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

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Filed Pursuant to Rule 424(b)(3)
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.

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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.

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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.

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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.

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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.

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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.

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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 .

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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.

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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.

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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.

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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.

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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.

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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

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	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.

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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

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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

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	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

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	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.

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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.

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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.

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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

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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 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.

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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.

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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.

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.

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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.

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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.

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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

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$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

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.

Quantitative and Qualitative Disclosures About Market Risk

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.

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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

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$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.

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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.

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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

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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%.

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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:

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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.

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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
Total Loans	252,480	229,585	109,390	85,347	40,095
Allowance for loan losses	(3,461)	(3,430)	(1,300)	(982)	(480)
Total	$ 249,019	$ 226,155	$ 108,090	$ 84,365	$ 39,615

Net loan growth in 2004 was $22.9 million or 10.0%, which consisted of a decrease of $28.5 million from the sale of two branches, the purchase of $15.5 million of residential mortgages, and internal growth comprised primarily of higher commercial and consumer loan activity. Total loans grew substantially in 2003 as a result of $65.5 million from the acquisition of NSB and $23.9 million from the purchase of the three branches. The Bank encourages loan demand by continuing to focus on its target market.

TABLE 8 Loan Maturity and Interest Sensitivity

The following table sets forth the maturity and interest sensitivity of the commercial loan portfolio as of December 31, 2004:

	Within One Year	After One but Within Five Years	After Five Years	Total
	(In thousands)			
Commercial and commercial real estate				
Variable	$ 44,246	$ 16,510	$ 52,626	$ 113,382
Fixed	6,920	$ 24,650	53,233	84,803
Total	$ 51,166	$ 41,160	$ 105,859	$ 198,185

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Asset Quality

TABLE 9 Non-accrual, Past Due and Restructured Assets

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Non-accrual loans	$ 1,037	$ 1,161	$	$	$
Accruing loans, past due 90 days or more	42	195	127	592	
Restructured loans					
Total non-performing loans	1,079	1,356	127	592	
Foreclosed assets					
Total non-performing assets	$ 1,079	$ 1,356	$ 127	$ 592	$
Interest income recognized on cash basis on non-accrual loans	$	$ 48	$	$	$
Interest that would have been recognized according to contractual terms	$ 67	$ 66	$	$	$
Ratios:					
Non-performing loans to total loans	0.43%	0.59%	0.12%	0.69%	0.00%
Non-performing assets to total loans and other real estate owned	0.43%	0.59%	0.12%	0.69%	0.00%
Allowance for loan loss to total non-performing loans	320.8%	252.9%	1023.6%	165.9%	0.0%

As of December 31, 2004, there were $1,037,000 of non-accrual loans. The balance consisted of ten commercial and commercial real estate loans, the largest of which had a balance of $420,000. As of December 31, 2003, there was $1,161,000 of non-accrual loans comprised of thirteen commercial and commercial real estate loans. The $592,000 in 90 days past due for 2001 consisted of one loan as to which the USDA guaranteed principal and interest. This loan was paid off in full in 2002. Loans reported as impaired under FASB Statement of Financial Accounting Standards No. 114 include all non-accrual loans and those loans identified by management where non-compliance with loan terms in the future is deemed probable. As of December 31, 2004, $4.2 million of impaired loans were outstanding and a valuation allowance of $1.3 million was established for these loans. Substantially all impaired loans are commercial loans with impairment measured by the fair value of collateral.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged to earnings. Loans deemed to be uncollectible are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management s periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, the results of regulatory examinations, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified

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loans and is based on historical loss experience of similar institutions, adjusted for qualitative factors. Loss experience of similar institutions is used because of the limited charge-off history of the Bank.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Based on all relevant information available, management believes the allowance for loan losses as stated at December 31, 2004 is adequate to cover potential loan losses arising from 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.

TABLE 10 Summary of Loan Loss Experience

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Allowance for loan losses, beginning balance	$ 3,430	$ 1,300	$ 982	$ 480	$ 150
Less charge-offs:					
Commercial and commercial real estate	685	336	222		
Consumer	127	11			
Total charge-offs	812	347	222		
Plus recoveries:					
Commercial and commercial real estate	35	29			
Consumer	3	6			
Total recoveries	38	35			
Net loans charged off	774	312	222		
Provision for loan losses	1,115	428	540	502	330
Purchase (sale) of loans	(310)	2,014			
Balance at end of year	$ 3,461	$ 3,430	$ 1,300	$ 982	$ 480
Average total loans	$ 239,895	$ 195,606	$ 97,833	$ 62,260	$ 23,886
	1.37%	1.49%	1.19%	1.15%	1.20%

Allowance for loan losses to period end total loans					
Allowance for loan losses to non-performing loans	320.8%	252.9%	1023.6%	165.9%	N/A
Net charge-offs to average loans	0.32%	0.16%	0.23%	N/A	N/A

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The allowance for loan losses increased $31,000 in 2004 to $3,461,000 from $3,430,000 in 2003 and $1,300,000 in 2002. Of the $685,000 of commercial loan charge offs in 2004, $430,000 were attributable to two large relationships. Consumer loan charge offs in 2004 of $127,000 were credits related to commercial loans charge offs. In 2004, the Bank reduced the allowance by $310,000 as a result of the sale of the Towanda and Sayre branches to First Citizens National Bank in June 2004. In 2003, the Bank added $2,014,000 to the allowance as a result of the acquisition of NSB and the three branches discussed above. Of the $336,000 of commercial loan charge offs in 2003, $290,000 were attributable to one relationship. In 2002, $200,000 of the commercial loan charge offs were a result of one loan. There were no charge offs or recoveries in 2001 or 2000.

The allowance for loan losses represents 1.37% of loans outstanding as of December 31, 2004 and 1.49% as of December 31, 2003. As of December 31, 2004, there was $1,079,000 in non-performing loans compared to $1,356,000 at the end of 2003 and $127,000 at the end of 2002. This is reflective of the maturing of the loan portfolio since the Bank s inception in 1999. At the end of 2001, there was a higher percentage of government guaranteed loans than in the other years, which did not require as high a loan loss reserve. There were no non-performing loans in 2000.

TABLE 11 Allocation of the Allowance for Loan Losses

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Commercial and commercial real estate	$ 2,931	$ 2,786	$ 1,088	$ 620	$ 332
Residential real estate	65	43	10	11	7
Consumer	160	111	67	46	29
Unallocated	305	490	135	305	112
Allowance for loan losses	$ 3,461	$ 3,430	$ 1,300	$ 982	$ 480
Percentage of loans to total loans:					
Commercial and commercial real estate	78.5%	81.1%	81.7%	83.3%	86.7%
Residential real estate	10.4%	7.5%	3.8%	5.3%	4.2%
Consumer	11.1%	11.4%	14.5%	11.1%	9.1%
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

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 the Bank s assumptions.

Intangible and Other Assets

Intangible assets consist of goodwill and other amortizable intangible assets. There were no intangible assets prior to 2003. As of December 31, 2004, total goodwill of $5.6 million consisted of $2.8 million from the purchase of Northern State Bank and $2.8 million from the purchase of branches. Goodwill totaled $6.3 million at December 31, 2003. Changes during 2004 were attributable to the sale of branches to which the goodwill was attributed to. Goodwill associated with the branch purchase is deductible for tax purposes. Management has tested goodwill for impairment as of December 31, 2004 and has determined there was no impairment.

Amortizable intangible assets (principally core deposit intangibles) associated with these transactions have a weighted average amortization period of approximately ten years. At December 31, 2004, the carrying amount of these intangible assets was $1.4 million which is net of accumulated amortization of $231,000. Amortization expense was $173,000 in the year ended December 31, 2004 and $58,000 in 2003.

The Bank purchased $4.5 million in Bank Owned Life Insurance (BOLI) in 2004. BOLI is a tax advantaged investment that the Bank uses to offset employee benefit costs. BOLI is subject to regulatory

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review and compliance in order to receive favorable regulatory capital treatment. In 2004 the Bank recorded $40,000 from BOLI in other income.

Deferred Tax Asset

The benefit to the Bank of operating loss carryforwards and future deductible items exceeds future taxable items at December 31, 2004 and 2003, resulting in the recognition of a net deferred tax asset. Deferred tax assets of $1,600,000 and $986,000 were recorded as of December 31, 2004 and 2003, respectively and were net of valuation allowances of $0 and $2,108,000, respectively. 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. A deferred tax benefit of $831,000 and $317,000 was recognized in 2004 and 2003, respectively. The recognition of this benefit as well as the generation of taxable income in 2004 served to eliminate the valuation allowance. The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $2,348,000 as of December 31, 2004 which begin to expire in 2019. The benefit of these net operating losses has been fully recognized in the financial statements at December 31, 2004.

Funding Sources

Deposits

The Bank s primary source of funding for its loan and investment portfolios is the deposit base. Total deposits grew by $4.4 million or 1.8% in 2004 to $244.5 million. This growth was partially offset by the decrease of $20.4 million in deposits resulting from the sale of two branches in 2004. Time deposit balances increased 2.6% as a percentage of total deposits to 55.9% in 2004 to fund the growth of the loan and investment portfolios. Both interest bearing and non-interest bearing demand deposits decreased .3% of total deposits in 2004 to 5.0% and 11.4%, respectively. Money market deposit balances decreased in 2004 due to customer s shifting into other products and the Bank s emphasis on time deposits. In 2003, total deposits increased 92.4% or $115.3 million compared to 2002. This growth is primarily due to the $76.3 million and $59.5 million of deposits acquired through the purchase of NSB and the three branches, respectively. The Bank lowered deposit costs to 1.83% in 2004 from 1.99% in 2003 and 3.19% in 2002.

TABLE 12 Deposit Portfolio

	December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(In thousands)				
Non-interest bearing demand deposits	$ 27,931	$ 28,125	$ 9,066	$ 4,622	$ 3,159
Interest bearing demand deposits	12,240	12,745	3,745	4,703	2,091
Money market	13,739	21,616	7,519	11,834	110
Savings	53,939	49,577	35,868	14,955	5,715
Time Deposit, $100,000 and over	30,814	26,018	16,986	15,952	10,120
Time Deposit, other	105,801	101,999	51,594	40,011	19,461
Total	$ 244,464	$ 240,080	$ 124,778	$ 92,077	$ 40,656

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TABLE 13 Deposit Maturities

The following table summarizes the maturities of time deposits of $100,000 or more as of December 31:

	2004
	(In thousands)
Three months or less	$ 3,388
Over three through six months	3,345
Over six through twelve months	11,796
Over twelve months	12,285
Total	$ 30,814

Borrowed Funds

Borrowings have remained an important source of funding and serve to support the Bank s loan growth strategies. The Bank has a total of $11.0 million available for borrowing in short-term lines of credit established with five banks at December 31, 2004. The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh; as a result the Bank can take advantage of the FHLB program for overnight and term advances at published daily rates, which are advantageous to members as compared to issuing notes directly in the market. The Bank had $23.4 million and $10.2 million in outstanding overnight borrowings at December 31, 2004 and 2003, respectively. Long-term borrowings through the FHLB totaled $28.0 million and $14.5 million at December 31, 2004 and 2003 respectively. At December 31, 2004, the Bank could borrow an additional $25.6 million based on the FHLB s December 31, 2004 Maximum Borrowing Capacity Report. Certain borrowings have a guaranteed fixed interest rate for a period of time, after which the interest rate floats with a variable index until maturity. An additional provision of these borrowings allows the Bank to pay off the respective advance upon its conversion to a variable rate of interest. The Bank has utilized long-term debt as a better match for loan growth.

TABLE 14 Short-term Borrowings

The following table summarizes short-term borrowings for 2004 and 2003; there were no short-term borrowings in 2002:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Federal Home Loan Bank overnight advances	$ 23,425	$ 10,187
Average balance	$ 7,814	$ 9,379
Maximum month-end balance	$ 23,425	$ 14,090
Weighted average rate	1.60%	1.34%
Range of interest rates paid on December 31	2.19%- 2.34%	1.01%- 1.19%

Convertible Subordinated Debentures

During 2003, the Bank sold 1,914 investment units for $5,000 each. Each investment unit consisted of 225 shares of common stock priced at $11.11 per share and $2,500 in the aggregate and a 15-year, 5% convertible subordinated capital note in the principal amount of $2,500. Total notes outstanding were $4,500,000 and $4,785,000 at December 31, 2004 and 2003, respectively. The notes may be converted into shares of common stock at any time at a conversion price of $12.50 per share, subject to adjustment upon the occurrence of certain events. Interest on the notes accrues from the date of issuance and is payable on September 15 and March 15 of each year. As of December 31, 2004, 360,000 shares of common stock are reserved for the potential conversion. During 2004, 114 notes were converted into 22,800 shares of common stock.

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Shareholders Equity

The Bank s total shareholders equity was $36.7 million at December 31, 2004, an increase of $2.9 million from December 31, 2003. This increase is due to $2.4 million of net income, a decrease of $0.2 million due to changes in the net unrealized loss on available for sale securities, and the issuance of common stock of $0.7 million. The Bank maintains regulatory capital ratios in excess of the limits 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.

TABLE 15 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)					
December 31, 2004						
Total capital to risked weighted assets	$ 37,698	14.7%	$ 20,573	8.0%	$ 25,717	10.0%
Tier I capital to risked 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%
December 31, 2003						
Total capital to risked weighted assets	$ 33,826	14.2%	$ 19,037	8.0%	$ 23,796	10.0%
Tier I capital to risked weighted assets	$ 26,061	11.0%	$ 9,518	4.0%	$ 14,277	6.0%
Tier I capital to average assets	$ 26,061	9.1%	$ 11,493	4.0%	$ 14,366	5.0%

Liquidity

The Bank s ability to generate funds needed to support loan demand and deposit withdrawals are monitored by the Asset and Liability Management Committee. Integral to the management of the Bank s balance sheet is the maintaining of adequate liquidity and the ability to evaluate and control interest rate risk. Liquidity represents the ability to meet potential cash outflows resulting from deposit customers who need to withdraw funds or borrowers who need available credit. The Bank maintains a fairly high loan to deposit ratio of 103.3% and 95.6% at December 31, 2004 and 2003, respectively. This strategy helps to maximize net interest income, but also increases the need for liquidity management.

Sources of liquidity include regular monthly cash flows from loan repayments, prepayments of loans, which typically increase in a declining interest rate environment, sale of investment securities classified as available-for-sale and the sale of loans. Other sources include cash flows generated from the investment portfolio, through established maturities, prepayments or call provisions, or from an increasing level of capital due primarily to retained profits. In addition, the Bank maintains borrowing relationships with correspondent banks, totaling $11.0 million, and the Federal Home Loan Bank of Pittsburgh. Borrowing capacity from the Federal Home Loan Bank of Pittsburgh on December 31, 2004 was approximately $77.0 million. These borrowing sources provide substantial funds availability to meet liquidity needs.

On December 31, 2004, securities available for sale, short term investments and federal funds sold totaled $53.0 million compared to $43.2 in 2003. Maximizing cash flow over time is crucial to the maintenance of adequate liquidity.

Cash flows from operating activities increased in 2004 and 2003 as the Bank generated increasing profits. The increase in 2004 was primarily due to the increase in net income and decrease in other assets. Cash used

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in investing activities increased in 2004 as compared to 2003 and 2002. This was due to the overall increase in loans with $15.5 million of the increase resulting from the purchase of residential mortgages and the receipt of cash in 2003 attributable to branch purchases and assumption of deposits.

Cash provided by financing activities increased significantly in 2004 due to the increase in deposits and short-term and long-term borrowings. In 2003, cash provided by financing activities was significantly lower than 2004 and 2002 due to the planned runoff in anticipation of acquiring deposits from the branch acquisitions. Substantially all of the 2002 cash provided by financing activities is related to deposit and long-term borrowings increases.

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.

TABLE 16 Off Balance Sheet Arrangements

At December 31, 2004 and 2003, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2004	2003
	(In thousands)	
Commitments to grant loans	$ 20,760	$ 19,568
Unfunded commitments under lines of credit	50,020	53,752
Unfunded letters of credit	2,741	2,597
	$ 73,521	$ 75,917

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.

TABLE 17 Contractual Obligations

The following table represents the Bank s aggregate on and off balance sheet contractual obligations to make future payments as of December 31, 2004:

	Within One Year	After One but Within Three Years	After Three but Within Five Years	After Five Years	Total
			(In thousands)		
Time deposits	$ 69,828	$ 44,729	$ 21,994	$ 64	$ 136,615
Long-term debt obligations	8,000	11,000		13,500	32,500
Operating leases	305	540	519	819	2,183

	$ 78,133	$ 56,269	$ 22,513	$ 14,383	$ 171,298

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

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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 close early in the second quarter of 2005. The acquisition is expected to be accretive to the Bank immediately.

The Bank is not aware of any additional known trends, demands, commitments, events or uncertainties which would result in any material increase or decrease in liquidity.

TABLE 18 Selected Quarterly Financial Data

	Quarter Ended				Quarter Ended			
	03/31/04	**06/30/04**	**09/30/04**	**12/31/04**	**03/31/03**	**06/30/03**	**09/30/03**	**12/31/03**
	(In thousands)							
Interest Income	$ 3,898	$ 4,000	$ 4,066	$ 4,305	$ 3,200	$ 3,330	$ 3,434	$ 3,811
Interest Expense	1,281	1,308	1,358	1,569	1,355	1,229	1,169	1,256
Net Interest Income	2,617	2,692	2,708	2,736	1,845	2,101	2,265	2,555
Provision for Loan Losses	240	369	189	317	35	149	52	192
Net Int. Inc. after Prov. for Loan Losses	2,377	2,323	2,519	2,419	1,810	1,952	2,213	2,363
Non-interest income	639	628	417	699	324	327	504	447
Non-interest expense	2,818	2,651	2,490	2,538	2,088	2,182	2,444	2,514
Income before income tax benefit	198	300	446	580	46	97	273	296
Income tax benefit	(207)	(207)	(207)	(210)	(60)	(60)	(81)	(116)
Net Income	$ 405	$ 507	$ 653	$ 790	$ 106	$ 157	$ 354	$ 412
PERFORMANCE RATIOS:								
Basic earnings per share	0.11	0.14	0.18	0.22	0.04	0.06	0.14	0.13
Diluted earnings per share	0.11	0.14	0.17	0.21	0.04	0.06	0.14	0.13

Results for 2004 include the June 5, 2004 divestiture of two branches; results for 2003 include the impact of the January 1, 2003 acquisition of NSB and the September 5, 2003 purchase of three branches.

Quantitative And Qualitative Disclosures About Market Risk

Market Risk

In the course of its normal business operations, the Bank is exposed to certain market risks, namely 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 the maintenance of sufficient liquidity is maintaining an appropriate balance between rate-sensitive assets and rate-sensitive liabilities. Interest rate sensitivity analysis is the measure of the vulnerability of net interest income to changes in the level of rates. An interest rate sensitivity gap results when assets and liabilities reprice at different intervals and at different speeds. A negative gap or liability sensitive gap, negatively impacts earnings if rates rise. A positive or asset sensitive gap implies the risk of lower earnings if rates decline. To attempt to offset this risk, the Bank regularly forecasts its exposure to rate changes and monitors its performance so that balance sheet restructuring may be executed as needed.

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Interest rate risk can result from a variety of factors including timing differences in the maturity or repricing of the Bank s assets and liabilities, the effect of loan prepayments and deposit withdrawals, and the differences in the behavior of lending and funding rates, sometimes referred to as basis risk. The Bank uses gap and simulation analysis to measure interest rate risk. Under a gap analysis, interest earning assets and interest bearing liabilities are measured by time frame which reflects scheduled maturity and/or repricing dates as of one point in time. Estimates on prepayments of the loan and securities portfolios are projected through evaluation of their respective prepayment histories and current market conditions in the simulation analysis. Typically, prepayments on loans and mortgage-backed securities accelerate in periods of declining rates; and conversely, prepayments typically slow down in a rising interest rate environment. The table below reflects the Bank s simulation analysis as of December 31, 2004, which includes estimated principal cash flows of the Bank s interest-bearing assets and liabilities. Estimates of prepayments on loans and mortgage-backed securities and call activity on other debt instruments are built into the analysis. Certain interest-bearing liabilities, including NOW and savings accounts are treated as core deposits in the simulation. Other variable rate deposits are analyzed with deposits and borrowings that are scheduled to mature within one year. Current market interest rates as of December 31, 2004 were used in the simulation.

Gap Analysis

As of December 31, 2004, 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 $15.7 million. On a cumulative basis, interest sensitive assets as a percentage of interest sensitive liabilities are 112.5% within a one-year period. Although certain assets and liabilities may share certain similar characteristics with respect to maturity, repricing, and historical prepayment velocity, they may react differently in the future based on circumstances and events at that time, including market and economic conditions as well as the prevailing level of competition for loans and deposits. In addition, there can be no assurance that the Bank s assets and liabilities will behave as estimated in the simulation analysis due to the inherent uncertainty of the assumptions employed in the model.

TABLE 19 Interest Rate Sensitivity Gaps

	December 31, 2004					
	Within Three Months	**After Three Months but Within Six Months**	**After Six Months but Within One Year**	**After One Year but Within Five Years**	**After Five Years**	**Total**
	(Dollars in thousands)					
Interest Earning Assets						
Federal funds sold	$ 1,868	$	$	$	$	$ 1,868
Short-term investments	22					22
Securities	2,768	1,443	11,610	24,256	23,034	63,111
Loans	99,483	8,965	15,422	58,603	70,007	252,480
Total interest earning assets	$ 104,141	$ 10,408	$ 27,032	$ 82,859	$ 93,041	$ 317,481

Cumulative	$ 104,141	$ 114,549	$ 141,581	$ 224,440	$ 317,481	
Interest Bearing Liabilities						
Interest bearing demand deposits	$ 389	$ 389	$ 779	$ 2,327	$ 8,356	$ 12,240
Savings	18,965	1,363	2,725	14,319	30,306	67,678
Time deposits	15,723	14,601	39,504	66,723	64	136,615
Borrowings	25,425		6,000	11,000	13,500	55,925
Total interest bearing liabilities	$ 60,502	$ 16,353	$ 49,008	$ 94,369	$ 52,226	$ 272,458
Cumulative	$ 60,502	$ 76,855	$ 125,863	$ 220,232	$ 272,458	
Period GAP	$ 43,639	$ (5,945)	$ (21,976)	$ (11,510)	$ 40,815	
Cumulative GAP	$ 43,639	$ 37,694	$ 15,718	$ 4,208	$ 45,023	
Cumulative GAP as a percentage of total interest earning assets	41.90%	32.91%	11.10%	1.87%	14.18%	

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Gap guidelines for the Bank are that for the one year interval, the cumulative rate sensitive assets to rate sensitive liabilities ratio will be between 70% and 120%. The Asset Liability Committee (ALCO) and the Board of Directors review this guideline quarterly to ensure compliance. ALCO reviews its assumptions quarterly and determines if the gap is correctly predicting the net interest margin. In determining risk exposure limits, ALCO considers the nature of the Bank s strategies and activities, its past performance, the level of earnings and capital available to absorb potential losses. Historically, the Bank s performance has been within the guidelines set for gap. If it appears that the guidelines may be breached, ALCO would implement actions to be taken to prevent this breach. Some of the strategies used by financial institutions to assure compliance with gap guidelines are controlling interest rates, increasing or decreasing the duration of the portfolio, raising additional capital, selling assets to enhance liquidity, and/or implementing hedging and interest rate swaps.

Simulation

The Bank forecasts future changes in net interest income and the present value of equity in the following table. This table represents the changes as a result of movement of interest rates. The Bank also uses simulation for various other interest rate scenarios which are used to forecast earnings and anticipate changes in net interest income based on both balance and interest rate changes. The analysis in Table 20 estimates the projected change to net interest income resulting from instantaneous interest rate movements (rate shocks). The Bank forecasts that a 200 basis point decrease in rates will have a negative impact on net interest income. An increase in rates of 100 or 200 basis points will have a positive effect, and a decrease in rates of 100 basis points will have a minimal positive effect on net interest income. The Bank also analyses the impact that the change in rates have on the market value of equity. The Bank forecasts that a decrease in rates will have a positive impact on market value of equity and an increase in rates will have a negative effect on market value of equity. The risk to net interest income and changes in market value of equity are within guidelines set by the asset/liability policies of the Bank.

TABLE 20 Rate Shock Analysis

Changes in Interest Rates (Basis Points)	Percentage Change in Net Interest Income	Percentage Change in Market Value of Equity
(200)	(0.43)%	36.22%
(100)	0.79%	17.75%
0	0.00%	0.00%
100	3.05%	(16.58)%
200	5.95%	(32.25)%

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/ prospectus contains or incorporates by reference a number of forward-looking statements regarding the financial condition, results of operations, earnings outlook, business and prospects of FNB, Legacy and the potential combined company as well as statements for the period following the completion of the merger. You can find many of these statements by looking for words such as plan, believe, expect, intend, anticipate, estimate, potential, possible or other similar expressions.

The forward-looking statements involve certain risks and uncertainties. The ability of either FNB or Legacy to predict results or the actual effects of their plans and strategies, or those of the combined company, is inherently uncertain. Accordingly, actual results may differ materially from anticipated results. Some of the factors that may cause actual results or earnings to differ materially from those contemplated by the forward-looking statements include, but are not limited to, those discussed under Risk Factors Relating to the Merger beginning on page 17, as well as the following:

- the businesses of FNB and Legacy may not be integrated successfully or the integration may be more difficult, time-consuming or costly than currently anticipated;
- expected revenue synergies and cost savings from the merger may not be realized within the expected time frame or at all;
- revenues may be lower than expected following the merger;
- deposit attrition, operating costs, loss of customers and business disruption, including, without limitation, difficulties in maintaining relationships with our employees, customers or suppliers may be greater than anticipated following the merger;
- the regulatory approvals for the merger may not be obtained on acceptable terms, on the anticipated schedule or at all;
- the merger may not be approved by the requisite vote of our shareholders;
- competitive pressure among financial services companies is intense;
- general economic conditions may be less favorable than expected;
- political conditions and related actions by the United States military abroad may adversely affect economic conditions as a whole;
- changes in the interest rate environment may reduce interest margins and impact funding sources;
- changes in market rates and prices may adversely impact the value of financial products and assets;
- legislation or changes in the regulatory environment may adversely affect the businesses in which FNB and Legacy are engaged; and
- litigation liabilities, including costs, expenses, settlements and judgments, may adversely affect either company or their businesses.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/ prospectus or the date of any document incorporated by reference in this proxy statement/ prospectus.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/ prospectus and attributable to FNB or Legacy or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, FNB and Legacy undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/ prospectus or to reflect the occurrence of unanticipated events.

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OUR SPECIAL MEETING

This section contains information for our shareholders about the special meeting of shareholders we have called to consider the approval of the merger proposal and related matters.

General

This proxy statement/ prospectus is being furnished to holders of our common stock for use at our special meeting and any adjournment, postponement or continuation of our special meeting.

When and Where Our Special Meeting Will Be Held

Our special meeting will be held on Monday, April 24, 2006, at 10:00 a.m., prevailing time, at the C. Ted Lick Wildwood Conference Center, Harrisburg Area Community College, One HACC Drive, Harrisburg, Pennsylvania 17110, subject to any adjournment, postponement or continuation of our special meeting.

Matters to Be Considered

The purpose of our special meeting is to consider and vote upon:

Proposal 1 A proposal to approve and adopt the merger agreement among FNB, FNB Bank and us;

Proposal 2 A proposal to grant discretionary authority to adjourn our special meeting if necessary to permit further solicitation of proxies because we have not received sufficient votes at the time of our special meeting to approve the merger proposal; and

Such other business as may properly come before our special meeting and any adjournment, postponement or continuation of our special meeting.

Our shareholders must approve Proposal 1 for the merger to occur. If our shareholders fail to approve this proposal, the merger will not occur.

At this time, our board of directors is unaware of any other matters, other than as set forth above, that may be presented for action at our special meeting. If other matters are properly presented, however, the persons named as proxies will vote in accordance with their judgment with respect to such matters.

Record Date; Shares Outstanding and Entitled to Vote

Our board of directors has fixed the close of business on February 27, 2006 as the record date for the determination of holders of our common stock entitled to notice of, and to vote at, our special meeting and any adjournment, postponement or continuation of our special meeting.

On the record date, 3,551,655 shares of our common stock were issued and outstanding and entitled to vote at our special meeting, held by approximately 620 holders of record. Each share of our common stock is entitled to cast one vote on all matters that are properly submitted to our shareholders at our special meeting.

Quorum

The presence, in person or by properly executed proxy, of the holders of at least a majority of our outstanding shares of common stock 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. A quorum must be present in order for the vote on the merger proposal and the adjournment proposal to occur.

Based on the number of shares of our common stock issued and outstanding as of the record date, 1,775,828 shares of our common stock must be present in person or represented by proxy at our special meeting to constitute a quorum.

Shareholder Vote Required

Approve and Adopt the Merger Agreement. The affirmative vote of the holders of not less than two-thirds of our outstanding shares of common stock on the record date is required to approve the merger proposal. Therefore, the failure to vote, either by proxy or in person, will have the same effect as a vote against approval of the merger proposal. Abstentions will also have the same effect as a vote against approval of the merger proposal. Accordingly, we urge you to complete, date and sign the accompanying proxy card and return it promptly in the enclosed postage-paid envelope.

When considering our board of directors recommendation that you vote in favor of the approval and adoption of the merger agreement, you should be aware that certain of our executive officers and directors have interests in the merger that may be different from, or in addition to, your interests as a shareholder. See The Merger Interests of Our Directors and Executive Officers in the Merger beginning on page 81.

