

FNB CORP/FL/  
Form 10-K/A  
July 27, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K/A**

**AMENDMENT NO. 1**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934**

For the fiscal year ended December 31, 2004  
or

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-31940

**F.N.B. CORPORATION**

(Exact name of registrant as specified in its charter)

**FLORIDA**

**25-1255406**

State or other jurisdiction of  
incorporation or organization

(I.R.S. Employer  
Identification No.)

**One. F.N.B. Boulevard, Hermitage, PA**

**16148**

(Address of principal executive offices)

(Zip Code)

**Registrant's telephone number, including area code (724) 981-6000**

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

**Title of each class**

**Name of each exchange on which registered**

Common Stock, par value \$0.01 per share

New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).  x  
Yes  No

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2004, determined using a per share closing price on that date of \$20.40, as quoted on the New York Stock Exchanges, was \$874,793,974.

As of February 28, 2005, the registrant had outstanding 56,279,368 shares of common stock.

**EXPLANATORY NOTE**

F.N.B. Corporation (the Corporation ) is filing this report on Form 10-K/A as Amendment No. 1 to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2004, originally filed with the Securities and Exchange Commission (the SEC ) on March 15, 2005 (the Original Filing ), for the principal purpose of addressing comments from the staff of the SEC in connection with the staff s review of a pending registration statement (the Staff Comments ). In particular, the Staff Comments requested that we amend the Original Filing to: (1) include a computation of ratio of earnings to fixed charges as Exhibit 12 in accordance with Item 601(a) of Regulation S-K; and (2) include amended financial statement and internal control audit reports from our independent auditors that indicate the city and state where the audit reports were issued in accordance with paragraph 167(o) of PCAOB AS2. The Corporation has complied with the Staff Comments by filing this Form 10-K/A. This Amendment speaks as of the date of the Original Filing and has not been updated to reflect events occurring subsequent to that date.

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**PART II**

**Item 8. *Financial Statements and Supplementary Data***

**Management's Report on Internal Control Over Financial Reporting**

F.N.B. Corporation (the Corporation) is responsible for the preparation and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K/A. The consolidated financial statements and notes included in this Annual Report on Form 10-K/A have been prepared in conformity with United States generally accepted accounting principles (GAAP).

We, as management of the Corporation, are responsible for establishing and maintaining adequate internal control over financial reporting as such item is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Corporation's internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external reporting purposes in accordance with GAAP.

The Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2004, in relation to criteria set forth for effective internal control over financial reporting as described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that as of December 31, 2004, the Corporation's internal control over financial reporting is effective and meets the criteria of the *Internal Control - Integrated Framework*. Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, independent registered public accounting firm, as stated in their report which is included elsewhere herein.

/s/ Stephen J. Gurgovits

/s/ Brian F. Lilly

Stephen J. Gurgovits  
President and Chief Executive Officer

Brian F. Lilly  
Chief Financial Officer

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

F.N.B. Corporation

We have audited the accompanying consolidated balance sheets of F.N.B. Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of F.N.B. Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of F.N.B. Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of F.N.B. Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2005, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, PA

March 11, 2005

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

F.N.B. Corporation

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting, that F.N.B. Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). F.N.B. Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that F.N.B. Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, F.N.B. Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of F.N.B. Corporation as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004, of F.N.B. Corporation and our report dated March 11, 2005, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Pittsburgh, PA

March 11, 2005

**F.N.B. Corporation and Subsidiaries**  
**Consolidated Balance Sheets**

December 31

2004

2003

Dollars in thousands,  
except par values

<b>Assets</b>		
Cash and due from banks	\$ 100,839	\$ 105,160
Interest bearing deposits with banks	2,921	1,152
Securities available for sale	555,698	878,667
Securities held to maturity (fair value of \$620,827 and \$25,009)	621,302	24,030
Mortgage loans held for sale	5,819	1,435
Loans, net of unearned income of \$30,592 and \$31,572	3,389,461	3,259,197
Allowance for loan losses	(50,467)	(46,139)
<b>Net Loans</b>	<b>3,338,994</b>	<b>3,213,058</b>
Premises and equipment, net	79,033	79,618
Goodwill	84,544	28,710
Bank owned life insurance	112,300	102,600
Other assets	125,559	122,744
Assets of discontinued operations		3,751,136
<b>Total Assets</b>	<b>\$ 5,027,009</b>	<b>\$ 8,308,310</b>
<b>Liabilities</b>		
Deposits:		
Non-interest bearing demand	\$ 663,278	\$ 592,795
Savings and NOW	1,539,547	1,517,209
Certificates and other time deposits	1,395,262	1,329,506
<b>Total Deposits</b>	<b>3,598,087</b>	<b>3,439,510</b>
Other liabilities	73,505	58,096
Short-term borrowings	395,106	232,966
Long-term debt	636,209	584,808
Liabilities of discontinued operations		3,386,021
<b>Total Liabilities</b>	<b>4,702,907</b>	<b>7,701,401</b>
<b>Stockholders Equity</b>		
Common stock \$0.01 par value		
Authorized 500,000,000 shares		
Issued 50,210,113 and 46,354,673 shares	502	464
Additional paid-in capital	295,404	586,009
Retained earnings	27,998	11,532
Accumulated other comprehensive income	4,965	10,251
Deferred stock compensation	(1,428)	



Treasury stock	151,994 and 40,764 shares at cost	(3,339)	(1,347)
<b>Total Stockholders</b>	<b>Equity</b>	324,102	606,909
<b>Total Liabilities and Stockholders</b>	<b>Equity</b>	\$ 5,027,009	\$ 8,308,310

See accompanying Notes to Consolidated Financial Statements

**F.N.B. Corporation and Subsidiaries**  
**Consolidated Statements of Income**

December 31

2004                      2003                      2002

Dollars in thousands,  
except per share data

<b>Interest Income</b>			
Loans, including fees	\$ 208,307	\$ 218,839	\$ 241,538
Securities:			
Taxable	42,248	32,842	25,191
Nontaxable	2,554	3,855	7,113
Dividends	1,325	1,461	1,461
Other	14	22	550
<b>Total Interest Income</b>	<b>254,448</b>	<b>257,019</b>	<b>275,853</b>
<b>Interest Expense</b>			
Deposits	52,400	57,710	72,978
Short-term borrowings	7,278	7,437	8,884
Long-term debt	24,712	21,843	16,510
<b>Total Interest Expense</b>	<b>84,390</b>	<b>86,990</b>	<b>98,372</b>
<b>Net Interest Income</b>	<b>170,058</b>	<b>170,029</b>	<b>177,481</b>
Provision for loan losses	16,280	17,155	13,624
<b>Net Interest Income After Provision for Loan Losses</b>	<b>153,778</b>	<b>152,874</b>	<b>163,857</b>
<b>Non-Interest Income</b>			
Service charges	34,264	34,140	33,041
Insurance commissions and fees	11,245	9,139	8,714
Securities commissions and fees	4,954	4,002	4,010
Trust	6,926	7,297	7,252
Gain on sale of securities	607	1,949	1,943
Gain on sale of mortgage loans	1,769	2,860	1,335
Gain on sale of branches	4,135		
Bank owned life insurance	3,459	3,773	3,807
Data processing contract termination	3,840		
Other	6,942	4,995	6,043
<b>Total Non-Interest Income</b>	<b>78,141</b>	<b>68,155</b>	<b>66,145</b>
<b>Non-Interest Expense</b>			
Salaries and employee benefits	71,328	87,434	74,728
Net occupancy	11,064	12,744	10,479
Equipment	13,282	15,839	14,519
Amortization of intangibles	2,415	2,172	2,120
Merger and consolidation related	1,681		41,952
Debt extinguishment penalty	2,245	20,737	

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Promotional	2,142	2,198	1,995
Insurance claims paid	2,696	2,377	2,998
Other	35,734	41,524	36,212
<b>Total Non-Interest Expense</b>	<b>142,587</b>	<b>185,025</b>	<b>185,003</b>
<b>Income Before Income Taxes</b>	<b>89,332</b>	<b>36,004</b>	<b>44,999</b>
Income taxes	27,537	8,966	13,728
<b>Income from Continuing Operations</b>	<b>61,795</b>	<b>27,038</b>	<b>31,271</b>
Earnings from discontinued operations, net of taxes of \$16,631 and \$16,385		31,751	32,064
<b>Net Income</b>	<b>\$ 61,795</b>	<b>\$ 58,789</b>	<b>\$ 63,335</b>
<b>Net Income per Common Share</b>			
Basic:			
Continuing operations	\$ 1.31	\$ .58	\$ .68
Discontinued operations		.69	.69
	\$ 1.31	\$ 1.27	\$ 1.37
Diluted:			
Continuing operations	\$ 1.29	\$ .57	\$ .67
Discontinued operations		.68	.68
	\$ 1.29	\$ 1.25	\$ 1.35

See accompanying Notes to Consolidated Financial Statements

**F.N.B. Corporation and Subsidiaries**  
**Consolidated Statements of Stockholders Equity**

	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Stock Compensation	Treasury Stock	Total
<b>Dollars in thousands</b>									
<b>Balance at January 1, 2002</b>		\$ 1	\$ 418	\$ 444,549	\$ 119,256	\$ 9,845	\$	\$ (1,662)	\$ 572,407
Income:									
Continuing operations	\$ 31,271				31,271				31,271
Discontinued operations	32,064				32,064				32,064
Change in other comprehensive income, net of tax	7,490					7,490			7,490
Comprehensive income	\$ 70,825								
Cash dividends declared:									
Preferred stock					(242)				(242)
Common stock \$0.81 per share					(37,274)				(37,274)
Purchase of common stock								(30,276)	(30,276)
Issuance of common stock			2	5,351	(5,066)			23,207	23,494
Stock dividend			21	66,625	(66,646)				
Conversion/retirement of preferred stock			1	(339)					(338)
<b>Balance at December 31, 2002</b>		1	442	516,186	73,363	17,335		(8,731)	598,596
Income:									
Continuing operations	\$ 27,038				27,038				27,038
Discontinued operations	31,751				31,751				31,751

Change in other comprehensive income, net of tax	(7,084)			(7,084)		(7,084)
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Comprehensive income	\$ 51,705					
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## Cash dividends declared:

Preferred stock			(62)			(62)
Common stock \$0.93 per share			(42,810)			(42,810)
Purchase of common stock					(33,888)	(33,888)
Issuance of common stock		7,060	(7,059)		33,367	33,368
Stock dividend	22	65,281	(65,303)			
Conversion/retirement of preferred stock	(1)	(2,518)	(5,386)		7,905	

**Balance at December 31, 2003**

	464	586,009	11,532	10,251	(1,347)	606,909
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## Income:

Continuing operations	\$ 61,795		61,795			61,795
Discontinued operations						
Change in other comprehensive income, net of tax	(3,388)			(3,388)		(3,388)

Comprehensive income	\$ 58,407					
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## Cash dividends declared:

Common stock \$0.92 per share			(43,476)			(43,476)
Spin-off of Florida operations		(363,219)		(1,898)		(365,117)
Change in deferred stock compensation					(1,428)	(1,428)

Purchase of common stock						(21,101)	(21,101)
Issuance of common stock	38	72,614	(1,853)			19,109	89,908
<b>Balance at December 31, 2004</b>	\$	\$ 502	\$ 295,404	\$ 27,998	\$ 4,965	\$ (1,428)	\$ (3,339) \$ 324,102

See accompanying Notes to Consolidated Financial Statements

**F.N.B. Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**

Year Ended December 31

2004                      2003                      2002

Dollars in thousands

**Operating Activities**

Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Income from discontinued operations		31,751	32,064
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation, amortization and accretion	14,620	15,148	12,520
Provision for loan losses	16,280	17,155	13,624
Deferred taxes	(2,751)	3,980	(3,490)
Gain on sale of securities	(607)	(1,949)	(1,943)
Gain on sale of loans	(1,769)	(2,860)	(1,335)
Proceeds from sale of trading securities	14,187		
Proceeds from sale of loans	93,630	156,057	58,019
Loans originated for sale	(96,245)	(130,455)	(74,405)
Net change in:			
Interest receivable	(1,760)	1,768	2,492
Interest payable	(3,789)	1,948	(5,763)
Change in assets of discontinued operations		(97,034)	(88,615)
Other, net	12,033	111,788	41,597
Net cash flows from operating activities	105,624	134,335	16,036

