.

<u>Quantitative and Qualitative Disclosures About Market Risk</u>

Market Risk

The Bank s material market risk exposure in the course of its normal business operations is exposure to interest rate risk. The Bank has no foreign currency exchange risk, no commodity price risk or material equity price risk. Financial instruments, which are sensitive to changes in market interest rates, include fixed and variable-rate loans, fixed income securities, mortgage backed securities, collateralized mortgage obligations, interest-bearing deposits and other borrowings. All interest rate risk arises in connection with financial instruments entered into for purposes other than trading.

Interest Rate Sensitivity

An important element of both earnings performance and proper liquidity management is the maintenance of an appropriate balance between rate-sensitive assets and rate-sensitive liabilities. Interest rate sensitivity analysis is the measurement of the vulnerability of net interest income to changes in the level of rates. To manage this risk, the Bank regularly forecasts its exposure to rate changes and monitors its performance so that appropriate and timely actions may be taken.

As of September 30, 2005, the Bank is in an asset sensitive position with assets maturing or repricing within one year exceeding liabilities that mature or reprice in one year by approximately $29.0 million. On a cumulative basis, interest sensitive assets as a percentage of interest sensitive liabilities are 119.9% within a one-year period. There can be no assurance that the Bank s assets and liabilities will behave as estimated due to the inherent uncertainty of the assumptions employed.

ALCO reviews net interest income simulation and gap results monthly to ensure that the related risk profile is appropriate in light of management s view of current and expected business conditions. ALCO considers the nature of the Bank s strategies and activities, its past performance, and the level of earnings and capital available to absorb potential losses. Management considers and implements actions in the normal course of business to adjust the Bank s profile accordingly. Management reports to the Board of Directors monthly on interest rate risk analysis results and related business activities.

Years Ended December 31, 2004, 2003 AND 2002

Results Of Operations

Overview

The Bank posted net income of $2,355,000 in 2004, an increase of $1,326,000 or 128.9% over 2003 net income of $1,029,000. Net income for 2003 increased $772,000 or 300.4% over net income of $257,000 in 2002. The net income per basic share increased $.29 per share or 78.4% to $.66 per share in 2004 compared to an increase of $.18 per share or 94.7% to $0.37 in 2003 from $.19 in 2002. These changes are due primarily to the merger of Northern State Bank (NSB) in January 2003, the purchase of three branches in September 2003, the sale of two branches in 2004, an increase in net interest income, and an increase in non-interest income, partially offset by an increase in non-interest expenses.

On February 25, 2004, the Bank and First Citizens National Bank, a wholly owned subsidiary of Citizens Financial Services, Inc., entered into a Branch Purchase and Deposit Assumption Agreement pursuant to which First Citizens National Bank purchased the Bank s Sayre branch office and Towanda branch office, both located in Bradford County. The transaction included equipment and loan and deposit accounts of the two branches. The transaction closed in June of 2004. The transaction decreased loans by $28.5 million, deposits by $20.4 million, and goodwill and other intangible assets by $698,000. The Bank recognized a $196,000 gain on the sale.

In order to expand its market presence the Bank signed an agreement to purchase the McAdoo, Pennsylvania branch of Harleysville National Bank, a wholly-owned subsidiary of Harleysville National Corporation on December 17, 2004. The purchase of this branch will include the assumption of approximately $14.6 million in deposits as well as the purchase of approximately $5.5 million of certain loans and other assets. The transaction is subject to regulatory approval and is expected to be consummated early in the second quarter of 2005. The acquisition is expected to be accretive to the Bank immediately by increasing revenue, and to a lesser extent, expenses. The transaction will not have a significant impact on liquidity.