Discretionary Authority to Adjourn Our Special Meeting. The affirmative vote of the holders of a majority of the eligible shares of our common stock present in person or represented by proxy at our special meeting is required to approve the proposal to grant discretionary authority to adjourn our special meeting if necessary to permit further solicitation of proxies for the merger proposal. The failure to vote, either by proxy or in person, will have no effect on the outcome of the voting on the adjournment proposal. However, abstentions will have the same effect as a vote against the adjournment proposal.

Appraisal Rights

Under the Bank Act, you have the right to receive the appraised value of your shares of our common stock in connection with the merger. See The Merger Appraisal Rights beginning on page 84 for further information.

Director and Executive Officer Voting

As of the record date, our directors and executive officers and their affiliates beneficially own 703,792 shares of our common stock, or approximately 18.5% of the issued and outstanding shares of our common stock entitled to vote at our special meeting. This number includes options to purchase 243,844 shares of our common stock exercisable within 60 days of the record date.

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, or approximately 2.5% of the shares entitled to vote at our special meeting. FNB s directors and executive officers and their affiliates have advised FNB that they will vote such shares for approval of the merger proposal. FNB does not own any shares of our common stock.

Proxies

Voting. You should complete and return the proxy card accompanying this proxy statement/ prospectus in order to ensure that your vote is counted at our special meeting and at any adjournment, postponement or continuation of our special meeting, regardless of whether you plan to attend our special meeting. If you sign and send in your proxy card and do not indicate how you want to vote, we will count your proxy card as a vote in favor of approval of the merger proposal and in favor of approval of the adjournment proposal.

If your shares of our common stock are held in the name of a bank, broker, nominee or other holder of record, you will receive instructions from the bank, broker, nominee or other holder of record that you must follow in order for your shares of our common stock to be voted.

If your shares are held in street name, i.e., by your bank, broker or other nominee, you might also be eligible to vote by phone or over the internet. Special instructions can be found on the enclosed proxy materials.

Revocability. 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.

Written notices of revocation and other communications regarding the revocation of your proxy should be addressed to:

The Legacy Bank
2600 Commerce Drive
Harrisburg, Pennsylvania 17110
Attention: Kirsten C. Penwell, Secretary

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.

A proxy appointment will not be revoked by the death or incapacity of the shareholder executing the proxy unless notice of the death or incapacity is given to our corporate secretary before the shares of our common stock represented by such proxy are voted.

How Proxies are Counted. All shares of our common stock represented by properly executed proxies received before or at our special meeting, and not revoked, will be voted in accordance with the instructions indicated in the proxies.

We will count a properly executed proxy marked ABSTAIN as present for purposes of determining the presence of a quorum, but an abstention will have the effect of voting against approval of the merger proposal and voting against approval of the adjournment proposal.

Brokers may not vote shares of our common stock that they hold beneficially 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 approval of the merger proposal.

In addition, brokers may not vote on the adjournment proposal without specific instructions from the person who beneficially owns those shares. Nevertheless, shares held by a broker for which you do not give your broker instructions on how to vote will have no effect on the outcome of the voting on the adjournment proposal.

Solicitation. We will pay for the costs of our special meeting and for the mailing of this proxy statement/ prospectus to our shareholders, as well as all other costs we incur in connection with the solicitation of proxies from our shareholders. However, FNB and we will share equally the cost of printing this proxy statement/ prospectus and the filing fees paid to the SEC.

In addition to soliciting proxies by mail, our directors, officers and employees may solicit proxies by telephone or in person. Our directors, officers and employees will not be specially compensated for these activities. We also intend to request that brokers, banks, nominees and other holders of record solicit proxies from their principals, and we will reimburse the brokers, banks, nominees and other holders of record for certain expenses they incur for those activities.

We have retained Regan & Associates, Inc. to assist us in the solicitation of proxies. We have agreed to pay Regan & Associates, Inc. a fee of $8,000 for its services.

Recommendation of Our Board of Directors

Our board of directors unanimously approved the merger agreement and the transactions contemplated by the merger agreement. Based on our reasons for the merger described in this proxy statement/ prospectus, our board of directors believes that the merger is in our best interests and those of our shareholders. Accordingly, our board of directors unanimously recommends that our shareholders vote FOR approval of the merger proposal and FOR approval of the adjournment proposal. See The Merger Our Board of Directors Reasons for the Merger; Recommendation beginning on page 63, for a more detailed discussion of our board of directors recommendation.

Attending Our Special Meeting

If your shares are held in street name and you want to attend our special meeting, you must bring an account statement or letter from your holder of record showing that you were the beneficial owner of the shares on February 27, 2006, the record date for our special meeting.

Questions and Additional Information

If you have more 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.

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INFORMATION ABOUT LEGACY AND FNB

The Legacy Bank
2600 Commerce Drive
Harrisburg, Pennsylvania 17110
(717) 441-3400

Business

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 which are located in Harrisburg, Camp Hill, Hazleton, Shenandoah, Drums, McAdoo, Pottsville and Williamsport. The Legacy Trust Company has two offices which are located in Harrisburg and Pottsville.

Banking Operations

We offer a select range of deposit accounts designed to attract small to medium-sized businesses, professionals, professional practices, associations and individuals in our primary market area. These accounts include personal and business checking and savings accounts, time certificates of deposit and specialized deposit accounts, including sweep accounts, small business packaged accounts and tiered accounts designed to attract larger deposits, and Keogh and IRA accounts. In addition, commercial loans and consumer loans, including auto loans, mortgages, home improvement loans and home equity lines of credit are offered. Loans in amounts that exceed our lending limit may be offered through participation agreements with other financial institutions. Our deposits are insured by the FDIC up to the maximum extent permitted by law.

We provide a number of convenience-oriented services and products to our customers, including direct payroll and social security deposit services, Legacy-by-mail services, letters of credit, cash management, access to a national automated teller machine network, safe deposit boxes, night depository facilities, notary services, travelers checks, a courier service, 24-hour bank-by-phone and a personal and business 24-hour Online Banking Service.

Management periodically reviews Legacy s services and will add or delete them based upon the needs of our customers, competitive factors and our financial and other capabilities. Improvements and developments in technology and evolving federal and state laws and regulations may also influence our future services significantly.

We direct our commercial lending efforts primarily toward small and mid-sized businesses, professionals and professional practices whose demand for credit fall within our legal lending limit of $5.5 million. In the event there are customers whose loan requirements exceed our legal lending limit, we arrange such loans on a participation basis with other financial institutions. All customer banking and credit decisions are made by our board of directors and management.

The Legacy Trust Company, a wholly owned subsidiary of Legacy, was created to complement Legacy s strategy by offering a full range of traditional trust, employee benefits, asset management and investment services. Legacy Trust offers a consultative approach to the delivery of its services to professionals, business owners and their employees and the traditional fiduciary market with the ultimate goal of helping clients build and preserve their financial legacies.

We have in the past sought out opportunities to enhance our existing business model. On January 1, 2003, Northern State Bank merged into Legacy. This merger brought us an expanded market area. On September 5, 2003, we purchased three branch offices from Leesport Bank. The branches purchased brought to us an expanded market area with branch offices located in Shenandoah and Drums. On June 4, 2004, we sold our branch offices in Towanda and Sayre to First Citizens National Bank. In September 2004, we opened a loan production office in Pottsville. On April 1, 2005, we purchased the McAdoo branch office of Harleysville National Bank and now operates the branch office as one of our branches. On May 27, 2005, Legacy closed its Humboldt Industrial Park branch office, and on October 3, 2005 we opened a branch in Pottsville.

Credit Administration

Loan Policy and Approval Authorization. We employ extensive written policies and procedures to enhance management of credit risk. The loan portfolio is managed under a specifically defined credit process. This process includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for ongoing identification and management of credit deterioration and regular portfolio reviews to estimate loss exposure and to ascertain compliance with our credit policies. In particular, these credit policies and procedures require the loan committee of our board of directors to analyze all credit decisions in excess of $1,000,000.

In general, our loan approval policies provide for dual signatures in commercial lending. Loan authorities are approved by our board for our individual officers in various aggregate amounts on a secured and/or unsecured basis. Authority limits are based on experience, ability and need.

Loan Review. Whenever loans are classified in a category below satisfactory grade, heightened management attention is devoted to protect our position and to reduce loss exposure. We place loans on non-accrual status when the principal or interest is 90 days past due, unless the loan is well-secured and in the process of collection. Loans may be placed in non-accrual earlier if full recovery of the principal balance is in doubt. Loans are charged off when the collection of principal and interest can no longer be considered a sound collectible asset. Management meets regularly to review asset quality trends and to discuss loan policy issues. Losses are identified during this review and reserves are established accordingly. In management s opinion, all anticipated and identified potential loan losses are now reflected in the allowance for loan losses.

Concentration of Risk. A major element of credit risk management is diversification. Our objective is to maintain a diverse loan portfolio to minimize the impact of any single event or set of occurrences. Concentration parameters are based on individual risk factors and policy constraints for type of customer, collateral and product.

Although we have no major concentrations of credit to any particular industry, the economic conditions within the Commonwealth of Pennsylvania have influence. We have diversified this risk by having an operating presence in several regions of the state. We generally do not make loans outside our market area unless the borrower has a relationship with us.

Competition

The banking business in Pennsylvania is extremely competitive. We face strong competition from many other banks, savings and loan associations, credit unions and other financial institutions that have branch offices or otherwise operate in our market area, as well as many other financial services companies such as money market funds, stock brokerage firms, insurance companies, mortgage companies and others seeking deposits and making loans. Substantially all of these competitors have greater financial resources than Legacy, and many have substantially larger lending limits than Legacy. Many of these competitors also offer services that we do not intend to provide or are not authorized to provide.

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Financial institutions generally compete on the basis of rates and service. We are subject to increasing competition from credit unions, finance companies and mortgage companies that may not be subject to the same regulatory restrictions and taxation as commercial banks.

Regulation and Supervision

General. The business of banking in the United States is a highly regulated industry, governed extensively by federal and state law and regulations. No entity can engage in the business of banking in the United States without first applying for and obtaining a bank charter, either a federal charter or a state charter. After a charter is approved and issued, all banks are subject to a complex structure of laws that regulate the business of banking, including transactions with consumers and other customers. The system of regulation and supervision by federal and state banking agencies is comprehensive and pervasive, and affects nearly every aspect of a bank s business, including expansion and, if necessary, liquidation. While different types of banks have different agencies as their primary regulator, most of the laws and regulations affecting banking operations and activities are purposely similar.

We are a Pennsylvania-chartered commercial bank that is not a member of the Federal Reserve System, a charter type commonly referred to in the industry as a state non-member bank. In the United States, all banks are required to have their deposits insured by the FDIC. Under the Federal Deposit Insurance Act (FDIA), each FDIC-insured bank must have a primary federal regulator, either the FRB, which is the primary regulator for state-chartered banks that are members of the Federal Reserve System, the OCC, which regulates national banks or the FDIC for state non-member banks. Accordingly, our primary federal banking regulator is the FDIC. Because we are state-chartered, the Department also regulates us. The principal laws that directly govern our activities are the Banking Code, the statute under which we were chartered and the FDIA, because our deposits are FDIC-insured. Significant portions of other banking laws, such as the Federal Reserve Act, also apply to us even though we are not a Federal Reserve member bank. In addition, a number of other laws directly affect discrete portions of our business, such as the Truth in Lending Act and the Community Reinvestment Act (CRA), among others.

We are subject to extensive regulation and supervision by the FDIC and the Department. We must file reports with the Department and the FDIC concerning our activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other banking institutions. Our quarterly financial reports, known as call reports, are publicly available on the FDIC s website. The Department and the FDIC conduct periodic examinations to test our safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the FDIC insurance fund and our depositors and not our shareholders. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the FDIC or the Congress, could have a material adverse impact on us and our operations. Certain of the regulatory requirements applicable to us are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to banking institutions set forth herein does not purport to be a complete description of such statutes and regulations and their effects on us.

Capital Requirements. The FDIC has adopted risk-based capital guidelines for the banks it regulates. The required minimum ratio of total capital to risk-weighted assets, including off-balance sheet activities, such as standby letters of credit, is 8.0%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders equity, noncumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less certain intangible assets. The remainder, or Tier 2 capital , may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the allowance for credit losses. The risk-based capital standards also require the FDIC to take adequate account of a bank s interest rate risk, concentration of credit risk and the risks of non-traditional activities.

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In addition to the risk-based capital guidelines, the FDIC established guidelines for a minimum leverage ratio, or Tier 1 capital to average total assets, for banks. These guidelines provide for a minimum leverage ratio of 3% for those banks that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other banks are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. We are in compliance with these guidelines.

Under the FDIC prompt corrective action regulations, the FDIC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution s degree of undercapitalization. Generally, a bank is considered well capitalized if its ratio of total capital to risk-weighted assets is at least 10%, its ratio of Tier I, or core, capital to risk-weighted assets is at least 6%, its tier 1 leverage ratio is at least 5% and it is not subject to any order or directive by the FDIC to meet a specific capital level. A bank generally is considered adequately capitalized if its ratio of total capital to risk-weighted assets is at least 8%, its ratio of core capital to risk-weighted assets is at least 4% and its ratio of core capital to total assets is at least 4%, 3% if the institution receives the highest CAMELS rating. A bank that has lower ratios of capital is categorized as undercapitalized, significantly under capitalized, or critically undercapitalized. Subject to a narrow exception, the appropriate banking regulator is required to appoint a receiver or conservator for an institution that is critically undercapitalized. The regulation also provides that a capital restoration plan must be filed with the FDIC within 45 days of the date a bank receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. Compliance with the plan must be guaranteed by any parent bank holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FDIC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2005, we met the definition of well capitalized.

Insurance of Deposit Accounts. All bank deposits in the United States are insured by the FDIC up to a maximum amount of $100,000 per depositor per bank. In other words, a person could have $1,000,000 on deposit at one bank, and have FDIC insurance of only $100,000, or could maintain ten deposit accounts of $100,000 each at ten different banks, thereby obtaining $1,000,000 in FDIC insurance. FDIC regulations define what types of accounts are entitled to separate insurance coverage, such that an individual can have more than $100,000 of coverage at one bank, if his deposits are in distinct accounts, such as an individual account, a joint account, an IRA, etc. FDIC insurance is not insurance against physical catastrophes such as fire, flood, theft, etc., but is insurance that the depositor will receive his or her deposits in case the bank becomes insolvent. The primary reason for the extensive regulation and supervision of banks insured by the FDIC is that the FDIC wants to be sure that banks are financially sound so that the FDIC does not have to close the bank and pay the depositors.

The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures. Under the risk-related premium schedule, the FDIC assigns, on a semiannual basis, each depository institution to one of three capital groups (well-capitalized, adequately capitalized or undercapitalized) and further assigns such institution to one of three subgroups within a capital group. The institution s subgroup assignment is based upon the FDIC s judgment of the institution s strength in light of supervisory evaluations, including examination reports, statistical analyses and other information relevant to measuring the risk posed by the institution. Only institutions with a total capital to risk-adjusted assets ratio of 10% or greater, a Tier 1 capital to risk-based assets ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater are assigned to the well-capitalized group. As of December 31, 2005, Legacy was well capitalized for purposes of calculating insurance assessments.

The Bank Insurance Fund maintained by the FDIC, and this is applicable to us, is presently fully funded at more than the minimum amount required by law. Accordingly, the Bank Insurance Fund assessment rates for 2006 range from zero for those institutions with the least risk to $0.027 for every $100 of insured deposits for institutions deemed to have the highest risk. We are in the category of institutions that presently pays

nothing for deposit insurance. The FDIC adjusts the rates every six months. The FDIC has indicated that it is possible that all banks will again be required to pay deposit insurance premiums in the future if the current trend of the size of the insurance funds relative to all insured deposits continues.

While we presently pay no premiums for deposit insurance, we are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for us, and all other banks and savings institutions, for the first quarter of 2006 is an annual rate of $0.0132 for each $100 of deposits.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Our management does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Applicable regulations limit the dollar amount of loans that we may have outstanding to any one borrower, or group of affiliated borrowers, to 15% of its capital and surplus. As of December 31, 2005, this limitation was equal to $5.5 million. There are exceptions from the limitation for certain secured loans, depending upon the amount and type of collateral.

Limitation on Capital Distributions. Dividend payments by us are subject to the Banking Code and the FDIA. Under the Banking Code, no dividends may be paid except from accumulated net earnings , generally, undivided profits. Under the FDIA, an insured bank may not pay dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC.

As indicated above, the FDIC has adopted standards for the maintenance of adequate levels of capital by banks. Adherence to such standards further limits Legacy s ability to pay dividends.

Interstate Banking. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 amended various federal banking laws to provide for nationwide interstate banking, interstate bank mergers and interstate branching. The interstate banking law allows for the acquisition by a bank holding company of a bank located in another state. The Banking Code permits Legacy to establish branches in other states.

Transactions with Related Parties. Legacy s authority to engage in transactions with related parties or affiliates , e.g., any company that controls or is under common control with an institution, is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of covered transactions with any individual affiliate to 10% of our capital and surplus. The aggregate amount of covered transactions with all affiliates is limited to 20% of our capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A, and the purchase of low-quality assets from affiliates is generally prohibited. Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated parties. In addition, banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no bank may purchase the securities of any affiliate other than a subsidiary.

Our authority to extend credit to executive officers, directors and 10% shareholders (insiders), as well as entities such persons control, is governed by the Federal Reserve Act and the Federal Reserve s Regulation O thereunder, as implemented and modified by the FDIC s regulations. Among other things, such loans are required to be made on terms that are substantially the same as those offered to unaffiliated individuals and that do not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. The regulations also place individual and aggregate limits on the amount of loans we may make to insiders based, in part, on our capital position and requires certain board approval procedures to be followed.

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Enforcement. Under the FDIA, the FDIC has primary enforcement responsibility over state non-member banks and has the authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order and removal of officers and/or directors to institution of receivership or conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines Prescribing Standards for Safety and Soundness (Interagency Guidelines) and a final rule to implement safety and soundness standards required under the FDIA. The Interagency Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The standards set forth in the Interagency Guidelines address internal controls and information systems, internal audit system, credit underwriting, loan documentation, interest rate risk exposure, asset growth and compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Interagency Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the FDIA. The final rule establishes deadlines for the submission and review of such safety and soundness compliance plans when such plans are required.

Federal Reserve System. Regulations of the Federal Reserve require all depositary institutions to maintain noninterest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). Regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating $36.1 million or less (subject to adjustment) the reserve requirement is 3%; and for accounts aggregating greater than $36.1 million, the reserve requirement is $900,000 plus 10% (subject to adjustment between 8% and 14%) against that portion of total transaction accounts in excess of $38.8 million. The first $6.0 million of otherwise reservable balances (subject to adjustments) are exempted from the reserve requirements. Legacy is in compliance with the foregoing requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements that may be imposed by the FDIC under separate regulations.

Other Laws. Legacy is also subject to other requirements and restrictions under federal and state law, including restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, proper disclosures of interest rates and terms for loans and deposits, and limitations on the types of investments that may be made and the types of services that may be offered, bank secrecy and money laundering. The Expedited Funds Availability Act restricts the amount of time that a bank may hold a customer s funds before making them available for withdrawal. The Real Estate Settlement Procedures Act prevents lenders from making certain referral payments to others for home mortgage loans, and requires standardized disclosure of fees on a uniform settlement sheet. The Fair Credit Reporting Act governs the actions of banks in reporting the payment histories of its customers and the denial of credit to an applicant, and the Fair Debt Collection Practices Act imposes requirements on the collection of debts not timely paid by customers. The CRA requires us to help meet the credit needs of the entire community where it operates, including low and moderate income neighborhoods. Our rating under the CRA, assigned by the FDIC pursuant to an examination of us, is important in determining whether we may receive approval for, or utilize certain streamlined procedures in, applications to engage in new activities. Various consumer laws and regulations also affect our operations. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the nation s money supply and credit availability in order to influence the economy.

Employees

We have 85 full-time employees and 13 part-time employees. Our executive officers are the Chief Executive Officer, the President and Chief Operating Officer, the Chief Financial Officer, the President of Retail Banking, Technology and Operations, the President of The Legacy Bank of Hazleton, the Chief

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Executive Officer of The Legacy Trust Company, the Chief Credit Officer and the Managing Director of Legal and Human Resources. The remaining employees provide staff support in the areas of asset management, lending, personal banking, and operations. Non-banking services, such as check processing, internal auditing and maintenance are outsourced to companies specializing in those areas.

Web Site Access to Legacy s Filings with the FDIC

All of our filings with the FDIC, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 are made available at no cost on our web site, www.thelegacybankonline2.com, through the Investor Relations link as soon as reasonably practicable after we file such material with, or furnish it to, the FDIC. We will provide to any Legacy shareholder upon request a copy of any document we have filed with the FDIC.

Properties

Legacy s properties are as follows:

Principal and Executive Offices Located at 2600 Commerce Drive, Harrisburg, Pennsylvania 17110. Legacy owns this property in fee and without liens.

Camp Hill Office Located at 4231 Trindle Road, Camp Hill, Pennsylvania 17011. Legacy leases this property. The lease, effective October 26, 2001, is for a term of 10 years and 6 months with 3 five-year renewal options. Legacy is leasing the property at an annual rate of $43,200.

Hazleton Office One South Church Street, Hazleton, Pennsylvania 18201. Legacy leases this property. The lease, effective February 1, 2001, is for a 10-year term with 2 five-year renewal options. Legacy is leasing the property at an annual rate of $37,564.

Drums Office Rittenhouse Place, Route 309, Drums, Pennsylvania 18222. Legacy leases this property by assignment from Leesport Bank. The lease, effective May 26, 1992, is for a 20-year term with 2 five-year renewal options. Legacy is leasing the property at an annual rate of $6,985.

McAdoo Office 25 North Kennedy Drive, McAdoo, Pennsylvania 18237. Legacy owns this property in fee and without liens.

Shenandoah Office 101 North Main Street, Shenandoah, Pennsylvania 17976-1798. Legacy owns this property in fee and without liens.

Williamsport Office 120 West Fourth Street, Williamsport, Pennsylvania 17701. Legacy leases this property and adjoining parking spaces. The lease, effective December 22, 2003, is for a 10-year term with 2 five-year renewal options. Legacy is leasing the property and the adjoining parking spaces at an annual rate of $111,000.

Pottsville Office 394 South Centre Street, Pottsville, Pennsylvania 17901. Legacy leases this property. The lease, effective December 1, 2002, is for a two-year term with 1 one-year renewal option. Legacy is leasing the property at an annual rate of $41,131.

Legal Proceedings

The nature of our business generates a certain amount of litigation involving matters arising in the ordinary course of business. In the opinion of our management, however, there are no proceedings pending to which we are a party or to which our property is subject, that, if determined adversely to us, would be material in relation to our financial condition. In addition, to management s knowledge, no governmental authorities have initiated or are contemplating the initiation of any proceedings against us that would be material to its financial condition.

For more information on us, see Where You Can Find More Information beginning on page 114.

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FNB

FNB is a $5.6 billion financial services holding company that is incorporated under the laws of Florida and headquartered in Hermitage, Pennsylvania. FNB provides a broad range of financial services to its customers through FNB Bank and its insurance agency, consumer finance and trust company subsidiaries.

FNB Bank has 146 banking offices in western Pennsylvania and eastern Ohio. FNB Bank offers the services traditionally offered by full-service commercial banks, including commercial and individual demand and time deposit accounts and commercial, mortgage and individual installment loans. FNB Bank also offers various alternative investment products, including mutual funds and annuities. As of September 30, 2005, FNB Bank had total assets, total liabilities and total stockholders equity of approximately $5.7 billion, $5.2 billion and $467.0 million, respectively.

Regency Finance, FNB s consumer finance subsidiary, has 22 offices in Pennsylvania, 15 offices in Ohio and 16 offices in Tennessee and principally makes personal installment loans to individuals and purchases installment sales finance contracts from retail merchants.

Another FNB subsidiary, First National Trust Company, a registered investment advisor, provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates, and has approximately $1.2 billion of assets under management.

FNB s insurance agency subsidiary is a full-service insurance agency and, through its seven locations, offers commercial and personal insurance products of major insurance companies.

For additional information about FNB, see The Merger , below, and Where You Can Find More Information , beginning on page 114.

THE MERGER

The following discussion contains material information pertaining to the merger. This discussion is subject, and qualified in its entirety by reference, to the merger agreement and the financial advisor s opinion included as Appendices A and B, respectively, to this proxy statement/ prospectus. We encourage you to carefully read those documents as well as the discussion in this proxy statement/ prospectus.

Background of the Merger

Legacy was formed in September 1999. Since its formation, Legacy successfully executed a community banking strategy predicated on providing personal banking and trust products and services to individuals, professionals and small and medium sized, privately held businesses in its market area. By September 2005, Legacy was profitable, had grown to $382.1 million in assets and also had $142.2 million in assets under management with recurring fees. However, management also had concluded during the last year that continued growth and improved profitability would require significant restructuring steps to enable Legacy to transition to a larger bank structure. Alternatively, affiliation with another institution could provide Legacy with the additional resources it needed to increase revenues and reduce overhead expense. To that end, George H. Groves, our chairman and chief executive officer, held a series of discussions with potential affiliation candidates, most of whom were of a similar size as Legacy. Mr. Groves kept our Strategic Options Committee of our board of directors apprised of his discussions throughout this time period. The purpose of these discussions was to identify a partner that could help us accelerate our growth and profitability and with whom our management and staff could play a meaningful role. These discussions intensified in July and August 2005, but ultimately failed to yield an acceptable partner.

In September 2005, our management reviewed our prospects for the three-year period beginning in 2006. Management concluded that, with restructuring steps that would be focused primarily on reduced staffing and other measures designed to improve efficiency, we could achieve strong performance. However, our management was cognizant of the associated risks with the restructuring steps it believed were necessary. In addition, like most banks, we expected to face challenges to our net interest margin posed by the lack of disparity between short- and long-term interest rates that prevailed throughout most of 2005. Furthermore,

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management could not predict the duration of this so-called flat yield curve and therefore the long-term impact of interest rates on our earnings prospects was uncertain.

On September 28 and October 11, 2005, George H. Groves met with Legacy s financial advisor, Griffin, to discuss our strategic alternatives. Mr. Groves also had discussions with a number of directors regarding our strategic options during this time frame, including a discussion with our full board at its September 27, 2005 board meeting. This meeting was followed by an off-site meeting of our executive management team on October 13 and 14, 2005. The result of these discussions was a conclusion that it was appropriate to explore external options, including affiliation with a larger institution. As a result, Mr. Groves directed Griffin to make inquiries of eight potential partners to gauge their level of interest. Mr. Groves had several individual discussions with members of the Strategic Options Committee during this time period and a meeting of that committee was held on October 24, 2005. At that meeting, Griffin reported that FNB and one other institution had expressed serious interest. A third institution had expressed some casual interest directly to Mr. Groves, but Mr. Groves and Griffin advised the Strategic Options Committee that the more seriously interested parties should be considered first. Based on these discussions, the Strategic Options Committee authorized Griffin to develop further information regarding the interest of these two parties. The full board was apprised of these indications of interest at its October 25, 2005 meeting.

Subsequent to this meeting of the Strategic Options Committee, Mr. Groves and Griffin met to outline a process for proceeding. These meetings occurred on October 27, 2005 and November 4, 2005. At these meetings, Mr. Groves directed Griffin to arrange for meetings with each of the interested parties so that each party could be afforded an opportunity to demonstrate why it was the preferable affiliation partner for Legacy. The meeting with FNB occurred on November 9, 2005, and the meeting with the other party occurred on the previous day.

Each of the parties submitted non-binding written expressions of interest to Griffin. A meeting of the Strategic Options Committee was held on November 17, 2005 at which representatives of both Griffin and Legacy s counsel, Stevens & Lee, were present. The purpose of the meeting was to review the expressions of interest. Griffin reviewed the publicly available information regarding FNB and the other party and compared the two expressions of interest. The expression of interest from FNB indicated an offer price of approximately $17.54 per share consisting of 70% stock and 30% cash. The other party indicated a higher price than the price offered by FNB, but, for a number of reasons, the Strategic Options Committee concluded that affiliation with FNB was preferable to an affiliation with the other party. These reasons included:

- the materially higher dividend paid by FNB compared to the dividend paid by the other party;
- the fact that the FNB offer consisted of more stock than the other offer, which increased the ability of Legacy shareholders to participate in the future growth of FNB;
- the fact that FNB was an out-of-market buyer that likely would retain more Legacy employees than the other party, which was an in-market buyer;
- the fact that FNB intended to use Legacy as a platform for further expansion into central Pennsylvania and the possibility that this expansion could mean more jobs and a greater benefit to the communities served by Legacy;
- the fact that Legacy s management was more likely to have a meaningful role in FNB s eastward expansion than it would have had in any consolidation with an in-market buyer;
- the fact that FNB appeared to have a more diverse revenue stream than the other party and the related fact that a material component of the other party s assets, and resulting revenue, were concentrated in an asset class that Legacy management perceived as carrying greater risk than the asset composition of FNB s balance sheet;
- the fact that Legacy option holders would have the opportunity to convert their options into options to acquire FNB stock and thereby share in the future growth of FNB;

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the fact that FNB agreed to operate Legacy as a separate division and to continue use of the Legacy name compared to the fact that the other party was not willing to do so; and

the subjective belief of the members of our Strategic Options Committee that the trend toward bank consolidation in the United States would more likely include FNB than the other bidder at some time in the future, and the possibility of such a sequential transaction in the future would likely be beneficial to Legacy shareholders.