**Investing Activities**

Net change in:			
Interest bearing deposits with banks	(1,769)	1,666	537
Federal funds sold			66,000
Loans	37,519	(43,726)	(145,149)
Bank owned life insurance	112	2,302	(47,752)
Securities available for sale:			
Purchases	(461,342)	(593,283)	(333,790)
Sales	104,220	31,137	188,477
Maturities	203,519	330,073	190,735
Securities held to maturity:			
Purchases	(93,250)		(3,781)
Maturities	45,722	8,361	3,178
Increase in premises and equipment	(1,106)	618	(17,252)
Net cash paid for mergers and acquisitions	2,650	(150,126)	(40,618)
Net cash flows from investing activities	(163,725)	(412,978)	(139,415)

**Financing Activities**

Net change in:

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Non-interest bearing deposits, savings, and NOW accounts	(83,223)	367,528	44,229
Time deposits	(21,104)	(232,123)	(79,037)
Short-term borrowings	176,651	(22,404)	45,458
Increase in long-term debt	262,950	430,544	141,346
Decrease in long-term debt	(243,969)	(245,792)	(18,092)
Purchase of common stock	(21,101)	(33,888)	(30,276)
Issuance of common stock	27,052	33,367	23,207
Cash dividends paid	(43,476)	(42,872)	(37,516)
<b>Net cash flows from financing activities</b>	<b>53,780</b>	<b>254,360</b>	<b>89,319</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(4,321)</b>	<b>(24,283)</b>	<b>(34,060)</b>
Cash and cash equivalents at beginning of year	105,160	129,443	163,503
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 100,839</b>	<b>\$ 105,160</b>	<b>\$ 129,443</b>

See accompanying Notes to Consolidated Financial Statements



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

**1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries. The Corporation's consolidated financial statements have historically included subsidiaries in which the Corporation has a controlling financial interest. This requirement has been applied to subsidiaries in which the Corporation has a majority voting interest. Investments in companies in which the Corporation controls operating and financing decisions (principally defined as owning a voting or economic interest greater than 50%) are consolidated. In accordance with Financial Accounting Standards Board Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, the Corporation considers a voting rights entity to be a subsidiary and consolidates it if the Corporation has a controlling financial interest in the entity. Variable interest entities are consolidated if the Corporation is exposed to the majority of the variable interest entity's expected losses and/or residual returns (i.e., the Corporation is considered to be the primary beneficiary). All significant intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation, including restatements for a transaction accounted for as a pooling-of-interests during 2002. See Note 3, Mergers and Acquisitions for Continuing Operations.

The accompanying consolidated financial statements include all adjustments, consisting only of normal recurring accruals that are necessary, in the opinion of management, to fairly reflect the Corporation's financial position and results of operations.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash Equivalents*

The Corporation considers cash and due from banks as cash and cash equivalents.

*Securities*

Investment securities comprise a significant portion of the Corporation's consolidated financials. Such securities can be classified as Securities Available for Trading, Securities Held to Maturity or Securities Available for Sale.

Securities available for trading are held primarily as a result of management's intent to resell such securities in the near term and are carried at fair value, with unrealized gains (losses) reflected through the income statement. As of December 31, 2004, the Corporation did not carry a portfolio of trading securities.

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

Securities that are not classified as trading or held to maturity are classified as available for sale. The Corporation's available for sale securities portfolio is comprised of debt securities and marketable equity securities. Such securities are carried at fair value with net unrealized gains (losses), net of income taxes, reported separately as a component of other comprehensive income. Realized gains and losses on the sale of securities are determined using the specific-identification method.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Securities are periodically reviewed for impairment based upon a number of factors, including but not limited to, length of time and extent to which the market value has been less than cost, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value and management's intent and ability to retain the security for a period of time sufficient to allow for recovery in market value. Any impairment loss is recognized when appropriate in accordance with Staff Accounting Bulletin (SAB) 59, Financial Accounting Standards Statement (FAS) 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related guidance.

In November 2003, the Emerging Issues Task Force (EITF) issued EITF 03-1, *The Meaning of Other-than-Temporary Impairments*, and issued revised guidance in March 2004. The recognition and measurement requirements of EITF 03-1 were effective for periods beginning after June 15, 2004. In September 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-1-1, which delayed the effective date for certain measurement and recognition guidance contained in Issue 03-1. The FSP requires the application of pre-existing other-than-temporary guidance during the period of delay until a final consensus is reached.

*Equity Method Investment*

Through September 8, 2004, the Corporation accounted for its ownership of the common stock of Sun Bancorp, Inc. (Sun) under the equity method. Under the equity method, the carrying value of the Corporation's investment in Sun was adjusted for the Corporation's share of Sun's earnings and reduced by dividends received from Sun. On September 9, 2004, the Corporation ceased to have any management control over Sun as the Corporation gave up its two seats on the Sun Board of Directors. As a result, the Corporation changed its accounting method to the cost basis of accounting and moved 56% of its investment in Sun to trading securities. In conjunction with this transfer, the Corporation recognized a \$1.2 million gain due to the market value being higher than book value at the end of the third quarter of 2004. The remaining 44% of the Corporation's investment in Sun was moved from the equity method of accounting to securities available for sale, at the securities carrying value at that date.

On October 1, 2004, Omega Financial Corporation (Omega) completed its acquisition of Sun. Under the terms of the agreement, Sun shareholders were entitled to receive either 0.664 shares of Omega common stock for each share of Sun common stock or \$23.25 in cash for each share held, subject to a pro rata allocation such that 20% of the merger consideration shall be paid in cash and 80% shall be in the form of Omega common stock. On October 15, 2004, the Corporation received cash for 610,192 shares of Sun common stock that it categorized as trading. The remaining 479,930 shares of Sun common stock were converted into 318,673 shares of Omega common stock. As provided under EITF 91-5, *Nonmonetary Exchange of Cost-Method Investments*, on October 1, 2004, the Corporation recorded a gain of \$959,000 to reflect the difference between market value at the transaction date and the carrying value of the remaining shares classified as available for sale.

*Securities Sold Under Agreements to Repurchase*

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party.

*Mortgage Loans Held for Sale*

Certain residential mortgage loans are originated for sale in the secondary mortgage loan market and typically sold with servicing rights released. These loans are classified as loans held for sale and are carried at the lower of cost or estimated market value on an aggregate basis. Market value is determined on the basis of rates obtained in the respective secondary market for the type of loan held for sale. Loans are generally sold at a

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

premium or discount from the carrying amount of the loan. Such premium or discount is recognized at the date of sale. Gain or loss on the sale of loans is recorded in non-interest income at the time consideration is received and all other criteria for sales treatment have been met.

*Loans and the Allowance for Loan Losses*

Loans are reported at their outstanding principal balance adjusted for any charge-offs and any deferred fees or costs on originated loans.

Interest income on loans is accrued on the principal outstanding. It is the Corporation's policy to discontinue interest accruals when principal or interest is due and has remained unpaid for 90 days or more unless the loan is both well secured and in the process of collection. When a loan is placed on non-accrual status, all unpaid interest is reversed. Payments on non-accrual loans are generally applied to either principal or interest or both, depending on management's evaluation of collectibility. Consumer installment loans are generally charged off against the allowance for loan losses upon reaching 90 to 180 days past due, depending on the installment loan type. Commercial loan charges-offs, either in whole or in part, are generally made as soon as facts and circumstances raise a serious doubt as to the collectibility of all or a portion of the principal. Loan origination fees and related costs are deferred and recognized over the life of the loans as an adjustment of yield.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio at the balance sheet date. The allowance for loan losses is based on management's evaluation of potential loan losses in the loan portfolio, which includes an assessment of past experience, current economic conditions, known and inherent risks in the loan portfolio, the estimated value of underlying collateral and residuals and changes in the composition of the loan portfolio. Additions are made to the allowance through periodic provisions charged to income and recovery of principal on loans previously charged off. Losses of principal and/or residuals are charged to the allowance when the loss actually occurs or when a determination is made that a loss is probable.

Management estimates the allowance for loan losses pursuant to FAS 5, *Accounting for Contingencies*, and FAS 114, *Accounting by Creditors for Impairment of a Loan*. Larger balance commercial and commercial real estate loans that are considered impaired as defined in FAS 114 are reviewed individually to assess the likelihood and severity of loss exposure. Loans subject to individual review are, where appropriate, reserved for according to the present value of expected future cash flows available to repay the loan, or the estimated realizable value of the collateral. Commercial loans excluded from individual assessment, as well as smaller balance homogeneous loans, such as consumer, residential real estate and home equity loans, are evaluated for loss exposure under FAS 5 based upon historical loss rates for each of these categories of loans. Historical loss rates for each of these loan categories may be adjusted to reflect management's estimates of the impacts of current economic conditions, trends in delinquencies and non-performing loans, as well as changes in credit underwriting and approval requirements.

*Premises and Equipment*

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed generally on the straight-line method over the asset's estimated useful life. Useful lives are dependent upon the nature and condition of the asset and range from 3 to 40 years.

*Other Real Estate Owned*

Assets acquired in settlement of indebtedness are included in other assets at the lower of fair value minus estimated costs to sell or at the carrying amount of the indebtedness. Subsequent write-downs and net direct operating expenses attributable to such assets are included in other expenses.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

*Goodwill and Other Intangible Assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. For each acquisition, goodwill and other intangible assets were allocated to the reporting units based upon the relative fair value of the assets and liabilities assigned to each reporting unit. On January 1, 2002, the Corporation adopted FAS 142, *Goodwill and Other Intangible Assets*. Under the provisions of FAS 142, goodwill is no longer amortized into the income statement over an estimated life, but rather is tested at least annually for impairment at the reporting unit level. Intangible assets that have finite lives continue to be amortized over their estimated useful lives and also continue to be subject to impairment testing. Core deposit intangibles are being amortized primarily over 10 years. Customer and renewal lists and other intangible assets are being amortized over their estimated useful lives which range from ten to twelve years.

The Corporation periodically reviews the carrying value of acquired intangible assets, including goodwill, to determine whether impairment may exist. FAS 142 requires that goodwill and certain intangible assets be assessed annually for impairment using fair value measurement techniques. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The Corporation performs an internal valuation analysis and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rate reflecting the risk inherent in future cash flows, growth rate and determination and evaluation of appropriate market comparables.

*Income Taxes*

The Corporation and the majority of its subsidiaries file a consolidated federal tax return. The Corporation's provision for both federal and state income taxes is based on income reported on the financial statements, rather than the amounts reported on their respective income tax returns. Deferred tax assets and liabilities are computed using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred tax assets and liabilities from a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Corporation makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to the Corporation's tax provision in a subsequent period.

The Corporation assesses the likelihood that it will be able to recover its deferred taxes. If recovery is not likely, the Corporation must increase its provision for taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable. The Corporation believes that a substantial majority of the deferred tax assets recorded on the balance sheet will ultimately be recovered. However, should there be a change in the Corporation's ability to recover its deferred tax assets, the tax provision would increase in the period in which it is determined that the recovery was not likely.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

*Per Share Amounts*

Earnings and cash dividends per share have been adjusted for common stock dividends, including the five percent stock dividend declared on April 28, 2003.

Basic earnings per common share is calculated by dividing net income, adjusted for preferred stock dividends declared, by the sum of the weighted average number of shares of common stock outstanding.

Diluted earnings per common share is calculated by dividing net income by the weighted average number of shares of common stock outstanding, assuming conversion of outstanding convertible preferred stock from the beginning of the year and the exercise of stock options. Such adjustments to net income and the weighted average number of shares of common stock outstanding are made only when such adjustments dilute earnings per common share.

*Pension and Postretirement Benefit Plans*

The Corporation sponsors pension and other postretirement benefit plans for its employees. The expense associated with the pension plans is calculated in accordance with FAS 87, *Employers Accounting for Pensions*, while the expense associated with the postretirement benefit plans is calculated in accordance with FAS 106, *Employers Accounting for Postretirement Benefits Other Than Pension*. The associated expense utilizes assumptions and methods determined in accordance therewith, including a policy of reflecting trust assets at their fair market value for the qualified pension plans.