Average earning assets increased $44 million in 2004 to $293.9 million from $249.9 million in 2003, which increased $130.7 million or 109.6% over the 2002 average balance of $119.2 million (see Table 1). The principal reasons for the increase in 2004 were strong loan growth, and the purchase of $15.5 million in residential mortgages, partially offset by the sale of two branches. Strong loan growth, the NSB merger and branch purchases were the principal reasons for the increase in 2003. Despite unsettled national economic conditions, the Harrisburg, Williamsport and Hazleton markets have shown encouraging loan demand and economic stability. The Bank sold two branches in June of 2004 with $28.5 million of loans. The Bank received $65.5 million of net loans from the NSB merger and $23.9 million from the purchase of branches in 2003. Average loans totaled $239.9 million in 2004, an increase of $44.3 million from $195.6 million in 2003, compared to $97.8 million in 2002. The Bank continues to be successful at generating credit relationships in its target market.

Average investments were $53.3 million in 2004 compared to $50.4 million in 2003 and $13.1 million in 2002. The $37.3 million or 284.9% increase in average investments in 2003 was largely attributable to the merger of NSB, the investment of funds received from the branch purchases and leveraged borrowings.

Average interest-bearing deposits grew to $211.5 million in 2004, up from $190.0 million in 2003 and $96.9 million in 2002. The Bank received $70.1 million of interest-bearing deposits from the NSB merger, acquired $51.8 million of interest-bearing deposits from the purchase of branches in September 2003 and sold

Table of Contents

$20.4 million in deposits in June of 2004. Absent the branch purchases and sale, average deposits declined in 2004 compared to 2003 as the Bank repositioned the balance sheet to improve its net interest margin.

Average short-term borrowings decreased to $7.8 million in 2004 from $9.4 million in 2003. Average long-term borrowings grew to $22.3 million from $16.1 million in 2003 and $7.8 million in 2002. In preparation for the September 2003 branch purchase, the bank began to utilize short-term borrowing capabilities in order to effectively utilize the cash received in the transaction. The bank utilizes long-term borrowings as an alternative to deposits when advantageous. In the third quarter of 2003 the bank issued $4.8 million of five percent convertible subordinated debentures which accounted for the $4.7 million increase in 2004 and the $1.1 million increase in average convertible subordinated debentures in 2003 from 2002.

TABLE 1 Distribution of Interest Bearing Assets and Liabilities

	Year Ended December 31,								
	2004			2003			2002		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)								
Assets:									
Federal funds sold	$ 662	$ 6	0.85%	$ 3,505	$ 42	1.18%	$ 2,302	$ 36	1.58%
Short term investments	22	2	1.52%	375	5	1.47%	5,977	105	1.75%
Investments	53,283	1,851	3.47%	50,403	1,680	3.33%	13,095	664	5.07%
Loans	239,895	14,410	6.01%	195,606	12,048	6.16%	97,833	6,730	6.88%
Total interest earning assets	293,862	16,269	5.54%	249,889	13,775	5.51%	119,207	7,535	6.32%
Allowance for loan losses	(3,506)			(2,701)			(1,155)		
Cash and due from banks	4,919			5,884			2,952		
Other assets	15,601			10,494			1,769		
TOTAL ASSETS	$ 310,876			$ 263,566			$ 122,773		
Liabilities and Shareholders Equity:									
Deposits:									
Demand	$ 12,250	$ 65	0.53%	$ 10,762	73	0.68%	$ 5,582	$ 53	0.94%
Savings	$ 64,325	659	1.03%	71,743	814	1.13%	29,978	605	2.02%
Time	134,885	3,645	3.20%	107,509	3,295	3.69%	61,346	2,681	4.37%
	211,460	4,369	2.07%	190,014	4,182	2.20%	96,906	3,339	3.45%
Short term borrowings	7,814	125	1.60%	9,379	126	1.34%	3	0	1.72%
Long term borrowings	22,279	789	3.48%	16,108	641	3.93%	7,790	376	4.76%
Convertible subordinated	4,703	233	4.96%	1,104	60	5.42%			0.00%

debentures									
Total interest bearing liabilities	246,256	5,516	2.24%	216,605	5,009	2.31%	104,699	3,715	3.55%
Demand deposits	27,679			19,633			7,812		
Other liabilities	1,823			1,898			686		
Shareholders Equity:	35,118			25,430			9,576		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 310,876			$ 263,566			$ 122,773		
Net Interest Spread			3.30%			3.20%			2.77%
Net Interest Margin		$ 10,753	3.67%		$ 8,766	3.52%		$ 3,820	3.22%

Note: Average loans include non-accrual loans.