A regular meeting of our full board of directors was held on November 22, 2005, which was attended by representatives of Griffin and Stevens & Lee. At this meeting, Griffin again reviewed the expressions of interest by the two parties for the benefit of the full board. Stevens & Lee reviewed the fiduciary duty of directors of a Pennsylvania corporation, including specifically the fact that the duty of Pennsylvania directors is owed to the corporation and not any one constituency, including shareholders. Stevens & Lee advised our Board that Pennsylvania law provided our board the ability to consider a variety of different factors and constituencies in making a decision regarding a change in control. Stevens & Lee further advised our board that its ability to consider a variety of factors and constituencies also gave it the ability to accept an offer from a party that is not the highest price offered for the institution. After careful consideration, and for the same reasons advanced by the Strategic Options Committee, our board directed Griffin and our management to pursue a transaction with FNB.

Subsequent to this board meeting, Griffin advised FNB that it was the preferred buyer and the parties agreed to perform mutual due diligence. In addition, FNB directed its counsel to prepare a merger agreement and deliver it to Legacy s counsel. FNB performed due diligence with respect to Legacy on November 29 and November 30, 2005, and Legacy performed due diligence with respect to FNB on December 1, 2005. During the course of Legacy s due diligence, FNB made Legacy aware of a special charge that FNB intended to take in connection with the restructuring of FNB s investment portfolio in an amount not yet determined. This restructuring is described in a Current Report on Form 8-K filed by FNB with the SEC on December 12, 2005 and which is incorporated herein by reference. Legacy and its advisors were concerned that any announcement of a special charge might have an adverse impact on the price of FNB s common stock and they expressed this concern to FNB and its advisors. Pending FNB s public announcement of the special charge, FNB and Legacy mutually agreed that it would be prudent to defer announcement of any transaction so they could evaluate the effect of the disclosure of the special charge information on FNB s stock price. On December 7, 2005, FNB issued a press release announcing a special fourth quarter after-tax charge of $11.2 million, or $0.19 per share. In a conference call held on December 8, 2005, our Strategic Options Committee was apprised of this development and concurred with the decision to delay execution of any definitive agreement. Our Strategic Options Committee also directed Griffin to maintain contact with the other bidder and gauge its level of continued interest. Representatives of Griffin did continue to communicate with the other bidder and indicated to our Strategic Options Committee that this alternative transaction remained possible. Following additional discussions with the other bidder, the other bidder indicated that its offer had technically expired but that it might have some continuing interest. Both Griffin and Mr. Groves inferred from this comment that it was quite possible that this bidder would reduce its offer. The result of this meeting, coupled with the fact that the announcement by FNB of its special charge did not have a negative effect on FNB s common stock, our Strategic Operations Committee concluded that FNB was still the preferred affiliation partner. Mr. Groves apprised the board of his recommendation and a meeting of the board was scheduled for December 15, 2005 to consider a transaction with FNB.

At the December 15, 2005 board meeting, representatives of Griffin again reviewed the FNB proposal, including the fact that the approximate value of the transaction was now $18.40 per share because of appreciation in the price of FNB common stock. Griffin delivered an oral opinion that the transaction proposed by FNB was fair to Legacy from a financial point of view. This oral opinion was followed by a written fairness opinion dated December 21, 2005, which is included as Appendix B to this proxy statement/ prospectus. Stevens & Lee then again reviewed the fiduciary duty of directors and the material terms of the merger agreement, with special emphasis on those provisions that were still under negotiation. Finally, the three senior members of Legacy s management provided their recommendation, which was to proceed with the FNB transaction. In their analysis, the management team cited all of the reasons discussed above and

considered previously by the Strategic Options Committee and the full board. Based on this recommendation, the board authorized and approved a transaction with FNB on substantially the terms described at the meeting and gave management the authority to negotiate the final terms of the merger agreement. From December 15, 2005, through December 21, 2005, the parties completed the negotiation of the merger agreement. The merger agreement was executed on the afternoon of December 21, 2005 and public announcement of the merger occurred that afternoon.

FNB s Reasons for the Merger

Following the spin-off of its Florida operations on January 1, 2004, FNB committed to pursuing several key strategies. Among them was the realization of modest organic growth and the supplementation of that growth through strategic acquisitions.

In approving the merger agreement, FNB s board of directors considered the following factors as generally supporting its decision to enter into the merger agreement:

its understanding of FNB s business, operations, financial condition, earnings and prospects and of Legacy s business, operations, financial condition, earnings and prospects, including our geographic position in central and northeastern Pennsylvania;

its understanding of the current and prospective environment in which FNB and Legacy operate, including regional and local economic conditions, the competitive environment for financial institutions generally and continuing consolidation in the financial services industry, and the likely effect of these factors on FNB in light of, and in absence of, the proposed merger;

the merger with Legacy will expand FNB s franchise to several markets in central and northeastern Pennsylvania that have recently experienced faster economic growth than FNB s markets in western Pennsylvania and eastern Ohio;

the review by the FNB board of directors with its legal advisors of the structure and terms of the merger, including the exchange ratio, the expectation of FNB s legal advisors that the merger will qualify as a transaction of a type that is generally tax-free to stockholders for United States federal income tax purposes and, based on the exchange ratio and assuming continuation of FNB s current per share dividend rate of $0.235 per quarter, an anticipated annual dividend increase of $0.94 for holders of Legacy common stock;

the complementary nature of the respective customer bases, business products and skills of FNB and Legacy could result in opportunities to obtain synergies as products are cross-marketed and distributed over broader customer bases and best practices are compared and applied across businesses;

the scale, scope, strength and diversity of operations, product lines and delivery systems that could be achieved by combining FNB and Legacy;

the proposed board and management arrangements which would position the combined company with strong leadership and experienced operating management;

the likelihood that the regulatory approvals needed to complete the transaction will be obtained; and

the historical and current market prices of FNB common stock and Legacy common stock.

The FNB board of directors also considered the fact that the combined institution will result in a combined entity with assets of approximately $6.2 billion. The future growth prospects of the Legacy market area are expected to provide sustained business development opportunities by enabling FNB to capitalize on a cohesive banking franchise with sufficient critical mass to compete in the central and northeastern Pennsylvania markets.

The foregoing discussion of the factors considered by the FNB board in evaluating the merger agreement is not intended to be exhaustive, but, rather, includes all material factors considered by the FNB board. In reaching its decision to approve the merger agreement and the merger, the FNB board did not quantify or

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assign relative rights to the factors considered, and individual directors may have given different weights to different factors. The FNB board considered all of the above factors as a whole, and on an overall basis considered them to be favorable to, and support, its determination to enter into the merger agreement.

Our Board of Directors Reasons for the Merger; Recommendation

At its December 15, 2005 meeting, the Legacy board of directors determined that the terms of the merger agreement and the merger with FNB were in the best interests of Legacy. In making this determination, our board concluded that the merger with FNB was superior to the other alternatives available to Legacy and to the prospects of continuing to operate Legacy as an independent community-focused bank.

In the course of reaching its decision to approve the merger agreement, our board of directors consulted with Griffin and Stevens & Lee. In addition to the considerations previously identified as significant with respect to our decision to pursue a transaction with FNB rather than the other bidder, our board considered, among other things, the following factors:

The terms of the merger agreement that called for 30% of our shares to be exchanged for $18.40 in cash and 70% of our shares to be exchanged on a share-for-share basis for FNB common stock. The board noted that the ten-day average price for FNB common stock was $18.25 which meant that Legacy shareholders would receive blended aggregate consideration of $18.30 per share. The board noted that this price reflected approximately a 43.5% premium for our shareholders over the $12.75 closing price of our common stock on December 14, 2005, the day immediately preceding the day that our board approved the merger;

The fact that the FNB exchange ratio required that up to 30% of the merger consideration be composed of cash at $18.40 per share, thereby permitting those Legacy shareholders who wished to receive cash instead of FNB stock to elect an all-cash exchange or an exchange composed of part FNB common stock and part cash. The Legacy board understood that if more than 30% of the issued and outstanding Legacy common stock elected to receive cash, certain shareholders would be required to receive a portion of the merger consideration in FNB stock instead of cash;

The opinion of Griffin that the merger consideration was fair to Legacy from a financial point of view;

Management s familiarity with and review of FNB s business prospects and financial condition, including its future prospects;

The adverse impact that the pressures of competition and our limited economies of scale would have on our ability to increase profitability;

FNB s agreement that George H. Groves would be appointed to the board of FNB Bank and that other non-employee members of our board of directors would be offered an appointment to a Harrisburg regional advisory board for a minimum of three years;

The ability given in the merger agreement to the advisory board to enforce specifically certain of the non-financial covenants contained in the merger agreement;

The fact that our employees who did not continue as FNB employees would be entitled to receive severance pay, depending upon years of service and position with us, and further that we would be permitted to pay retention bonuses to designated Legacy employees in connection with the merger in an aggregate amount not to exceed $200,000;

A determination that a business combination with FNB would expand our lending capabilities and increase the range of financial products and services available to our customers;

The prices, multiples of earnings per share and premiums over book value and market value paid in other recent acquisitions of financial institutions;

The possible negative impact the merger with FNB would have on various constituencies served by Legacy, including potential job loss among certain senior Legacy employees;

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The fact that the merger is expected to be tax-free with regard to Legacy shareholders who receive FNB common stock;

Our alternatives of continuing as an independent community-focused bank or combining with other potential merger partners, compared to the effect of Legacy combining with FNB pursuant to the merger agreement, and the determination that the merger with FNB presented the best opportunity for maximizing shareholder value and achieving Legacy s other strategic goals;

The pro forma financial effects of the proposed transactions, including the potential cost savings resulting from back office efficiencies, consolidations and other cost savings, and enhanced revenue anticipated from the merger and the effects of the merger on the risk-based and leverage capital ratios of the combined company and its subsidiary bank;

The fact that our shareholders who receive stock would have the ability to continue to participate in the growth of the combined company on a tax-deferred basis and also would benefit as a result of the significantly greater liquidity of the trading market for FNB common stock and that Legacy shareholders who desire immediate liquidity could elect to receive cash, noting that the receipt of cash would generally be taxable to such shareholders;

The provisions pertaining to our ability in certain circumstances to withdraw our board s recommendation of the merger to our shareholders and our ability to recommend another transaction to our shareholders and pursue such transaction in certain circumstances;

The provisions permitting our board of directors to terminate the merger agreement if the value of FNB common stock declines by more than 20% from its price after the announcement of the merger agreement and underperforms by 20% or more compared to the Nasdaq Bank Index during the same time period; and

The fact that the termination fee provision of the merger agreement could have the effect of discouraging superior proposals for a business combination between Legacy and a third party.

The foregoing discussion of the information and factors considered by our board of directors is not intended to be exhaustive but is believed to include all material factors considered by our board of directors. In reaching its determination to approve and recommend the merger, our board of directors did not assign any relative or specific weights to the foregoing factors and individual directors may have given differing weights to different factors. Our board of directors determined that the above factors supporting the merger outweighed the factors not supporting the merger.

After deliberating with respect to the merger transaction with FNB, considering, among other things, the matters discussed above and the opinion of Griffin referred to above, our board of directors approved and adopted the merger agreement and the merger with FNB by the unanimous vote of all directors present.

Our board of directors believes that the terms of the merger agreement are in the best interests of Legacy and has unanimously approved the merger agreement.

ACCORDINGLY, THE LEGACY BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL AND ADOPTION OF THE MERGER AGREEMENT.

Opinion of Our Financial Advisor

On July 1, 2004, we engaged Griffin to serve as our financial advisor in connection with the merger. Griffin was authorized to, and did, solicit third party indications of interest in acquiring us or engaging in a business combination with us. Griffin acted as our financial advisor in connection with the merger and participated in certain negotiations leading to the execution of the merger agreement, but the terms and conditions of the merger, including pricing, were determined through arm s length negotiations between Legacy and FNB and our decision to accept the FNB proposal and the pricing of the merger was made by our board of directors. On December 15, 2005, our board of directors held a special meeting to evaluate our proposed merger with FNB. At this meeting, Griffin delivered an oral opinion, that was subsequently confirmed in writing on December 21, 2005, to the effect that based on the assumptions, factors and

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limitations set forth in its opinion, the merger consideration provided for in the merger agreement was fair, from a financial point of view, to Legacy.

We have the right to terminate the merger agreement if the average closing price of FNB common stock for each of the 20 consecutive trading days ending on and including the fifth such trading day prior to the date on which the last regulatory approval for the merger is obtained is less than $14.38 (representing a 20% decline from the $17.98 closing price of FNB common stock on December 20, 2005) and if the decline in the average closing price of FNB common stock from $17.98 is at least 20% more than the change in the Nasdaq Bank Index (as measured by its closing price on December 20, 2005 compared to the average closing price of such Index for each of the 20 consecutive trading days ending on and including the second such trading day prior to the date on which the last regulatory approval is obtained). Even if we elect to terminate the merger agreement, the merger may still be completed if FNB, at its option, chooses to increase the exchange ratio provided for in the merger agreement such that each share of Legacy common stock that is converted into shares of FNB common stock will receive shares of FNB common stock equal in value to $14.38 (determined on the basis of the average closing price of FNB common stock calculated as provided above). It is not possible to know until two trading days before receipt of the last regulatory approval if the price of FNB common stock has declined 20% more than the change in the Nasdaq Bank Index.

The full text of Griffin s written opinion is attached as Appendix B to this proxy statement/ prospectus and is incorporated herein by reference. The opinion describes the processes Griffin followed, the assumptions Griffin made, the matters Griffin considered and the qualifications and limitations set forth in its opinion. The description of Griffin s opinion set forth below is qualified in its entirety by reference to its opinion. You are urged to, and should read Griffin s opinion carefully and in its entirety. Griffin s opinion speaks only as of the date of its opinion. Griffin s opinion is directed solely to our board of directors and addresses only the fairness, from a financial point of view, of the merger consideration to be paid by FNB as provided in the merger agreement. Griffin s opinion does not address the underlying business decision to proceed with the merger or any other aspect of the merger or any related transaction, nor does it constitute a recommendation to any Legacy shareholder as to how such shareholder should vote at the Legacy special meeting. Griffin s opinion will not reflect any developments that may occur after the date of its opinion and prior to the completion of the merger. We do not currently expect that we will request an updated opinion from Griffin.

In arriving at its opinion, Griffin, among other things:

(i) reviewed certain publicly available financial statements and other information of Legacy and FNB, respectively, which Griffin believed to be relevant;

(ii) discussed the past and current operations and financial condition and the prospects of each of Legacy and FNB with senior executives of Legacy and FNB, respectively, including with respect to FNB (x) the potential impact on FNB of the merger, including potential cost savings, synergies and other strategic, financial and operational benefits that management of FNB expects to realize from the combination of Legacy and FNB and (y) the impact of the proposed merger on the future financial performance of FNB;

(iii) reviewed the publicly reported historical price and trading activity for Legacy common stock and FNB common stock, including a comparison of certain financial and stock market information for Legacy and FNB with similar publicly available information for certain other financial institutions the securities of which are publicly traded;

(iv) reviewed earnings per share consensus estimates for FNB for the years ending December 31, 2005 and 2006;

(v) reviewed the financial terms, to the extent publicly available, of certain merger and acquisition transactions between financial institutions that Griffin viewed as relevant;

(vi) participated in discussions and negotiations between Legacy and FNB;

(vii) reviewed a draft of the merger agreement;

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(viii) considered the competitive environment for financial institutions; and

(ix) performed comparable company, selected reference transaction, discounted dividend and pro forma merger analyses.

In connection with its reviews and analyses and in providing its opinion, Griffin assumed and relied upon the accuracy and completeness of all of the financial, accounting, tax and other information reviewed by it for the purposes of arriving at its opinion, without independent verification. Griffin also relied upon assurances from management of FNB and Legacy that they are not aware of any facts or circumstances that may cause such information to contain a misstatement or omission of a fact material to Griffin s opinion. With respect to Griffin s discussion of financial and operating impact, including the synergies, cost savings and other strategic, financial and operational benefits to be realized in connection with the completion of the merger, Griffin assumed that such pro forma financial and operating analyses reflect the best available estimates and judgments of the future financial performance of FNB, after giving effect to the merger, and were based on reasonable assumptions, estimates and judgments of Legacy s and FNB s respective management teams. Griffin also relied upon the advice Legacy and FNB have each received from their respective legal counsel, tax advisors and independent public accountants as to all legal, tax and accounting matters relating to the merger, including without limitation, that the merger will be treated as a tax-free reorganization for federal income tax purposes. Griffin assumed that the merger will be completed in accordance with the terms of the merger agreement and all laws and regulations applicable to FNB and Legacy and that in the course of obtaining the necessary regulatory approvals or other approvals of the merger, no restrictions will be imposed that may have a material adverse effect on the future results of operations or financial condition of Legacy, FNB or the combined entity, as the case may be, or on the contemplated benefits of the merger. Griffin did not make an independent valuation or appraisal of either Legacy or FNB or their respective assets or liabilities, including any hedge, swap, foreign exchange, derivative or off-balance sheet assets or liabilities, nor has it been furnished with any such appraisals and Griffin has not made any independent review of the loans, loan loss reserves or reviewed any individual loan credit files of Legacy or FNB. In addition, Griffin did not conduct a physical inspection of any of the properties or facilities of Legacy or FNB. Griffin is not expressing an opinion as to what the value of FNB common stock will actually be when issued or the price at which FNB common stock will trade at any time or whether FNB will realize the specific strategic objectives and benefits of the merger. Griffin s opinion does not address the relative merits of the merger compared to any other business strategy that might exist for Legacy, nor does it address the underlying business decision of Legacy to engage in the merger.

Griffin s opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Griffin assumed, in all respects material to its analyses, that all of the representations and warranties contained in the merger agreement and all related agreements were true and correct, that each party to such agreements would perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement have not been nor will be waived. Griffin also assumed that there had been no material change in Legacy s or FNB s assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to Griffin, except that Griffin was aware of the information set forth in FNB s December 7, 2005 press release in which FNB announced a one-time restructuring charge. In providing its opinion, Griffin does not admit that it is an expert within the meaning of the term expert as used within the Securities Act and the rules and regulations promulgated thereunder, or that its opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act and the rules and regulations promulgated thereunder.

Summary of Analyses by Griffin

The following discussion summarizes the material analyses undertaken by Griffin in connection with its written opinion dated December 21, 2005. The summary is not a complete description of the analyses underlying Griffin s opinion or the presentations made by Griffin to the Legacy board, but summarizes the material analyses performed in connection with such presentations and Griffin s opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and

relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Griffin did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, Griffin believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the processes underlying Griffin s analyses and its opinion. The tables alone do not provide a complete description of the financial analyses.

The financial information, estimates of transaction costs, purchase accounting adjustments and expected cost savings discussed with Griffin were prepared by the respective management teams of Legacy and FNB. Senior executives of Legacy and FNB confirmed to Griffin that such estimates, adjustments and savings reflected the best currently available estimates and judgments of Legacy s and FNB s respective management teams. Griffin expresses no opinion as to such estimates, adjustments and savings in its opinion. Legacy and FNB do not publicly disclose internal management projections of the type discussed with Griffin in connection with the review of the merger. Such projections were not prepared with a view towards public disclosure. The public disclosure of such projections could be misleading since the projections were based on numerous variables and assumptions that are inherently uncertain and accordingly, actual results could vary materially from those set forth in such projections.

In performing its analyses, Griffin also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Legacy and FNB. The estimates set forth in Griffin s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, no company, transaction, or business used in Griffin s analyses as a comparison is identical to Legacy or FNB or the merger. Thus, Griffin s analyses and opinion are necessarily subjective.

Griffin prepared its analyses solely for review by Legacy s board in connection with its evaluation of the merger. Legacy s board of directors considered Griffin s analyses at our board s December 15, 2005 meeting. Griffin s financial analyses were only one of the many factors considered by Legacy s board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Legacy board of directors or management with respect to the merger or the merger consideration. Estimates of the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Griffin s analyses do not reflect the value of Legacy s common stock or FNB s common stock or the prices at which Legacy s or FNB s common stock may be sold at any time.

Financial Terms of the Merger. Griffin reviewed the financial terms of the merger. Based upon the average closing price of FNB s common stock for the ten days ended December 13, 2005 of $18.25 and the exchange ratio of 1.00, and assuming 70% of Legacy shares of common stock are exchanged for shares of FNB common stock and 30% of Legacy s shares of common stock are exchanged for $18.40 cash per share, Griffin calculated an implied transaction value of approximately $18.30 per Legacy share and an implied aggregate transaction value of approximately $74.1 million. The implied aggregate transaction value was based upon 3,882,722 million shares of Legacy common stock outstanding on an as-if converted basis as of September 30, 2005, plus the value of outstanding options, warrants and convertible notes to purchase 404,080 shares of Legacy common stock calculated using $18.30 per share less a weighted average exercise price of $10.69 per share. Griffin noted that the transaction value represented a 42.97% premium over the December 13, 2005 closing sales price of Legacy common stock of $12.80 per share.

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Market Value and Comparable Company Analyses. Using publicly available information, Griffin compared the financial condition, performance and market value measures of Legacy to the following 22 Mid-Atlantic-based financial institutions:

Allegheny Valley Bancorp, Inc.;

CBT Financial Corporation;

Codorus Valley Bancorp, Inc.;

Columbia Financial Corporation;

Commercial National Financial Corporation;

Community Bank, National Association;

Dimeco, Incorporated;

DNB Financial Corporation;

East Penn Financial Corporation;

Emclaire Financial Corp.;

Honat Bancorp, Incorporated;

Iron & Glass Bancorp;

Juniata Valley Financial Corporation;

Kish Bancorp, Inc.;

Mauch Chunk Trust Financial Corp.;

Mid Penn Bancorp, Inc.;

MNB Corporation;

Northumberland Bancorp;

Norwood Financial Corp.;

Peoples Financial Services Corp.;

Somerset Trust Holding Company; and

Tower Bancorp Incorporated.

Using publicly available information, Griffin compared the financial condition, performance and market value measures of FNB to the following 12 Mid-Atlantic-based financial institutions:

Community Banks, Inc.;

First Commonwealth Financial Corporation;

Harleysville National Corporation;

Lakeland Bancorp, Incorporated;

National Penn Bancshares, Inc.;

Provident Bankshares Corporation;

S&T Bancorp, Inc.;

Sandy Spring Bancorp, Inc.;

Sterling Financial Corporation;

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Sun Bancorp, Inc.;

Susquehanna Bancshares, Inc.; and

Yardville National Bancorp.

Griffin also compared Legacy s and FNB s financial condition, performance and market value measures to the median and mean statistics of these peer reference groups of banks selected by Griffin. The Legacy and FNB ratios were based on data obtained from SNL Financial s online databases. For purposes of such analyses, the financial information used by Griffin was as of and for the 12 months ended September 30, 2005. Stock price data was as of December 13, 2005. Certain financial information prepared by Griffin, and referenced in the tables presented below, may not correspond to the data presented in FNB s and Legacy s historical financial statements as a result of different assumptions and methods used by Griffin to compute and analyze the financial data presented. SNL Financial is a recognized data service that collects, standardizes and disseminates relevant corporate, financial, market and mergers and acquisition data for companies in the industries it covers.

The results of such comparison were as follows:

	Legacy	Peer Group Median	Peer Group Mean
Asset Quality:			
Tangible Equity & Trust Preferred/ Tangible Assets(%)	7.65	8.88	9.49
Borrowings/ Assets(%)	14.66	8.46	10.61
Loans/ Deposits(%)	98.27	81.52	79.33
Loan loss reserve/ Loans(%)	1.15	1.13	1.22
Non-performing assets/ Assets(%)	0.37	0.53	0.61
Loan loss reserve/ Non-performing assets(%)	232.4	126.2	232.1
Performance:			
Return on average equity(%)	5.55	11.50	11.56
Return on average assets(%)	0.59	1.05	1.09
Net interest margin(%)	3.49	3.76	3.67
Yield on earning assets(%)	5.79	5.63	5.64
Cost of funds(%)	2.08	2.12	2.08
Noninterest income/ Operating revenue(%)	18.66	18.65	18.86
Noninterest income/ Average assets(%)	0.74	0.78	0.80
Noninterest expense/ Average assets(%)	3.09	2.54	2.69
Efficiency ratio(%)	76.18	63.62	63.05
Market Statistics:			
Price/ Trailing 12-month earnings per share(x)	22.86	14.99	16.59
Price/ Book value per share(%)	123.67	179.24	181.52
Price/ Tangible book value per share(%)	157.62	179.79	186.12
Dividend yield(%)		2.58	2.55

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	FNB	Peer Group Median	Peer Group Mean
Asset Quality:			
Tangible Equity & Trust Preferred/ Tangible Assets(%)	7.02	8.26	8.53
Borrowings/ Assets(%)	21.93	15.53	16.84
Loans/ Deposits(%)	95.73	91.43	90.32
Loan loss reserve/ Loans(%)	1.34	1.12	1.18
Non-performing assets/ Assets(%)	0.73	0.37	0.33
Loan loss reserve/ Non-performing assets(%)	232.40	207.8	282.7
Performance:			
Return on average equity(%)	16.36	11.71	11.54
Return on average assets(%)	1.23	0.99	1.08
Net interest margin(%)	3.87	3.69	3.73
Yield on earning assets(%)	5.94	5.77	5.78
Cost of funds(%)	2.08	2.09	2.09
Noninterest income/ Operating revenue(%)	28.00	23.82	23.99
Noninterest income/ Average assets(%)	1.33	1.04	1.10
Noninterest expense/ Average assets(%)	2.82	2.62	2.79
Efficiency ratio(%)	57.11	59.00	60.06
Market Statistics:			
Price/ Trailing 12-month earnings per share(x)	14.88	17.14	18.64
Price/ Projected EPS(1)(x)	15.51	16.52	17.10
Price/ Book value per share(%)	219.73	195.98	198.14
Price/ Tangible book value per share(%)	399.24	297.38	289.49
Dividend yield(%)	5.18	2.83	2.74

(1) Based on estimated FNB core earnings.

Griffin selected these companies because their businesses and operating profiles are reasonably similar to those of Legacy and FNB. No comparable company identified above is identical to Legacy or FNB. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect public trading values of such comparable companies. Mathematical analysis, such as determining the mean and median, is not by itself a meaningful method of using selected company data.

Selected Reference Transaction Analysis. Griffin reviewed publicly available information related to certain bank transactions which it selected and believed to be generally comparable to the merger. These transactions included acquisitions of commercial banks with transaction values between $10 million and $100 million in Pennsylvania completed since January 1, 2003. These transactions included:

Acquiror	**Acquired Company**
Orrstown Financial Services	First National Bank of Newport
Tower Bancorp Inc.	FNB Financial Corp.
Standard Mutual Holding Company	Hoblitzell National Bank of Hyndman
F.N.B. Corporation	North East Bancshares Inc.
Sterling Financial Corp.	Pennsylvania State Banking Co
F.N.B. Corporation	Slippery Rock Financial Corp.
Leesport Financial Corp.	Madison Bancshares Group Ltd.
Community Bank System Inc.	First Heritage Bank
Harleysville National Corporation	Millennium Bank
Community Bank System Inc.	Grange National Banc Corp.
Univest Corporation of Pennsylvania	Suburban Community Bank
National Penn Bancshares Inc.	Home Towne Heritage Bank
KNBT Bancorp Inc.	First Colonial Group Inc.
Fulton Financial Corp.	Premier Bancorp Inc.
Univest Corporation of Pennsylvania	First County Bank

Griffin also reviewed a group of 27 Mid-Atlantic and 299 nationwide transactions involving the acquisition of commercial banks completed since January 1, 2003 with transaction values between $10 million and $100 million. Mid-Atlantic transactions included transactions in Delaware, Maryland, New Jersey and Pennsylvania, including those Pennsylvania transactions listed above.

For each these selected merger transactions, Griffin used publicly available financial information, including information from SNL Financial s online databases to determine:

The multiple of the selected transactions price per share to publicly-disclosed earnings per share for the latest 12 months at the time of announcement of the selected transaction;

The multiple of the selected transaction s price per share to book value per share and tangible book value per share using the acquired company s most recent publicly-disclosed financial statements at the time of announcement of the selected transaction;

The multiple of the selected transactions price to total assets using the acquired company s most recent publicly disclosed financial statements at the time of announcement of the selected transaction;

The implied tangible book premium to core deposits, which means total deposits less certificates of deposit greater than $100,000, using the acquired company s most recent publicly-disclosed financial statements at the time of announcement of the selected transaction; and

The market premium, which represents the selected transaction value per share less the acquired company s stock price one trading day before announcement divided by the acquired company s stock price one trading day before announcement.

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Transaction multiples for the merger were derived from the $18.30 per share transaction value and financial data on an as if converted basis as of September 30, 2005 made available to Griffin by Legacy. Griffin compared these results with announced, selected transaction multiples. The results of the analysis are set forth in the following table:

	Price/ LTM EPS (x)	Price/ Book (%)	Price/ Tangible Book (%)	Price/ Assets (%)	Premium/ Core Dep. (%)	Market Premium (%)
Pennsylvania transaction medians	23.06	246.93%	250.38%	23.53%	21.40%	39.87%
Mid-Atlantic transaction medians	24.07	246.93%	251.90%	23.53%	21.40%	39.87%
Nationwide transaction medians	21.67	224.32%	230.36%	20.23%	16.47%	35.59%
FNB/ Legacy	35.19	173.49%	214.73%	19.39%	18.86%	42.97%

Discounted Dividend Analysis. Griffin performed a discounted dividend analysis to generate reference ranges for the implied present value per share of Legacy and FNB common stock assuming that each continued to operate as a stand-alone company. These ranges were calculated using FNB s and Legacy s internal estimates for core earnings per share and growth rates and were determined in each case by calculating a present value of the estimated future dividends of Legacy and FNB, respectively, through 2010, plus a present value of the estimated terminal trading value of the common stock of Legacy and FNB, respectively, as of the end of 2010.