*Stock Based Compensation*

Current accounting guidance permits two alternative methods of accounting for stock-based compensation, the intrinsic value method of Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and the fair value method of FAS 123, *Accounting for Stock-Based Compensation*. FAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, was issued in December 2002. It continues to provide alternative methods of accounting for stock-based employee compensation. In addition, it amends disclosure requirements in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Corporation continues to account for its stock-based compensation plans under APB Opinion 25.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

In accordance with FAS 123, the following table shows pro forma net income and earnings per share assuming stock options had been expensed based on the fair value of the options granted along with the significant assumptions used in the Black-Scholes option valuation model (dollars in thousands, except per share data):

Year Ended December 31	2004	2003	2002
Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Stock-based employee compensation cost included in net income from continuing operations, net of tax	463	184	85
Stock-based employee compensation cost determined if the fair value method had been applied to all awards, net of tax	(979)	(1,236)	(1,338)
	61,279	25,986	30,018
Income from discontinued operations		31,751	32,064
Stock-based employee compensation cost determined if the fair value method had been applied to all awards, net of tax, for discontinued operations		(827)	(696)
		30,924	31,368
Pro forma net income	\$ 61,279	\$ 56,910	\$ 61,386
<b>Basic Earnings per Common Share:</b>			
As reported:			
From continuing operations	\$ 1.31	\$ .58	\$ .68
From discontinued operations		.69	.69
	\$ 1.31	\$ 1.27	\$ 1.37
Pro forma:			
From continuing operations	\$ 1.30	\$ .57	\$ .66
From discontinued operations		.67	.68
	\$ 1.30	\$ 1.24	\$ 1.34
<b>Diluted Earnings per Common Share:</b>			
As reported:			
From continuing operations	\$ 1.29	\$ .57	\$ .67
From discontinued operations		.68	.68
	\$ 1.29	\$ 1.25	\$ 1.35
Pro forma:			
From continuing operations	\$ 1.28	\$ .55	\$ .64
From discontinued operations		.66	.67

	\$	1.28	\$	1.21	\$	1.31
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## Assumptions:

Risk-free interest rate		4.05%		4.05%		3.92%
Dividend yield		2.63%		2.63%		3.09%
Expected stock price volatility		.21%		.21%		.17%
Expected life (years)		5.00		5.00		5.00
Fair value of options granted	\$	5.04	\$	5.04	\$	4.56

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period of five years.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Corporation's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

*New Accounting Standards*

The FASB issued FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act), in May 2004. The Act, which was enacted in December 2003 and takes effect in 2006, introduces a prescription drug benefit under Medicare (the Medicare benefit). It also provides a federal subsidy to sponsors of retiree healthcare benefit plans that offer prescription drug coverage to retirees that is at least actuarially equivalent to the Medicare benefit. In accordance with FSP 106-2, sponsoring companies must recognize the subsidy in the measurement of their plan's accumulated postretirement benefit obligation and net postretirement benefit cost. The Corporation adopted FSP 106-2 retroactively to the beginning of 2004. The implementation of FSP 106-2 did not have a significant impact on the Corporation's financial condition, results of operations or cash flows.

The FASB revised FAS 123, *Accounting for Stock-Based Compensation*, in December 2004. FAS 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. FAS 123R requires an entity to recognize compensation expense based on an estimate of the number of awards expected to actually vest, exclusive of awards expected to be forfeited. The provisions of this statement will become effective July 1, 2005. The Corporation is still evaluating the methodology and impact of FAS 123R on its financial condition and results of operations. For purposes of historical comparison of the compensation expense of options, see Note 1, Summary of Significant Accounting Policies - Stock Based Compensation.

FIN 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, was issued in January 2003 and amended in December 2003. FIN 46 addresses consolidation by business enterprises of variable interest entities that have certain characteristics. FIN 46 applied immediately to variable interest entities created after January 31, 2003. It applied in the first fiscal year or interim period beginning after December 15, 2003 to variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003. The impact of adopting the revised FIN 46 is described below.

The Corporation invests in low-income housing projects, primarily through F.N.B. Community Development Corporation, a subsidiary of FNBPA, for the purpose of providing a source of private sector financing for projects to promote economic development, create employment opportunities and contribute to the economic enhancement of the community. Investments principally consist of real estate projects. The Corporation accounts for these partnership investments under the equity method of accounting, with a carrying value of \$2.6 million at December 31, 2004. The maximum exposure to loss would be limited to the initial capital investment in the limited partnerships. As a limited partner in these projects, the Corporation is allocated tax credits and deductions associated with the underlying projects. The Corporation has determined that it is not the primary beneficiary of these partnerships and does not consolidate them. In addition, the Corporation determined that it is not the primary beneficiary of F.N.B. Statutory Trust I and does not consolidate it.

FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, was issued in June 2002 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of FAS 146 became effective for the Corporation on January 1, 2003. The costs incurred in connection with the spin-off of its Florida operations (see Note 2, Business, Organizational Changes and Discontinued Operations) were accounted for in accordance with the provisions of FAS 146.





**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The American Institute of Certified Public Accountants issued Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, in December 2003. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 does not apply to loans originated by the entity. The application of SOP 03-3 limits the interest income, including accretion of purchase price discounts that may be recognized for certain loans. Additionally, SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected (non-accretable difference) not be recognized as an adjustment of yield or valuation allowance, such as the allowance for loan losses. Subsequent to the initial investment, increases in expected cash flows generally should be recognized prospectively through adjustments to the yield on loans over its remaining life. Decreases in expected cash flows, on the other hand, should be recognized as impairment through the allowance for loan losses. The impact of this pronouncement is further discussed in Note 4, as it relates to the Corporation's acquisition of NSD Bancorp, Inc. subsequent to December 31, 2004.

The Securities and Exchange Commission issued SAB 105, *Application of Accounting Principles to Loan Commitments*, in March 2004. SAB 105 informs registrants that the fair value of the recorded loan commitments that are required to follow derivative accounting under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, should not consider the expected future cash flows related to the associated servicing of a future loan. The provisions of SAB 105 are required to be applied to loan commitments accounted for as derivatives that are entered into after March 31, 2004. The implementation of SAB 105 did not have a significant impact on the Corporation's financial condition, results of operations or cash flows.

**2. Business, Organizational Changes and Discontinued Operations**

*Business*

F.N.B. Corporation (the Corporation) is a diversified financial services company headquartered in Hermitage, Pennsylvania. The Corporation owns and operates First National Bank of Pennsylvania (FNBPA), First National Trust Company, First National Investment Services Company, F.N.B. Investment Advisors, Inc., First National Insurance Agency, Inc. and Regency Finance Company (Regency). It has full service banking offices located in Pennsylvania and Ohio and consumer finance operations in Pennsylvania, Ohio and Tennessee.

*Organizational Changes*

During the fourth quarter of 2002, the Corporation reduced its number of bank charters from two to one by merging its community banking affiliate in Ohio, Metropolitan National Bank, into FNBPA. The Corporation incurred \$510,000 in consolidation costs associated with the transaction.

*Discontinued Operations*

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

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

As a result of the spin-off, the Florida operations' earnings have been reclassified as discontinued operations on the consolidated statements of income, and assets and liabilities related to these discontinued operations have been disclosed separately on the consolidated balance sheets.

Following is a summary of the carrying amount of major classes of assets and liabilities of the Corporation's discontinued operations (in thousands):

December 31	2003
<b>Assets</b>	
Cash and short-term investments	\$ 105,658
Investment securities	775,334
Mortgage loans held for sale	15,153
Net loans	2,421,278
Goodwill	173,729
Other assets	259,984
<b>Total Assets of Discontinued Operations</b>	<b>\$ 3,751,136</b>
<b>Liabilities</b>	
Deposits	\$ 2,719,989
Borrowings	625,051
Other liabilities	40,981
<b>Total Liabilities of Discontinued Operations</b>	<b>\$ 3,386,021</b>

Following is a summary of the income and expense of the Corporation's discontinued operations (in thousands):

Year Ended December 31	2003	2002
Interest income	\$ 166,294	\$ 150,931
Interest expense	42,846	47,299
Provision for loan losses	7,184	5,470
Non-interest income	62,416	54,728
Non-interest expense	130,298	104,441
<b>Income Before Income Taxes</b>	<b>48,382</b>	<b>48,449</b>
Income taxes	16,631	16,385
<b>Income from Discontinued Operations</b>	<b>\$ 31,751</b>	<b>\$ 32,064</b>

As a result of the spin-off on January 1, 2004, there was no income or loss recorded from discontinued operations for 2004.

The spin-off resulted in the division of certain existing corporate support functions between the two resulting entities. Corporate expenses included in the Corporation's financial results represent an allocation of F.N.B. Corporation's corporate expenses. This allocation was based on a specific review to identify costs incurred for the

benefit of the subsidiaries of the Corporation and in management's judgment resulted in a reasonable allocation of such costs. The Corporation was allocated \$24.7 million and \$32.6 million of overhead costs related to shared administrative and support functions for 2003 and 2002, respectively. The majority of these costs were specific to the activities of the continuing operations. The remaining costs were allocated based on a proportional share of assets.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The Corporation incurred approximately \$39.2 million in restructuring expenses directly attributable to the distribution. These expenses consisted of a \$20.7 million prepayment penalty for refinancing Federal Home Loan Bank (FHLB) debt, \$12.0 million of early retirement expenses, involuntary separation costs and data processing contract termination costs, \$3.4 million in professional fees and approximately \$3.1 million in the write-off of fixed assets and other expenses connected with the separation.

**3. Mergers and Acquisitions for Continuing Operations**

On October 8, 2004, the Corporation completed its acquisition of Slippery Rock Financial Corporation (Slippery Rock) (OTC BB: SRCK), a bank holding company headquartered in Slippery Rock, Pennsylvania with \$335.0 million in assets. The acquisition, which was accounted for as a purchase, was a stock and cash transaction valued at \$84.3 million. The Corporation issued 3,309,203 shares of its common stock in exchange for 2,346,952 shares of Slippery Rock common stock. In addition, the Corporation paid \$11.6 million to Slippery Rock shareholders in exchange for 414,482 shares of Slippery Rock common stock. Slippery Rock's banking subsidiary, First National Bank of Slippery Rock, was merged into FNBPA. FNBPA recognized \$50.8 million in goodwill and \$5.3 million in core deposit intangibles as a result of the acquisition. None of the goodwill is deductible for income tax purposes.

On July 30, 2004, the Corporation completed the acquisition of the assets of Morrell, Butz and Junker, Inc. and MJB Benefits, Inc. (collectively MJB), a full-service insurance agency based in Pittsburgh, Pennsylvania. MJB is one of the largest independent insurance agencies in western Pennsylvania with annual revenues of \$4.0 million. MJB, which offers property and casualty, life and health, and group benefits coverage to both commercial and individual clients, became a part of the Corporation's existing insurance agency, First National Insurance Agency, Inc., doubling the size of the Corporation's insurance business. This transaction closed on July 30, 2004.

On April 30, 2004, Regency completed its acquisition of eight consumer finance offices in the greater Columbus, Ohio area from The Modern Finance Company, an affiliate of Thaxton Group, Inc., headquartered in South Carolina. This acquisition added approximately \$7.0 million in net loan outstandings to Regency's portfolio.

On October 8, 2002, the Corporation completed its business combination with Harry Blackwood, Inc. (Blackwood), an independent insurance agency in Chippewa Township, Pennsylvania. In exchange for all of the outstanding common stock of Blackwood, the Corporation paid \$1.4 million in cash. Goodwill recognized in connection with this acquisition was \$990,000. The transaction was accounted for as a purchase. Blackwood operates as a part of First National Insurance Agency, Inc.