30

Table of Contents

TABLE 2 Analysis of Changes in Net Interest Income

	Year Ended December 31,					
	2004 Versus 2003 Due to Change in			2003 Versus 2002 Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest Income						
Federal funds sold	$ (33)	$ (3)	$ (36)	$ 19	$ (13)	$ 6
Short term investments	(5)	2	(3)	(98)	(2)	(100)
Investments	96	75	171	1,890	(874)	1,016
Loans	2,728	(366)	2,362	6,726	(1,408)	5,318
Total Interest Income	2,786	(292)	2,494	8,537	(2,297)	6,240
Interest Expense						
Deposits	(472)	285	(187)	(3,208)	2,365	(843)
Short-term borrowings	21	(20)	1	(161)	35	(126)
Long-term borrowings	(242)	94	(148)	(396)	131	(265)
Convertible subordinated debentures	(195)	22	(173)		(60)	(60)
Total Interest Expense	(888)	381	(507)	(3,765)	2,471	(1,294)
Net Interest Income	$ 1,898	$ 89	$ 1,987	$ 4,772	$ 174	$ 4,946

Note: The change in interest income/expense associated with changes in both volume and rate has been allocated to each in proportion to the change directly attributed to volume or rate.

Primarily as a result of the above mentioned balance sheet growth, net interest income increased $1,987,000 or 22.7% to $10,753,000 in 2004 from $8,766,000 in 2003 despite a continued low rate environment. Net interest income increased $4,946,000 or 129.5% in 2003 from $3,820,000 in 2002 despite a continued low rate environment. The net interest margin continued to increase in 2004 to 3.67%, up from 3.52% in 2003 and 3.22% in 2002. Interest rates continued to decline in 2002 and 2003 due to aggressive monetary action initiated by the Federal Reserve and began rising in 2004 as the market anticipated the Federal Reserve raising rates and the economy showed signs of a modest recovery. The lower interest rate environment put downward pressure on the Bank s net interest margin as interest-bearing liabilities repriced at a slower pace than interest-earning assets. The Bank took this opportunity to reposition the balance sheet in order to take advantage of the lower rate environment and increase net interest margin. Specifically, the Bank began to reduce it s reliance on higher-costing time deposits as a percentage of total liabilities in order to ease the pressure on net interest margin caused by falling interest rates.

Provision for Loan Losses

In 2004, the Bank s loan loss provision increased to $1,115,000 a change of $687,000 or 160.5% from 2003. The increase in loan loss provision in 2004 was principally due to the continued growth of the loan portfolio, net charge offs in 2004, the maturity of the loan portfolio and changes in the credit quality of the portfolio. In 2004 the Bank experienced $774,000 in net loan charge offs, primarily on commercial and commercial real estate loans. In 2003, the Bank s loan loss provision decreased $112,000 or 20.7% from 2002, to $428,000. Net charge offs were $312,000 in 2003 and $222,000 in 2002.