Griffin estimated alternative terminal value ranges for Legacy and FNB common stock at the end of 2010 using (1) a long-term earnings per share growth rate of 20% for Legacy and 7.5% for FNB, (2) for FNB, a dividend in 2006 consistent with FNB s current dividend and thereafter a dividend payout of 75%, (3) for Legacy, initiation of a dividend in 2006 at a dividend payout ratio of 15% with 5% increases thereafter and (4) a range of terminal value multiples of 15.0x to 20.0x for each of Legacy and FNB. The estimated future dividends and terminal values resulting from the calculations described above were discounted to present values using discount rates of 10% to 14% for FNB and 12% to 16% for Legacy. Griffin viewed these ranges as appropriate for companies with Legacy s and FNB s respective risk characteristics.

The results of this analysis are set forth below:

		Legacy Terminal Value Price/Earnings Multiple					
		15.0	16.0	17.0	18.0	19.0	20.0
	12.0%	$ 11.54	$ 12.25	$ 12.95	$ 13.66	$ 14.37	$ 15.08
	13.0%	11.05	11.73	12.40	13.08	13.76	14.43
Discount Rate	14.0%	10.59	11.23	11.88	12.53	13.17	13.82
	15.0%	10.14	10.76	11.38	12.00	12.62	13.24
	16.0%	9.73	10.32	10.91	11.51	12.10	12.69

		FNB Terminal Value Price/Earnings Multiple					
		15.0	16.0	17.0	18.0	19.0	20.0

	10.0%	$ 18.43	$ 19.41	$ 20.38	$ 21.35	$ 22.32	$ 23.29
	11.0%	17.69	18.62	19.54	20.47	21.40	22.33
Discount Rate	12.0%	16.98	17.87	18.76	19.64	20.53	21.42
	13.0%	16.31	17.16	18.01	18.86	19.70	20.55
	14.0%	15.67	16.49	17.30	18.11	18.92	19.73

Based on the above assumptions, Griffin determined that the present value of Legacy common stock ranged from $9.73 to $15.08 and the present value of FNB common stock ranged from $15.67 to $23.29.

Pro Forma Merger Analysis. Griffin analyzed certain potential pro forma effects of the merger, assuming the following: (1) 70% of Legacy s outstanding shares of common stock were exchanged for shares of FNB common stock at an exchange ratio of 1.00 and 30% of Legacy s shares of outstanding common stock were exchanged for $18.40 cash per share, (2) all outstanding options and warrants to purchase Legacy common stock are converted into options and warrants to purchase a number of shares of FNB common stock equal to the number of shares of Legacy common stock subject to the options multiplied by 1.00, (3) without independent review by Griffin of underlying data or assumptions for accuracy or reasonableness, all purchase accounting adjustments, transaction costs and cost savings are as estimated by FNB, (4) without independent review by Griffin of underlying data or assumptions for accuracy or reasonableness, the earnings estimates of Legacy were consistent with those discussed with senior executives of Legacy; (5) FNB s estimated annualized core earnings per share for the year ended December 31, 2006 was $1.17, exclusive of non-recurring charges and (6) the merger was completed on January 1, 2006. This analysis indicated that the merger, assuming it was completed on a pro forma basis on January 1, 2006, would have had a dilutive effect on FNB s earnings per share for the year ending December 31, 2006 without cost savings and an accretive effect on FNB s earnings per share for the year ending December 31, 2006 (if cost savings were included). This analysis does not include the impact of any potential revenue enhancements available to the combined entity.

Fees Payable by Legacy to its Financial Advisor. Legacy has agreed to pay Griffin a transaction fee in connection with the merger of $825,000 payable upon closing of the merger. Legacy has also agreed to reimburse certain of Griffin s reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Griffin and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws. Griffin is an affiliate of Stevens & Lee, Legacy s legal counsel.

Structure of the Merger and the Merger Consideration

Structure. Subject to the terms and conditions of the merger agreement, and in accordance with Pennsylvania law, Florida law and the Bank Act, at the completion of the merger, we will merge with and into FNB Bank and your shares of Legacy common stock will be converted into cash, FNB common stock or a combination thereof. FNB Bank will be the surviving corporation and will continue its corporate existence under the laws of the United States. Immediately thereafter, Legacy Trust, our wholly owned subsidiary, will merge with and into First National Trust Company, a wholly owned subsidiary of FNB. Each share of our common stock issued and outstanding at the effective time of the merger will be converted into either cash or shares of FNB common stock.

When the merger is completed, our separate corporate existence will terminate. To the extent you become a shareholder of FNB, your rights as a shareholder will be governed by Florida law, FNB s articles of incorporation and FNB s by-laws. See Comparison of Shareholder Rights beginning on page 100.

The board of directors of FNB will continue as the board of directors of the combined company. The board of directors of FNB Bank will continue as the board of directors of the combined bank, except that at the completion of the merger, FNB Bank will appoint George H. Groves to the board of directors of FNB Bank. See Boards of Directors of FNB Bank Following the Merger beginning on page 82.

Based on information as of the record date, upon completion of the merger, current holders of FNB common stock will own approximately 95.8% of, and holders of our common stock will own approximately 4.2% of, the outstanding FNB common stock.

Merger Consideration. The merger agreement provides that at the effective time of the merger each share of our common stock issued and outstanding immediately prior to the effective time, other than shares held by FNB and shares as to which appraisal rights are perfected, will be converted into either:

- $18.40 in cash; or

- one share of FNB common stock.

You may elect whether you want to receive all FNB common stock, all cash or a combination of cash and FNB common stock in exchange for the shares of our common stock that you hold. However, your election is subject to possible proration because the allocation procedures in the merger agreement provide that 30% of the shares of our common stock will be exchanged for cash and 70% of the shares of our common stock will be exchanged for shares of FNB common stock, although FNB has the option of increasing the amount of FNB common stock it issues in the merger if our shareholders elect to receive more than 70% of the merger consideration in FNB common stock. The actual allocation of cash and FNB common stock will be dependent on the elections made by our shareholders and may result in your receiving a combination of FNB common stock and cash regardless of your choice. See Election Procedure beginning on page 74.

Since the market value of FNB common stock may fluctuate due to a variety of factors and the exchange ratio of one share of FNB common stock for each share of our common stock is fixed, no assurance can be given that the value of one share of FNB common stock received in the merger will be substantially equivalent to $18.40 in cash. In addition, no assurance can be given that the value of one share of FNB common stock received by a Legacy shareholder at the effective time of the merger will be substantially equivalent to the value of one share of FNB common stock at the time of the vote to approve the merger proposal or at the time you elect the form of merger consideration you want to receive. As the market value of FNB common stock fluctuates, the value of one share of FNB common stock that you will receive will correspondingly fluctuate, and may be greater or less than $18.40 in cash.

If, between the date of the merger agreement and the effective time of the merger, shares of FNB common stock are changed into a different number or class of shares by reason of any reclassification, split-up, combination, exchange of shares or readjustment, or a stock dividend is declared with a record date within that period, appropriate adjustments will be made to the per share cash consideration and the per share stock consideration.

Fractional Shares. No fractional shares of FNB common stock will be issued to you upon completion of the merger. For each fractional share that you would otherwise be entitled to receive, FNB will pay cash in an amount, rounded to the nearest cent, equal to the product of the number of fractional shares held by you multiplied by the average closing price of FNB common stock for the 20 consecutive trading-day period ending on and including the fifth trading day prior to the effective date of the merger. No interest will be paid or accrued on cash payable in lieu of fractional shares of FNB common stock nor will any holder of fractional shares be entitled to dividends or other rights in respect of such fractional shares.

Treasury Shares. Upon consummation of the merger, any shares of our common stock held by us or any of our subsidiaries or by FNB or any of its subsidiaries, other than in a fiduciary capacity or as a result of debts previously contracted in good faith, will be cancelled and retired and no merger consideration will be given with respect to those shares.

Dissenting Shares. If you perfect appraisal rights under the Bank Act, and you are therefore entitled to be paid the appraised value of your shares as provided for under the Bank Act, you will not be entitled to receive the merger consideration, unless and until you have withdrawn or lost your appraisal rights.

Election Procedure

Subject to the allocation process described in the next section, you will have the right to elect to receive in exchange for your shares of our common stock:

- all cash;
- all shares of FNB common stock; or
- a combination of cash and shares of FNB common stock.

In our discussion, we refer to each of these three possible elections as the all cash election, the all stock election and the combination election, respectively.

All Cash Election. If you choose the all cash election, you will receive $18.40 in cash for each share of our common stock you hold, subject to the allocation mechanism described below. In our description below, we refer to the shares held by a Legacy shareholder who has made an all cash election as cash election shares.

All Stock Election. If you choose the all stock election, you will receive one share of FNB common stock for each share of our common stock you hold, subject to the allocation mechanism described below. In our description below, we refer to the shares held by a Legacy shareholder who has made an all stock election as stock election shares.

Combination Election. If you choose the combination election, you will receive (i) one share of FNB common stock for each share of our common stock you hold for which you elected to receive FNB common stock and (ii) $18.40 in cash for each remaining share of our common stock you hold, subject to the allocation mechanism described below. If you choose the combination election, you will able to specify the number of shares of our common stock you want converted into shares of FNB common stock. All shares of our common stock for which you do not elect to receive FNB common stock will be converted into cash, subject to the allocation mechanism described below.

Undesignated Shares. Any shares of our common stock, other than shares for which appraisal rights have properly been perfected under the Bank Act and treasury shares, with respect to which the exchange agent does not receive an effective, properly completed election form prior to the election deadline will be deemed undesignated shares. If you hold shares of our common stock that are deemed to be undesignated shares, you will receive $18.40 in cash for each share of our common stock you hold unless there is an oversubscription of the cash consideration, in which case you may receive one share of FNB common stock for some or all of your shares of our common stock. See Allocation of FNB Common Stock and Cash below.

For example, assuming you hold 100 shares of our common stock, if you made:

- an all stock election, you will receive 100 shares of FNB common stock;
- an all cash election, you will receive $1,840 in cash; or
- a combination election, you will receive:
  - assuming an election of 75% cash and 25% stock, approximately $1,380 in cash and 25 shares of FNB common stock (and payment for any fractional share);
  - assuming an election of 50% cash and 50% stock, approximately $920 in cash and 50 shares of FNB common stock (and payment for any fractional share); or
  - assuming an election of 75% stock and 25% cash, approximately $460 in cash and 75 shares of FNB common stock (and payment for any fractional share).

The actual allocation of cash and stock will be subject in each case to the allocation procedures described under the heading Allocation of FNB Common Stock and Cash below.

Under the terms of the merger agreement, 30% of the shares of our common stock will be exchanged for cash and 70% of the shares of our common stock will be exchanged for FNB common stock, unless FNB exercises its option to increase the number of shares of FNB common stock issued in the merger in the case of a stock oversubscription. Accordingly, there is no assurance that you will receive the form of the merger consideration that you elect with respect to all of your shares of our common stock. If the elections of our shareholders result in an oversubscription for the available pool of FNB common stock or cash, the exchange agent will follow the procedures for allocating FNB common stock and cash to be received by our shareholders as set forth in the merger agreement and described under Allocation of FNB Common Stock and Cash below.

Election Form. The merger agreement provides that no less than 40 days prior to the anticipated date of completion of the merger, or on a different date mutually agreed upon by FNB and us, an election form and other appropriate and customary transmittal materials will be mailed by, or on behalf of, FNB to you. Each election form will allow you to elect to receive:

- one share of FNB common stock for each share of our common stock you hold;
- $18.40 in cash for each share of our common stock you hold; or

one share of FNB common stock for each share of our common stock you hold for which you elect to receive FNB common stock and $18.40 in cash for each remaining share of our common stock you hold.

The form of election will be mailed to you if you are a holder of record as of the close of business on the fifth business day prior to the mailing date of this proxy statement/ prospectus. In our discussion, we refer to this date at the election form record date. FNB will also make election forms available to persons who become record holders of our common stock subsequent to the election form record date and prior to the election deadline.

If you wish to elect the type of merger consideration you will receive in the merger, you should carefully review and follow the instructions set forth in the election form. Shares of our common stock as to which you have not made a valid election prior to the election deadline, which is 5:00 p.m. on the 30th day following the mailing date, will be deemed undesignated shares.

An election will have been properly made and effective only if the exchange agent has actually received a properly completed election form that has not been revoked by the election deadline. An election form will be properly completed only if an election is indicated for each share of our common stock covered by such election form and accompanied by one of more certificates representing all shares of our common stock covered by the election form (or customary affidavits and indemnification regarding the loss or destruction of such certificates or the guaranteed delivery of such certificates), together with duly executed transmittal materials included in or required by the election form.

You may revoke your election form prior to the election deadline, provided that the exchange agent actually receives a written notice from you revoking your election form and specifying the shares of our common stock covered by such revoked election form prior to the election deadline. In the event an election form is revoked prior to the election deadline, the shares of our common stock represented by such revoked election form will automatically become undesignated shares unless and until a new election is properly made with respect to such shares of our common stock on or before the election deadline. In the event of a revocation of an election, FNB will cause the certificates representing such shares of our common stock to be promptly returned without charge to the person submitting the revoked election form upon request to that effect from the holder who submitted such election form.

The exchange agent will have reasonable discretion to determine whether any election or revocation has been properly or timely made and to disregard immaterial defects in the election forms, and any decisions of Legacy and FNB required by the exchange agent and made in good faith in determining such matters will be binding and conclusive. Neither FNB nor the exchange agent will be under any obligation to notify any person of any defects in an election form.

Allocation of FNB Common Stock and Cash

Under the terms of the merger agreement, 30% of our shares of common stock will be exchanged for cash and 70% of our shares of common stock will be exchanged for FNB common stock. Accordingly, there is no assurance that you will receive the form of merger consideration that you elect with respect to all shares of our common stock you hold. If the elections of all of our shareholders result in an oversubscription of the available pool of cash or FNB common stock, the exchange agent will allocate between the cash and shares of FNB common stock to be received by you in the manner described below. For a discussion of fractional interests in shares of FNB common stock, see Structure of the Merger and the Merger Consideration beginning on page 73.

If the aggregate number of shares of FNB common stock that would be issued in the merger is approximately equal to 2,468,845, subject to adjustment pursuant to the merger agreement, then:

if you made an all cash election, you will receive $18.40 in cash for each share of our common stock you hold;

if you made an all stock election, you will receive one share of FNB common stock for each share of our common stock you hold;

if you made a combination election, you will receive one share of FNB common stock per share of our common stock you hold for which you elected to receive FNB common stock and $18.40 in cash for each remaining share of our common stock you hold; and

if you hold undesignated shares, you will be deemed to have made an all cash election and will receive $18.40 in cash for each share of our common stock you hold, subject to the allocation provisions in the merger agreement.

Oversubscription of the Stock Consideration. If the aggregate number of shares of FNB common stock that would be issued in the merger exceeds, and is not approximately equal to, 2,468,845 shares, subject to adjustment pursuant to the merger agreement, FNB may issue such number of its shares of common stock even though more than 2,468,845 shares of its common stock would be issued. However, FNB also has the right not to issue more than 2,468,845 shares of its common stock. If FNB chooses not to issue more than 2,468,845 shares of its common stock, then:

if you made an all cash election, you will receive $18.40 in cash for each share of our common stock you hold;

if you hold undesignated shares, you will be deemed to have made an all cash election and you will receive $18.40 in cash for each share of our common stock you hold;

if you made a combination election, you will receive the following consideration for the shares of our common stock you hold for which you elected to receive FNB common stock:

a number of shares of FNB common stock equal to the following: (i) the sum of the number of shares of our common stock as to which you made a stock election and the number of shares of our common stock for which FNB common stock was elected in connection with combination elections by other Legacy shareholders multiplied by (ii) the stock proration factor; and

cash in an amount equal to the following: (i) $18.40 multiplied by (ii) the sum of the number of shares of our common stock with respect to which all stock elections were made and the number of shares of our common stock for which FNB common stock was elected in connection with combination elections by other Legacy shareholders multiplied by (iii) one minus the stock proration factor; and

if you made a combination election, you will receive $18.40 in cash for each of the remaining shares of our common stock you hold;

if you made an all stock election, you will receive the following for each share of our common stock you hold:

a number of shares of FNB common stock equal to the following: (i) the sum of the number of shares of our common stock with respect to which all stock elections were made and the number of shares of our common stock for which FNB common stock was elected in connection with combination elections by other Legacy shareholders multiplied by (ii) the stock proration factor; and

cash in an amount equal to the following: (i) $18.40 multiplied by (ii) the sum of the number of shares of our common stock with respect to which all stock elections were made and the number of shares of our common stock for which FNB common stock was elected in connection with combination elections by other Legacy shareholders multiplied by (iii) one minus the stock proration factor.

The stock proration factor will be calculated by dividing (i) 2,468,845 by (ii) the number of shares of our common stock with respect to which all stock elections were made and the number of shares of our common stock for which FNB common stock was elected in connection with combination elections.

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Oversubscription of the Cash Consideration. If the aggregate number of shares of FNB common stock that would be issued in the merger is less than, and is not approximately equal to, 2,468,845, subject to adjustment pursuant to the merger agreement, then:

if you made an all stock election, you will receive one share of FNB common stock for each share of our common stock you hold;

if you made a combination election, you will receive one share of FNB common stock for each share of our common stock you hold for which you elected to receive FNB common stock;

the exchange agent will then select by pro rata allocation according to the number of shares of our common stock held by the holders of the undesignated shares, other than shares for which appraisal rights have properly been perfected under the Bank Act, a sufficient number of shares such that aggregate number of shares of FNB common stock that would be issued in the merger equals 2,468,845, as closely as possible, subject to adjustment pursuant to the merger agreement;

if the sum of the undesignated shares plus the shares of our common stock as to which all stock elections were made plus the number of shares of our common stock for which FNB common stock was elected in connection with combination elections by other Legacy shareholders is less than, and not approximately equal to, 2,468,845 shares of FNB common stock, then (i) each shareholder who made a combination election will receive the following consideration for each share of our common stock they hold for which they elected to receive cash and (ii) each shareholder who made an all cash election will receive the following consideration for each share of our common stock they hold:

cash in an amount equal to the following: (i) $18.40 multiplied by (ii) the sum of the number of shares of our common stock with respect to which all cash elections were made and the number of shares of our common stock for which cash was elected in connection with combination elections by other Legacy shareholders multiplied by (iii) one minus the cash proration factor; and

the number of shares of FNB common stock equal to the following: (i) the sum of the number of shares of our common stock with respect to which all cash elections were made and the number of shares of our common stock for which cash was elected in connection with combination elections by other Legacy shareholders multiplied by (ii) the cash proration factor.

The cash proration factor will be calculated by dividing (i) the amount that is the difference between (x) 2,468,845 and (y) the sum of the number of shares of our common stock with respect to which all stock elections were made, the number of shares of our common stock for which FNB common stock was elected in connection with combination elections and the number of undesignated shares selected pursuant to the second preceding bullet point by (ii) the sum of the number of shares of our common stock with respect to which all cash elections were made and the number of shares of our common stock for which cash was elected in connection with combination elections.

No later than five business days prior to the effective time of the merger, FNB will cause the exchange agent to compute the allocation described above. The pro rata allocation process to be used by the exchange agent will consist of such procedures as FNB and we mutually determine.

Because the United States federal income tax consequences of receiving cash, FNB common stock or both cash and FNB common stock will differ, you are urged to read carefully the information set forth under the section Material Federal Income Tax Consequences of the Merger and to consult your tax advisors for a full understanding of the tax consequences of the merger to you. In addition, because the value of one share of FNB common stock can fluctuate during the election period, the economic value per share received by our shareholders who receive FNB common stock may, as of the date of receipt by them, be more or less than the $18.40 in cash received by our shareholders who received cash consideration.

Some examples of the approximate effects of the proration of the cash consideration and the stock consideration in the merger to a holder of 100 shares of Legacy common stock are set forth below. The actual elections by Legacy shareholders may differ significantly. The examples are for illustrative purposes only.

If 85% of Shares Elect Cash, Then:

(a) A holder of 100 shares electing stock will receive all stock, and
(b) A holder of 100 shares electing cash will receive stock and cash in the following amount:

If 85% of Shares Elect Stock, Then(1):

(a) A holder of 100 shares electing cash will receive all cash, and
(b) A holder of 100 shares electing stock would receive stock and cash in the following amounts:

Amount of Merger Consideration in FNB Stock	Amount of Merger Consideration in Cash	Amount of Merger Consideration in FNB Stock	Amount of Merger Consideration in Cash
64.71 shares	$ 649.41	82.4 shares	$ 324.71

(1) Assumes FNB does not exercise its option to issue more than 2,468,845 shares of FNB common stock in the merger.

<u>Procedures for the Exchange of Shares of Our Common Stock</u>

Exchange Fund. Not later than three days prior to the effective time of the merger, FNB will deposit with the exchange agent certificates representing the shares of FNB common stock and cash to be exchanged for shares of our common stock.

After the effective time of the merger, each holder of a Legacy stock certificate, other than shares for which appraisal rights have properly been perfected under the Bank Act and treasury shares, who has surrendered such certificate (or customary affidavits and indemnification regarding the loss or destruction of such certificate) together with duly executed transmittal materials to the exchange agent, will be entitled to receive a certificate representing FNB common stock and/or cash in accordance with the election and allocation procedures described above. See Election Procedure beginning on page 74 and Allocation of FNB Common Stock and Cash beginning on page 76.

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.

If your Legacy stock certificate has been lost, stolen or destroyed, you may receive shares of FNB common stock if you make an affidavit of that fact. FNB may require that you post a bond in a reasonable amount as an indemnity against any claim that may be made against FNB with respect to the lost, stolen or destroyed Legacy stock certificate.

Until you exchange your Legacy stock certificates, you will not receive any dividends or distributions in respect of any shares of FNB common stock you are entitled to receive in connection with the merger. Once you exchange your Legacy stock certificates for FNB stock certificates, you will receive, without interest, any dividends or distributions with a record date after the effective time of the merger and payable with respect to your shares of FNB common stock.

After completion of the merger, no transfers of our common stock issued and outstanding immediately prior to the completion of the merger will be allowed, except as required to settle trades executed prior to the completion of the merger. If certificates representing shares of our common stock are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which such shares represented by that certificate have been converted.

The exchange agent will issue a FNB stock certificate, or a check representing cash, in a name other than the name in which a surrendered Legacy stock certificate is registered only if the surrendered Legacy stock certificate is properly endorsed and otherwise in proper form for transfer and the person requesting such

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exchange either affixes any requisite stock transfer tax stamps to the surrendered certificate, provides funds for their purchase or establishes to the satisfaction of the exchange agent that such transfer taxes are not payable.

Our stock certificates may be exchanged for cash and/or FNB stock certificates with the exchange agent for up to nine months after the completion of the merger. At the end of that period, any FNB stock certificates and cash will be returned to FNB. Any holders of our stock certificates who have not exchanged their certificates will then be entitled to look only to FNB to seek payment of their claim for cash and/or FNB common stock to be received as merger consideration.

FNB or the exchange agent may be entitled to deduct and withhold from any amounts payable to any holder of shares of our common stock such backup withholding as is required under the Internal Revenue Code of 1986, as amended, or the Code, or any state, local or foreign tax law or regulation. Any amounts that are withheld will be treated as having been paid to such holder of our common stock.

Neither we nor FNB will be liable to any former holder of our common stock for any shares of FNB common stock or cash that is paid to a public official pursuant to any applicable abandoned property, escheat or similar laws.

Resale of FNB Common Stock

The shares of FNB common stock to be issued pursuant to the merger will be registered under the Securities Act, and will be freely transferable, except for shares issued to any Legacy shareholder who may be deemed to be either an affiliate of (i) FNB, at or after the effective time of the merger, for purposes of Rule 144 promulgated under the Securities Act or (ii) Legacy, at the time of our special meeting, for purposes of Rule 145 promulgated under the Securities Act. Affiliates include persons who control, are controlled by or are under common control with Legacy or FNB, as the case may be, and generally consist of executive officers, directors and 10% or greater shareholders.

Rule 145 will restrict the sale of FNB common stock received in the merger by affiliates of Legacy and certain of their family members and related interests. Generally speaking, during the year following the effective time of the merger, those persons who are affiliates of Legacy at the time of our special meeting, provided they are not affiliates of FNB at or following the effective time of the merger, may publicly resell any FNB common stock received by them in the merger, subject to certain limitations as to, among other things, the amount of FNB common stock sold by them in any three-month period and the manner of sale. After the one-year period, such affiliates may resell their shares without such restrictions so long as there is adequate current public information available with respect to FNB as required by Rule 144.

Persons who are affiliates of FNB after the effective time of the merger may publicly resell the shares of FNB common stock received by them in the merger subject to similar limitations and subject to certain filing requirements specified in Rule 144 and in a manner consistent with FNB s insider trading policy. At the present time, it is anticipated that only one affiliate of Legacy will become a director of FNB Bank. This individual will become an affiliate of FNB after the merger.

The ability of affiliates to resell shares of FNB common stock received in the merger under Rules 144 or 145 as summarized above generally will be subject to FNB having timely filed the periodic reports required under the Securities Exchange Act of 1934, or the Exchange Act, for specified periods prior to the time of sale. Affiliates also would be permitted to resell FNB common stock received in the merger pursuant to an effective registration statement under the Securities Act or another available exemption from the registration requirements of the Securities Act. Neither the registration statement of which this proxy statement/ prospectus is a part nor this proxy statement/ prospectus cover any resales of FNB common stock received by persons who may be deemed to be affiliates of FNB or Legacy in the merger.

We have agreed in the merger agreement to use our reasonable best efforts to identify each person who may be deemed to be our affiliate for purposes of Rule 145 and to cause such person to deliver to FNB, prior to the date of our special meeting, a written agreement intended to ensure compliance with the Securities Act in connection with the sale or other transfer of FNB common stock received in the merger.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors that you vote in favor of the approval of the merger proposal, you should be aware that some of our executive officers and directors have interests in the merger that are different from, or in addition to, your interests as our shareholders. Our board of directors was aware of these interests and took them into account in its decision to approve the merger agreement.

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 insurance;

- the execution of employment agreements between FNB Bank and each of George H. Groves, Thomas W. Lennox and Joseph L. Paese that will become effective upon the consummation of the merger;

- the receipt of change of control payments pursuant to employment or change of control agreements with Legacy;

- the members of our board of directors will be offered the opportunity to serve as members of the advisory board of directors of FNB s Harrisburg region and will receive certain fees for such services; and

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

Employment Agreements with Senior Officers. FNB Bank and each of George H. Groves, our Chairman and Chief Executive Officer, Thomas W. Lennox, our President and Chief Operating Officer, and Joseph L. Paese, the President and Chief Executive Officer of Legacy Trust, have entered into an employment agreement that will become effective upon the consummation of the merger. The principal terms of the employment agreements are as follows:

- the employment agreements have an initial term of two years and thereafter automatically review for successive terms of one year, unless either party exercises its right to terminate the automatic renewal;

- the employment agreements provide for a minimum annual base salary of $196,000 in the case of Mr. Groves, $165,000 in the case of Mr. Lennox and $140,000 in the case of Mr. Paese, plus merit increases and incentive bonuses at the discretion of FNB; and

- Each of Messrs. Groves, Lennox and Paese is entitled to receive severance compensation of two times his then annual base salary in the event FNB terminates such officer s employment for other than cause (as defined in the employment agreement).

Indemnification and Directors and Officers Insurance. FNB has agreed in the merger agreement that for six years following the effective time of the merger, FNB will indemnify and hold harmless each of our present and former directors, officers and employees and those of our subsidiaries against any costs or expenses including reasonable attorneys fees, judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the effective time of the merger including the transactions contemplated by the merger agreement, whether asserted or claimed prior to, at or after the effective time of the merger, to the fullest extent that the person would have been indemnified pursuant to (i) our articles of incorporation and by-laws and (ii) any agreement, arrangement or understanding disclosed by us to FNB, in each case as in effect on the date of the merger agreement.

FNB has also agreed in the merger agreement that for a period of six years after the effective time of the merger, it will cause the persons serving as our directors and officers immediately prior to the effective time of the merger to be covered by the directors and officers liability insurance policy we currently maintain. FNB is permitted to provide a substitute insurance policy of at least the same coverage and amounts that contains terms and conditions that are not materially less advantageous than the insurance policy we presently maintain. In no case, however, will FNB be required to expend in any one year an amount in excess of 150% of the annual premium currently paid by us for such insurance. If FNB is unable to maintain or obtain such insurance for that amount, then FNB will use its reasonable best efforts to obtain the most advantageous coverage as is available for that amount.

Change of Control Agreements. We have employment or change of control agreements with George H. Groves, Thomas W. Lennox, Joseph L. Paese, Joseph M. DeBias, Paul F. Spiegel, Jr., Kirsten C. Penwell, Joseph S. Arthur and Jane B. Tompkins that entitle each of them to certain compensation and benefits upon the completion of the merger between FNB Bank and us unless they are terminated for cause, as defined in the change of control agreements, prior to the completion of the merger. Ms. Penwell, Ms. Tompkins, Messrs. Groves, Lennox, Paese, DeBias, Spiegel and Arthur may be entitled to receive approximately $103,173, $109,000, $1,056,000, $798,000, $248,000, $210,400, $137,115 and $104,692, respectively, in compensation and benefits pursuant to these agreements on the effective date of the merger. Of these payments, approximately $856,000 of the payment to Mr. Groves and approximately $641,000 of the payment to Mr. Lennox will not be deductible for federal income tax purposes by either Legacy or FNB.

FNB Bank Board of Directors. FNB has agreed to add one current member of our board of directors to the existing board of directors of FNB Bank. Mr. Groves will serve until the 2008 annual meeting of shareholders of FNB Bank. See Board of Directors of FNB and FNB Bank Following the Merger below.