On January 18, 2002, the Corporation completed its business combination with Promistar Financial Corporation (Promistar), a bank holding company headquartered in Johnstown, Pennsylvania, with assets of \$2.4 billion. Under the terms of the merger agreement, each outstanding share of Promistar's common stock was converted into .926 shares of the Corporation's common stock. A total of 16,007,346 shares of the Corporation's common stock were issued. The transaction was accounted for as a pooling-of-interests. Promistar's banking affiliate, Promistar Bank, was merged into FNBPA. The Corporation incurred a merger-related charge of approximately \$41.4 million during the first quarter of 2002 relating to this transaction. The total merger charge included involuntary separation costs associated with terminated employees, early retirement and other employment-related expenses, data processing conversion charges, professional services, write-downs of impaired assets and other miscellaneous expenses, all of which were paid by December 31, 2003.

The Corporation regularly evaluates the potential acquisition of, and holds discussions with, various acquisition candidates and as a general rule the Corporation publicly announces such acquisitions only after a definitive merger agreement has been reached.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**4. Subsequent Events (unaudited)**

*Mergers and Acquisitions*

On February 18, 2005, the Corporation completed its acquisition of NSD Bancorp, Inc. (NSD) (Nasdaq: NSDB), a bank holding company headquartered in Pittsburgh, Pennsylvania with \$503.0 million in assets, \$316.2 million in loans and \$378.8 million in deposits. The acquisition was a stock transaction valued at approximately \$135.8 million. The Corporation issued 5,944,343 shares of its common stock in exchange for 3,302,485 shares of NSD common stock. NSD's banking subsidiary, NorthSide Bank, was merged into FNBPA.

Under the scope of SOP 03-3 (refer to Note 1), the Corporation has determined certain that loans have differences between the contractual cash flows and the cash flows expected to be collected when such loans are acquired as a result of this transaction. The Corporation further expects that these cash flow differences are attributable, at least in part, to credit quality. Generally, loans qualifying under the scope of SOP 03-3 for this transaction were such loans with specific loan loss reserve allocations under FAS 114, certain loans with loan loss reserve allocations under FAS 5 and certain additional loans or additional portions of loans deemed by the Corporation to have differences between contractual and expected cash flows, irrespective of NSD's reserve allocations to such loans.

*Interest Rate Swap*

In February 2005, the Corporation entered into an interest rate swap, whereby it will pay a fixed rate of interest and receive a variable rate based on LIBOR. The effective date of the swap will be January 3, 2006. The interest rate swap is designed to convert the variable interest rate to fixed rate on \$125.0 million of debentures. The swap is considered to be highly effective. Accordingly, any change in the swap's fair value will be recorded in other comprehensive income, net of tax. The Corporation will account for the swap in accordance with FAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**5. Securities**

The amortized cost and fair value of securities are as follows (in thousands):  
 Securities available for sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2004</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 170,125	\$ 238	\$ (892)	\$ 169,471
Mortgage-backed securities of U.S. government agencies	306,639	1,116	(1,134)	306,621
States of the U.S. and political subdivisions	1,160	20		1,180
Other debt securities	15,154	882		16,036
Total debt securities	493,078	2,256	(2,026)	493,308
Equity securities	58,728	3,798	(136)	62,390
	\$ 551,806	\$ 6,054	\$ (2,162)	\$ 555,698
<b>December 31, 2003</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 123,294	\$ 957	\$ (88)	\$ 124,163
Mortgage-backed securities of U.S. government agencies	629,445	6,562	(1,330)	634,677
States of the U.S. and political subdivisions	41,970	485	(47)	42,408
Other debt securities	29,803	2,496		32,299
Total debt securities	824,512	10,500	(1,465)	833,547
Equity securities	39,864	5,259	(3)	45,120
	\$ 864,376	\$ 15,759	\$ (1,468)	\$ 878,667
<b>December 31, 2002</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 63,497	\$ 2,343	\$ (1)	\$ 65,839
Mortgage-backed securities of U.S. government agencies	383,132	9,625	(69)	392,688
States of the U.S. and political subdivisions	129,010	3,032	(38)	132,004
Other debt securities	26,302	631	(127)	26,806
Total debt securities	601,941	15,631	(235)	617,337
Equity securities	35,819	4,438	(47)	40,210
	\$ 637,760	\$ 20,069	\$ (282)	\$ 657,547





**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Securities held to maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2004</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 2,926	\$ 15	\$ (15)	\$ 2,926
Mortgage-backed securities of U.S. government agencies	514,593	544	(1,213)	513,924
States of the U.S. and political subdivisions	82,502	558	(378)	82,682
Other debt securities	21,281	233	(219)	21,295
	\$ 621,302	\$ 1,350	\$ (1,825)	\$ 620,827
<b>December 31, 2003</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 3,761	\$ 23	\$ (8)	\$ 3,776
States of the U.S. and political subdivisions	17,105	793		17,898
Other debt securities	3,164	172	(1)	3,335
	\$ 24,030	\$ 988	\$ (9)	\$ 25,009
<b>December 31, 2002</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 4,724			\$ 4,724
States of the U.S. and political subdivisions	24,990	\$ 921		25,911
Other debt securities	2,653			2,653
	\$ 32,367	\$ 921		\$ 33,288

During 2004, the Corporation transferred \$519.4 million of securities from available for sale to held to maturity. This transaction resulted in \$4.0 million being recorded as other comprehensive income, which is being amortized over the average life of the securities transferred. At December 31, 2004, \$3.4 million remained in other comprehensive income. The Corporation initiated this transfer to better reflect management's intentions and to reduce the volatility of the equity adjustment due to the fluctuation in market prices of available for sale securities.

The Corporation does not believe the unrealized losses on securities, individually or in the aggregate, as of December 31, 2004, represent an other-than-temporary impairment. The unrealized losses are primarily the result of changes in interest rates and will not prohibit the Corporation from receiving its contractual principal and interest payments. The Corporation has the ability and intent to hold these securities for a period necessary to recover the amortized cost.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

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

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2004</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 99,782	\$ (892)			\$ 99,782	\$ (892)
Mortgage-backed securities of U.S. government agencies	163,352	(1,134)			163,352	(1,134)
Equity securities	9,721	(136)			9,721	(136)
	\$ 272,855	\$ (2,162)			\$ 272,855	\$ (2,162)

**December 31, 2003**

U.S. Treasury and other U.S. government agencies and corporations	\$ 33,078	\$ (88)			\$ 33,078	\$ (88)
Mortgage-backed securities of U.S. government agencies	148,743	(1,330)			148,743	(1,330)
States of the U.S. and political subdivisions	7,768	(47)			7,768	(47)
Equity securities	12	(3)			12	(3)
	\$ 189,601	\$ (1,468)			\$ 189,601	\$ (1,468)

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Securities held to maturity:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2004</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 1,603	\$ (15)			\$ 1,603	\$ (15)
Mortgage-backed securities of U.S. government agencies	196,056	(1,213)			196,056	(1,213)
States of the U.S. and political subdivisions	34,538	(378)			34,538	(378)
Other debt securities	12,794	(219)			12,794	(219)
	\$ 244,991	\$ (1,825)			\$ 244,991	\$ (1,825)
<b>December 31, 2003</b>						
U.S. Treasury and other U.S. government agencies and corporations	\$ 1,436	\$ (8)			\$ 1,436	\$ (8)
Other debt securities	200	(1)			200	(1)
	\$ 1,636	\$ (9)			\$ 1,636	\$ (9)

At December 31, 2004, 2003 and 2002, securities with a carrying value of \$499.1 million, \$435.4 million and \$283.7 million, respectively, were pledged to secure public deposits, trust deposits and for other purposes as required by law. Securities with a carrying value of \$283.7 million, \$193.1 million and \$139.0 million at December 31, 2004, 2003 and 2002, respectively, were pledged as collateral for short-term borrowings.

As of December 31, 2004, the amortized cost and fair value of securities, by contractual maturities, were as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 5,483	\$ 5,509	\$ 7,445	\$ 7,442
Due from one to five years	155,487	154,797	27,022	27,504
Due from five to ten years	10,315	10,344	54,450	54,215
Due after ten years	15,154	16,037	17,792	17,742
	186,439	186,687	106,709	106,903

Mortgage-backed securities of U.S. government agencies	306,639	306,621	514,593	513,924
Equity securities	58,728	62,390		
	\$ 551,806	\$ 555,698	\$ 621,302	\$ 620,827

Maturities may differ from contractual terms because borrowers may have the right to call or prepay obligations with or without penalties. Periodic payments are received on mortgage-backed securities based on the payment patterns of the underlying collateral.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Proceeds from sales of securities available for sale for the years ended December 31, 2004, 2003 and 2002 were \$118.4 million, \$31.1 million and \$188.5 million, respectively. Gross gains and gross losses were realized on those sales as follows (in thousands):

Year Ended December 31	2004	2003	2002
Gross gains	\$ 1,632	\$ 1,962	\$ 2,417
Gross losses	(1,025)	(13)	(474)
	\$ 607	\$ 1,949	\$ 1,943

## 6. Loans

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

December 31	2004	2003
Commercial	\$ 1,440,674	\$ 1,297,559
Direct installment	820,886	776,716
Consumer lines of credit	251,037	229,005
Residential mortgages	479,769	468,173
Indirect installment	389,754	452,170
Lease financing	2,926	16,594
Other	4,415	18,980
	\$ 3,389,461	\$ 3,259,197

The above loan totals include unearned income of \$30.6 million and \$31.6 million at December 31, 2004 and 2003, respectively.

The loan portfolio consists principally of loans to individuals and small-and medium-sized businesses within the Corporation's primary market area of western and central Pennsylvania and northeastern Ohio. In addition, the portfolio contains consumer finance loans to individuals in Pennsylvania, Ohio and Tennessee.

As of December 31, 2004, no concentrations of loans exceeding 10% of total loans existed that were not disclosed as a separate category of loans.

Certain directors and executive officers of the Corporation and its significant subsidiaries, as well as associates of such persons, are loan customers. Such loans were made in the ordinary course of business under normal credit terms and do not represent more than a normal risk of collection. Following is a summary of the aggregate amount of loans to any such persons who had loans in excess of \$60,000 during the year (in thousands):

Total loans at beginning of year	\$ 43,588
New loans	48,665
Repayments	(47,526)
Other	(10,053)
Total loans at end of year	\$ 34,674

Other represents the net change in loan balances resulting from changes in related parties during the year.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**7. Non-Performing Assets**

Following is a summary of non-performing assets (in thousands):

December 31	2004	2003
Non-accrual loans	\$ 27,029	\$ 22,449
Restructured loans	4,993	5,719
<b>Total non-performing loans</b>	<b>32,022</b>	<b>28,168</b>
Other real estate owned	6,200	3,109
<b>Total non-performing assets</b>	<b>\$ 38,222</b>	<b>\$ 31,277</b>

For the years ended December 31, 2004, 2003 and 2002, income that would have been recognized on non-accrual and restructured loans if they were in accordance with their original terms was \$2.7 million, \$3.0 million and \$2.6 million, respectively. Loans past due 90 days or more and still accruing (See Note 1, Summary of Significant Accounting Policies - Loans and the Allowance for Loan Losses) were \$5.1 million, \$5.1 million and \$6.9 million, at December 31, 2004, 2003 and 2002, respectively.

Following is a summary of information pertaining to loans considered to be impaired (in thousands):

At or for the Year Ended December 31	2004	2003	2002
Impaired loans with an allocated allowance	\$ 7,125	\$ 12,569	\$ 8,336
Impaired loans without an allocated allowance	7,402	560	
<b>Total impaired loans</b>	<b>\$ 14,527</b>	<b>\$ 13,129</b>	<b>\$ 8,336</b>
Allocated allowance on impaired loans	\$ 3,711	\$ 4,054	\$ 2,936
Average impaired loans	\$ 13,828	\$ 11,380	\$ 4,959
Income recognized on impaired loans	\$ 93	\$ 596	\$ 605

**8. Allowance for Loan Losses**

Following is an analysis of changes in the allowance for loan losses (in thousands):

Year Ended December 31	2004	2003	2002
Balance at beginning of year	\$ 46,139	\$ 46,984	\$ 46,345
Addition from acquisitions	4,354		
Reduction due to branch sale	(54)		
Charge-offs	(18,796)	(20,244)	(16,557)
Recoveries	2,544	2,244	3,572
<b>Net charge-offs</b>	<b>(16,252)</b>	<b>(18,000)</b>	<b>(12,985)</b>

Provision for loan losses	16,280	17,155	13,624
Balance at end of year	\$ 50,467	\$ 46,139	\$ 46,984



**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**9. Premises and Equipment**

Following is a summary of premises and equipment (in thousands):

December 31	2004	2003
Land	\$ 12,970	\$ 10,478
Premises	89,262	86,387
Equipment	85,400	83,534
	187,632	180,399
Accumulated depreciation	(108,599)	(100,781)
	\$ 79,033	\$ 79,618

Depreciation expense was \$9.7 million for 2004, \$12.3 million for 2003 and \$10.9 million for 2002.

