COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-K
March 30, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2000**

Commission file number **0-18676**

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-1623213**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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900 Ligonier Street, Latrobe, PA 15650	**15650**
(Address of principal executive offices)	(Zip Code)

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

TITLE OF EACH CLASS	**NAME OF EACH EXCHANGE ON WHICH REGISTERED**

NONE

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

TITLE OF CLASS

COMMON STOCK, $2 PAR VALUE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. (x)

Aggregate market value of common stock held by

non-affiliates of registrant based on closing sale price based on the NASDAQ National Market System on March 23, 2001.	$37,580,076 $38,100,000
Number of shares of common stock outstanding at March 23, 2001.	3,434,296

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to shareholders for the fiscal year ended December 31, 2000 are incorporated by reference into Parts I, II, and IV of this report. Portions of the definitive Proxy Statement related to the annual meeting of shareholders to be held May 15, 2001 are incorporated by reference into Part III.

Commercial National Financial Corporation

Form 10-K

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Part I

Item 1. BUSINESS

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Description of Business

Commercial National Financial Corporation (the corporation) is a Pennsylvania corporation and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended and as a financial holding company under the Gramm Leach Bliley Act. The corporation is owner of 100% of the outstanding shares of common stock of Commercial National Bank of Pennsylvania. This subsidiary bank and has been providing banking services since 1934. At the present time, two (2) banking offices are in operation in Latrobe, two (2) in Unity Township and one (1) each in Ligonier, West Newton, Greensburg, Murrysville and Hempfield Township. An asset management/trust department was established in 1994 and is located in the building that houses the Greensburg banking office. All of these offices are within the boundaries of Westmoreland County, Pennsylvania. In addition, the building which houses the downtown Latrobe banking office is the location of the corporation's and the bank's executive and administrative offices. The institution's operations center is located at the Latrobe Plaza in downtown Latrobe. This operations center also houses an in-house data processing system.

Each of the banking offices, except for downtown Latrobe and Greensburg, is equipped with twenty-four-hour-a-day automatic teller machines and ATM units are located on the campus of Saint Vincent College in Unity Township, the terminal of the Westmoreland County Airport in Unity Township, the reception lobby of the Latrobe Area Hospital in Latrobe, an in-store machine in each the Norvelt Open Pantry and New Alexandria Qwik Mart and the lobby of the Kirk S. Nevin Arena located in Greensburg. A separate freestanding drive-up teller staffed banking facility is attached to the Lincoln Road office in downtown Latrobe. This facility also provides ATM service.

The corporation's business activities involve holding the stock of its subsidiary bank and Commercial National Investment Corporation, which is a 50% owner of Commercial National Insurance Services together with the Gooder Agency, Inc., of Ligonier, Pennsylvania. Commercial National Insurance Services offers a full array of insurance products and services to consumer and commercial markets surrounding the Ligonier area.

The subsidiary bank offers the full range of banking services normally associated with the general commercial banking business. Services include extending credit, providing deposit services, marketing non-deposit investments and offering financial counseling. The ATM system described earlier is a part of the MAC and Cirrus networks which permits the bank's customers access to an extensive regional and national network. The bank also has implemented a comprehensive electronic online banking system. By using a personal computer with internet access, customers can access their Commercial National Bank accounts, perform common banking tasks and pay bills 24 hours a day, seven days a week, 365 days a year .

Competition

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Throughout the subsidiary bank's service area, substantial competition exists both for deposit and loan products. The competitors range from branches of major banks headquartered in Cleveland Ohio, Pittsburgh, Johnstown and Indiana, Pennsylvania, several independent banks headquartered in Westmoreland County, a variety of thrift institutions and a number of credit unions. Even though some portions of the thrift industry have experienced fairly extensive restructuring, the level of competitive activity in our service area remains strong. Competition for certificates of deposit and money market deposits remains vigorous with the representatives of insurance companies and securities brokers soliciting customers in our market area. In addition, out-of-area institutions including retailers continue to solicit business for credit cards, residential mortgages and automobile financing.