Other than as set forth above, none of our directors or executive officers has any direct or indirect material interest in the merger, except insofar as ownership of our common stock might be deemed such an interest.

Boards of Directors of FNB and FNB Bank Following the Merger

The board of directors of FNB immediately prior to the effective time of the merger will be the board of directors of FNB following the closing of the merger. At the closing of the merger, FNB has agreed to cause FNB Bank to add George H. Groves of our board of directors to the existing board of directors of FNB Bank for not less than two years following the closing of the merger.

Regulatory Approvals Required for the Merger

Completion of the merger is subject to several federal and state bank regulatory agency filings and approvals. The merger cannot be completed unless FNB and FNB Bank receive prior approvals, waivers or exemptions from the OCC and the Federal Reserve Board and FNB Bank and until we have made certain filings with the Department.

Neither FNB nor we can predict whether or when the required regulatory approvals, waivers or exemptions will be obtained. As of the date of this proxy statement/ prospectus, all applications and requests for waivers or exemptions have been filed with the Department, the OCC and the Federal Reserve Board.

Federal Reserve Board. Because FNB is a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA, the merger is subject to prior approval from the Federal Reserve Board under Section 3 of the BHCA.

Office of the Comptroller of the Currency. The merger of Legacy with and into FNB Bank is subject to the prior approval of the OCC under the Bank Merger Act. On March 3, 2006, FNB and FNB Bank filed their application for approval of the bank merger with the OCC. In reviewing applications under the Bank Merger Act, the OCC must consider, among other factors, the financial and managerial resources and future prospects of the existing and proposed institutions, the convenience and needs of the communities to be served and the effectiveness of both institutions in combating money laundering. In addition, the OCC may not approve a merger:

- that will result in a monopoly or be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States;

- if its effect in any section of the country may be substantially to lessen competition or tend to create a monopoly; or

- if it would in any other manner be a restraint of trade,

unless the OCC finds that the anticompetitive effects of the merger are clearly outweighed by the public interest and the probable effect of the merger on meeting the convenience and needs of the communities to be served.

Under the Community Reinvestment Act, the OCC must also take into account the record of performance of each of the merging banks in meeting the credit needs of the entire community, including low and moderate income neighborhoods served by each institution. As part of the merger review process, the federal supervisory agencies frequently receive comments and protests from community groups and others. Each of Legacy and FNB Bank received Satisfactory performance ratings in their most recent Community Reinvestment Act evaluations.

The OCC is also authorized to, but generally does not, hold a public hearing or meeting in connection with an application under the Bank Merger Act. A decision by the OCC that such a hearing or meeting would be appropriate regarding any application could prolong the period during which the application is subject to review.

Mergers approved by the OCC under the Bank Merger Act, with certain exceptions, may not be consummated until 30 days after such approval, during which time the United States Department of Justice may challenge such merger on antitrust grounds and may require the divestiture of certain assets and liabilities. With the approval of the OCC and the Department of Justice, the waiting period may be, and customarily is, reduced to no less than 15 days. There can be no assurance that the Department of Justice will not challenge the merger or, if such a challenge is made, as to the result of such challenge.

Pennsylvania Department of Banking. The prior written approval of the Department is not required for the proposed merger of Legacy or Legacy Trust, each of which is a Pennsylvania state-chartered banking institution, with and into FNB Bank and First National Trust Company, each of which is a national association because each of the resulting institutions will be a national association. Legacy and Legacy Trust are required to provide certain notice and documents to the Department regarding the proposed mergers. Pursuant to the Banking Code, Legacy and Legacy Trust must: (i) notify the Department of the proposed mergers, (ii) provide such evidence of the adoption of plans of merger as the Department may request, (iii) notify the Department of any abandonment of disapproval of the plans of merger and (iv) file with the Department and with the Pennsylvania Department of State a certificate of the approval of the mergers by the OCC.

Other Regulatory Approvals. Neither we nor FNB are aware of any other regulatory approvals that would be required for completion of the merger or the trust company merger except as described above. Should any other approvals be required, we and FNB presently contemplate that such approvals would be sought. There can be no assurance, however, that any other approvals, if required, will be obtained.

There can be no assurance that the regulatory authorities described above will approve the bank merger or the trust company merger, and if such mergers are approved, there can be no assurance as to the date such approvals will be received. In any event, FNB and Legacy do not expect to obtain all required regulatory approvals until during the second quarter of 2006. The mergers cannot proceed in the absence of the receipt of all requisite regulatory approvals and the expiration of statutory antitrust waiting periods. See The Merger Agreement Conditions to Completion of the Merger and The Merger Agreement Amendment, Waiver and Termination of the Merger Agreement.

The approval of any application merely implies the satisfaction of regulatory criteria for approval, which do not include review of the merger from the standpoint of the adequacy of the merger consideration to be received by our shareholders. Further, regulatory approvals do not constitute an endorsement or recommendation of the merger.

Public Trading Markets

FNB common stock is listed on the New York Stock Exchange under the symbol FNB. Our common stock is traded on the OTC Bulletin Board of the Nasdaq under the symbol LBOH. Upon completion of the merger, our common stock will no longer be quoted on the OTC Bulletin Board and will be deregistered under the Exchange Act. The FNB common stock issuable pursuant to the merger agreement will be listed on the New York Stock Exchange.

The shares of FNB common stock to be issued in connection with the merger will be freely transferable under the Securities Act, except for shares issued to any of our shareholders that may be deemed either to be an affiliate of (i) FNB at or after the effective time of the merger or (ii) us at the time of our special meeting, as discussed in Resale of FNB Common Stock beginning on page 80.

As reported on the NYSE, the closing price per share of FNB common stock on February 27, 2006 was $16.78. As reported by Nasdaq, the closing price per share of our common stock on the OTC Bulletin Board on February 27, 2006 was $16.89. Based on the FNB closing price per share and the exchange ratio, the implied per share value of our common stock was $16.78 as of that date.

FNB Dividends

FNB paid cash dividends on its common stock in the amount of $0.23 per share for the first three quarters of 2005 and paid a cash dividend of $0.235 per share for the fourth quarter of 2005. Based on the one share exchange ratio and FNB s current dividend rate, holders of our common stock would experience an anticipated dividend at an annual rate of $0.94 per share, an increase of $0.94 per share per year.

FNB shareholders are entitled to receive cash dividends when and if declared by the FNB board of directors out of funds legally available for dividends. The FNB board of directors quarterly considers the payment of dividends, taking into account FNB s financial condition and level of net income, FNB s future prospects, economic conditions, industry practices and other factors, including applicable banking laws and regulations.

The primary source of FNB s funds for cash dividends to its shareholders is dividends received from its subsidiaries, including FNB Bank. FNB Bank is subject to various regulatory policies and requirements relating to the payment of dividends to FNB, including requirements to maintain capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In addition, the ability of FNB and the ability of FNB Bank to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under the Federal Deposit Insurance Corporation Improvement Act of 1991.

Appraisal Rights of Dissenting Shareholders

Appraisal rights are statutory rights that enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that he corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction.

In a merger or consolidation in which the resulting institution is a national bank, such as FNB Bank, the Banking Code does not provide dissenters rights. Instead, dissenters rights are provided by Section 215a of the Bank Act.

Any Legacy shareholder who contemplates exercising a holder s right to dissent is urged to read carefully the provisions of the Bank Act attached to this proxy statement/ prospectus as Appendix C. The following discussion summarizes the steps to be taken if the right to dissent is to be exercised, and should be read with the full text of the law found at Appendix C.

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A dissenting shareholder must take each step in the indicated order and in strict compliance with the provisions of the law in order to perfect dissenters rights. The failure of a Legacy shareholder to comply precisely with the procedural steps on a timely basis will result in a loss of that shareholder s dissenters rights.

Pursuant to 12 USC §215a, any holder of Legacy common stock who votes against the merger at our special meeting, or who has given notice in writing at or prior to our special meeting to the presiding officer that he or she dissents from the plan of merger, shall be entitled to receive the value of the Legacy common stock held by such shareholder when such merger shall be approved by the OCC, upon written request made to FNB Bank at any time before 30 days after the date of consummation of the merger, accompanied by the surrendered of his or her stock certificates. FNB and Legacy anticipate that a press release will be issued announcing the consummation of the merger promptly following such consummation.

The value of the shares of any dissenting shareholder shall be determined, as of the effective date of the merger, by an appraisal made by a committee of three persons, composed of one selected by the vote of the holders of a majority of the stock, the owners of which are entitled to payment in cash pursuant to the exercise of dissenters rights, one selected by the directors of FNB Bank and one selected by the two so selected. The valuation agreed upon by any two of the three appraisers shall govern.

If the value so fixed shall not be satisfactory to any dissenting shareholder who has requested payment, that shareholder may, within five days after being notified of the appraised value of his shares, appeal to the OCC, which shall cause a reappraisal to be made which shall be final and binding as to the value of the shares of the appellant. If, within 90 days from the date of consummation of the merger, for any reason one or more of the appraisers is not selected, or the appraisers fail to determine the value of such shares, the OCC shall upon written request of any interested party cause an appraisal to be made which shall be final and binding on all parties. The expense of the OCC in making the reappraisal or the appraisal, as the case may be, shall be paid by FNB Bank. The value of the shares ascertained shall be promptly paid to the dissenting shareholders by FNB Bank.

Failure to vote against the merger agreement will constitute a waiver of a Legacy shareholder s appraisal rights unless he gives written notice prior to or at the special meeting to the presiding officer at the special meeting that he dissents from the merger agreement. However, simply because a shareholder votes against the merger agreement at the special meeting or gives written notice prior to or at the special meeting that he dissents from the merger agreement does not mean that he is then entitled to receive the value of his shares. A Legacy shareholder must also make a request to FNB Bank for payment of the value or his shares at any time before 30 days after the effective date of the merger and must accompany that request with a surrender of his stock certificates. Mere failure to vote or merely voting against the merger or merely filing a notice of dissent will not satisfy the requirement for a written demand.

Unless the above procedure is followed precisely, a Legacy shareholder will be presumed to have acquiesced in the approval of the merger and waived his dissenters rights. As noted above, failure to vote against the merger agreement and the merger will not waive a shareholder s dissenters rights if the Legacy shareholder has filed a written notice prior to the special meeting and has not voted in favor of the merger agreement. If a Legacy shareholder abstains from voting on the merger agreement, this will not waive dissenters rights so long as the appropriate written notice is properly and timely filed at or prior to the special meeting. Mere notice filed after the special meeting, absent compliance with the other specific requirements, will not preserve a shareholder s dissenters rights.

In the event a shareholder does not act in order to perfect his dissenters rights, that shareholder will be bound by the terms of the merger agreement, including the requirement to exchange his shares of Legacy common stock for the merger consideration, and will be entitled to receive the merger consideration following completion of the merger, in the same manner as those shareholders who have not exercised their dissenters rights.

Legacy shareholders wishing to exercise their dissenters rights should consult their own counsel to ensure that they fully and properly comply with applicable requirements.

THE MERGER AGREEMENT

The following section describes certain aspects of the merger, including the material provisions of the merger agreement. The following description of the merger agreement summarizes the material provisions of the merger agreement, but is subject to, and qualified in its entirety by reference to, the merger agreement, which is included as Appendix A to this proxy statement/ prospectus and is incorporated by reference in this proxy statement/ prospectus. We urge you to read the merger agreement carefully and in its entirety.

Terms of the Merger

The merger agreement provides for the merger of Legacy with and into FNB Bank. FNB Bank will be the surviving corporation in the merger. Each share of our common stock issued and outstanding immediately prior to the completion of the merger, except for shares of our common stock held by FNB or shares as to which appraisal rights are perfected, will be converted into the right to receive, at the election of the Legacy shareholder, subject to the allocation provisions in the merger agreement, either one share of FNB common stock or $18.40 in cash.

Our shareholders may elect whether they want to receive all FNB common stock, all cash or a combination of cash and FNB common stock. However, shareholder elections are subject to possible proration because the allocation procedures in the merger agreement provide that 30% of the shares of our common stock will be exchanged for cash and 70% of the shares of our common stock will be exchanged for 2,468,845 shares of FNB common stock. The actual allocation of cash and FNB common stock will be dependent on the elections made by our shareholders and may result in a Legacy shareholder receiving a mixture of FNB common stock and cash regardless of that shareholder s choice. See The Merger Election Procedure beginning on page 74.

Treatment of Legacy Stock Options, Warrants and Legacy Notes

The merger agreement provides that, at the effective time of the merger, each outstanding stock 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, and become 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 stock option or warrant at a price equal to the pre-merger exercise price of the stock option or the warrant.

FNB has agreed to assume our obligations with respect to our stock options and warrants that are converted into FNB stock options and warrants in accordance with the terms of the plans and instruments under which they have been granted. FNB has agreed to reserve additional shares of FNB common stock to satisfy its obligations under the converted stock options and warrants. If necessary, FNB will file a registration statement with the SEC on an appropriate form to the extent necessary to register FNB common stock subject to the converted stock options and warrants.

The merger agreement further provides that, at the effective time of the merger, each outstanding 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 shares of our common stock into which the Legacy Note was convertible before the merger 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 and to register the FNB common stock issuable upon conversion of the Legacy Notes.

Closing and Effective Time of the Merger

The merger will be completed only if all of the following occur:

- our shareholders approve and adopt the merger agreement;
- we obtain all required governmental and regulatory consents and approvals; and
- all other conditions to the merger discussed in this proxy statement/ prospectus and the merger agreement are either satisfied or waived.

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The merger will become effective when articles of merger are filed with the OCC. In the merger agreement, we have agreed to cause the completion of the merger to occur no later than the fifth business day following the satisfaction or waiver of the last of the conditions specified in the merger agreement, or on another mutually agreed date, provided that such date shall not be less than 10 days following our special meeting. It is currently anticipated that the effective time of the merger will occur in the second quarter of 2006, but we cannot guarantee when or if the merger will be completed. FNB s articles of incorporation and FNB s bylaws as in effect immediately prior to the effective time will be FNB s articles of incorporation and FNB s bylaws upon completion of the merger and, along with Florida law, will govern the rights of the holders of our common stock who receive FNB common stock in the merger.

Representations, Warranties, Covenants and Agreements

The merger agreement contains generally reciprocal customary representations and warranties of Legacy and FNB relating to their respective businesses. No representation or warranty will be deemed untrue or incorrect as a consequence of the existence or absence of any fact, event or circumstance unless that fact, event or circumstance has had or is reasonably likely to have a material adverse effect on the party making the representation or warranty, disregarding any materiality or material adverse effect qualifications in any representations or warranties. The representations and warranties in the merger agreement will not survive the effective time of the merger.

Legacy has made representations and warranties regarding, among other things:

- corporate matters, including due organization, qualification and authority;
- capitalization;
- subsidiaries;
- corporate power and authority to conduct its business;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required governmental filings and consents for approval of the merger and the absence of any defaults;
- the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;
- financial statements and the absence of undisclosed liabilities;
- broker s fees payable in connection with the merger;
- the absence of material adverse effects;
- legal proceedings;
- tax matters;
- material contracts and the absence of defaults thereunder;
- employee benefit plans;
- fiduciary accounts;
- real property;

intellectual property;

loans and nonperforming and classified assets;

labor matters;

FDIC reports;

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- compliance with applicable laws;
- insurance;
- the absence of agreements with regulatory agencies;
- allowances for loan losses;
- interest rate risk management instruments;
- books and records;
- environmental liabilities;
- the inapplicability of state anti-takeover laws;
- the absence of knowledge preventing the merger from qualifying as a reorganization;
- the receipt of a fairness opinion from our financial advisor; and
- the accuracy of information supplied for inclusion in this proxy statement/ prospectus and other similar documents.

FNB has made representations and warranties regarding:

- corporate matters, including due organization, qualification and authority;
- capitalization;
- subsidiaries;
- corporate power and authority to conduct its business;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required governmental filings and consents for approval of the merger and the absence of any defaults;
- the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;
- financial statements and the absence of undisclosed liabilities;
- broker s fees payable in connection with the merger;
- the absence of material adverse effects;
- legal proceedings;
- tax matters;
- material contracts and the absence of defaults thereunder;

SEC reports;

compliance with applicable laws;

the absence of agreements with regulatory agencies;

interest rate risk management instruments; and

the absence of knowledge preventing the merger from qualifying as a reorganization.

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We have agreed to certain customary covenants that place restrictions on us and our subsidiaries until the effective time of the merger. In general, we agree to:

conduct our business in the ordinary course in all material respects;

use commercially reasonable best efforts to maintain and preserve intact our business organization, employees and advantageous business relationships; and

take no action that would adversely affect or materially delay our ability to obtain any necessary regulatory approvals of the merger, perform our covenants and agreements in the merger agreement or complete the merger.

We have further agreed in the merger agreement that, except with FNB s prior written consent, we will not, among other things, undertake the following actions:

issue, sell or otherwise permit to become outstanding any shares of our common stock or options or other rights to acquire our common stock, except for currently outstanding stock options;

make, declare or pay any dividends or other distributions on any shares of our capital stock;

adjust, split, combine, reclassify, redeem, purchase or acquire any shares of our common stock;

except as contemplated by the merger agreement, grant any salary increase other than:

normal increases in the ordinary course of business that, in the aggregate, do not exceed 3.5%, or, in any individual case, 5.0%;

changes required by applicable law;

changes pursuant to existing plans or commitments as disclosed to FNB;

retention bonuses not in excess of $200,000 in the aggregate to such persons and in such amounts as we and FNB mutually agree;

severance payments as disclosed to FNB; and

grants of awards to newly-hired employees consistent with past practice; and

hire or promote any employee, except to satisfy existing contractual obligations or to fill vacancies where employment is terminable at our will and where the total compensation does not exceed $40,000 annually;

enter into, establish, amend or make any contributions to any employee benefit plan, except as is required by applicable law or to satisfy existing contractual obligations or take any action to accelerate the vesting or exercisability of stock options or other benefits;

other than in the ordinary course of business, sell, transfer, mortgage, encumber or otherwise dispose of any assets, deposits, business or properties;

acquire, other than by foreclosure or in satisfaction of debts in the ordinary course of business, any assets, business, deposits or properties of any other entity;

make any capital expenditure other than in the ordinary course of business and in amounts not exceeding $15,000 individually or $50,000 in the aggregate;

amend our articles of incorporation or by-laws or those of our subsidiaries except as required by law;

implement or adopt any change in our tax accounting or financial accounting principles, practices or methods, except as required by changes in law or regulations or generally accepted accounting principles;

other than in the ordinary course of business and as permitted by the merger agreement, enter into or terminate any material contract or amend any material contract in any material respect;

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enter into any settlement of any action, proceeding, order or investigation to which we are a party that involves the payment of more than $50,000 by us or that would impose any material restriction on our business;

enter into any new material line of business or change our lending, investment, underwriting, risk and asset liability management or other banking and operating policies that are material to us, except as required by applicable law, or open or close any branch location;

enter into any derivatives contract;

other than in the ordinary course of business, incur any indebtedness or assume, guarantee, endorse or otherwise become responsible for the indebtedness of any other person or prepay any indebtedness;

other than in the ordinary course of business, acquire any debt security or equity security other than federal funds or United States Government or agency securities with a term of one year or less or restructure or materially change our investment securities portfolio or gap position;

other than in the ordinary course of business, make, renew or otherwise modify any loan, loan commitment or other extension of credit to any person, provided that we may make, renew or otherwise modify (i) an unsecured loan to any person, if, after making, renewing or otherwise modifying such loan, such person would not be indebted to us for an aggregate amount in excess of $250,000, (ii) make, renew or otherwise modify a secured loan to any person (other than a permanent loan secured by an owner-occupied 1-4 family single-family residence) if after making such loan, such person would not be indebted to us for an aggregate amount in excess of $2,000,000, (iii) make, renew or otherwise modify any permanent loan secured by an owner-occupied 1-4 single-family residence with a principal balance in excess of $500,000 or (iv) make, renew or otherwise modify any loan that contains terms that involve an exception to our credit policy manual;

other than in the ordinary course of business, make any investment or commitment to invest in real estate or a real estate development project other than in foreclosures, acquisitions in a fiduciary capacity or in satisfaction of a debt previously contracted;

take any action that would, or is reasonably likely to, prevent the merger from qualifying as a reorganization;

fail to hold our special meeting;

take any action that is intended, or is reasonably likely, to result in:

any representations or warranties under the merger agreement becoming untrue in any material respect;

any of the conditions to the merger not being satisfied; or

a material violation of the merger agreement or the trust company merger agreement; and

take any action that would adversely affect or materially delay necessary governmental or regulatory approvals, or our ability to perform our covenants and agreements under the merger agreement or to consummate the transactions contemplated by the merger agreement; or

enter into any contract or otherwise agree or commit to do any of the foregoing.

FNB has agreed that, except with our prior written consent, FNB will not, among other things, undertake the following actions:

take any action that would, or is reasonably likely to, prevent the merger from qualifying as a reorganization;

take any action that is intended, or is reasonably likely to, result in:

any representations or warranties under the merger agreement becoming untrue in any material respect;

- any of the conditions to the merger not being satisfied; or
- a material violation of the merger agreement or the bank merger agreement; and

- take any action that would adversely affect or materially delay necessary governmental or regulatory approvals, or its ability to perform its covenants and agreements under the merger agreement or to consummate the transactions contemplated by the merger agreement; or
- enter into any agreement or otherwise agree or commit to do any of the foregoing.

The merger agreement also contains mutual covenants relating to the preparation of this proxy statement/ prospectus and the holding of our special meeting of shareholders, access to information of the other company and public announcements with respect to the transactions contemplated by the merger agreement.

Declaration and Payment of Dividends

We have agreed that, until the merger is completed, we will not pay or make any dividends or distributions on our common stock.

Agreement Not to Solicit Other Offers

We have also agreed that we, our subsidiaries and our and their officers, directors, employees, agents and representatives will not, directly or indirectly:

- initiate, solicit, encourage or take any action to facilitate any inquiries or proposals for any Acquisition Proposal, as defined below; or
- participate in any discussions or negotiations, furnish any information to or approve, recommend or enter into any agreement, regarding any Acquisition Proposal.

However, prior to the effective time of the merger, we may consider and participate in discussions and negotiations with respect to a Superior Proposal , as defined below, if:

- we have first entered into a confidentiality agreement with the party proposing the Superior Proposal with confidentiality terms no less favorable to us than those contained in our confidentiality agreement with FNB; and
- our board of directors concludes in good faith, after consultation with our outside legal counsel, that failure to take these actions could reasonably be expected to cause our board of directors to violate its fiduciary duties to our shareholders.

We have also agreed, at least 72 hours prior to providing any information to any person or entering into any discussions or negotiations with any person, to notify FNB in writing of the name of such person and the material terms and conditions of any such Superior Proposal. The merger agreement permits our board of directors to withdraw or qualify its recommendation of our merger with FNB if our board of directors concludes in good faith, after consultation with our outside legal counsel and our financial advisors, that failure to take such actions could reasonably be expected to breach our fiduciary duties to our shareholders.

We have agreed:

- to notify FNB promptly, and in any event within 24 hours, after we receive any Acquisition Proposal, or any information related thereto, which notification shall describe the Acquisition Proposal and the third party making it; and
- to cease any existing discussions or negotiations with any persons with respect to any Acquisition Proposal.

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As used in the merger agreement, an Acquisition Proposal means any inquiry, proposal, offer, regulatory filing or disclosure of an intention to do any of the foregoing regarding any:

- direct or indirect acquisition of a substantial portion of the net revenues, net income or net assets of us or any of our subsidiaries;
- direct or indirect acquisition of 10% or more of our common stock after December 21, 2005 by a person who, on December 21, 2005 did not own 10% or more of our common stock;
- direct or indirect acquisition of 5% or more of our common stock after December 21, 2005 by a person who owned 10% or more of our common stock on December 21, 2005;
- tender offer or exchange offer that if consummated would result in any person beneficially owning 10% or more of our common stock; or
- merger, consolidation, business combination, recapitalization, liquidation or dissolution involving us, other than our proposed merger with FNB.

As used in the merger agreement, Superior Proposal means any bona fide, unsolicited written Acquisition Proposal made by a third party to acquire more than 50% of the voting power of our then outstanding shares of common stock or all or substantially all of our consolidated assets for consideration consisting of cash and/or securities, that our board of directors in good faith concludes, after consultation with our financial advisors and our outside legal counsel, taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and the person making the proposal, including any break-up fees, expense reimbursement provisions and conditions to consummation:

- is on terms that are more favorable from a financial point of view to our shareholders than the terms of the proposed merger with FNB;
- has financing, to the extent required, that is fully committed or reasonably determined to be available to the party making the offer; and
- is reasonably capable of being completed.

Expenses and Fees

In general, each of FNB and Legacy will be responsible for all expenses it incurs in connection with the negotiation and completion of the transactions contemplated by the merger agreement. However, the costs and expenses of printing and mailing this proxy statement/ prospectus, and all filing and other fees paid to the SEC in connection with the merger, will be shared equally by FNB and us.

Conditions to Completion of the Merger

Our respective obligations to complete the merger are subject to the fulfillment or waiver of certain conditions, including:

- the approval and adoption of the merger agreement and the approval of the merger by the holders of not less than two-thirds of our outstanding shares of common stock;
- the receipt and effectiveness of all governmental and other approvals, registrations and consents, and the expiration of all related waiting periods, required to complete the merger;
- the absence of any law, statute, regulation, judgment, decree, injunction or other order in effect by any court or other governmental entity that prohibits completion of the transactions contemplated by the merger agreement;

the registration statement with respect to the FNB common stock to be issued in the merger shall have become effective under the Securities Act and no stop order or proceedings for that purpose will have been initiated or threatened by the SEC;

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the approval of the listing of the FNB common stock to be issued in the merger on the New York Stock Exchange, subject to official notice of issuance;

the truth and correctness of the representations and warranties of FNB and Legacy in the merger agreement, subject to the materiality standard provided in the merger agreement, and the performance by each of FNB and us in all material respects of our respective obligations under the merger agreement and the receipt by each of us of certificates from the other to that effect; and

the receipt by each of FNB and Legacy of a legal opinion with respect to certain federal income tax consequences of the merger.

In addition, FNB s obligation to complete the merger is also subject to receipt by FNB of Phase I environmental studies with respect to all real property owned by us or our subsidiaries, the findings of which studies shall be commercially acceptable to FNB who will not unreasonably withhold such acceptance.

We cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy statement/ prospectus, we have no reason to believe that any of these conditions will not be satisfied.

Amendment, Waiver and Termination of the Merger Agreement

Subject to applicable law, FNB and Legacy may amend the merger agreement by written agreement authorized by their boards of directors. However, after approval of the merger proposal by our shareholders, there may not be, without further approval of our shareholders, any amendment of the merger agreement that requires such further approval. Either party to the merger agreement may waive any inaccuracies in the representations and warranties of the other party, or, subject to applicable law, may waive compliance by the other party with any of the other agreements or conditions contained in the merger agreement. The merger agreement may be terminated at any time prior to closing by mutual consent and by either party in the following circumstances:

if any of the required regulatory approvals for the merger are denied and the denial is final and nonappealable;

if the merger has not been completed by September 30, 2006, unless the failure to complete the merger by that date is due to the terminating party s actions;

provided the terminating party is not then in material breach, if there is a breach by the other party that would cause the failure of the closing conditions described above, unless the breach is capable of being, and is, cured within 30 days of notice of the breach; or

if our shareholders do not approve and adopt the merger agreement and approve the merger by the requisite vote, provided that we are not in material breach of our covenant to hold our special meeting and our board of directors is not in breach of its covenant to recommend such approval.

FNB may terminate the merger agreement at any time prior to our special meeting in the following circumstances:

if we have breached in any material respect our obligations with respect to Acquisition Proposals and Superior Proposals as described on pages 91 through 92;

if we have failed to have our board of directors recommend that our shareholders approve and adopt the merger agreement and approve the merger, or if our board of directors has withdrawn or modified its recommendation in a manner adverse to FNB;

if our board of directors shall have recommended the approval of another proposal to acquire us; or

if we have breached in any material respect our obligation to hold our special meeting.

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We may terminate the merger agreement, upon notice to FNB, during the two-day period following receipt of the last required bank regulatory authority approval if both of the following conditions apply:

- if the average closing price of FNB common stock on the New York Stock Exchange as reported in The Wall Street Journal for the 20 consecutive trading days ending on and including the fifth trading day prior to the commencement of the aforesaid two-day period is less than the product of the closing price of FNB common stock on December 20, 2005 ($17.98) and 0.800; and

- if the number obtained by dividing such average closing price by the closing price of FNB common stock on December 20, 2005 ($17.98) is less than the number obtained by dividing the average closing price of the Nasdaq Bank Index for the 20 consecutive trading days ending on and including the second trading day prior to the date of commencement of the aforesaid two-day period by the price of the Nasdaq Bank Index on December 20, 2005 and subtracting 0.200 from such quotient;

provided, however, that if FNB elects, within two business days after its receipt of such notification, to increase the exchange ratio as provided in the merger agreement, the exchange ratio shall be so adjusted such that each share of our common stock that is converted into shares of FNB common stock will receive shares of FNB common stock having a value of not less than $14.38 per share which is equal to 80% of the closing price of FNB common stock on December 20, 2005 and no termination shall be deemed to have occurred.

The merger agreement also provided us with certain rights to terminate the merger agreement until the date of mailing of this proxy statement/ prospectus in connection with a Superior Proposal. We did not exercise these rights.

Effect of Termination; Break-up Fee; Expenses

If the merger agreement is terminated, it will become void, and there will be no liability on the part of FNB or us, except that:

- termination will not relieve a breaching party from liability for its willful breach giving rise to the termination; and

- the confidentiality agreement between the parties will survive termination.