The Corporation has operating leases extending to 2087 for certain land, office locations and equipment. Leases that expire are generally expected to be renewed or replaced by other leases. Rental expense was \$4.6 million for 2004, \$6.1 million for 2003 and \$6.2 million for 2002. Total minimum rental commitments under such leases were \$24.4 million at December 31, 2004. Following is a summary of future minimum lease payments for years following December 31, 2004 (in thousands):

2005	\$ 2,683
2006	2,262
2007	1,927
2008	1,461
2009	1,080
Later years	14,998

**10. Goodwill**

The Corporation's annual impairment analyses did not result in an impairment charge for 2004, 2003 or 2002.

The following table shows a rollforward of goodwill by line of business (in thousands):

	Community Banking	Insurance	Consumer Finance	Total
<b>Balance at January 1, 2003</b>	\$ 21,831	\$ 2,107	\$ 1,809	\$ 25,747
Goodwill addition	2,500	463		2,963
<b>Balance at December 31, 2003</b>	24,331	2,570	1,809	28,710
Goodwill addition	50,819	5,015		55,834
<b>Balance at December 31, 2004</b>	\$ 75,150	\$ 7,585	\$ 1,809	\$ 84,544

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Other Intangible Assets**

The following table shows a summary of core deposit intangibles, customer and renewal lists and other intangible assets (in thousands):

	<b>Core Deposit Intangibles</b>	<b>Customer and Renewal Lists</b>	<b>Other Intangible Assets</b>	<b>Total Finite-lived Intangibles</b>
Gross carrying amount	\$ 25,645	\$ 4,890	\$ 901	\$ 31,436
Accumulated amortization	(12,550)	(489)	(92)	(13,131)
<b>Net December 31, 2004</b>	<b>\$ 13,095</b>	<b>\$ 4,401</b>	<b>\$ 809</b>	<b>\$ 18,305</b>
Gross carrying amount	\$ 20,305	\$ 818	\$ 124	\$ 21,247
Accumulated amortization	(10,456)	(239)	(21)	(10,716)
<b>Net December 31, 2003</b>	<b>\$ 9,849</b>	<b>\$ 579</b>	<b>\$ 103</b>	<b>\$ 10,531</b>

The Corporation recorded \$5.3 million in core deposit intangibles and \$4.1 million in customer and renewal lists during 2004 as the result of the acquisitions of Slippery Rock Financial Corporation and Morrell, Butz and Junker, Inc., respectively.

Core deposit intangibles are being amortized primarily over 10 years. Customer and renewal lists and other intangible assets are being amortized over their estimated useful lives which range from ten to twelve years.

Amortization expense on finite-lived intangible assets totaled \$2.4 million, \$2.2 million and \$2.1 million for 2004, 2003 and 2002, respectively. Amortization expense on finite-lived intangible assets is expected to total \$3.0 million, \$2.9 million, \$2.9 million, \$2.3 million and \$1.4 million in 2005, 2006, 2007, 2008 and 2009, respectively, assuming no new additions.

**12. Deposits**

Following is a summary of deposits (in thousands):

<b>December 31</b>	<b>2004</b>	<b>2003</b>
Non-interest bearing	\$ 663,278	\$ 592,795
Savings and NOW	1,539,547	1,517,209
Certificates of deposit and other time deposits	1,395,262	1,329,506
	<b>\$ 3,598,087</b>	<b>\$ 3,439,510</b>

Time deposits of \$100,000 or more were \$297.0 million and \$242.3 million at December 31, 2004 and 2003, respectively. Following is a summary of these time deposits by remaining maturity at December 31, 2004 (in thousands):

<b>Certificates of</b>	<b>Other Time</b>
------------------------	-----------------------

	<b>Deposit</b>	<b>Deposits</b>	<b>Total</b>
Three months or less	\$ 56,097	\$ 13,093	\$ 69,190
Three to six months	39,204	2,495	41,699
Six to twelve months	38,747	3,804	42,551
Over twelve months	122,546	21,012	143,558
	\$ 256,594	\$ 40,404	\$ 296,998

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Following is a summary of the scheduled maturities of certificates of deposits and other time deposits for each of the five years following December 31, 2004 (in thousands):

2005	\$ 755,077
2006	327,257
2007	213,872
2008	48,598
2009	48,155
Later years	2,303

**13. Short-Term Borrowings**

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

December 31	2004	2003
Securities sold under repurchase agreements	\$ 160,847	\$ 81,444
Federal funds purchased	65,865	865
Federal Home Loan Bank advances	16,000	6,000
Subordinated notes	151,860	144,006
Other short-term borrowings	534	651
	\$ 395,106	\$ 232,966

Credit facilities amounting to \$91.0 million at December 31, 2004 were maintained with various banks at rates that are at or below prime rate. The facilities and their terms are periodically reviewed by the banks and are generally subject to withdrawal at their discretion. No credit facilities were used at December 31, 2004.

**14. Long-Term Debt**

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

December 31	2004	2003
Federal Home Loan Bank advances	\$ 476,637	\$ 425,141
Debentures due to Statutory Trust	128,866	128,866
Subordinated notes	30,412	30,517
Other long-term debt	294	284
	\$ 636,209	\$ 584,808

The Corporation's banking affiliate has available credit with the FHLB of \$1.7 billion, of which \$492.6 million was used as of December 31, 2004. These advances are secured by loans collateralized by 1-4 family mortgages and FHLB stock and are scheduled to mature in various amounts periodically through the year 2012. Interest rates paid on these advances range from 2.10% to 6.93% in 2004 and 2.10% to 5.75% in 2003.

F.N.B. Statutory Trust I (Statutory Trust), an unconsolidated subsidiary trust, issued \$125.0 million of Corporation-obligated mandatorily redeemable capital securities (capital securities) to fund the acquisition of a bank that was later spun-off with the Corporation's Florida operations. The proceeds from the sale of the capital securities

were invested in junior subordinated debt securities of the Corporation (debentures). The Statutory Trust was formed for the sole purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by Statutory Trust are its sole assets. Distributions on the debentures issued by Statutory Trust are recorded as interest expense by the Corporation. The capital

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The capital securities bear interest at a floating rate per annum equal to the three-month LIBOR plus 325 basis points. The interest rate in effect at December 31, 2004 was 5.23%. The Corporation has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The debentures qualify as tier 1 capital under the Federal Reserve Board guidelines and are first redeemable, in whole or in part, by the Corporation on or after March 31, 2008.

Subordinated notes are unsecured and subordinated to other indebtedness of the Corporation. The long-term subordinated notes are scheduled to mature in various amounts periodically through the year 2014. At December 31, 2004, all of the long-term subordinated debt is redeemable by the holders prior to maturity at a discount equal to three months of interest. The Corporation may require the holder to give 30 days prior written notice. No sinking fund is required and none has been established to retire the debt. The weighted average interest rate on long-term subordinated debt was 4.91% at December 31, 2004 and 5.13% at December 31, 2003.

Scheduled annual maturities for all of the long-term debt for each of the five years following December 31, 2004 are as follows (in thousands):

2005	\$ 81,791
2006	65,654
2007	189,765
2008	30,814
2009	1,067
Later years	267,118

**15. Commitments, Credit Risk and Contingencies**

The Corporation has commitments to extend credit and standby letters of credit that involve certain elements of credit risk in excess of the amount stated in the consolidated balance sheet. The Corporation's exposure to credit loss in the event of non-performance by the customer is represented by the contractual amount of those instruments. Consistent credit policies are used by the Corporation for both on- and off-balance sheet items.

Following is a summary of off-balance sheet credit risk information (in thousands):

	<b>December 31</b>	<b>2004</b>	<b>2003</b>
Commitments to extend credit	\$ 594,791	\$ 592,762	
Standby letters of credit		62,454	48,501

At December 31, 2004, funding of approximately 84% of the commitments to extend credit was dependent on the financial condition of the customer. The Corporation has the ability to withdraw such commitments at its discretion. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Based on management's credit evaluation of the customer, collateral may be deemed necessary. Collateral requirements vary and may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation that may require payment at a future date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The obligations are not recorded in the Corporation's financial statements. The Corporation's exposure to credit loss in the event the customer does not satisfy the terms of the agreement equals the notional amount of the obligation less the value of any collateral.

The Corporation and its subsidiaries are involved in a number of legal proceedings arising from the conduct of their business activities. These actions include claims brought against the Corporation and its subsidiaries

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

where the Corporation acted as a depository bank, lender, underwriter, fiduciary, financial advisor, broker or other business activities. Although the ultimate outcome cannot be predicted with certainty, the Corporation believes that it has valid defenses for all asserted claims. Reserves are established for legal claims when losses associated with the claims are judged to be probable and the loss can be reasonably estimated.

Based on information currently available, advice of counsel and available insurance coverage, the Corporation believes that the eventual outcome of all claims against the Corporation and its subsidiaries will not, individually or in the aggregate, have a material adverse effect on the Corporation's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's results of operations for a particular period.

**16. Stockholders Equity**

During 2003, the Corporation completed the planned redemption of its Preferred Stock Series A and Preferred Stock Series B. In connection with the redemption, the Corporation issued shares of its common stock out of treasury stock in exchange for the remaining outstanding preferred stock. The Corporation issued 15,882 and 264,568 shares of its common stock for the remaining 19,174 and 98,851 shares of Preferred Stock Series A and Preferred Stock Series B, respectively. As a result of the redemption, the Corporation no longer has any shares of Preferred Series A or Preferred Series B stock outstanding.

**17. Comprehensive Income**

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

Year Ended December 31	2004	2003	2002
Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Income from discontinued operations		31,751	32,064
Other comprehensive (loss) income from continuing operations:			
Unrealized (losses) gains on securities:			
Arising during the period, net of tax (benefit) expense of \$(1,592), \$(1,219) and \$3,680	(2,957)	(2,264)	6,834
Less: reclassification adjustment for gains included in net income, net of tax expense of \$212, \$703 and \$791	(395)	(1,307)	(1,470)
Minimum benefit plan liability adjustment, net of tax benefit of \$20, \$195 and \$310	(36)	(362)	(577)
Other comprehensive (loss) income from continuing operations	(3,388)	(3,933)	4,787
Other comprehensive (loss) income from discontinued operations:			
Unrealized (losses) gains on securities:			
Arising during the period, net of tax (benefit) expense of \$(1,129) and \$1,881		(2,096)	3,493
Less: reclassification adjustment for gains included in net income, net of tax expense of \$334 and \$66		(621)	(122)
Minimum benefit plan liability adjustment, net of tax benefit of \$234 and \$360		(434)	(668)
Other comprehensive (loss) income from discontinued operations		(3,151)	2,703
Comprehensive income	\$ 58,407	\$ 51,705	\$ 70,825





**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

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

December 31	2004	2003	2002
<b>Continuing operations:</b>			
Unrealized gains on securities	\$ 5,940	\$ 9,292	\$ 12,863
Minimum pension liability adjustment	(975)	(939)	(577)
	4,965	8,353	12,286
<b>Discontinued operations:</b>			
Unrealized gains on securities		3,000	5,717
Minimum pension liability adjustment		(1,102)	(668)
		1,898	5,049
<b>Accumulated other comprehensive income</b>	<b>\$ 4,965</b>	<b>\$ 10,251</b>	<b>\$ 17,335</b>

### 18. Stock Incentive Plans

During 2004, the Corporation issued 107,285 restricted shares of common stock, with a weighted average grant date fair value of \$2.1 million, to key employees and directors of the Corporation under its 2001 Incentive Plan. Under this program, shares awarded to management are earned, in part, if the Corporation meets or exceeds certain financial performance results when compared to peers. The awards are earned over three- to five-year periods. Under the provisions of APB Opinion 25, based on the performance-related criteria, compensation expense is recorded until the number of shares is fixed. The compensation expense recorded for these awards was \$713,000, \$283,000 and \$131,000 for the years ended December 31, 2004, 2003 and 2002, respectively. The unamortized expense relating to these awards, totaling \$1.4 million at December 31, 2004, is reflected as deferred stock compensation in the stockholders' equity section of the Corporation's balance sheet. The Corporation has available up to 1,568,344 shares to issue under its 2001 Incentive Plan.