Table of Contents

TABLE 3 Non-interest Income

	2004	2003	2002
		(In thousands)	
Asset management fees	$ 815	$ 624	$ 401
Service charges on deposit accounts	569	458	158
Service charges on loans	340	250	153
Securities gains		183	27
Loan sale gains	416	82	1
Branch sale gains	196		
Other	47	5	5
Total	$ 2,383	$ 1,602	$ 745

Non-interest income rose $781,000 or 48.8% in 2004 when compared to 2003 due primarily to increases in asset management fees, gain on the sale of loans and the sale of two branches in 2004 and increased $857,000 or 115.0% in 2003 compared to 2002. Asset management fees increased $191,000 or 30.6% in 2004 and $223,000 or 55.6% in 2003. The Legacy Trust Company provides asset management, trust, employee benefit plan administration and investment services. Assets under management totaled $118,999,000 at December 31, 2004, $89,481,000 at December 31, 2003, and $69,186,000 at December 31, 2002.

Service charges on deposit accounts increased $111,000 or 24.2% to $569,000 in 2004 compared to an increase of $300,000 or 189.9% in 2003 due to increases in deposit balances attributable to the acquisition of NSB and three additional branches.

Service charges on loans increased $90,000 or 36.0% in 2004 compared to a $97,000 increase or 63.4% in 2003 due to increases in loan production, the purchase of $15.5 million of loans in 2004 and the acquisition of NSB and three additional branches.

No security gains were recognized in 2004. Securities gains of $183,000 in 2003 were a result of securities being called and sales of securities to better position the Bank. The gains of $27,000 in 2002 were a result of calls on certain callable investment securities.

Gain on sale of loans increased $334,000 or 407.3% in 2004 due to the sale of small business loans. Gain on sale of loans increased to $82,000 in 2003 due also to the sale of small business loans.

The Bank recognized a $196,000 gain on the sale of two branches in 2004.

Other income increased $42,000 or 840.0% in 2004 due primarily to the income generated from the $4.5 million investment in bank owned life insurance in September, 2004. Other income did not change from 2002 to 2003.

TABLE 4 Non-interest Expenses

	2004	2003	2002
		(In thousands)	
Salaries and employee benefits	$ 5,277	$ 4,549	$ 2,249
Occupancy and equipment	1,243	1,138	486
Data processing	1,055	872	361
Advertising, marketing and business development	205	280	180
Professional services	314	331	140
Other	2,403	2,058	837
Total	$ 10,497	$ 9,228	$ 4,253

Non-interest expenses of $10,497,000 increased by 13.8% or $1,269,000 in 2004 principally due to the growth in the deposit and loan portfolios. In 2003, non-interest expense rose to $9,228,000 or 117.0%. The Bank acquired NSB and three branches in 2003, which contributed to the significant increase during 2003.

Salary and benefit costs increased $728,000 or 16.0% to $5,277,000 in 2004 due primarily to the growth in the deposit and loan portfolios and increased benefit costs. In 2003, such costs rose to $4,549,000 from $2,249,000 in 2002 principally due to the acquisition of NSB and the three branches in 2003. The Bank had 87, 94 and 34 full time equivalent employees at December 31, 2004, 2003 and 2002, respectively. Merit increases, as well as increases in benefit costs were consistent with local trends in 2004 and 2003. The significant increases in the Bank s health insurance rates for 2004 and 2003 were also consistent with local and industry trends.

Occupancy and equipment expense rose to $1,243,000 in 2004, an increase from $1,138,000 in 2003 and $486,000 in 2002. The increase was due primarily to the acquisition of NSB in 2003, which added three branches, and the acquisition of three additional branches in 2003. The increase was partially offset in 2004 by the sale of two branches. The Bank had 8, 9 and 2 full service branches at the end of 2004, 2003 and 2002, respectively, and opened a loan production office in 2004. The Legacy Trust Company also had 2, 3 and 1 offices at the end of 2004, 2003 and 2002, respectively.

Data processing increased $183,000 or 21.0% to $1,055,000 in 2004 from $872,000 in 2003 due primarily to the acquisition of the three branches late in 2003 and partially offset by the sale of two branches in 2004. In 2003, there was an increase of $511,000 or 141.6% to $872,000 as a result of the acquisition of NSB and the purchase of the three branches.