We are obligated under the merger agreement to pay FNB a break-up fee of $3,000,000 in the following four circumstances:

- if FNB terminates the merger agreement prior to our special meeting because we have breached our obligations not to initiate, solicit or encourage any third parties to make an Acquisition Proposal or otherwise breach our obligations with respect to Acquisition Proposals or Superior Proposals in a manner adverse to FNB, our board of directors fails to make or withdraws its recommendation of the merger proposal or we fail to hold our special meeting;

- if we terminate the merger agreement and accept an Acquisition Proposal that is a Superior Proposal prior to the date of our special meeting and, after giving FNB an opportunity to adjust the terms of the merger agreement such that the Acquisition Proposal no longer remains a Superior Proposal, the Acquisition Proposal remains a Superior Proposal;

- the termination of the merger agreement following the commencement of a tender offer or exchange offer for 25% or more of our common stock and we have not sent to our shareholders, within 10 days after the commencement of such offer, a statement that our board of directors recommends the rejection of such tender offer or exchange offer; or

- if FNB or we terminate the agreement because:
  - our shareholders did not approve the merger proposal and an Acquisition Proposal has been made by a third party after December 21, 2005 and prior to the termination of the agreement;

such Acquisition Proposal has not been withdrawn prior to such termination; and

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within 18 months following such termination we merge with or are acquired by that third party or that third party acquires more than 50% of our common stock or we otherwise become controlled by that third party within such time period.

We have also agreed that if either FNB or we breach our representations, warranties, covenants or agreements in the merger agreement, which breach could reasonably be expected to result in a material adverse effect and which breach cannot be or is not cured, the breaching party, assuming the other party is not also in material breach of its obligations under the merger agreement, will pay all out-of-pocket expenses, including fees and expenses of legal counsel, financial advisors and accountants, of the non-breaching party.

Employee Benefit Plans

The merger agreement provides that as soon as administratively practicable after completion of the merger FNB will provide our employees with benefits and compensation plans that are equivalent to those provided to similarly situated FNB employees. Eligible Legacy employees whose employment is terminated at any time during the first year following completion of the merger will be entitled to receive severance benefits in accordance with the terms of a schedule to the merger agreement.

FNB will generally provide our employees with service credit for their service with us for purposes of eligibility, participation, vesting and levels of benefits, but generally not for benefit accruals under defined benefit pension plans, under the employee benefit and compensation plans of FNB in which such employees are eligible to participate following the merger. FNB has agreed to waive specified exclusions and limitations under its welfare benefit plans in which our employees are eligible to participate following the merger under the corresponding Legacy plan in which the applicable employee participated prior to the merger and to give our employees credit, for the plan year in which they start participating in any such plan, towards applicable deductibles and annual out-of-pocket limits for expenses incurred before such participation.

ACCOUNTING TREATMENT

The merger will be accounted for as a purchase, as that term is used under GAAP, for accounting and financial reporting purposes. Under purchase accounting, our assets, including identifiable intangible assets, and liabilities, including executory contracts and other commitments, as of the effective time of the merger will be recorded at their respective fair values and added to the balance sheet of FNB. Any excess of the purchase price over the fair values will be recorded as goodwill. Financial statements of FNB issued after the merger would reflect these fair values and the results of operations for us from the date of acquisition. See Selected Consolidated Unaudited Pro Forma Financial Information beginning on page 11.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following discussion is a summary description of the material United States federal income tax consequences of the merger applicable to Legacy shareholders. This discussion does not purport to consider all aspects of United States federal income taxation that may be relevant to a Legacy shareholder. This discussion is based upon the provisions of the Code, existing regulations and administrative and judicial interpretations of the Code, all of which are as in effect as of the date of this proxy statement/ prospectus and are subject to change, possibly with retroactive effect. This discussion applies only to Legacy shareholders who hold their shares of Legacy stock as capital assets within the meaning of Section 1221 of the Code and does not apply to the following:

- shareholders who received their shares of Legacy stock from the exercise of employee stock options or similar securities or otherwise as compensation;
- shareholders who hold their shares of Legacy stock as part of a straddle, hedge, conversion transaction, syntheti security or other integrated investment;

shareholders, including, without limitation, financial institutions, insurance companies, tax-exempt organizations, dealers or traders in securities and shareholders subject to the alternative minimum tax, who may be subject to special rules;

shareholders whose functional currency is not the United States dollar; or

shareholders who, for United States federal income tax purposes, are non-resident alien individuals, foreign corporations, foreign partnerships, foreign estates or foreign trusts.

This discussion also does not consider the effect of any foreign, state or local laws or any United States federal laws other than those pertaining to the income tax.

Accordingly, you should consult your tax advisor to determine the tax effect to you of the merger, including the application and effect of foreign or United States federal, state, local or other tax laws.

Tax Opinion and Merger

Completion of the merger is contingent upon the receipt by:

FNB of an opinion from its outside counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code; and

Legacy of an opinion from its outside counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

The tax opinion of Duane Morris LLP, counsel for FNB is included as exhibit 8.1 to the registration statement filed with the SEC of which this proxy statement/ prospectus is a part. These opinions are based upon, among other things, representations of fact contained in certificates of officers of FNB and Legacy. We will not seek any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger, and the opinions of counsel are not binding upon the Internal Revenue Service or any court. Accordingly, we can give no assurance that the Internal Revenue Service will not contest the conclusions expressed in the opinions or that a court will not sustain that contest.

Assuming the merger is consummated in the manner described in this proxy statement/ prospectus and in accordance with the merger agreement, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. The following discussion sets forth the United States federal income tax consequences to Legacy shareholders of the qualification of the merger as a reorganization within the meaning of Section 368(a) of the Code. As discussed below, the United States federal income tax consequences of the merger to a Legacy shareholder depend on the form of merger consideration received by the Legacy shareholder.

Legacy Shareholders Who Receive Solely FNB Common Stock

A Legacy shareholder who exchanges shares of Legacy common stock solely for FNB common stock will not recognize any gain or loss on that exchange, except to the extent the shareholder receives cash in lieu of a fractional share of FNB common stock, as discussed below. The aggregate adjusted tax basis of FNB common stock received will equal the Legacy shareholder s aggregate adjusted tax basis in the shares of Legacy common stock surrendered in the merger, decreased by the amount of any tax basis allocable to any fractional share of FNB common stock for which cash is received. The holding period of the FNB common stock received in the merger will include the holding period of the Legacy common stock surrendered in the merger. If a Legacy shareholder has differing tax bases and/or holding periods in respect of the shareholder s shares of Legacy common stock, the shareholder should consult with a tax advisor in order to identify the tax bases and/or holding periods of the particular shares of FNB common stock that the shareholder receives.

Legacy Shareholders Who Receive Cash and FNB Common Stock

If the consideration received in the merger by a Legacy shareholder consists of part cash and part FNB common stock, the shareholder will recognize gain, but not loss, to the extent of the lesser of the excess of the

sum of the amount of cash and the fair market value, as of the date of the merger, of the shares of FNB common stock received, over the adjusted basis of the shares of Legacy common stock surrendered in exchange for FNB common stock, and the amount of cash received by the shareholder in the exchange. For this purpose, a Legacy shareholder must calculate gain or loss separately for each identifiable block of shares of Legacy common stock that such shareholder surrenders pursuant to the merger, and a Legacy shareholder cannot offset a loss recognized on one block of such shares of Legacy common stock against a gain recognized on another block of such shares of Legacy common stock.

In the case of a Legacy shareholder who recognizes gain on the exchange, if the exchange sufficiently reduces the shareholder s proportionate stock interest, as discussed below, the gain will be characterized as a capital gain. If the exchange does not sufficiently reduce the shareholder s proportionate stock interest, that gain will be taxable as a dividend to the extent of the shareholder s ratable share of accumulated earnings and profits, as calculated for United States federal income tax purposes, and the remainder, if any, of that recognized gain will be capital gain. Any recognized capital gain will be long-term capital gain if the shareholder s holding period for the surrendered shares of Legacy common stock exceeds one year.

The determination of whether the exchange sufficiently reduces a Legacy shareholder s proportionate stock interest will be made in accordance with Section 302 of the Code, taking into account the stock ownership attribution rules of Section 318 of the Code. Under Section 318, individuals are treated as constructively owning stock owned by specified members of the individual s family or by certain entities in which the individual or his family members have a beneficial interest and certain entities are treated as constructively owning stock owned by persons having a beneficial interest in the entity. For purposes of determining whether the exchange sufficiently reduces a shareholder s proportionate stock interest, a Legacy shareholder is treated as if (1) all of that shareholder s shares of Legacy common stock were first exchanged in the merger for FNB common stock, and (2) a portion of that FNB common stock was then redeemed for the cash actually received in the merger. The Legacy shareholder s hypothetical stock interest in FNB (both actual and constructive) after hypothetical step (2) is compared to the Legacy shareholder s hypothetical stock interest in FNB, both actual and constructive, after hypothetical step (1). Dividend treatment will apply unless (A) the shareholder s stock interest in FNB has been completely terminated, (B) there has been a substantially disproportionate reduction in the shareholder s stock interest in FNB (i.e., the interest after hypothetical step (2) is less than 80% of the interest after hypothetical step (1)), or (C) the exchange is not essentially equivalent to a dividend. While the determination is based on a Legacy shareholder s particular facts and circumstances, the Internal Revenue Service has indicated in published rulings that a distribution is not essentially equivalent to a dividend and will therefore result in capital gain treatment if the distribution results in any actual reduction in the stock interest of an extremely small minority shareholder in a publicly held corporation and the shareholder exercises no control with respect to corporate affairs.

Because the determination of whether a payment will be treated as having the effect of the distribution of a dividend generally will depend upon the facts and circumstances of each Legacy shareholder, you are strongly advised to consult your own tax advisors regarding the tax treatment of cash received in the merger, including the application of the constructive ownership rules of the Code and the effect of any transactions in FNB common stock or shares of Legacy common stock by you.

The basis in the FNB common stock of a Legacy shareholder who receives cash and FNB common stock in the merger in the FNB common stock received will equal the Legacy shareholder s adjusted basis in the shareholder s shares of Legacy common stock increased by any gain recognized as a result of the merger and reduced by the amount of cash received in the merger. The holding period of the FNB common stock received will include the holding period of the shares of Legacy common stock surrendered in the merger. Cash received and gain realized in connection with the receipt of cash in lieu of a fractional share of FNB common stock will not be taken into account in making the computations of gain realized or recognized and of the basis in the FNB common stock received. Rather, such cash and gain are treated as described below.

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Legacy Shareholders Who Receive Solely Cash

The exchange of shares of Legacy common stock solely for cash generally will result in recognition of gain or loss by the shareholder in an amount equal to the difference between the amount of cash received and the shareholder s adjusted tax basis in the shares of Legacy common stock surrendered. The amount and character of gain or loss will be computed separately for each block of Legacy common stock that was purchased by the holder. The gain or loss recognized will be long-term capital gain or loss if the shareholder s holding period for the shares of Legacy common stock surrendered exceeds one year. There are limitations on the extent to which shareholders may deduct capital losses from ordinary income.

If a Legacy shareholder who receives only cash in exchange for all of the shareholder s shares of Legacy common stock actually or constructively owns FNB common stock after the merger (as the result of constructive ownership of shares of Legacy common stock that are exchanged for FNB common stock in the merger, prior actual or constructive ownership of FNB common stock or otherwise), all or a portion of the cash received by the shareholder may be taxed as a dividend, and those shareholders should consult their tax advisors to determine the amount and character of the income recognized in connection with the merger.

Fractional Shares

A Legacy shareholder who receives cash in lieu of a fractional share of FNB common stock will be treated as having first received the fractional share of FNB common stock in the merger and then as having received cash in exchange for the fractional share interest. A Legacy shareholder generally will recognize gain or loss in an amount equal to the difference between the amount of cash received in lieu of the fractional share of FNB common stock and the portion of the basis in the shares of Legacy common stock allocable to that fractional interest. A Legacy shareholder who receives a fractional share of FNB common stock generally will not recognize any gain or loss on that fractional share.

Material Federal Income Tax Consequences to FNB and Legacy

Neither FNB nor Legacy will recognize gain or loss as a result of the merger.

Tax Consequences If the Merger Does Not Qualify as a Reorganization Under Section 368(a) of the Code

If the Internal Revenue Service determines that the merger of Legacy with and into FNB does not qualify as a reorganization within the meaning of Section 368(a) of the Code, the Legacy shareholders would be required to recognize gain or loss with respect to each share of Legacy common stock surrendered in the merger in an amount equal to the difference between (a) the sum of the fair market value of any FNB common stock and cash received in the merger and (b) the tax basis of the shares of Legacy common stock surrendered in exchange therefor. Such gain or loss will be long-term capital gain or loss if such shareholder held the Legacy common stock for more than one year, and will be short-term capital gain or loss if such shareholder held the Legacy common stock for less than one year. The amount and character of gain or loss will be computed separately for each block of Legacy common stock that was purchased by the holder in the same transaction. A Legacy shareholder s aggregate tax basis in the FNB common stock received in the merger would in this case be equal to its fair market value at the time of the closing of the merger, and the holding period for the FNB common stock would begin the day after the closing of the merger.

Backup Withholding

Payments in connection with the merger may be subject to backup withholding at a rate of 28%, unless a Legacy shareholder, (1) provides a correct taxpayer identification number (which, for an individual shareholder, is the shareholder s social security number) and any required information to the exchange agent, (2) provides a certification of foreign status on Form W-8 , or successor form, or (3) is a corporation or comes within certain exempt categories and otherwise complies with applicable requirements of the backup withholding rules. A Legacy shareholder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the Internal Revenue Service. Any amount paid as backup withholding does not constitute an additional tax and will be creditable against the shareholder s United States federal income tax liability. Each Legacy shareholder should consult with his own tax advisor as to his qualification for exemption from backup withholding and the procedure for obtaining this exemption. You may prevent backup withholding by completing a substitute form W-9 (contained with the election form to be forwarded to you) and submitting it to the exchange agent for the merger when you submit your Legacy share certificates for exchange.

DESCRIPTION OF FNB CAPITAL STOCK

FNB Common Stock

General. FNB is authorized to issue 500,000,000 shares of common stock, par value $0.01 per share, of which 57,419,041 shares were outstanding as of December 31, 2005. FNB common stock is traded on the New York Stock Exchange under the symbol FNB. The transfer agent and registrar for FNB common stock is Registrar & Transfer Company.

As of December 31, 2005, approximately 2.6 million shares of FNB common stock were reserved for issuance upon the exercise of outstanding options. In addition, FNB has reserved approximately 4.3 million shares of common stock for issuance in connection with the merger and the Legacy stock options, warrants and Notes being assumed by FNB. After taking into account these reserved shares, FNB will have approximately 436 million shares of authorized but unissued common stock available for issuance for other corporate purposes.

Voting and Other Rights. The holders of FNB common stock are entitled to one vote per share, and in general a majority of the votes cast with respect to a matter is sufficient to authorize action upon routine matters. Directors are elected by a plurality of votes cast, and each shareholder entitled to vote in an election of directors is entitled to vote each share of stock for as many persons as there are directors to be elected. In elections of directors, shareholders do not have the right to cumulate their votes. See Comparison of Shareholder Rights beginning on page 100.

In the event of a liquidation, holders of FNB common stock are entitled to receive pro rata any assets legally available for distribution to shareholders with respect to shares held by them, subject to any prior rights of the holders of any FNB preferred stock then outstanding.

FNB common stock does not carry any preemptive rights, redemption privileges, sinking fund privileges or conversion rights. All outstanding shares of FNB common stock are, and the shares of FNB common stock to be issued to our shareholders in the merger will be, validly issued, fully paid and nonassessable.

Distributions. The holders of FNB common stock are entitled to receive such dividends or distributions as the FNB board of directors may declare out of funds legally available for such payments. The payment of distributions by FNB is subject to the restrictions of Florida law applicable to the declaration of distributions by a business corporation. A corporation generally may not authorize and make distributions if, after giving effect thereto, it would be unable to meet its debts as they become due in the usual course of business or if the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were to be dissolved at the time of distribution, to satisfy claims upon dissolution of shareholders who have preferential rights superior to the rights of the holders of its common stock. In addition, the payment of distributions to shareholders is subject to any prior rights of any then outstanding FNB preferred stock. Stock dividends, if any are declared, may be paid from authorized but unissued shares.

The ability of FNB to pay distributions is affected by the ability of its subsidiaries to pay dividends. The ability of FNB s subsidiaries, as well as of FNB, to pay dividends in the future is influenced by bank regulatory requirements and capital guidelines.

FNB Preferred Stock

General. FNB is authorized to issue 20,000,000 shares of preferred stock, par value $0.01 per share, of which no shares were outstanding as of December 31, 2005. The FNB board of directors has the authority to

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issue FNB preferred stock in one or more series and to fix the dividend rights, dividend rates, liquidation preferences, conversion rights, voting rights, rights and terms of redemption, including sinking fund provisions, and the number of shares constituting any such series, without any further action by the shareholders of FNB unless such action is required by applicable rules or regulations or by the terms of any other outstanding series of FNB preferred stock. Any shares of FNB preferred stock that may be issued may rank prior to shares of FNB common stock as to payment of dividends and upon liquidation.

COMPARISON OF SHAREHOLDER RIGHTS

After the merger, you will become shareholders of FNB and your rights will be governed by FNB s articles of incorporation, FNB s by-laws and the Florida Business Corporations Act. The following summary discusses differences between FNB s articles of incorporation and by-laws and our articles of incorporation and by-laws and the differences between the Banking Code and the Florida Business Corporations Act. For information as to how to get the full text of each document, see Where You Can Find More Information beginning on page 114.

The following summary is not intended to be a complete statement of the differences affecting the rights of our shareholders who become FNB shareholders, but rather summarizes the more significant differences affecting the rights of such shareholders and certain important similarities. The summary is qualified in its entirety by reference to the articles of incorporation and by-laws of FNB, our articles of incorporation and by-laws and applicable laws and regulations.

Removal of Directors; Filling Vacancies on the Board of Directors

Legacy	**FNB**
Pennsylvania law and our by-laws provide that our board of directors may remove a director from office if he(i) is adjudicated an incompetent by a court or is convicted of a felony; (ii) if within 60 days after notice of election, the director does not accept office either in writing or by attending a meeting of our board of directors or (iii) fails to attend regular meetings of our board of directors for six successive months without having been excused by our board of directors. Our entire board of directors or any individual director may be removed from office without assigning any cause by the vote of our shareholders entitled to cast at least a majority of the vote which all shareholders would be entitled to cast at an annual election of directors. A court may remove a director in a suit in which we are a party filed by a majority of the directors or by holders of at least 10% of our outstanding shares for fraudulent or dishonest acts or gross abuse of authority or discretion in our affairs. Vacancies on our board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority vote of the remaining members of our board of directors, though less than a quorum, or by a sole remaining director, to serve until his successor is elected by the shareholders.	Under Florida law, unless the articles of incorporation of a corporation provide otherwise, directors may be removed by the corporation s shareholders with or without cause; provided that, if a director is elected by a voting group, only the shareholders of that voting group may participate in the vote to remove him or her. Article 6 of FNB s articles of incorporation, however, provides that, subject to the rights of holders of any preferred stock, any director or the entire board of directors may be removed without cause by the affirmative vote of the holders of at least 75% of the then outstanding shares of FNB common stock. Florida law and FNB s by- laws provide that vacancies on the FNB board of directors, including vacancies resulting from an increase in the number of directors or resulting from removal from office, may be filled by a majority vote of the remaining directors, though less than a quorum.

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Quorum of Shareholders

Legacy	FNB
Our by-laws provide that the holders of a majority of our shares entitled to vote on a matter to be acted upon, represented in person or by proxy, constitute a quorum for action on the matter. Our by-laws further provide that, if a meeting called for the election of directors is adjourned two times for lack of a quorum, the shareholders who attend the second of such adjourned meetings shall constitute a quorum for the purpose of electing directors.	FNB s by-laws and Florida law provide that the holders of a majority of votes entitled to be cast on a matter to be considered, represented in person or by proxy, constitute a quorum of that voting group for action on the matter. FNB s by-laws further provide that whenever the holders of any class or series of shares are entitled to vote separately on a specified item of business, the holders of a majority of the votes of that class or series entitled to be cast, represented in person or by proxy, shall constitute a quorum of such class or series.

Adjournment of Shareholder Meetings

Legacy	FNB
Our by-laws provide that any regular or special meeting of shareholders that cannot be organized for lack of a quorum may be adjourned to such time and place as those shareholders present in person or by proxy may determine, without notice other than an announcement at the meeting until the requisite number of shareholders for a quorum are present in person or by proxy.	FNB s by-laws and Florida law provide that, if a quorum is not present or represented at a shareholders meeting, the shareholders present and entitled to vote at the meeting may adjourn such meeting from time to time.

Call of Special Meetings of Shareholders

Legacy	FNB
Our by-laws provide that special meetings of our shareholders may be called at any time by our Chairman of the Board, our board of directors or shareholders entitled to cast at least one-fifth of all of the shares entitled to vote at the meeting.	FNB s by-laws provide that special meetings of shareholders may be called only by the chairman of the board, the president or the secretary of FNB pursuant to a resolution or written direction of at least 75% of the members of the FNB board or by the holders of not less than 10% of the outstanding shares of FNB.

Shareholder Consent in Lieu of Meeting

Legacy	FNB
Pennsylvania law and our by-laws provide that any action that may be taken at a meeting of our shareholders may be taken without a meeting if a consent or consents in writing setting forth the action so taken is signed by all of our shareholders who would be entitled to vote at a meeting for such purpose and is filed with our secretary.	Florida law permits any action that may be taken at a meeting of the shareholders of FNB to be taken without a meeting, if, prior or subsequent to the action, one or more written consents signed by a majority the shareholders who would be entitled to vote at a meeting for such purpose are delivered to FNB.

Dissenters Rights

Legacy	FNB
In a merger or consolidation in which the resulting institution is a national bank, such as FNB Bank, the Banking Code does not provide dissenters rights. Instead, dissenters rights are provided by Section 215a of the Bank Act.	Under Florida law, dissenters appraisal rights are available in connection with corporate actions involving certain mergers, share exchanges, sales or other dispositions of all or substantially all of the property of the corporation other than in the ordinary

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Legacy	FNB
Appraisal rights are otherwise provided under the Banking Code by incorporating by reference provisions of the BCL in situations where a merger or consolidation will result in an institution subject to the Banking Code: i.e., where the entity surviving a merger or resulting from a consolidation is a Pennsylvania bank or other institution that is subject to the Banking Code. In such cases, the rights and remedies of shareholders would then be governed under the provisions of the BCL applicable to dissenting shareholders and would be subject to the limitations on dissenters rights and remedies under the provisions of the BCL. Under the BCL, dissenters rights are generally afforded to shareholders in the event of corporate actions involving certain mergers, share exchanges, transfers of all or substantially all of the assets of the corporation, as well as certain other fundamental transactions in which the corporation is not the acquiring corporation. If a corporation s shares are held by record of more than 2,000 shareholders or are listed on a national securities exchange, the BCL generally does not provide dissenters rights so long as the consideration received by shareholders pursuant to the plan consists solely of shares of the acquiring, surviving or new corporation and money in lieu of fractional shares.	course of business, the approval of certain control- share acquisitions and amendments of the articles of incorporation that would materially and adversely affect the rights or preferences of shares held by the dissenting shareholders. Under Florida law, appraisal rights generally are denied to holder of shares listed on a national securities exchange or the Nasdaq National Market and when the corporation s shares are held of record by at least 2,000 persons and such outstanding shares have a market value of at least $10 million, not counting the value of certain insider shares.

Dividends and Distributions

Legacy	FNB
Under the Banking Code, a Pennsylvania state-chartered bank may pay dividends only out of accumulated net earnings and may not declare or pay dividends unless surplus (shareholders equity) is at least equal to capital. Furthermore, dividends may not be declared or paid if the bank is in default in payment of any assessments due to the FDIC.	Subject to any restrictions in a corporation s articles of incorporation, Florida law generally provides that a corporation may make distributions to its shareholders unless after giving effect thereto (i) the corporation would not be able to pay its debts as they become due in the usual course of business, or (ii) the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed upon the dissolution of the corporation to satisfy the preferential rights of shareholders having superior preferential rights to those shareholders receiving the distribution. FNB s articles of incorporation do not contain any restrictions on the payment of dividends or the making of distributions to shareholders.

Classes of Stock With Preferential Rights

Legacy	FNB
Our articles of incorporation authorize us to issue one or more classes or series of stock that may have rights preferential to our common stock. No such stock is currently outstanding. Our board of directors	The articles of incorporation of FNB authorize it to issue multiple classes of stock that may have rights preferential to the FNB common stock to be received by Legacy shareholders as a result of the merger. No

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Legacy	FNB
is authorized to determine the voting powers, if any, designations, preferential rights, including rights to preferential dividend rates, and related, participating, optional or other special rights, including the rights of holders of any such preferred stock in the event of liquidation, dissolution or winding up of the affairs of the bank, and conversion rights.	such stock is currently outstanding. Such preferential rights include rights to preferential dividend rates compared to such rates for FNB common stock, rights to prevent dividends being paid on the common stock until dividends have been paid on the preferred stock, rights to preferential payments upon any liquidation of FNB, independent class voting rights with respect to certain fundamental transactions and rights to convert shares of FNB preferred stock into FNB common stock at a conversion ratio that protects such preferred shareholders against a decline in the price of FNB common stock by further diluting the common stock.

Director Qualifications, Number and Term

Legacy	FNB
Our by-laws provide that our board of directors must consist of no less than 5 nor more than 25 members divided into three classes, as equal in number as possible, with each director serving a staggered three-year term. In addition, our by-laws provide that each director must be a natural person of full age and a citizen of the Unites States of America and at least two-thirds of the members of our board of directors must be residents of Pennsylvania.	FNB s by-laws provide that the board of directors of FNB shall consist of such number of directors as may be determined by the board of directors of FNB, which number shall be not less than 5 nor more than 25. FNB s by-laws further provide that FNB s board of directors shall be divided into three classes as equal in number as possible, with each director having a staggered, three-year term. Under Florida law and FNB s by-laws, a director need not be a resident of Florida or a shareholder of FNB to qualify to serve as a director. FNB s by-laws further provide that the directors must be at least 21 years of age.

Nomination of Directors

Legacy	FNB
Our Nominating Committee Charter provides that our Nominating Committee will identify qualified individuals to become members of our board of directors and recommend to our board of directors nominees for election at each annual meeting of shareholders and any director nominees to be elected to fill any interim director vacancies and that the Nominating Committee will review and consider candidates submitted by shareholders.	FNB s by-laws provide that directors may be nominated for election to FNB s board of directors by either a resolution of the board of directors or by a shareholder of FNB. FNB s by-laws provide that a shareholder may make nominations for director by providing FNB with written notice of the shareholder s intention to nominate a director, which written notice generally must be received not less than 14 days prior to the meeting of shareholders called for the election of directors. The notice of a shareholder s intention to nominate a director must include, among other things: the name and address of the nominating shareholder;

a representation that the shareholder is a holder of record of FNB voting stock and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

information regarding each nominee as would have been required under the SEC s proxy rules;

a description of all arrangements or understandings

Legacy	FNB
	among the shareholder and each nominee pursuant to which the nomination or nominations are to be made by the shareholder; and the written consent of each nominee to serve as a director of FNB if so elected.

Indemnification of Officers and Directors

Legacy	FNB
Our by-laws require that we indemnify our directors and officers against expenses, judgments, fines and amounts paid in settlement incurred by them in connection with any pending, threatened or completed action or proceeding by reason of the fact that director or officer is or was a director or officer of the bank, unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness. Our by-laws further provide that we will pay expenses incurred in defending any action or proceeding in advance of its final disposition upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined that the director or officer is not entitled to be indemnified by us. Our by-laws state that the provisions for indemnification and advancement of expenses are non-exclusive with respect to any other rights, such as contractual rights or rights granted pursuant to a by-law or by vote of shareholders or disinterested directors, to which a person seeking indemnification or advancement of expenses may be entitled. It is our policy that indemnification of, and advancement of expenses to, our directors and officers will be made to the fullest extent permitted by law. Our by-laws permit us to purchase and maintain insurance on behalf of our directors and officers against any liability asserted against the director or officer and incurred in such capacity, whether or not we would have the power to indemnify a director or officer against such liability. Our by-laws also permit us to enter into separate indemnification agreements with any of our officers, directors, employees or agents.	Florida law permits a corporation to indemnify a director or officer who was or is a party to any threatened, pending or completed action, suit or other type of proceeding other than an action by or in the right of the corporation by reason of the fact that he is or was a director or officer or is now serving at the request of the corporation as a director or officer of another entity against expenses, including attorneys fees, judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding. These indemnification rights apply if the director or officer acted in good faith and in a manner in which he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to a criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. In addition, under Florida law, FNB may indemnify and hold harmless an officer or director who is a party in an action by or in the right of the corporation against expenses, including attorneys fees, and certain amounts paid in settlement, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if the director or officer has acted in good faith and in a manner in which he reasonably believed to be in or not opposed to the best interests of the corporation, except indemnification is not authorized where there is an adjudication of liability, unless a court determines, in view of all the circumstances, that such person is fairly and reasonably entitled to indemnity for such expenses. Florida law further provides that indemnification against the costs and expenses of defending any action is required to be made to any officer or director who is successful in defending an action of the type referred to

in the immediately preceding paragraph. Except with regard to the costs and expenses of successfully defending an action as may be ordered by a court, indemnification as described in the previous paragraph is only required to be made to a director or officer if a determination is made that indemnification is proper under the circumstances. Such determination shall be made in accordance

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Legacy	FNB
	with the provisions of Florida law. Florida law further provides that expenses incurred in defending any action or proceeding may be paid by the corporation in advance of the final disposition upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined that the director or officer is not entitled to be indemnified by the corporation. Under Florida law, the provisions for indemnification and advancement of expenses are not exclusive. Accordingly, a corporation may make any other or further indemnification or advancement of expenses of any of its officers or directors, both as to action in his official capacity and as to action in another capacity while holding such office. Under Florida law, indemnification or advancement of expenses, however, shall generally not be made to or on behalf of any officer or director if a judgment or other final adjudication establishes that his actions or omissions were material to the cause of action so adjudicated and constitute: a violation of the criminal law; a transaction from which the officer or director derived an improper personal benefit; an unlawful distribution; or willful misconduct or a conscious disregard for the best interests of the corporation. Florida law and FNB s articles of incorporation permit FNB to purchase and maintain insurance on behalf of any director or officer of FNB against any liability asserted against the director or officer and incurred in such capacity, whether or not FNB would have the power to indemnify the director or officer against such liability. FNB s articles of incorporation further provide that its directors, officers and any other person designated by the board of directors of FNB is entitled to be indemnified to the fullest extent permitted by law.