The Corporation also has available up to 6,041,385 shares to issue under its non-qualified stock option plans to key employees and directors of the Corporation. The options vest in equal installments over periods ranging from three to ten years. The options are granted at a price equal to the fair market value at the date of the grant and are exercisable within ten years from the date of the grant. Because the exercise price of the Corporation's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in accordance with APB Opinion 25. No shares were issued under these plans during 2004.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

As a result of the Corporation's spin-off of its Florida operations, the Corporation developed a methodology designed to adjust the number and exercise price of its outstanding stock options immediately following the completion of the spin-off for the purpose of preserving the equivalent value of these stock options that existed as of the close of business on December 31, 2003. This adjustment is reflected in the following tables.

Activity in the option plan relating to employees of continuing operations during the past three years was as follows:

	2004	Weighted Average Price per Share	2003	2002
Options outstanding at beginning of year	1,879,329	\$ 20.75	2,143,420	2,150,369
Adjustment related to spin-off	473,144	(9.64)		
Granted/assumed during the year	204,669	11.59	334,831	502,564
Exercised during the year	(448,809)	10.19	(448,210)	(465,945)
Forfeited during the year			(150,712)	(43,568)
Options outstanding at end of year	2,108,333	11.35	1,879,329	2,143,420

The following table summarizes information about the stock options outstanding relating to employees of continuing operations at December 31, 2004:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$ 2.68 - \$ 4.02	25,168	8.20	\$ 2.68	25,168	\$ 2.68
4.03 - 6.05	4,382	.08	5.04	4,382	5.04
6.06 - 9.09	158,381	2.41	8.39	158,381	8.39
9.10 - 13.65	1,468,444	5.29	11.09	1,186,501	10.92
13.66 - 15.43	451,958	5.55	13.78	312,720	13.80
	2,108,333			1,687,152	

## 19. Retirement Plans

The Corporation sponsors the F.N.B. Corporation Retirement Income Plan (RIP), a qualified noncontributory defined benefit pension plan covering substantially all salaried employees. The RIP covers employees who satisfy minimum age and length of service requirements. Benefits of the RIP are generally based on years of service and the employee's compensation for five consecutive years during their last ten years of employment. The RIP's funding

policy is to make an annual contribution to the RIP each year equal to the maximum tax deductible amount.

The Corporation acquired a qualified noncontributory defined benefit pension plan (the SR Plan) from Slippery Rock Financial Corporation. The SR Plan covers substantially all former Slippery Rock employees who satisfy minimum age and length of service requirements. Benefits of the SR Plan are generally based on years of service and the employee's compensation for five consecutive years during their last ten years of employment. The SR Plan's funding policy is to make an annual contribution to the SR Plan each year, the amount of which is between the minimum and the maximum tax deductible amount. Benefits under the SR Plan were frozen as of December 31, 2004. Effective January 1, 2005, active participants in the SR Plan will begin earning benefits under the F.N.B. Corporation Retirement Income Plan.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The Corporation also sponsors two supplemental non-qualified retirement plans. The ERISA Excess Retirement Plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Code and the amount that would be provided under the RIP, if no limits were applied. The Basic Retirement Plan (BRP) is applicable to certain officers who are designated by the Board of Directors. Officers participating in the BRP receive a benefit based on a target benefit percentage based on years of service at retirement and designated tier as determined by the Board of Directors. When a participant retires, the basic benefit under the BRP is a monthly benefit equal to the target benefit percentage times the participant's highest average monthly cash compensation during five consecutive calendar years within the last ten calendar years of employment. This monthly benefit is reduced by the monthly benefit the participant receives from Social Security and the qualified RIP.

The following tables summarize the accumulated benefit obligation, change in benefit obligation, change in plan assets, the Plans' funded status and the asset included in the consolidated balance sheet for the qualified and non-qualified plans described above (collectively, the Plans) (in thousands):

December 31	2004	2003
Accumulated benefit obligation	\$ 96,281	\$ 88,137

December 31	2004	2003
Projected benefit obligation at beginning of year	\$ 101,721	\$ 83,599
Service cost	3,721	3,551
Interest cost	6,072	5,867
Plan amendments	487	(8)
Actuarial loss	3,208	10,678
Termination gain due to curtailment		(1,128)
Special termination benefits		3,052
Adjustment for acquisition	2,780	
Individual nonqualified agreements	(2,782)	
Benefits paid	(4,473)	(3,890)
Projected benefit obligation at end of year	\$ 110,734	\$ 101,721

December 31	2004	2003
Fair value of plan assets at beginning of year	\$ 84,921	\$ 57,891
Actual return on plan assets	7,026	9,959
Company contribution	5,627	20,961
Adjustment for acquisition	2,395	
Benefits paid	(4,473)	(3,890)
Fair value of plan assets at end of year	\$ 95,496	\$ 84,921

<b>December 31</b>	<b>2004</b>	<b>2003</b>
Plan assets (less than) projected benefit obligation	\$ (15,238)	\$ (16,800)
Unrecognized actuarial loss	24,757	22,753
Unrecognized prior service cost	3	(365)
Unrecognized net transition obligation	(856)	(949)
Prepaid pension cost	\$ 8,666	\$ 4,639

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

December 31	2004	2003
Prepaid pension cost	\$ 24,138	\$ 21,451
Accrued pension cost	(15,472)	(16,812)
Additional minimum liability	(2,404)	(1,869)
Accumulated other comprehensive income	1,500	1,280
Intangible asset	904	589
Net amount recognized on balance sheet	\$ 8,666	\$ 4,639

The net periodic pension cost for the Plans included the following components (in thousands):

Year Ended December 31	2004	2003	2002
Service cost	\$ 3,721	\$ 3,551	\$ 2,587
Interest cost	6,072	5,867	5,467
Expected return on plan assets	(6,715)	(5,492)	(4,771)
Special termination benefit		3,052	1,302
Curtailement gain (loss)		62	(324)
Net amortization	917	929	194
Net periodic pension cost	\$ 3,995	\$ 7,969	\$ 4,455

Actuarial assumptions used in the determination of the projected benefit obligation in the Plans are as follows:

Assumptions at December 31	2004	2003
Weighted average discount rate	5.75%	6.00%
Rates of average increase in compensation levels	4.00%	4.00%

The Plans have an actuarial measurement date of January 1. Actuarial assumptions used in the determination of the net periodic pension cost in the Plans are as follows:

Assumptions for the Year Ended December 31	2004	2003	2002
Weighted average discount rate	6.00%	6.75%	7.25%
Rates of increase in compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	8.00%	8.00%	8.00%

The expected long-term rate of return on plan assets has been established by considering historical and anticipated expected returns on the asset classes invested in by the pension trust and the allocation strategy currently in place among those classes.

The change in plan assets reflects benefits paid from the qualified pension plans of \$4.0 million and \$3.2 million for 2004 and 2003, respectively, and employer contributions to the qualified pension plans of \$5.1 million and

\$20.2 million for 2004 and 2003, respectively. For the non-qualified pension plans, the change in plan assets reflects benefits paid and contributions to the plans in the same amount. This amount represents the actual benefit payments paid from general plan assets of \$484,000 and \$717,000 for 2004 and 2003, respectively. The Corporation expects that no contributions will be made to the qualified pension plans in 2005, as the plans' fully funded statuses are expected to preclude any deductible contributions.



**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

As of December 31, 2004 and 2003, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the qualified and non-qualified pension plans were as follows (in thousands):

December 31	Qualified Pension Plans		Non-Qualified Pension Plans	
	2004	2003	2004	2003
Projected benefit obligation	\$ 92,643	\$ 82,508	\$ 18,091	\$ 19,213
Accumulated benefit obligation	78,882	69,552	17,399	18,585
Fair value of plan assets	95,496	84,921		

The following table provides information regarding estimated future cash flows relating to the Plans (in thousands):

Employer contributions (expected):	2005	\$ 674
Expected benefit payments:	2005	3,924
	2006	5,453
	2007	4,716
	2008	4,925
	2009	5,276
	2010 - 2014	32,843

The qualified pension plan contributions are deposited into a trust and the qualified benefit payments are made from trust assets. For the non-qualified plans, the contributions and the benefit payments are the same and reflect expected benefit amounts, which are paid from general assets.

The Corporation's subsidiaries participate in a qualified 401(k) defined contribution plan under which eligible employees may contribute a percentage of their salary. The Corporation matches 50 percent of an eligible employee's contribution on the first 6 percent that the employee defers. Employees are generally eligible to participate upon completing 90 days of service and having attained age 21. Employer contributions become 20 percent vested when an employee has completed one year of service, and vest at a rate of 20 percent per year thereafter. The Corporation's contribution expense was \$1.2 million in 2004, \$1.4 million in 2003 and \$1.1 million in 2002.

The Corporation also sponsors an ERISA Excess Lost Match Plan for certain officers who are designated by the Board of Directors. This plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowable under the Code and the amount that would have been provided under the qualified 401(k) defined contribution plan, if no limits were applied.

*Pension Plan Investment Policy and Strategy*

The Corporation's investment strategy is to diversify plan assets between a wide mix of securities within the equity and debt markets in an effort to allow the account the opportunity to meet the expected long-term rate of return requirements while minimizing short-term volatility. In this regard, the Plans have targeted allocations within the equity securities category for domestic large cap, domestic mid cap, domestic small cap and international securities. Within the debt securities category, the Plans have targeted allocation levels for U.S. treasury, U.S. agency, intermediate term corporate bonds and inflation protected securities.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Following are asset allocations for the Corporation's pension plans as of December 31, 2004 and 2003, and the target allocation for 2005, by asset category:

Asset Category	December 31	Target Allocation	Percentage of Plan Assets	
		2005	2004	2003
Equity securities		45-65%	52%	52%
Debt securities		33-53%	38%	39%
Cash equivalents		0-5%	10%	9%

Equity securities include 215,628 shares of the Corporation's common stock, of which 26,450 shares were acquired during 2004, totaling \$4.4 million (4.7% of total plan assets) and 189,178 shares totaling \$6.7 million (7.9% of plan assets) as of December 31, 2004 and 2003, respectively. Dividends received on these shares totaled \$190,000 and \$170,000 for 2004 and 2003, respectively.

**20. Other Postretirement Benefit Plans**

The Corporation sponsors a pre-Medicare eligible postretirement medical insurance plan for retirees between the ages of 62 and 65 of certain affiliates. The Corporation has no plan assets attributable to this plan and funds the benefits as claims arise. Benefit costs related to this plan are recognized in the periods in which employees provide service for such benefits.