Supervision and Regulation

The corporation and the subsidiary bank are subject to the supervision of the following regulatory bodies: The Federal Reserve Board, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Commonwealth of Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The nature of the supervision extends to such areas as safety and soundness, truth-in-lending, truth-in-savings, rate restrictions, consumer protection, permissible loan and securities activities, merger and acquisition limitations, reserve requirements, dividend payments and regulations concerning activities by corporate officers and directors. The Federal Reserve Board monitors holding company activity while the Office of the Comptroller of the Currency is the corporation's primary banking regulator. No restrictions or actions are currently pending against the corporation or the bank.

The GLB, enacted by Congress in November 1999, now permits bank holding companies with subsidiary banks meeting certain capital and man holding companies may engage in a full range of financial activities, including not only banking, insurance and securities activities, but also merc that the list of permissible activities will be expanded as necessary for a financial holding company to keep abreast of competitive and technologi Board.

Although it preserves the Federal Reserve Board as the umbrella supervisor of financial holding companies, GLB adopts an administrative appro insurers and insurance agents, broker-dealers, investment companies, and banks. Thus, the various state and federal regulators of a financial holdi entities. As the umbrella supervisor, however, the Federal Reserve Board has the potential to affect the operations and activities of financial holdi numerous trigger points related to legal noncompliance and other serious problems affecting bank affiliates that could lead to direct Federal Rese companies and their affiliated operating companies.

Effects of Governmental Policies

In addition to the regulatory requirements, the corporation and its subsidiary bank are affected by the national economy and the influence on that economy exerted by governmental bodies through monetary and fiscal policies and their efforts to implement such policies. In particular, the impact of the open market operations on interest rates, the establishment of reserve requirements and the setting of the discount rate will continue to affect business volumes and earnings. The exact nature or the full extent of this impact is almost impossible to predict; however, management continues to monitor these activities on a regular basis and seeks to modify its policies and procedures accordingly.

EMPLOYEES

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As of December 31, 2001, the corporation, the subsidiary bank and other subsidiaries of the corporation had a total of 122 full-time-equivalent employees.

CONSOLIDATED FINANCIAL AND STATISTICAL PROFILE

The data presented on the following pages provides additional information to assist in reviewing the corporation's business activities and must be read with the understanding that it is a supplement to Management's Discussion and Analysis of Financial Condition and Results of Operations in the annual report to shareholders for the year ended December 31, 2000 which is incorporated herein by reference.

Securities Portfolio

The following table presents the composition of the securities portfolio at year end for the years indicated:

	Amortized Cost at December 31		
	2000	1999	1998
U. S. Treasury securities and other			
U. S. Government agencies and			
corporations	$ 81,225,195	$ 72,567,628	$ 77,481,622
Obligations of states and political			
subdivisions	18,450,654	51,542,799	36,454,587
Other securities	3,369,612	3,371,638	2,396,600
Total	$103,045,461	$127,482,065	$116,332,809

Loans

Final loan maturities excluding consumer installment and mortgage loans and before unearned income at December 31, 2000: (in thousands)

	Within One Year	One-Five Years	After Five Years	Total
Commercial and Industrial	$ 11,905	$ 11,997	$1,901	$25,803
Real estate-construction	1,999	-	381	2,380
Other	3,338*	1,678	4,990	$10,006
Totals	$17,242	$13,675	$ 7,272	$38,189
Loans at fixed interest rates		$ 7,744	$6,949	$14,693
Loans at variable interest rates		5,931	323	6,254
		$13,675	$7,272	$20,947

*Includes $2.0 million PHEAA loans with no fixed maturity date.

CONSOLIDATED FINANCIAL AND STATISTICAL PROFILE (continued)

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Non-performing Loans

The following table details, for each of the most recent five years, the year end amounts which were accounted for on a non-accrual basis or were past due 90 days or more:

Dec. 31, 2000	
Loans on non-accrual basis	$ 358,429
Loans past due 90 days or more	207,834
Renegotiated loans	170,572
Total	$ 736,835
Dec. 31, 1999	
Loans on non-accrual basis	$ 517,644
Loans past due 90 days or more	187,259
Renegotiated loans	493,215
Total	$ 1,198,118
Dec. 31, 1998	
Loans on non-accrual basis	$ 95,032
Loans past due 90 days or more	320,438
Renegotiated loans	572,352
Total	$ 987,822
Dec. 31, 1997	
Loans on non-accrual basis	$ 23,172
Loans past due 90 days or more	659,078
Renegotiated loans	948,128
Total	$ 1,630,378
Dec. 31, 1996	
Loans on non-accrual basis	$ 23,172
Loans past due 90 days or more	100,293
Renegotiated loans	1,024,550
Total	$ 1,148,015

At present no other loans which are outstanding present a serious doubt in regard to the borrower's ability to comply with the current loan repayment terms. As of December 31, 2000 the corporation had $80,792 in other real estate owned and no in-substance foreclosures.