Director Liability

Legacy	FNB
Our by-laws include a provision limiting the personal liability of a director for monetary damages for any action taken, or failure to take any action, other than as would	Under Florida law, a director is not liable for monetary damages for any statement, vote, decision or failure to act regarding corporate management or policy, unless

constitute criminal conduct or with respect to liability for nonpayment of taxes, and except to the extent that the director has breached or failed to perform his duties to us and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

the director breached or failed to perform his duties as a director and the director s breach of, or failure to perform, those duties constitutes a violation of criminal law, self-dealing, an unlawful distribution, willful misconduct or recklessness. FNB s by-laws contain a provision

Legacy	FNB
	limiting the liability of its directors to the fullest extent permitted by law.

Amendment of articles of incorporation and by-laws

Legacy	FNB
Under Pennsylvania law, our articles of incorporation may be amended only if the amendment is first proposed by our board of directors by the adoption of a resolution and approved by our shareholders. Our articles of incorporation provide that amendments related to the voting rights, qualifications, privileges and limitations of the common stock, merger provisions and our board of director s ability to oppose a tender offer must be approved by an affirmative vote of the holders of at least 75% of our outstanding shares or $66^{2}/3$% of our outstanding shares provided that such transaction has received the prior approval of at least 75% of all members of our board of directors. Our by-laws provide that they may be amended by the affirmative vote of a majority of the votes cast by our shareholders at a regular or special meeting; except that changes to our by-laws to amend the provisions that provide for director and officer indemnification require the affirmative vote of shareholders entitled to cast at least 75% of all votes entitled to be cast by shareholders. Our by-laws may also be amended by the affirmative vote of a majority of the members of our board of directors, subject to the power of the shareholders to change such action, except that changes to our by-laws to amend the provisions that limit director liability require the approval of our shareholders and changes to amend the provisions that provide for director and officer indemnification must be approved by two-thirds of the members of the entire board of directors or by the affirmative vote of the holders of at least 75% of our outstanding shares.	In order to amend the articles of incorporation of a Florida corporation, Florida law generally requires that, unless the articles of incorporation provide for a greater vote, the votes cast in favor of such an amendment must exceed the votes cast against such an amendment at a meeting at which a quorum is present; provided, however, that a majority of the outstanding votes entitled to be cast on the amendment is required with respect to amendments that would create dissenters rights under Florida law. Further, under Florida law, shareholder approval is not required for certain non-material amendments. Under Florida law, a corporation s by-laws may be amended or repealed by the board of directors or shareholders; provided, however, that the board may not amend or repeal the corporation s by-laws if the articles of incorporation reserve such power to the shareholders, or the shareholders, in amending or repealing the by-laws, expressly provide that the board of directors may not amend or repeal the by- laws or a particular bylaw provision. FNB s by-laws provide that they may be altered or amended and new by-laws adopted by the affirmative vote of at least 75% of the members of FNB s board of directors or by the affirmative vote of the holders of at least 75% of the outstanding shares entitled to vote thereon.

Vote Required for Extraordinary Corporation Transactions

Legacy	FNB
Under Pennsylvania law, a merger or consolidation that will result in an entity subject to the Banking Code must be approved by a majority of the directors and at least	Under Florida law, generally, a merger, consolidation, share exchange, dissolution or sale of substantially all of a corporation s assets other than in the ordinary course of

two-thirds of the votes of all shareholders are entitled to be cast thereon. Under our articles of incorporation, a merger, consolidation, liquidation or dissolution or sale or other disposition of substantially all of our assets must be approved by the affirmative vote of at least 75% of the outstanding shares of our common stock or 66^{2}/3% of the outstanding shares provided that such transaction has received the prior approval of at least 75% of all members of our board

business must be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon unless the corporation s articles of incorporation require a higher vote. Florida law further provides that, unless required by its articles of incorporation, the shareholders approval of a plan of merger if is not required if:

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Legacy	FNB
of directors.	the articles of incorporation of the surviving corporation will not differ (except for certain minor amendments approved by the board of directors as provided by Florida law) from its articles before the merger; and each shareholder of the surviving corporation whose shares were outstanding immediately prior to the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations and relative rights, immediately after the merger. FNB s articles of incorporation require an affirmative vote of the holders of at least 75% of the outstanding shares of FNB common stock entitled to vote to approve a merger, consolidation or sale, lease, exchange or other disposition, in a single transaction or series of related transactions, of all or substantially all or a substantial part of the properties or assets of FNB, unless the board of directors of FNB has approved and recommended the transaction prior to the consummation thereof.

Interested Shareholder Transactions

Legacy	FNB
The Banking Code requires that certain transactions, such as a merger, consolidation or dissolution, between us and any shareholder or entity controlled by a shareholder in which the shareholder would be treated differently from other shareholders (an interested shareholder) require, in addition to the other approval requirements under the Banking Code and our articles of incorporation and by-laws, the affirmative vote of the shareholders entitled to cast at least a majority of the votes that all shareholders would be entitled to cast with respect to the transaction, without counting the vote of the interested shareholder, unless the transaction is approved by a majority vote of the board of directors without counting the vote of directors who were nominated by, or have a material interest in, the interested shareholder.	Florida law contains a number of provisions that require supermajority approval for certain affiliate transactions. Under Florida law, if any person who together with his or her affiliates and associates beneficially owns 10% or more of any voting stock of the corporation (an interested person) is a party to any merger, consolidation, disposition of all or a substantial part of the assets of the corporation or a subsidiary of the corporation, or exchange of securities requiring shareholder approval (a Business Combination), such transaction shall be approved by the affirmative vote of the holders of two-thirds of the voting shares other than the shares beneficially owned by the interested person; provided, that such approval is not required if (1) the interested person transaction has been approved by a majority of the disinterested directors; (2) the corporation has not had more than 300 shareholders of record at any time during the three years preceding the date of the transaction s announcement; (3) the interested person has been the beneficial owner of at least 80% of the corporation s outstanding voting shares for at least five years preceding the date of the transaction s

announcement; (4) the interested person is the beneficial owner of at least 90% of the outstanding voting shares of the corporation, exclusive of shares acquired directly from the corporation in a transaction not approved by a majority of the disinterested directors; (5) the corporation is an

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Legacy	FNB
	investment company registered under the Investment Company Act of 1940 or (6) the consideration to be received by holders of the stock of the corporation meets certain minimum levels determined by a formula under Florida law.

Fiduciary Duty

Legacy	FNB
Pursuant to Pennsylvania law and our by-laws, a director must perform his duties as a director in good faith, in a manner he reasonably believes to be in the best interests of the bank and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances, and is entitled in performing his duties to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, prepared or presented by:(1) one or more of our officers or employees whom the director reasonably believes to be reliable and competent in the matters presented;(2) legal counsel, public accountants or other persons as to matters that the director reasonably believes to be within the professional or expert competence of such person or(3) a committee of the board upon which he does not serve, as to matters within its designated authority, which committee the director reasonably believes to merit confidence. Under Pennsylvania law and our articles of incorporation and by-laws, a director may, in considering our best interests, consider(1) the effects of any action on our shareholders, employees, suppliers, customers and creditors, and upon communities in which our offices or other establishments are located,(2) our short-term and long-term interests of the bank, including the possibility that the best interests of the bank may be served by the continued independence of the bank,(3) the resources, intent and conduct of any person seeking to acquire control of the bank and(4) all other pertinent factors.	FNB s articles of incorporation provide that the board of directors of FNB, in evaluating a proposal for an extraordinary corporate transaction, shall consider all relevant factors, including, without limitation, the long-term prospects and interests of the corporation and its shareholders, the social, economic, legal or other effects of any action on the employees, suppliers and customers of the corporation and its subsidiaries, the communities and societies in which FNB and its subsidiaries operate, and the economy of the state and the nation. FNB s articles of incorporation further provide that, if the board of directors of FNB determines that such a proposal should be rejected, it may take any lawful action to accomplish its purpose. Under Florida law, a director is required to discharge his duties in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner reasonably believed to be in the best interests of the corporation. In discharging his duties, a director is entitled to rely on: (1) information, opinions, reports, or statements, including financial statements and other financial data, if presented or prepared by officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, public accountants or other persons as to matters the director reasonably believes are within the person s professional or expert competence or (3) a committee of the Board of which the director is not a member if the director reasonably believes the committee merits confidence.

Provisions with Possible Anti-Takeover Effects

Legacy	FNB
Our articles of incorporation provide that our board of directors may, if it deems advisable, oppose a tender offer or other offer for our capital stock and consider any one or more of the factors set forth in our articles of incorporation. Pennsylvania law and our articles of incorporation also provide that directors may, in discharging their fiduciary duties, consider the interests of a number of different	Florida law restricts the voting rights of certain shares of a corporation s stock when those shares are acquired by a party who, by such acquisition, would control at least 20% of all voting rights of the corporation s issued and outstanding stock. The statute provides that the acquired shares (the control shares) will, upon such acquisition, cease to have any voting rights. The acquiring party may,

Legacy	FNB
constituencies, including shareholders, employees, depositors, customers, creditors and the communities in which the corporation is located. Directors are not required to consider the interests of shareholders to a greater degree than other constituencies interests. We are subject to statutory anti-takeover provisions under the Banking Code. The Banking Code provides that if a person or group of persons acting in concert has voting power over shares of that would entitle the holders thereof to cast at least 30% of the votes that all shareholders would be entitled to cast in the election of directors, the controlling person is required to notify each of our shareholders that a control transaction has occurred and that all shareholders are entitled to demand that they be paid fair value for their shares by the controlling shareholder. In addition, there are various provisions in our articles of incorporation and by-laws that may serve as anti-takeover protections including: the ability of our board of directors of Legacy to fill vacancies resulting from an increase in the number of directors; the supermajority voting requirements for certain corporate transactions; and provisions in Legacy s articles of incorporation which authorize the board of directors of Legacy, without further shareholder action, to issue from time to time, up to 1,000,000 shares of Legacy preferred stock. The board of directors of Legacy is empowered to divide any and all of the shares of the Legacy preferred stock into series and to fix and determine the relative rights and preferences of the shares of any series so established. The anti-takeover provisions of Pennsylvania law and Legacy s articles of incorporation and by-laws may have the effect of deterring merger proposals, tender offers or other attempts to effect changes in control of Legacy that are not negotiated with and approved by the board of directors of Legacy.	however, petition the corporation to have voting rights re-assigned to the control shares by way of an acquiring person s statement submitted to the corporation in compliance with the requirements of the statute. Upon receipt of such request, the corporation must submit, for shareholder approval, such request. Voting rights may be reassigned to the con trol shares by a resolution of a majority of the corporation s shareholders for each class and series of stock, with the control shares not voting. Florida law further provides that a corporation may, by amendment to its articles of incorporation or by- laws, provide that, if the party acquiring the control shares does not submit an acquiring person s statement in accordance with the statute, the corporation may redeem the control shares at any time during the period ending 60 days after the acquisition of control shares. If the acquiring party files an acquiring person s statement, the control shares are not subject to redemption by the corporation unless the shareholders, acting on the acquiring party s request for re-assignment, deny full voting rights to the control shares. Neither FNB s articles of incorporation nor its by-laws have been amended to include such a provision. The statute does not alter the voting rights of any stock of the corporation acquired in certain specified transactions. In addition, there are various provisions in FNB s articles of incorporation and by-laws that may serve as anti-takeover protections including: the ability of the board of directors of FNB to fill vacancies resulting from an increase in the number of directors; the supermajority voting requirements for certain corporate transactions; the broad range of factors that the board of directors of FNB may consider in evaluating an unsolicited offer including a tender offer proposal; and provisions in FNB s articles of incorporation which authorize the board of directors of FNB, without further

shareholder action, to issue from time to time, up to 20,000,000 shares of FNB preferred stock. The board of directors of FNB is empowered to divide any and all of the shares of the FNB preferred stock into series and to fix and determine the relative rights and preferences of the shares of any series so established.

The anti-takeover provisions of Florida law and

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Legacy	FNB
	FNB s articles of incorporation and by-laws may have the effect of deterring merger proposals, tender offers or other attempts to effect changes in control of FNB that are not negotiated with and approved by the board of directors of FNB. FNB is not aware of any effort or intent to gain control of FNB or any effort to organize a proxy contest or to accumulate shares of FNB.

COMPARATIVE MARKET PRICES AND DIVIDENDS

FNB common stock is listed on the NYSE. Prices for our common stock are quoted on the OTC Bulletin Board. The following table sets forth:

- the high and low trading prices of shares of FNB common stock as reported on the NYSE since January 1, 2004;
- the high and low trading prices of shares of our common stock as reported on the OTC Bulletin Board. These quotations reflect inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions. In each case, this information is based on published sources; and
- quarterly cash dividends paid per share by FNB for the periods indicated.

	FNB Common Stock			Legacy Common Stock		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
2004:						
First quarter	$ 22.79	$ 18.79	0.23	$ 15.45	$ 12.75	
Second quarter	22.63	18.80	0.23	16.90	15.00	
Third quarter	22.91	19.40	0.23	15.05	14.00	
Fourth quarter	22.82	19.88	0.23	15.25	14.05	
2005:						
First quarter	20.70	18.55	0.23	$ 14.75	$ 13.30	
Second quarter	19.85	17.49	0.23	14.40	12.75	
Third quarter	21.00	16.80	0.23	15.00	13.70	
Fourth quarter	18.87	16.18	0.235	17.20	12.75	
2006:						
First quarter (through February 27)	$ 17.70	$ 15.93	0.235	$ 17.05	$ 16.55	

You are advised to obtain current market quotations for FNB common stock. The market price of FNB common stock will fluctuate between the date of this proxy statement/ prospectus and the completion of the merger. No assurance can be given concerning the market price of FNB common stock.

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BENEFICIAL OWNERSHIP OF LEGACY STOCK

The following table sets forth information pertaining to the beneficial ownership of the outstanding shares of our common stock as of December 31, 2005 by (1) persons known to us to own more than five percent of the outstanding shares of our common stock, (2) each director and (3) our directors and executive officers as a group. The information contained herein has been obtained from our records and from information furnished to us by each individual. We know of no person who owns, beneficially or of record, either individually or with associates, more than five percent of our common stock.

Name of Individual or Identity of Group	Amount and Nature of Beneficial Ownership(1)(2)	Percent of Class(3)
5% or Greater Holders:		
Northaven Management, Inc. 375 Park Avenue New York, NY 10152	302,851	8.59%
Directors:		
Lawrence S. Allison(4)	9,936	*
Lawrence W. Bitner(5)	17,852	*
Martin F. Brophy(6)	3,992	*
Douglas Doherty(7)	75,399	2.00%
George H. Groves(8)	170,397	4.52%
William A. Hawkins(9)	15,411	*
William L. Jones III(10)	1,000	*
Ralph S. Klinepeter, Jr.(11)	13,203	*
Daniel A. Klingerman(12)	64,662	1.71%
Thomas W. Lennox(13)	87,288	2.31%
Robert J. Moisey(14)	17,849	*
Scott C. Penwell(15)	26,770	*
John H. Rhodes(16)	13,759	*
A. Richard Szeles(17)	26,552	*
Russell W. Twigg(18)	63,606	1.69%
John B. Warden, III(19)	9,852	*
	617,528	16.38%
Named Executive Officers:		
Joseph DeBias(20)	24,687	*
Joseph L. Paese(21)	36,925	*
Paul F. Spiegel, Jr.(22)	19,592	*
Directors and Executive Officers as a group (22) persons	703,792	18.54%

* Less than 1%

(1) The securities beneficially owned by an individual are determined in accordance with the definitions of beneficial ownership set forth in the General Rules and Regulations of the SEC and may include securities owned by or for the individual s spouse and minor children and any other relative who has the same home, as well as securities to which the individual has or shares voting or investment power or has the right to acquire

beneficial ownership within 60 days after December 31, 2005. Beneficial ownership may be disclaimed as to certain securities.

(2) Includes certain warrants granted to the organizers of Legacy and the directors in consideration of the risk undertaken by them during the organization of Legacy, and for their time, efforts and services in

organizing the Bank (referred to as organizer warrants). The organizer warrants are exercisable for ten years from the date of issuance, at a price of $10.00 per share. The organizer warrants were granted under our 1999 Equity Incentive Plan for Organizers.

(3) Includes options that are currently exercisable or exercisable within 60 days of December 31, 2005.

(4) Includes convertible subordinated debentures that can be converted into 2,000 shares of common stock by Mr. Allison.

(5) Includes 871 options granted to Mr. Bitner under our 1999 Directors Compensation Plan, 400 organizer warrants, 13,944 shares owned by Eastern Holding Co., Ltd., of which he is a director and convertible subordinated debentures that can be converted into 400 shares of common stock.

(6) Includes 1,800 shares held by Mr. Brophy jointly with his spouse and convertible subordinated debentures that can be converted into 1,600 shares of common stock.

(7) Includes 70,719 shares held by Mr. Doherty jointly with spouse and convertible subordinated debentures that can be converted into 4,000 shares of common stock.

(8) Includes 50,000 shares jointly owned with his spouse, 74,598 options granted to Mr. Groves under our 1999 Equity Incentive Stock Option Plan and 10,360 organizer warrants. Mr. Groves is also a Named Executive Officer.

(9) Includes 200 shares jointly owned with his spouse, 901 options granted to Mr. Hawkins under our 1999 Directors Compensation Plan and 2,360 organizer warrants.

(10) Includes 1,000 shares owned by Mr. Jones.

(11) Includes 5,000 shares owned jointly with spouse, 889 options granted to Mr. Klinepeter under our 1999 Directors Compensation Plan, 1,360 organizer warrants and convertible subordinated debentures that can be converted into 1,000 shares of common stock.

(12) Includes 8,035 shares, which may be purchased under exercisable warrants, 27,140 shares held jointly with spouse, 675 shares held as custodian for Mr. Klingerman s children and convertible subordinated debentures that can be converted to 600 shares of common stock.

(13) Includes 1,000 shares of common stock held individually by his spouse, 10,375 shares owned jointly with spouse, 41,079 options granted to Mr. Lennox under our 1999 Equity Incentive Stock Option Plan, 3,360 organizer warrants and convertible subordinated debentures that can be converted into 3,000 shares of common stock. Mr. Lennox is also a Named Executive Officer.

(14) Includes 9,470 shares jointly owned with his spouse, 2,050 shares held individually by his spouse, 506 options granted to Mr. Moisey under our 1999 Directors Compensation Plan and convertible subordinated debentures that can be converted into 2,000 shares of common stock.

(15) Includes 838 options granted to Mr. Penwell under our 1999 Directors Compensation Plan, 1,360 organizer warrants held individually by Mr. Penwell, 231 shares of common stock held individually by his spouse, 5,750 options held individually by his spouse and 13,944 shares of common stock owned by Eastern Holding Co., Ltd., of which he is a director.

(16) Includes 829 options granted to Mr. Rhodes under our 1999 Directors Compensation Plan, 1,360 organizer warrants and 5,000 shares owned by Brandywine Financial Resources, Inc., of which he is a director.

(17) Includes 19,195 shares jointly owned with his spouse, 453 options granted to Mr. Szeles under our 1999 Directors Compensation Plan and convertible subordinated debentures that can be converted into 4,000 shares of common stock.

(18) Includes 8,035 shares which may be purchased under exercisable warrants, 33,140 shares held jointly with Mr. Twigg s spouse and 21,500 shares held in custody for Mr. Twigg s children.

(19) Includes convertible subordinated debentures that can be converted into 2,000 shares of common stock by Mr. Warden.

(20) Includes 14,000 options granted to Mr. DeBias under our 1999 Equity Incentive Stock Option Plan and convertible subordinated debentures that can be converted into 2,000 shares of common stock. Mr. DeBias is a Named Executive Officer.

(21) Includes 30,000 options granted to Mr. Paese under our 1999 Equity Incentive Stock Option Plan, 2,425 shares held in custody for Mr. Paese s children and convertible subordinated debentures that can be converted to 1,000 shares of common stock. Mr. Paese is a Named Executive Officer.

(22) Includes 5,450 shares owned jointly with spouse, 12,500 options granted to Mr. Spiegel under our 1999 Equity Incentive Stock Option Plan and convertible subordinated debentures that can be converted into 400 shares of common stock. Mr. Spiegel is a Named Executive Officer.

PROPOSAL NO. 2

ADJOURNMENT PROPOSAL

In the event sufficient votes are not present at our special meeting to constitute a quorum or approve the merger proposal, the merger proposal cannot be approved unless our special meeting is adjourned in order to permit further solicitation of proxies. In order to allow shares present in person or by proxy at our special meeting to vote for the adjournment of our special meeting, if necessary, we are submitting an adjournment of our special meeting to our shareholders as a separate matter for their consideration. Properly executed proxies will be voted in favor of the adjournment proposal, unless otherwise indicated on the proxy. If the adjournment proposal is approved, no notice of the time and place of the adjourned meeting is required to be given to shareholders other than an announcement of the time and place that is given at the meeting.

Recommendation of our Board of Directors

Our board of directors recommends that you vote FOR the approval of the adjournment proposal.

LEGAL MATTERS

The validity of the FNB common stock being registered in connection with the merger has been passed upon for FNB by Duane Morris LLP, Philadelphia, Pennsylvania. Duane Morris LLP and Stevens & Lee P.C. have delivered their opinions to FNB and Legacy, respectively, as to certain federal income tax consequences of the merger. See Material United States Federal Income Tax Consequences of the Merger beginning on page 95.

EXPERTS

The consolidated financial statements of FNB and subsidiaries appearing in FNB s Annual Report (Form 10-K) dated for the year ended December 31, 2004, and FNB management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management s assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information of FNB for the three-month periods ended March 31, 2005 and March 31, 2004, the six-month periods ended June 30, 2005 and June 30, 2004 and the nine-month periods ended September 30, 2005 and September 30, 2004, respectively, incorporated by reference in this proxy statement/ prospectus, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated May 5, 2005, August 4, 2005 and November 2, 2005, included in FNB s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005 and incorporated by reference herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act for their reports on the unaudited interim financial information because those reports are not a report or a part of the registration statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Securities Act.

The consolidated financial statements of Legacy and subsidiary set forth elsewhere in this proxy statement/ prospectus as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, have been audited by Beard Miller Company LLP, independent registered public accounting firm, as set forth in their report thereon included elsewhere herein. Such consolidated financial statements are included in this proxy statement/ prospectus in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

OTHER MATTERS

As of the date of this proxy statement/ prospectus, we do not know of any matters that will be presented for consideration at our special meeting other than the approval of the merger proposal and the adjournment proposal. However, if any other matters shall properly come before our special meeting or any adjournment, postponement or continuation thereof and be voted upon, the enclosed proxies shall be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any such matters.

No person is authorized to give any information or make any representation other than those contained or incorporated by reference in this proxy statement/ prospectus, and, if given or made, such information or representation should not be relied upon as having been authorized by FNB or us.

This proxy statement/ prospectus does not constitute an offer to exchange or sell, or a solicitation of an offer to exchange or purchase, the FNB common stock offered by this proxy statement/ prospectus, nor does it constitute the solicitation of a proxy, in any jurisdiction in which such offer or solicitation is not authorized or to or from any person to whom it is unlawful to make such offer or solicitation.

The information contained in this proxy statement/ prospectus speaks as of the date hereof unless otherwise specifically indicated. The delivery of this proxy statement/ prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of Legacy or FNB since the date of this proxy statement/ prospectus or that the information in this proxy statement/ prospectus or in the documents incorporated by reference in this proxy statement/ prospectus is correct at any time subsequent to that date.

This proxy statement/ prospectus does not cover any resales of the FNB common stock offered hereby to be received by shareholders of Legacy deemed to be affiliates of Legacy or FNB upon the consummation of the merger. No person is authorized to make use of this proxy statement/ prospectus in connection with any such resales.

WHERE YOU CAN FIND MORE INFORMATION

FNB files reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy any reports, statements or other information filed by FNB at the SEC s public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. FNB s SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at www.sec.gov.

Legacy files reports, proxy statements and other information with the FDIC under the Exchange Act. You may read and copy any reports, statements or other information filed by Legacy at the FDIC s offices at 1776 F Street, N.W., Washington, D.C. 20006. Please call the FDIC at (202) 898-8913 for further information regarding access to these documents at the FDIC. These documents may also be accessed free of

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charge on the web site maintained by Legacy at www.thelegacybankonline2.com, and copies will be furnished free of charge by Legacy to any Legacy shareholder upon request.

FNB filed a registration statement on Form S-4 to register with the SEC under the Securities Act the issuance of FNB common stock to our shareholders in the merger. This proxy statement/ prospectus is a part of that registration statement and constitutes a prospectus of FNB and a proxy statement of Legacy for our special meeting. As allowed by the SEC rules, this proxy statement/ prospectus does not contain all the information contained in the registration statement.

The SEC allows the incorporation by reference of information into this proxy statement/ prospectus, which means that FNB can disclose important information to you by referring you to another document filed separately with the SEC by FNB. The information incorporated by reference is deemed to be part of this proxy statement/ prospectus, except for any information that is superseded by information in this proxy statement/ prospectus. This proxy statement/ prospectus incorporates by reference the documents set forth below that FNB has previously filed with the SEC. These documents contain important information about FNB.

The following documents previously filed with the SEC by FNB (SEC File No. 001-31940) are incorporated by reference into this proxy statement/ prospectus:

FNB s Annual Report on Form 10-K for the year ended December 31, 2004;

FNB s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; and

FNB s Current Reports on Form 8-K filed April 12, 2005, April 25, 2005, August 22, 2005, October 6, 2005, December 12, 2005, December 21, 2005, January 23, 2006 and January 31, 2006; and

FNB further incorporates by reference any additional documents that it files with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act between the date of this proxy statement/ prospectus and the date of the Legacy special meeting. These documents include periodic reports such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

If you would like to receive a copy of any of the documents incorporated by reference, please contact FNB at the address or telephone number listed under the heading Additional Information.

SHAREHOLDER PROPOSALS

We will hold our annual meeting of shareholders in 2006 only if the merger is not completed. Any eligible shareholder desiring to present a proposal pursuant to Rule 14a-8 promulgated by the SEC to be considered at our 2006 annual meeting of shareholders should have submitted the proposal in writing to: George H. Groves, Chairman and Chief Executive Officer, The Legacy Bank, 2600 Commerce Drive, Harrisburg, Pennsylvania 17110 no later than November 9, 2005. A shareholder wishing to submit a proposal other than pursuant to Rule 14a-8 must notify us within a reasonable time prior to the annual meeting. In the absence of timely notice, management will exercise its discretionary power in voting on any such matter.

INDEX TO LEGACY FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
The Legacy Bank
Harrisburg, Pennsylvania

We have audited the accompanying consolidated balance sheets of The Legacy Bank and its wholly-owned subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Legacy Bank and its wholly-owned subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Beard Miller Company LLP

Harrisburg, Pennsylvania
February 15, 2005

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The Legacy Bank
Consolidated Balance Sheets

	December 31,	
	2004	**2003**
	(In thousands, except share amounts)	
ASSETS		
Cash and due from banks	$ 5,305	$ 8,709
Federal funds sold	1,868	
Short-term investments	22	21
Cash and Cash Equivalents	7,195	8,730
Securities available for sale	51,098	43,184
Securities held to maturity, fair value 2004 $11,930; 2003 $12,450	12,013	12,500
Loans receivable, net of allowance for loan losses 2004 $3,461; 2003 $3,430	249,019	226,155
Bank premises and equipment, net	4,502	3,578
Goodwill	5,566	6,264
Other intangible assets	1,375	1,548
Accrued interest receivable	1,437	1,242
Bank owned life insurance	4,540	
Other assets	1,845	2,285
Total Assets	$ 338,590	$ 305,486
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 27,931	$ 28,125
Interest-bearing	216,533	211,955
Total Deposits	244,464	240,080
Short-term borrowings	23,425	10,187
Long-term Federal Home Loan Bank borrowings	28,000	14,500
Convertible subordinated debentures	4,500	4,785
Other liabilities	1,476	2,062
Total Liabilities	301,865	271,614
Shareholders Equity		
Preferred stock, $5 par value; authorized 1,000,000 shares; none issued and outstanding		
Common stock, $5 par value; authorized 5,000,000 shares; issued and outstanding 2004 3,609,417 shares; 2003 3,550,273 shares	18,047	17,751
Surplus	19,327	18,930

Accumulated deficit	(453)	(2,808)
Accumulated other comprehensive loss	(196)	(1)
Total Shareholders Equity	36,725	33,872
Total Liabilities and Shareholders Equity	$ 338,590	$ 305,486

See notes to consolidated financial statements.