The following tables summarize the change in benefit obligation, change in plan assets, the Plan's funded status and the liability reflected in the consolidated balance sheet (in thousands):

December 31	2004	2003
Benefit obligation at beginning of year	\$ 6,468	\$ 6,665
Service cost	312	290
Interest cost	307	365
Plan participants' contributions	105	108
Actuarial gain	(1,356)	(555)
Benefits paid	(609)	(554)
Adjustment for acquisition	160	
Special termination benefits		149
Benefit obligation at end of year	\$ 5,387	\$ 6,468

December 31	2004	2003
Fair value of plan assets at beginning of year	\$	\$
Company contribution	504	446
Plan participants' contributions	105	108
Benefits paid	(609)	(554)

Fair value of plan assets at end of year	\$	\$
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**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

December 31	2004	2003
Plan assets (less than) benefit obligation	\$ (5,387)	\$ (6,468)
Unrecognized actuarial loss	377	1,734
Unrecognized prior service cost	401	432
Unrecognized net transition obligation	265	299
Accrued postretirement benefit cost	\$ (4,344)	\$ (4,003)

Net periodic postretirement benefit cost included the following components (in thousands):

Year Ended December 31	2004	2003	2002
Service cost	\$ 312	\$ 290	\$ 149
Interest cost	307	365	332
Curtailment and settlement			57
One-time charge for voluntary retirement		149	
Special termination benefit			19
Net amortization	66	98	69
Net periodic postretirement benefit cost	\$ 685	\$ 902	\$ 626

Actuarial assumptions used in the determination of the projected benefit obligation in the Plan are as follows:

Assumptions at December 31	2004	2003
Discount rate	5.75%	6.00%
Assumed healthcare cost trend:		
Initial trend	9.00%	10.00%
Ultimate trend	5.00%	5.00%
Year ultimate trend reached	2011	2009

Actuarial assumptions used in the determination of the net periodic postretirement cost in the Plan are as follows:

Assumptions for the Year Ended December 31	2004	2003	2002
Weighted average discount rate	6.00%	6.75%	7.25%
Assumed healthcare cost trend:			
Initial trend	10.00%	9.00%	8.00%
Ultimate trend	5.00%	5.00%	5.00%
Year ultimate cost trend reached	2009	2007	2005

A one percentage point change in the assumed health care cost trend rate would have had the following effects on 2004 service and interest cost and the accumulated postretirement benefit obligation at December 31, 2004 (in

thousands):

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on service and interest components of net periodic cost	\$ 70	\$ (60)
Effect on accumulated postretirement benefit obligation	473	(406)

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**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The following table provides information regarding estimated future cash flows relating to the postretirement benefit plan (in thousands):

Employer contributions (expected):	2005	\$ 470
Expected benefit payments:	2005	470
	2006	458
	2007	444
	2008	438
	2009	458
	2010 - 2014	3,004

The contributions and the benefit payments for the postretirement benefit plan are the same and represent expected benefit amounts, net of participant contributions, which are paid from general assets.

**21. Income Taxes**

Income tax expense, allocated based on a separate tax return basis, consists of the following (in thousands):

Year Ended December 31	2004	2003	2002
Current income taxes			
Federal taxes	\$ 24,596	\$ 1,955	\$ 16,732
State taxes	124	1,012	563
	24,720	2,967	17,295
Deferred income taxes:			
Federal taxes	2,632	6,714	(4,012)
State taxes	185	(715)	445
	\$ 27,537	\$ 8,966	\$ 13,728

Income tax expense related to gains on the sale of securities was \$212,000, \$682,000 and \$680,000 for 2004, 2003 and 2002, respectively.

Following is a reconciliation between tax expense using federal statutory tax and actual effective tax:

Year Ended December 31	2004	2003	2002
Federal statutory tax	35.0%	35.0%	35.0%
Effect of tax-free interest and dividend income	(3.3)	(10.2)	(11.1)
State taxes	0.2	0.5	0.2
Goodwill		0.1	0.9
Merger and consolidation related costs		0.9	4.6
Other items	(1.1)	(1.4)	0.9
Actual effective taxes applicable to continuing operations	30.8%	24.9%	30.5%



**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are presented below (in thousands):

December 31	2004	2003
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 17,997	\$ 16,149
Deferred benefits	958	1,298
Deferred compensation	1,818	2,230
Minimum benefit plan liability	357	416
Depreciation	3,049	675
Purchase accounting adjustment	1,344	21
Other	214	281
<b>Total</b>	<b>25,737</b>	<b>21,070</b>
Valuation allowance	(1,513)	
<b>Total Deferred Tax Assets</b>	<b>24,224</b>	<b>21,070</b>
<b>Deferred tax liabilities:</b>		
Loan fees	(722)	(1,065)
Deferred gain on sale of subsidiary	(752)	(3,555)
Leasing	(199)	(1,075)
Net unrealized securities gains	(3,032)	(5,003)
Intangibles	(3,233)	(1,679)
Prepaid expenses	(797)	(839)
Other	(1,244)	(1,204)
<b>Total Deferred Tax Liabilities</b>	<b>(9,979)</b>	<b>(14,420)</b>
<b>Net Deferred Tax Assets</b>	<b>\$ 14,245</b>	<b>\$ 6,650</b>

The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize the benefit of the deferred tax assets, or that future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessments of realizable deferred tax assets. Gross deferred tax assets as of December 31, 2004 were reduced by a valuation allowance of \$1.5 million related to deferred state taxes of certain subsidiaries, as recovery of these assets is not likely.



**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**22. Earnings per Share**

The following tables set forth the computation of basic and diluted earnings per share (dollars in thousands, except per share data):

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Basic</b>			
Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Income from discontinued operations		31,751	32,064
Preferred stock dividends		(62)	(242)
Net income applicable to basic earnings per share	\$ 61,795	\$ 58,727	\$ 63,093
Average common shares outstanding	47,180,471	46,080,966	46,012,908
<b>Basic earnings per share:</b>			
From continuing operations	\$ 1.31	\$ .58	\$ .68
From discontinued operations		.69	.69
Total basic earnings per share	\$ 1.31	\$ 1.27	\$ 1.37

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Diluted</b>			
Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Income from discontinued operations		31,751	32,064
Net income applicable to diluted earnings per share	\$ 61,795	\$ 58,789	\$ 63,335
Average common shares outstanding	47,180,471	46,080,966	46,012,908
Convertible preferred stock		63,927	341,886
Net effect of dilutive stock options based on the treasury stock method using the average market price	831,868	827,970	718,991
	48,012,339	46,972,863	47,073,785
<b>Diluted earnings per share:</b>			
From continuing operations	\$ 1.29	\$ .57	\$ .67

From discontinued operations				.68		.68
Total diluted earnings per share	\$	1.29	\$	1.25	\$	1.35

### 23. Regulatory Matters

Quantitative measures established by regulators to ensure capital adequacy requires the Corporation and FNBPA to maintain minimum amounts and ratios of total and tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of leverage ratio (as defined). Management believes, as of December 31, 2004, that the Corporation and FNBPA meet all capital adequacy requirements to which either of them is subject.

As of December 31, 2004 and 2003, the Corporation and FNBPA satisfy the requirements to be considered well-capitalized under the regulatory framework for prompt corrective action.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The Corporation and FNBPA are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and FNBPA must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and FNBPA's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Following are the capital ratios as of December 31, 2004 for the Corporation and FNBPA (dollars in thousands):

	Actual		Well-Capitalized Requirements		Minimum Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets):						
F.N.B. Corporation	\$ 395,168	11.7%	\$ 337,297	10.0%	\$ 269,838	8.0%
FNBPA	369,014	11.3%	326,087	10.0%	260,870	8.0%
Tier 1 Capital (to risk-weighted assets):						
F.N.B. Corporation	323,456	9.6%	202,378	6.0%	134,919	4.0%
FNBPA	328,213	10.1%	195,652	6.0%	130,435	4.0%
Leverage Ratio:						
F.N.B. Corporation	323,456	6.5%	247,576	5.0%	198,061	4.0%
FNBPA	328,213	6.9%	239,470	5.0%	191,576	4.0%

As of December 31, 2004, the Corporation's total capital to risk-weighted assets, tier 1 capital to risk-weighted assets and leverage ratio were 11.7%, 9.6% and 6.5%, respectively. These ratios exceed the well-capitalized requirements noted in the above table.

FNBPA was required to maintain aggregate cash reserves with the Federal Reserve Bank amounting to \$28.4 million at December 31, 2004. The Corporation also maintains deposits for various services such as check clearing.

Certain limitations exist under applicable law and regulations by regulatory agencies regarding dividend payments to a parent by its subsidiaries. As of December 31, 2004, the Corporation's subsidiaries had \$27.9 million of retained earnings available for distribution to the Corporation without prior regulatory approval.

Under current Federal Reserve Board regulations, FNBPA is limited in the amount it may lend to non-bank affiliates, including the Corporation. Such loans must be secured by specified collateral. In addition, any such loans to a non-bank affiliate may not exceed 10% of FNBPA's capital and surplus and the aggregate of loans to all such affiliates may not exceed 20% of FNBPA's capital and surplus. The maximum amount that may be borrowed by the Corporation under these provisions approximated \$45.3 million at December 31, 2004.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**24. Business Segments**

The Corporation operates in four reportable segments: Community Banking, Wealth Management, Insurance and Consumer Finance. The Community Banking segment offers services traditionally offered by full-service commercial banks, including commercial and individual demand and time deposit accounts and commercial, mortgage and individual installment loans. The Wealth Management segment provides a broad range of personal and corporate fiduciary services including the administration of decedent and trust estates. In addition, it offers various alternative products, including securities brokerage and investment advisory services, mutual funds and annuities. The Insurance segment includes a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. The Insurance segment also includes a reinsurer. The Consumer Finance segment is primarily involved in making installment loans to individuals with approximately 15% of its volume being derived from the purchase of installment sales finance contracts from retail merchants. The Consumer Finance segment activity is funded through the sale of the Corporation's subordinated notes at the finance company's branch offices. The other segment includes the parent company, other non-bank subsidiaries and eliminations, which are necessary for purposes of reconciling to the consolidated amounts. The following tables provide financial information for these segments of the Corporation (in thousands).

	<b>Community Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Consumer Finance</b>	<b>Other</b>	<b>Consolidated</b>
<b>At or for the Year Ended December 31, 2004</b>						
Interest income	\$ 225,152	\$ 31	\$ 25	\$ 31,133	\$ (1,893)	\$ 254,448
Interest expense	72,822	9		5,036	6,523	84,390
Provision for loan losses	9,247			7,033		16,280
Non-interest income	54,767	12,588	6,325	1,989	2,472	78,141
Non-interest expense	108,953	9,605	5,464	14,591	1,559	140,172
Intangible amortization	2,163	2	250			2,415
Income tax expense (benefit)	26,903	1,158	304	2,276	(3,104)	27,537
Income (loss) from continuing operations	59,831	1,845	332	4,186	(4,399)	61,795
Income from discontinued operations						
Net income (loss)	59,831	1,845	332	4,186	(4,399)	61,795
Total assets from continuing operations	4,850,203	5,613	16,507	150,380	4,306	5,027,009
Total intangibles from continuing operations	89,054		11,986	1,809		102,849

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

	Community Banking	Wealth Management	Insurance	Consumer Finance	Other	Consolidated
<b>At or for the Year Ended December 31, 2003</b>						
Interest income	\$ 228,346	\$ 21	\$ 35	\$ 28,586	\$ 31	\$ 257,019
Interest expense	78,675	9	5	5,174	3,127	86,990
Provision for loan losses	11,353			5,802		17,155
Non-interest income	45,938	11,787	3,075	1,872	5,483	68,155
Non-interest expense	126,790	10,041	3,426	12,508	30,088	182,853
Intangible amortization	1,967	4	116		85	2,172
Income tax expense (benefit)	14,811	563	(156)	2,599	(8,851)	8,966
Income (loss) from continuing operations	40,688	1,191	(281)	4,375	(18,935)	27,038
Income (loss) from discontinued operations	28,981	(84)	2,854			31,751
Net income (loss)	69,669	1,107	2,573	4,375	(18,935)	58,789
Total assets from continuing operations	4,385,455	3,479	6,070	147,444	14,726	4,557,174
Total intangibles from continuing operations	34,273	10	3,149	1,809		39,241
<b>At or for the Year Ended December 31, 2002</b>						
Interest income	\$ 249,897	\$ 5	\$ 38	\$ 28,096	\$ (2,183)	\$ 275,853
Interest expense	89,542		41	6,618	2,171	98,372
Provision for loan losses	8,323			5,301		13,624
Non-interest income	41,953	11,662	3,288	1,781	7,461	66,145
Non-interest expense	126,863	10,077	2,600	12,519	30,824	182,883
Intangible amortization	1,962	1	71		86	2,120
Income tax expense (benefit)	18,982	592	187	1,962	(7,995)	13,728
Income (loss) from continuing operations	46,178	997	427	3,477	(19,808)	31,271
Income (loss) from discontinued operations	29,072	(427)	3,419			32,064
Net income (loss)	75,250	570	3,846	3,477	(19,808)	63,335
Total assets from continuing operations	4,196,746	2,436	7,265	148,400	181	4,355,028

Total intangibles from continuing operations	33,716	16	4,946	1,809	85	40,572
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**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**25. Cash Flow Information**

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

Year Ended December 31	2004	2003	2002
Cash paid during year for:			
Interest	\$ 87,691	\$ 85,043	\$ 104,135
Income taxes	18,312	(8,149)	18,379
Non-cash Investing and Financing Activities:			
Acquisition of real estate in settlement of loans	4,477	3,374	2,038
Loans granted in the sale of other real estate	285	60	739

The acquisition of Slippery Rock included the purchase of assets with a fair value of \$384.3 million, of which \$15.5 million was cash and due from banks, and the assumption of liabilities with a fair value of \$310.0 million. The fair value of shares issued by the Corporation for this acquisition totaled \$62.9 million.