Advertising, marketing and business development costs were $205,000 in 2004, $280,000 in 2003, and $180,000 in 2002. The Bank began marketing in newly acquired markets in 2003 resulting in the significant increase in the 2003 expense.

Professional services decreased $17,000 or 5.1% to $314,000 in 2004 from $331,000 in 2003, which represented an increase of $191,000 or 136.4% from 2002. The decrease in 2004 was due in part to hiring of an in-house general counsel late in 2003. The increase in 2003 was primarily due to increased costs associated with internal and external auditing services, investment advisors and consulting costs. The Bank continues to outsource certain services, such as internal audit and compliance to third parties. The Bank believes that there is significant benefit from the experience, knowledge and resources of these third party providers compared to what can be provided internally.

Other expenses rose $345,000 or 16.8% to $2,403,000 in 2004 from $2,058,000 in 2003 and $837,000 in 2002. The 2004 increase was due primarily to the full year of expense of the acquisitions occurring in 2003 and partially offset by the sale of two branches during the year. The 2003 increase was caused by the purchase of NSB in January of 2003 and the three additional branches purchased in September 2003. The significant increases in 2003 were chiefly in office supplies, printing costs, travel, telephones, postage, core deposit intangible amortization and processing of checks. Most of these were associated with the growth in the balance sheet and conversion costs in 2003.

Income Taxes

A tax benefit of $831,000, $317,000, and $485,000 was recognized in 2004, 2003 and 2002, respectively. The tax benefit was recognized to the extent that the resultant deferred tax asset was expected to be utilized in the following year.

Beginning in 2005, the Bank is expected to recognize income tax expense at an effective tax rate of approximately 31%.

Table of Contents

Financial Condition

Balance Sheet Review

The Bank s total assets increased $33.1 million or 10.8% in 2004, to $338.6 million from $305.5 million in 2003. The Bank sold two branches in June of 2004 with $28.5 million of loans and $20.4 million in deposits. The Bank s loan and deposit portfolios continued to grow in 2004 despite this sale. In August and December of 2004, the Bank purchased $10.3 million and $5.2 million of residential mortgages, respectively.

Investment Securities

The investment securities portfolio provides a substantial revenue stream to the Bank, which is second only to the loan portfolio. In addition, investment securities provide liquidity, as well as collateral for deposits of local government entities and borrowings at the Federal Home Loan Bank and the Federal Reserve. Investment securities purchases and sales are supported by a policy which includes liquidity, interest rate sensitivity, and credit risk standards. In addition, the investment policy emphasizes long-term objectives, while providing the flexibility to prudently manage near-term interest rate risk, liquidity, and overall balance sheet strategies. Management monitors the earnings performance, liquidity, duration and quality of the securities portfolio and manages interest rate risk for the Bank according to the Investment and Asset Liability Policies.

TABLE 5 Investment Securities

The following table shows the total investment securities portfolio consisting of the fair value of the available-for-sale securities and amortized cost for the held-to-maturity securities owned as of the dates indicated:

	December 31,		
	2004	**2003**	**2002**
		(In thousands)	
Investment Securities:			
U.S. Treasury securities	$ 563	$ 583	$ 591
U.S. Government agency obligations	20,516	12,473	4,600
Mortgage-backed securities	20,236	24,865	16,858
Collateralized mortgage obligations	17,823	15,392	2,934
Corporate and other debt securities	667	748	754
	59,805	54,061	25,737
Federal Home Loan Bank stock	2,878	1,538	833
Marketable equity securities	428	85	55
Total investment securities	$ 63,111	$ 55,684	$ 26,625
Available for Sale (Fair Value)	$ 51,098	$ 43,184	$ 26,625
Held to Maturity (Amortized Cost)	12,013	12,500	
Total investment securities	$ 63,111	$ 55,684	$ 26,625