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The Legacy Bank
Consolidated Statements of Income

	Years Ended December 31,		
	2004	**2003**	**2002**
	(In thousands, except per share data)		
Interest Income			
Loans receivable, including fees	$ 14,410	$ 12,048	$ 6,730
Securities, taxable	1,851	1,680	664
Federal funds sold and short-term investments	8	47	141
Total Interest Income	16,269	13,775	7,535
Interest Expense			
Deposits	4,369	4,182	3,339
Short-term borrowings	125	126	
Convertible subordinated debentures	233	60	
Long-term debt	789	641	376
Total Interest Expense	5,516	5,009	3,715
Net Interest Income	10,753	8,766	3,820
Provision for Loan Losses	1,115	428	540
Net Interest Income after Provision for Loan Losses	9,638	8,338	3,280
Noninterest Income			
Service charges on deposit accounts	569	458	158
Asset management fees	815	624	401
Service charges on loans	340	250	153
Securities gains, net		183	27
Gain on sales of loans	416	82	1
Gain on sale of branches	196		
Other	47	5	5
Total Noninterest Income	2,383	1,602	745
Noninterest Expenses			
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 Noninterest Expenses	10,497	9,228	4,253

Income (Loss) before Income Tax Benefit		1,524		712		(228)
Income Tax Benefit		831		317		485
Net Income	$	2,355	$	1,029	$	257
Earnings per Share						
Basic	$	0.66	$	0.37	$	0.19
Diluted	$	0.64	$	0.37	$	0.19

See notes to consolidated financial statements.

The Legacy Bank
Consolidated Statements of Shareholders Equity
Years Ended December 31, 2004, 2003 and 2002

	Issued Shares	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
				(In thousands)		
Balance December 31, 2001	1,299	$ 6,495	$ 6,463	$ (4,094)	$ 18	$ 8,882
Comprehensive income:						
Net income				257		257
Unrealized gain on securities available for sale, net of tax of $132					256	256
Reclassification adjustment for realized gains, net of tax of $9					(18)	(18)
Total Comprehensive Income						495
Sale of common stock	44	222	263			485
Stock issued for directors compensation	3	13	15			28
Balance December 31, 2002	1,346	6,730	6,741	(3,837)	256	9,890
Comprehensive income:						
Net income				1,029		1,029
Unrealized loss on securities available for sale, net of tax of $(70)					(136)	(136)
Reclassification adjustment for realized gains, net of tax of $62					(121)	(121)
Total Comprehensive Income						772
Stock issued in connection with acquisition of Northern State Bank	1,197	5,983	6,832			12,815
Sale of common stock	981	4,903	5,460			10,363
Warrants converted	24	120	(120)			
	3	15	17			32

Stock issued for directors compensation						
Balance December 31, 2003	3,551	17,751	18,930	(2,808)	(1)	33,872
Comprehensive income:						
Net income				2,355		2,355
Unrealized loss on securities available for sale, net of tax of $(103)					(195)	(195)
Total Comprehensive Income						2,160
Debentures converted	22	114	144			258
Stock options exercised	32	159	202			361
Stock issued for directors compensation	4	23	51			74
Balance December 31, 2004	3,609	$ 18,047	$ 19,327	$ (453)	$ (196)	$ 36,725

See notes to consolidated financial statements.

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The Legacy Bank
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2004	**2003**	**2002**
		(In thousands)	
Cash Flows from Operating Activities			
Net income	$ 2,355	$ 1,029	$ 257
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,115	428	540
Provision for depreciation and amortization	726	525	237
Amortization of intangible assets	173	58	
Net amortization of investment securities	715	763	103
Deferred income taxes	(831)	(317)	(485)
Stock issued for directors compensation	74	32	28
Securities gains		(183)	(27)
Gains on sale of loans	(416)	(82)	(1)
Gain on sale of branches	(196)		
Earnings on bank-owned life insurance	(40)		
Decrease (increase) in accrued interest receivable and other assets	1,100	(918)	(313)
Increase (decrease) in other liabilities	(486)	(16)	194
Net Cash Provided by Operating Activities	4,289	1,319	533
Cash Flows from Investing Activities			
Securities available for sale:			
Purchases	(25,522)	(48,029)	(20,022)
Proceeds from sales	2,463	27,700	563
Proceeds from maturities and principal repayments	14,054	17,542	2,838
Securities held to maturity:			
Purchases	(2,000)	(13,962)	
Proceeds from maturities and principal repayments	2,271	1,319	
Net increase in loans receivable	(43,293)	(29,045)	(24,264)
Proceeds from sale of loans	6,626		
Purchase of loans	(15,511)		
Increase in cash from Bank and branch sale/acquisitions	9,093	37,931	
Purchase of bank owned life insurance	(4,500)		
Purchases of bank premises and equipment	(1,896)	(995)	(83)
Net Cash Used in Investing Activities	(58,215)	(7,539)	(40,968)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	25,292	(20,482)	32,701
Net increase in short-term borrowings	13,238	7,190	
Proceeds from long-term borrowings	16,000	5,285	11,000

Repayments of long-term borrowings		(2,500)		(2,000)		
Net proceeds from issuance of common stock		361		10,363		485
Net Cash Provided by Financing Activities		52,391		356		44,186
Net Increase (Decrease) in Cash and Cash Equivalents		(1,535)		(5,864)		3,751
Cash and Cash Equivalents Beginning		8,730		14,594		10,843
Cash and Cash Equivalents Ending	$	7,195	$	8,730	$	14,594
Supplementary Cash Flows Information						
Interest paid	$	5,451	$	4,861	$	3,774
Income taxes paid	$	52	$	8	$	
Debentures converted into common stock	$	258	$		$	

See notes to consolidated financial statements.

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The Legacy Bank
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Legacy Bank (the Bank) and its wholly owned subsidiary, The Legacy Trust Company (the Trust). All significant intercompany accounts and transactions have been eliminated.

Organization and Nature of Operations

The Legacy Bank was incorporated on June 10, 1999 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank commenced operations on September 20, 1999 and is a full service bank providing personal and business lending and deposit services. As a state chartered, non-Federal Reserve member bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The area served by the Bank is principally the central and northeast Pennsylvania regions. The Legacy Trust Company provides trust and asset management services.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the evaluation of other than temporary impairment of investment securities, and the valuation of deferred tax assets and intangible assets.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, interest-bearing deposits and short-term investments with a maturity date of three months or less. Generally, federal funds are purchased and sold for one-day periods.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity or mix of the Bank s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. This restricted stock is carried at cost and is included within securities available for sale.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Premiums on purchased loans are amortized to income using the interest method over the expected lives of the loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. Past due status is based on the contractual terms of the loan. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged to earnings. Loans deemed to be uncollectible are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management s periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience of similar institutions due to

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

its limited charge-off history, adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets estimated useful lives.

Goodwill and Other Intangible Assets

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Trust Assets

Assets held in a fiduciary capacity are not assets of the Bank or Trust and are, therefore, not included in the financial statements. Trust income is recognized on the accrual method.

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Reclassifications

Certain amounts in the 2003 and 2002 financial statements have been reclassified to conform to the 2004 presentation format. These reclassifications had no impact on the Bank s net income.

Stock Compensation Plans

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, encouraged all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allowed an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Bank s stock option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. The Bank elected to continue with the accounting methodology in Opinion No. 25 and, as a result, has provided pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value based method of accounting had been applied.

Pro forma disclosures as though compensation expense for the stock options was determined under the recognition provisions of Statement No. 123 using the fair value of the awards at the grant date are as follows for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
	(In thousands, except per share data)		
Net income, as reported	$ 2,355	$ 1,029	$ 257
Total stock-based compensation expense determined under fair value method, net of tax	(194)	(99)	(185)
Pro forma net income	$ 2,161	$ 930	$ 72
Earnings per share basic:			
As reported	$ .66	$ .37	$ .19
Pro forma	$ .60	$ .33	$ .05
Earnings per share diluted:			
As reported	$ .64	$ .37	$ .19
Pro forma	$ .59	$ .33	$ .05

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

The fair values were estimated using the Black-Scholes model and are summarized below, along with the weighted-average assumptions.

	2004	2003	2002
Weighted-average grant date fair value	$ 2.96	$ 2.21	$ 3.19
Expected life in years	7	7	7
Risk-free interest rate	3.77%	3.36%	4.85%

Volatility was assumed to be zero given the limited trading of the Bank s stock. The expected dividend yield was assumed to be zero given the Bank has not declared a dividend since inception.

Earnings per Common Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options, warrants and convertible debentures. Potential common shares that may be issued related to stock options and warrants are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2004	2003	2002
		(In thousands)	
Net income	$ 2,355	$ 1,029	$ 257
Average number of common shares outstanding	3,582	2,785	1,337
Effect of dilutive options and warrants	103	17	5
Average number of common shares outstanding used to calculate diluted earnings per common share	3,685	2,802	1,342

Options to purchase 37,000 shares of common stock at a price of $12.00 per share were outstanding at December 31, 2003 but were not included in the computation of diluted EPS because they were anti-dilutive. Options to purchase 68,234 and 3,536 shares of common stock at a price of $11.50 and $10.62 per share, respectively were outstanding at December 31, 2002 but were not included in the computation of diluted EPS because they were anti-dilutive. Convertible debentures which are convertible into 360,000 and 382,800 shares of common stock at a price of $12.50 per share were outstanding at December 31, 2004 and 2003, respectively, but were not included in the computation of diluted EPS because they were anti-dilutive.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

New Accounting Standards

In December 2003, the Accounting Standards Executive Committee issued Statement of Position 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

investor s initial investment in loans or debt securities acquired in a transfer, including business combinations, if those differences are attributable, at least in part, to credit quality. SOP 03-3 is effective for loans or debt securities acquired in fiscal years beginning after December 15, 2004. The Bank adopted the provisions of SOP 03-3 effective January 1, 2005, and the initial implementation did not have any effect on the consolidated financial statements.

In March 2004, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No., 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance regarding the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and to equity securities accounted for under the cost method. Included in EITF 03-1 is guidance on how to account for impairments that are solely due to interest rate changes, including changes resulting from increases in sector credit spreads.

The effective date for the accounting guidance of EITF 03-1 is delayed until additional clarifying guidance is issued. The Bank is not able to assess the impact of the adoption of EITF 03-1 until final guidance is issued.

In March 2004, the SEC released Staff Accounting Bulletin (SAB) No. 105, Application of Accounting Principles to Loan Commitments. SAB 105 provides guidance about the measurements of loan commitments recognized at fair value under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SAB 105 also requires companies to disclose their accounting policy for those loan commitments including methods and assumptions used to estimate fair value and associated hedging strategies. SAB 105 is effective for all loan commitments accounted for as derivatives that are entered into after March 31, 2004. The adoption of SAB 105 did not have any effect on the consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123(R), Share-Based Payment. Statement No. 123(R) revised Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. Statement No. 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Bank is currently evaluating the impact of this standard on its results of operations and financial position.

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

Note 2 Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available for Sale				
Debt securities:				
U.S. Treasury securities	$ 552	$ 11	$	$ 563
U.S. Government agency obligations	17,524	18	(61)	17,481
Mortgage-backed securities	16,683	17	(127)	16,573
Collateralized mortgage obligations	12,557	9	(58)	12,508
Corporate and other debt securities	775	1	(109)	667
Total Debt Securities	48,091	56	(355)	47,792
Federal Home Loan Bank stock	2,878			2,878
Other equity securities	428			428
	$ 51,397	$ 56	$ (355)	$ 51,098
Securities Held to Maturity				
U.S. Government agency obligations	$ 3,035	$ 1	$ (10)	$ 3,026
Mortgage-backed securities	3,663		(53)	3,610
Collateralized mortgage obligations	5,315	13	(34)	5,294
	$ 12,013	$ 14	$ (97)	$ 11,930

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available for Sale				
Debt securities:				
U.S. Treasury securities	$ 553	$ 30	$	$ 583
U.S. Government agency obligations	11,336	110	(25)	11,421
Mortgage-backed securities	20,480	52	(151)	20,381
Collateralized mortgage obligations	8,418	39	(29)	8,428
Corporate and other debt securities	775	2	(29)	748
Total Debt Securities	41,562	233	(234)	41,561
Federal Home Loan Bank stock	1,538			1,538
Other equity securities	85			85
	$ 43,185	$ 233	$ (234)	$ 43,184
Securities Held to Maturity				
U.S. Government agency obligations	$ 1,052	$ 2	$	$ 1,054
Mortgage-backed securities	4,484		(47)	4,437
Collateralized mortgage obligations	6,964	16	(21)	6,959
	$ 12,500	$ 18	$ (68)	$ 12,450

At December 31, 2004 and 2003, investment securities with a carrying value of $5,966,000 and $5,102,000, respectively, were pledged to secure public deposits, and for other purposes as required or permitted by law. At December 31, 2003, investment securities with a carrying value of $47,701,000 were pledged to collateralize borrowings with the Federal Home Loan Bank of Pittsburgh. During 2004, the FHLB removed the requirement for Legacy to pledge securities to collateralize borrowings.

The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

The following table shows the Bank s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Securities Available for Sale:						
U.S. Government agency obligations	$ 7,834	$ (61)	$	$	$ 7,834	$ (61)
Mortgage-backed securities	3,252	(11)	10,109	(116)	13,361	(127)
Collateralized mortgage obligations	3,801	(32)	2,522	(26)	6,323	(58)
Corporate and other debt securities			641	(109)	641	(109)
Total Temporarily Impaired Securities Available for Sale	$ 14,887	$ (104)	$ 13,272	$ (251)	$ 28,159	$ (355)
Securities Held to Maturity:						
U.S. Government agency obligations	$ 1,026	$ (10)	$	$	$ 1,026	$ (10)
Mortgage-backed securities			3,610	(53)	3,610	(53)
Collateralized mortgage obligations	3,127	(16)	1,015	(18)	4,142	(34)
Total Temporarily Impaired Securities Held to Maturity	$ 4,153	$ (26)	$ 4,625	$ (71)	$ 8,778	$ (97)

The Bank has determined that the unrealized losses pertain to 41 securities and are attributable to the current interest rate environment. The unrealized losses are temporary and management has the intent and ability to hold them until the market price recovers. All securities are rated investment grade or better according to the Bank s policy. The mortgage-backed securities are primarily agency backed, have favorable cash flow characteristics and are closely monitored for performance. The unrealized loss in corporate securities is attributable to one trust preferred security that has been paying interest timely and is deemed to have acceptable credit quality.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2004 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value

				(In thousands)				
Within one year	$	1,533	$	1,527	$		$	
Over one year through five years		15,058		15,024		3,035		3,026
Over five years through ten years		1,510		1,519				
Over ten years		750		641				
Mortgage-backed securities and collateralized mortgage obligations		29,240		29,081		8,978		8,904
Total	$	48,091	$	47,792	$	12,013	$	11,930

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002, gross realized gains from sales of securities available for sale amounted to $-0-, $208,000 and $27,000, respectively. Gross realized losses amounted to $-0-, $25,000 and $-0- during 2004, 2003 and 2002, respectively.

Note 3 Loans Receivable

The composition of net loans receivable at December 31, 2004 and 2003 is as follows:

	2004	2003
	(In thousands)	
Commercial real estate	$ 108,063	$ 104,914
Commercial	88,541	78,298
Residential real estate	26,174	17,261
Consumer	27,854	25,948
Total Loans	250,632	226,421
Unamortized premium on purchased loans	1,581	3,019
Net deferred loan costs	267	145
Allowance for loan losses	(3,461)	(3,430)
Net Loans	$ 249,019	$ 226,155

Note 4 Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Years Ended December 31,		
	2004	2003	2002
	(In thousands)		
Balance, beginning	$ 3,430	$ 1,300	$ 982
Provision for loan losses	1,115	428	540
Added through acquisitions		2,014	
Reduced due to sale of loans	(310)		
Charge-offs	(812)	(347)	(222)
Recoveries	38	35	
Balance, ending	$ 3,461	$ 3,430	$ 1,300

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31,	
	2004	2003

	(In thousands)	
Impaired loans, (all have a valuation allowance)	$ 4,213	$ 4,814
Valuation allowance related to impaired loans	$ 1,334	$ 988
Total non-accrual loans	$ 1,037	$ 1,161
Total loans past due ninety days or more and still accruing	$ 42	$ 195

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

	Years Ended December 31,		
	2004	2003	2002
		(In thousands)	
Average investment in impaired loans	$ 4,686	$ 4,582	$ 1,437
Interest income recognized on impaired loans, total	$ 338	$ 294	$ 113
Interest income recognized on cash basis on nonaccrual loans	$	$ 48	$

Note 5 Bank Premises and Equipment

The components of bank premises and equipment at December 31, 2004 and 2003 are as follows:

	Estimated Lives in Years	2004	2003
		(In thousands)	
Land		$ 313	$ 50
Buildings and building improvements	30	1,185	107
Leasehold improvements	7 - 20	2,255	2,139
Furniture, fixtures and equipment	3 - 15	1,208	1,563
Computer equipment and data processing software	3 - 10	1,652	1,445
Automobiles	2 - 5	173	145
		6,786	5,449
Accumulated depreciation		(2,284)	(1,871)
		$ 4,502	$ 3,578

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 amounted to $726,000, $525,000 and $237,000, respectively.

Note 6 Goodwill and Other Intangible Assets

During 2003, the Bank acquired Northern State Bank and purchased three additional branches including certain assets and liabilities from another financial institution. In 2004, the Bank sold two of the branches acquired from Northern State Bank and wrote-off a proportionate amount of goodwill against the sales proceeds. The following reflects goodwill associated with these transactions:

	Northern State Bank	Purchase of Branches	Total

Balance as of January 1, 2003	$	$	$
Goodwill acquired during the year	4,260	2,004	6,264
Balance as of December 31, 2003	4,260	2,004	6,264
Goodwill related to branches acquired (disposed of) during the year	(1,512)	814	(698)
Balance as of December 31, 2004	$ 2,748	$ 2,818	$ 5,566

Goodwill associated with the branch purchase is deductible for tax purposes. Management has tested goodwill for impairment as of December 31, 2004 and has determined there was no impairment.

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The Legacy Bank

Notes to Consolidated Financial Statements (Continued)

Amortizable intangible assets (principally core deposit intangibles) associated with these transactions have a weighted average amortization period of approximately ten years. At December 31, 2004, the carrying amount of these intangible assets was $1,375,000, which is net of accumulated amortization of $231,000, compared to intangible assets of $1,548,000, net of accumulated amortization of $58,000 at December 31, 2003. Amortization expense was $173,000, $58,000, and $-0- in the years ended December 31, 2004, 2003 and 2002, respectively. Aggregate estimated amortization expense for the five years subsequent to December 31, 2004 is as follows (in thousands):

2005	$ 171
2006	171
2007	171
2008	171
2009	168

Note 7 Deposits

The components of deposits at December 31, 2004 and 2003 are as follows:

	2004	2003
	(In thousands)	
Demand, non-interest bearing	$ 27,931	$ 28,125
Demand, interest bearing	12,240	12,745
Money market	13,739	21,616
Savings	53,939	49,577
Time, $100,000 and over	30,814	26,018
Time, other	105,801	101,999
Total Deposits	$ 244,464	$ 240,080

At December 31, 2004, the scheduled maturities of time deposits are as follows (in thousands):

2005	$ 69,828
2006	25,236
2007	19,493
2008	8,328
2009	13,666
Thereafter	64
	$ 136,615

Note 8 Short-Term Borrowings

The Bank has a total of $11,000,000 available for borrowing in short-term lines of credit established with five banks. In addition, the Bank can borrow from the Federal Home Loan Bank (FHLB); see Note 9-Federal Home Loan Bank Borrowings for more information on FHLB borrowings.

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The Legacy Bank
Notes to Consolidated Financial Statements (Continued)

These borrowings are described below at or for the years ended:

	December 31, 2004	December 31, 2003
	(Dollars in thousands)	
Federal Home Loan Bank overnight advances	$ 23,425	$ 10,187
Average balance	$ 7,814	$ 9,379
Maximum month-end balance	$ 23,425	$ 14,090
Weighted average rate	1.60%	1.34%
Range of interest rates paid on December 31	2.19%- 2.34%	1.01%- 1.19%

Note 9 Federal Home Loan Bank Borrowings

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. As such, the Bank can take advantage of the FHLB program for overnight and term advances at published daily rates, which are advantageous to members as compared to issuing notes directly in the market. At December 31, 2004, the Bank had a borrowing capacity of $76,977,000, of which $51,425,000 was outstanding. Outstanding long-term borrowings from the Federal Home Loan Bank are summarized as follows at December 31, 2004 and 2003:

December 31, 2004

	Fixed Rate	Weighted Average Rate	Variable Rate	Weighted Average Rate	Total	Weighted Average Rate
	(Dollars in thousands)					
Due in 2005	$ 7,000	2.4%	$ 1,000	6.7%	$ 8,000	2.9%
Due in 2006	9,000	2.8%			9,000	2.8%
Due in 2007	2,000	2.8%			2,000	2.8%
After 2009			9,000	4.4%	9,000	4.4%
	$ 18,000	2.6%	$ 10,000	4.7%	$ 28,000	3.3%

December 31, 2003

	Fixed Rate	Weighted Average Rate	Variable Rate	Weighted Average Rate	Total	Weighted Average Rate
	(Dollars in thousands)					
Due in 2004	$ 2,500	2.8%	$		$ 2,500	2.8%
Due in 2005	2,000	3.1%	1,000	6.7%	3,000	4.3%
After 2008			9,000	4.4%	9,000	4.4%

	$ 4,500	3.0%	$ 10,000	4.7%	$ 14,500	4.1%

The above variable rate borrowings are convertible notes. The FHLB has the option to convert the loans to an adjustable rate equal to the three-month LIBOR plus 0.08% to 0.15%. If the above convertible notes are converted, the Bank has the option to repay these advances at each of the option dates without penalty. Accordingly, contractual maturities above may differ from expected maturities.

Note 10 Convertible Subordinated Debentures

During 2003, the Bank sold 1,914 investment units for $5,000 each. Each unit consisted of 225 shares of common stock priced at $11.11 per share and $2,500 in the aggregate and a 15-year 5% convertible subordinated capital note in the principal amount of $2,500. Total notes outstanding were $4,500,000 and

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$4,785,000 at December 31, 2004 and 2003, respectively. The notes may be converted into shares of common stock at any time at a conversion price of $12.50 per share, subject to adjustment upon the occurrence of certain events. Interest on the notes accrued from the date of issuance and is payable on September 15 and March 15 of each year. During 2004, 114 notes were converted into 22,800 shares of common stock. As of December 31, 2004, 360,000 shares of common stock are reserved for potential conversion.

Note 11 Lease Commitments and Total Rental Expense

Total lease expense was $426,000, $489,000 and $213,000 for the years ended December 31, 2004, 2003 and 2002, respectively, of which $225,000, $315,000 and $130,000, respectively, pertained to leases with related parties.

Future minimum lease payments by year are as follows (in thousands):

2005	$	305
2006		274
2007		266
2008		260
2009		259
Thereafter		819
	$	2,183

Note 12 Employment Agreements

The Bank has entered into employment agreements with four members of senior management. Upon resignation after a change in the control of the Bank, as defined in the agreement, these individuals will receive monetary compensation in the amount set forth in their agreements. These agreements expire during 2005 and 2006, but will automatically renew at various terms, unless written notice electing not to renew is given by the Bank or individual.

Note 13 Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income or loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss. Sources of other comprehensive income (loss) not included in net income were limited to unrealized gains (losses) on available for sale securities which, net of tax, were $(195,000), $(257,000) and $238,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Note 14 Shareholders Equity

In 2002, the Bank sold 44,444 shares of common stock at $11.25 per share, which resulted in proceeds of $485,000, net of stock offering costs of $15,000.

In 2003, the Bank issued 1,196,608 shares of common stock for the purchase of Northern State Bank. As further described in Note 10, the Bank sold 1,914 investment units resulting in the issuance of 430,650 shares of stock priced at $11.11 per share and sold 550,000 shares of common stock at an average price of $10.59 per share. These sales resulted in proceeds of $10,363,000, net of stock offering costs of $109,000.

In 2004, 114 convertible subordinated notes were converted into 22,800 shares of common stock.

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Note 15 Stock Warrants and Stock Option Plans

The Bank issued stock purchase warrants in connection with its initial public offering, giving certain organizers the right to purchase a total of 38,080 shares of common stock at the initial offering price of $10 per share. As of December 31, 2004, 38,080 warrants were outstanding. These warrants were granted in consideration of the risks undertaken by the organizers and are exercisable in full and will expire August 24, 2009. The shares may be issued either from previously authorized but unissued shares or issued shares that have been reacquired by the Bank.

Under the 1999 Directors Compensation Plan, each non-employee director was entitled to a retainer fee of $2,000 per year. The non-employee directors were also eligible to receive up to $3,000 compensation per year based on attendance at board meetings. At the election of the non-employee director, the retainer fee was payable in common stock or cash and compensation was payable in either options to acquire shares of common stock or cash. The shares were valued at their fair market value. In 2003, 3,073 options were issued to directors under this plan. In 2002, 2,646 shares and 3,536 options were issued to directors under this plan. The options vest over a three-year period and expire 10 years from the date of grant. The expense recorded relating to the shares granted totaled $28,000 in 2002. The plan was closed in 2003 and no shares are available for future grant under this plan. The Bank adopted a new plan in 2003.

Under the 2003 Directors Compensation Plan, each non-employee director is entitled to a retainer fee of $2,000 per year. The non-employee directors are also eligible to receive up to $3,000 compensation per year based on attendance at board meetings. The non-employee directors also receive common stock equal to $50 per committee meeting attended. Compensation is to be paid annually in shares of common stock. The shares will be valued at their fair market value. 50,000 shares of the Bank s common stock have been reserved for awards granted under this plan and 42,482 are available at December 31, 2004. In 2004, 4,494 common shares were issued to directors under this plan. The expense recorded relating to the shares granted totaled $74,000 in 2004. In 2003, 3,024 shares were issued to directors under this plan with $32,000 of expense recorded relating to the shares granted in 2003.

Under the 1999 Equity Incentive Stock Option Plan (the Plan), Bank employees are eligible to receive options to purchase shares of common stock at the fair market value on the date the option is granted. Shares that may be issued under the Stock Option Plan shall not exceed in the aggregate 245,000 shares. Shares granted prior to 2004 vest equally over a three-year period and expire no later than ten years from the date of the grant. Shares granted in 2004 vest immediately and expire no later than six years from the date of the grant. The shares may be issued either from previously authorized but unissued shares or issued shares that have then been reacquired by the Bank. The Plan is administered by a committee of non-employee directors. At December 31, 2004, 25,203 shares remain available for future grant under the plan.

On January 1, 2003, the Bank acquired Northern State Bank. The warrants and options held by directors and employees of Northern State Bank were converted into options to buy Legacy Bank common stock through the issuance of 85,315 options to purchase Legacy Bank common stock at $10.00 per share to directors of Northern State Bank, 73,400 options to purchase Legacy Bank common stock at $12.00 per share to employees of Northern State Bank and 16,000 options to purchase Legacy Bank common stock at $10.60 per share to employees of Northern State Bank. All of these options vested immediately and begin to expire in 2009.

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A summary of the status of the Bank s stock warrants and stock option plans is as follows:

	2004			2003			2002		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
	(Shares in thousands)								
Outstanding at the beginning of year	355	$	10.55	191	$	10.50	156	$	10.50
Granted	45	$	12.85	29	$	10.60	36	$	11.20
Issued in connection with acquisition				174	$	10.90			
Exercised	(32)	$	11.32						
Forfeited	(2)	$	11.25	(39)	$	11.97	(1)	$	11.26
Outstanding at the end of year	366	$	10.76	355	$	10.55	191	$	10.50

As of December 31, 2004:		
Options available for grant		25,203
Weighted average life in years of outstanding options and warrants		5.7
Exercisable options and warrants		338,289
Weighted average price of exercisable options and warrants	$	10.75
Range of exercise prices	$	10.00-$12.85

Note 16 Federal Income Taxes

A deferred tax benefit of $831,000, $317,000 and $485,000 was recognized in 2004, 2003 and 2002, respectively.

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The components of the net deferred tax asset at December 31, 2004 and 2003 are as follows:

	2004	2003
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,034	$ 1,097
Organization costs		31
Net operating loss carryforwards	799	1,846
Compensation related	304	94
Unrealized securities losses	103	
Acquisition fair value adjustment, net		81
Other	65	130
	2,305	3,279
Valuation allowance		(2,108)
Total Deferred Tax Assets, Net of Valuation Allowance	2,305	1,171
Deferred tax liabilities:		
Bank premises and equipment	(55)	(68)
Deferred loan costs	(91)	(49)
Cash basis conversion	(98)	(56)
Acquisition fair value adjustment, net	(449)	
Other	(12)	(12)
Total Deferred Tax Liabilities	(705)	(185)
Net Deferred Tax Asset	$ 1,600	$ 986

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $2,348,000, which begin to expire in 2019.

Note 17 Transactions with Executive Officers, Directors and Principal Shareholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Deposits of related parties totaled $11,552,000 and $11,134,000 at December 31, 2004 and 2003, respectively. Loan activity during 2004 with related parties was as follows (in thousands):

Balance, beginning	$ 17,857
Advances	8,895
Repayments	6,560
Balance, ending	$ 20,192

Fees paid to a director s law firm for corporate legal services were $47,000 in 2004, $207,000 in 2003 and $157,000 in 2002. Fees paid to a director s insurance company for insurance services were $-0- in 2004, $34,000 in 2003 and $-0- in 2002. As noted in Note 11, the Bank also rents certain premises from related parties. The Bank purchased its main office in 2004 from a related party at fair market value for $1.3 million.

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Note 18 Financial Instruments with Off-Balance Sheet Risk

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.