**26. Parent Company Financial Statements**

Below is condensed financial information of F.N.B. Corporation (parent company only). In this information, the parent company's investments in subsidiaries are stated at cost plus equity in undistributed earnings of subsidiaries since acquisition. This information should be read in conjunction with the consolidated financial statements.

**Balance Sheet (in thousands)**  
**December 31**

	2004	2003
<b>Assets</b>		
Cash and cash equivalents	\$ 10,551	\$ 15,906
Premises and equipment		1,392
Other assets	28,327	16,461
Assets of discontinued operations		364,956
Investment in a bank holding company		31,278
Investment in and advance to bank subsidiary	452,939	369,433
Investment in and advance to non-bank subsidiaries	161,186	131,166
<b>Total Assets</b>	<b>\$ 653,003</b>	<b>\$ 930,592</b>
<b>Liabilities</b>		
Other liabilities	\$ 21,629	\$ 22,642
Debentures to Statutory Trust	125,000	125,000
Subordinated notes:		
Short-term	151,860	145,524
Long-term	30,412	30,517
<b>Total Liabilities</b>	<b>328,901</b>	<b>323,683</b>
<b>Stockholders Equity</b>	<b>324,102</b>	<b>606,909</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 653,003</b>	<b>\$ 930,592</b>





**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

Income Statement (in thousands) Year Ended December 31	2004	2003	2002
<b>Income</b>			
Dividend income from subsidiaries:			
Bank	\$ 49,230	\$ 37,924	\$ 61,394
Non-bank	4,255	6,527	8,050
	53,485	44,451	69,444
Interest income	4,893	3,776	5,500
Affiliate service fee income		11,882	12,723
Other income	44	1,210	1,188
<b>Total Income</b>	<b>58,422</b>	<b>61,319</b>	<b>88,855</b>
<b>Expenses</b>			
Interest expense	12,501	11,632	8,568
Salaries and personnel expense		13,488	13,620
Merger and consolidation expense			18,798
Other expenses	5,055	21,380	8,207
<b>Total Expenses</b>	<b>17,556</b>	<b>46,500</b>	<b>49,193</b>
<b>Income Before Taxes and Equity in Undistributed Income of Subsidiaries</b>			
	40,866	14,819	39,662
Income tax benefit	4,580	10,016	8,885
	45,446	24,835	48,547
Equity in undistributed income of subsidiaries:			
Bank holding company	1,103	2,357	3,323
Bank	12,446	(3,124)	(16,455)
Non-bank	2,800	2,970	(4,144)
<b>Income from Continuing Operations</b>	<b>61,795</b>	<b>27,038</b>	<b>31,271</b>
Dividends from discontinued operations		66,152	24,516
Undistributed earnings from discontinued operations		(34,401)	7,548
Income from discontinued operations		31,751	32,064
<b>Net Income</b>	<b>\$ 61,795</b>	<b>\$ 58,789</b>	<b>\$ 63,335</b>

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

**Statement of Cash Flows (in thousands)**  
**Year Ended December 31**

	2004	2003	2002
<b>Operating Activities</b>			
Income from continuing operations	\$ 61,795	\$ 27,038	\$ 31,271
Income from discontinued operations		31,751	32,064
Adjustments to reconcile net income to net cash flows from operating activities:			
Undistributed earnings from subsidiaries	(16,349)	(2,203)	17,276
Other, net	(14,336)	953	14,867
Other assets from discontinued operations, net		34,401	(7,548)
Net cash flows from operating activities	31,110	91,940	87,930
<b>Investing Activities</b>			
Sale (purchase) of premises and equipment	1,392	3,440	(3,083)
Advances to subsidiaries	(7,302)	(47,990)	(86,551)
Investment in subsidiaries	(59,688)	(135,950)	52,711
Net cash flows from investing activities	(65,598)	(180,500)	(36,923)
<b>Financing Activities</b>			
Net increase (decrease) in short-term borrowings	3,907	13,145	(979)
Decrease in long-term debt	(12,045)	(7,067)	(14,513)
Increase in long-term debt	11,940	132,912	8,346
Net acquisition of common stock	68,807	(521)	(7,090)
Cash dividends paid	(43,476)	(42,872)	(37,516)
Net cash flows from financing activities	29,133	95,597	(51,752)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(5,355)</b>	<b>7,037</b>	<b>(745)</b>
Cash and cash equivalents at beginning of year	15,906	8,869	9,614
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 10,551</b>	<b>\$ 15,906</b>	<b>\$ 8,869</b>
Cash paid during the year for:			
Interest	\$ 11,266	\$ 11,600	\$ 8,558

**27. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each financial instrument:

*Cash and Due from Banks*

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Securities*

For both securities available for sale and securities held to maturity, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.



**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

*Loans*

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable rate loans approximates the carrying amount.

*Bank Owned Life Insurance*

The Corporation owns both general account and separate account bank owned life insurance (BOLI). The fair value of general account BOLI is based on the insurance contract cash surrender value. The fair value of separate account BOLI equals the quoted market price of the underlying securities, if available. If a quoted market price is not available, fair value is estimated using quoted market price for similar securities.

*Deposits*

The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

*Short-Term Borrowings*

The carrying amounts for short-term borrowings approximate fair value for amounts that mature in 90 days or less. The fair value of subordinated notes is estimated by discounting future cash flows using rates currently offered.

*Long-Term Debt*

The fair value of long-term debt is estimated by discounting future cash flows based on the market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

*Loan Commitments and Standby Letters of Credit*

Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counter-parties. Also, unfunded loan commitments relate principally to variable rate commercial loans, typically non-binding, and fees are not normally assessed on these balances.

**F.N.B. Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**

The estimated fair values of the Corporation's financial instruments are as follows (in thousands):

December 31	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and short-term investments	\$ 103,760	\$ 103,760	\$ 106,312	\$ 106,312
Securities available for sale	555,698	555,698	878,667	878,667
Securities held to maturity	621,302	620,827	24,030	25,009
Net loans, including loans held for sale	3,344,813	3,313,169	3,214,493	3,203,947
Bank owned life insurance	112,300	109,848	102,600	100,979
<b>Financial Liabilities</b>				
Deposits	3,598,087	3,601,394	3,439,510	3,461,240
Short-term borrowings	395,106	395,106	232,966	232,982
Long-term debt	636,209	636,252	584,808	588,834

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) *Financial Statements* The consolidated financial statements of F.N.B. Corporation and subsidiaries required in response to this item are incorporated by reference to Item 8 of this Report.

(b) *Exhibits* The exhibits filed or incorporated by reference as a part of this report are listed in the Index to Exhibits which appears at page 4 and is incorporated by reference.

(c) *Schedules* No financial statement schedules are being filed because of the absence of conditions under which they are required or because the required information is included in the Consolidated Financial Statements and related notes thereto.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F.N.B. Corporation

By           /s/ Stephen J. Gurgovits  
              Stephen J. Gurgovits  
              *President and Chief Executive Officer*

Dated: July 27, 2005

## INDEX TO EXHIBITS

The following exhibits are filed or incorporated by reference as part of this report:

- 3.1. Articles of Incorporation of the Corporation as currently in effect (incorporated by reference to Exhibit 4.1. of the Corporation's Form 8-K filed on June 1, 2001).
- 3.2. By-laws of the Corporation as currently in effect (incorporated by reference to Exhibit 4.2. of the Corporation's Form 8-K filed on June 1, 2001).
4. The rights of holders of equity securities are defined in portions of the Articles of Incorporation and By-laws. The Articles of Incorporation are incorporated by reference to Exhibit 4.1. of the registrant's Form 8-K filed on June 1, 2001. The By-laws are incorporated by reference to Exhibit 4.2. of the registrant's Form 8-K filed on June 1, 2001. A designation statement defining the rights of F.N.B. Corporation Series A Cumulative Convertible Preferred Stock is incorporated by reference to Form S-14, Registration Statement of F.N.B. Corporation, File No. 2-96404. A designation statement defining the rights of F.N.B. Corporation Series B Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 4 of the registrant's Form 10-Q for the quarter ended June 30, 1992. The Corporation agrees to furnish to the Commission upon request copies of all instruments not filed herewith defining the rights of holders of long-term debt of the Corporation and its subsidiaries.
- 10.1. Form of agreement regarding deferred payment of directors' fees by First National Bank of Pennsylvania (incorporated by reference to Exhibit 10.1. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
- 10.2. Form of agreement regarding deferred payment of directors' fees by F.N.B. Corporation (incorporated by reference to Exhibit 10.2. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
- 10.3. Form of Deferred Compensation Agreement by and between First National Bank of Pennsylvania and four of its executive officers (incorporated by reference to Exhibit 10.3. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
- 10.4. Employment Agreement between F.N.B. Corporation and Stephen J. Gurgovits (incorporated by reference to Exhibit 10.5. of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998).
- 10.5. Basic Retirement Plan (formerly the Supplemental Executive Retirement Plan) of F.N.B. Corporation effective January 1, 1992 (incorporated by reference to Exhibit 10.9. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
- 10.6. F.N.B. Corporation 1990 Stock Option Plan as amended effective February 2, 1996 (incorporated by reference to Exhibit 10.10. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
- 10.7. F.N.B. Corporation Restricted Stock Bonus Plan dated January 1, 1994 (incorporated by reference to Exhibit 10.11. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
- 10.8.

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F.N.B. Corporation Restricted Stock and Incentive Bonus Plan (incorporated by reference to Exhibit 10.14. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).

10.9. F.N.B. Corporation 1996 Stock Option Plan (incorporated by reference to Exhibit 10.15. of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).

10.10. F.N.B. Corporation Director's Compensation Plan (incorporated by reference to Exhibit 10.16. of the Corporation's Form 10-Q for the quarter ended March 31, 1996).

10.11. F.N.B. Corporation 1998 Director's Stock Option Plan (incorporated by reference to Exhibit 10.14. of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998).



- 10.12. F.N.B. Corporation 2001 Incentive Plan (incorporated by reference to Exhibit 10.1. of the Corporation's Form S-8 filed on June 14, 2001).
- 10.13. Termination of Continuation of Employment Agreement between F.N.B. Corporation and Peter Mortensen (incorporated by reference to Exhibit 10.17. of the Corporation's Form 10-K for the year ended December 31, 2001).
- 12. Ratio of earnings to fixed charge (filed herewith).
- 14. Code of Ethics (incorporated by reference to Exhibit 99.3. of the Corporation's Form 10-K for the year ended December 31, 2002).
- 21. Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 of the Corporation's Form 10-K for the year ended December 31, 2004).
- 23.1. Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed herewith).
- 31.1. Certification of Chief Executive Officer under Sarbanes-Oxley Act Section 302 (filed herewith).
- 31.2. Certification of Chief Financial Officer under Sarbanes-Oxley Act Section 302 (filed herewith).
- 32.1. Certification of Chief Executive Officer under Sarbanes-Oxley Act Section 906 (filed herewith).
- 32.2. Certification of Chief Financial Officer under Sarbanes-Oxley Act Section 906 (filed herewith).