Total balances in the investment portfolio at year-end were $63,111,000 in 2004, $55,684,000 in 2003, and $26,625,000 in 2002. The investment portfolio grew by 13.3% in 2004 due to leveraged borrowings. The Bank purchased $23.4 million and had maturities of $5.2 million of debt securities in 2004. In 2003, the investment portfolio grew generally because of the purchase of the three new branches and the acquisition of NSB. The Bank purchased $62.0 million, acquired $14.8 million from NSB, and had maturities of $18.9 million of debt securities in

2003. The purchase of investments was the approach taken to provide maximum interest rate spread opportunities. Maturities were chosen to best fit the anticipated growth in the loan portfolio. Investments purchased reflect the Bank s strategic goals of quality, liquidity, and income production. Emphasizing this strategy, the investment portfolio components showing the most growth are:

Table of Contents

U.S. Government agency obligations and collateralized mortgage obligations. The agency obligations, mortgage-backed securities and collateralized mortgage obligations generally supply some of the liquidity needs through interest payments and return of principal.

The following table sets forth the maturity distribution and weighted average yields of the investment portfolio as of December 31, 2004. The weighted average yields are calculated on the basis of the carrying value of the securities and their related interest income adjusted for the amortization of premium and accretion of discount.

TABLE 6 Investment Securities Maturity and Interest Sensitivity

The following table sets forth the maturity of the amortized cost of the debt securities portfolio as of December 31, 2004:

	Within One Year	Wtd. Avg. Yield	After One but Within Five Years	Wtd. Avg. Yield	After Five but Within Ten Years	Wtd. Avg. Yield	After Ten Years	Wtd. Avg. Yield	Total	Wtd. Avg. Yield
U.S. Treasury securities	$	0.0%	$ 552	4.4%	$	0.0%	$	0.0%	$ 552	4.4%
U.S. Government agency obligations	1,508	2.1%	17,541	3.1%	1,510	4.2%		0.0%	20,559	3.1%
Mortgage-backed securities (includes CMO s)		0.0%	3,269	3.8%	6,668	3.9%	28,281	4.0%	38,218	4.0%
Corporate and other debt securities	25	6.9%		0.0%		0.0%	750	9.3%	775	9.2%
	$ 1,533	2.2%	$ 21,362	3.2%	$ 8,178	4.0%	$ 29,031	4.1%	$ 60,104	3.7%

Loan Portfolio

Total loans outstanding on December 31, 2004 were $252,480,000 compared with $229,585,000 on the same date in 2003. The loan portfolio represented 74.6% and 75.2% of the total assets on December 31, 2004 and 2003, respectively.

The loan portfolio is composed of commercial loans, residential loans, and consumer loans. The commercial portfolio represents 78.5% of the total portfolio as of December 31, 2004 and is comprised of lines of credit, equipment loans, and real estate loans for various purposes, including working capital. A significant portion of commercial loans are secured by real estate. Residential mortgages comprise only 10.4% of the loan portfolio. The consumer portfolio makes up the remaining 11.1% of the portfolio. Included in the consumer portfolio are direct installment loans for purposes such as vehicle purchases, debt consolidations, home improvements, and other personal needs. Home equity loans are also a part of the consumer portfolio. The Bank does not engage in foreign lending nor does it engage in speculative real estate and land development lending. The primary areas of lending are Dauphin, Cumberland, Lycoming, Luzerne, and Schuylkill Counties, Pennsylvania and those areas which border those counties.

Table of Contents

TABLE 7 Loan Portfolio

The following table sets forth the composition of the Bank s loan portfolio on the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Commercial and commercial real estate	$ 198,185	$ 186,231	$ 89,319	$ 71,065	$ 34,755
Residential Real Estate	26,174	17,261	4,130	4,560	1,700
Consumer	27,854	25,948	15,763	9,477	3,474
Gross Loans	252,213	229,440	109,212	85,102	39,929
Net deferred loan costs	267	145	178	245	166