Effect of non-accrual loans on interest income during 2000 is as follows:

	Non-accrual Loans
Gross amount of interest that would have	

been recorded at original rates	$ 40,167
Less: Interest that was reflected in income	-
Net reduction to interest income	$ 40,167

CONSOLIDATED FINANCIAL AND STATISTICAL PROFILE (continued)

Summary of Loan Loss Experience

The table below provides an analysis of the allowance for loan losses for the five

years ended December 31, 2000:

December 31,	2000	1999	1998	1997	1996
Loans outstanding at beginning of year,					
net of unearned income	$204,839,335	$192,115,160	$183,481,157	$159,935,523	$144,288,002
Average loans outstanding	$207,343,068	$194,664,755	$186,418,665	$169,849,234	$151,056,637
Allowance for loan losses:					
Balance, beginning of year	$ 1,919,453	$ 1,914,174	$ 1,882,251	$ 2,035,818	$ 2,081,700
Loans charged off:					
Commercial, industrial & other	70,342	2,678,266	24,306	4,859	-
Installment and charge card	232,915	616,786	377,353	437,003	170,719
Real estate	92,019	12,971	11,208	6,446	3,233
Total loans charged off	395,276	3,308,023	412,867	448,308	173,952
Recoveries:					
Commercial, industrial & other	2,000	-	300	-	-
Installment and charge card	34,045	23,596	9,490	22,669	23,070
Real estate	490	-	-	2,072	-
Total recoveries	36,535	23,596	9,790	24,741	23,070
Net loans charged off	358,741	3,284,427	403,077	423,567	150,882
Provision charged to expense	1,176,000	3,289,706	435,000	270,000	105,000
Balance, end of year	$ 2,736,712	$ 1,919,453	$ 1,914,174	$ 1,882,251	$ 2,035,818
Ratios:					
Net charge-offs as a percentage					
of average loans outstanding	.17%	1.69%	.22%	.25%	.10%
Allowance for loan losses					
as a percentage of average loans					
outstanding	1.32	.99	1.03	1.11	1.35

Management review and evaluation of loan loss experience and loan loss potential on outstanding loans occurs on a quarterly basis and is considered in conjunction with current economic conditions and the current requirements of the appropriate regulatory agencies.

As a result of this on-going study, management believes that the reserve amount shown for December 31, 2000 is adequate to offset the losses which may exist as a result of under collateralization or uncollectibility.

CONSOLIDATED FINANCIAL AND STATISTICAL PROFILE (continued)

Deposits

The following table presents average deposits by type and the average interest rates paid as of 2000, 1999 and 1998:

	December 31,					
	2000		1999		1998	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest bearing demand	$ 45,127,383	- %	$ 41,744,536	- %	$ 37,565,870	- %
Interest bearing demand	20,552,997	.68	21,376,716	.72	20,709,992	1.69
Money market	43,301,728	3.53	43,545,503	3.51	41,921,741	3.89
Savings	45,405,821	2.54	46,836,966	2.52	45,672,055	2.93
Time	118,235,702	5.51	115,189,889	5.11	112,647,588	5.40
Total	$272,623,631	3.42%	$268,693,610	3.26%	$258,517,246	3.64%

Remaining maturities of certificates of deposit $100,000 or more:

	December 31,					
	2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent
Remaining maturity:						
3 months or less	$19,910,828	59%	$26,559,928	72%	$16,943,373	57%
Over 3 through 6 months	2,999,206	9	4,159,920	11	2,965,786	10
Over 6 months through 12 months	7,145,067	21	3,166,384	8	6,109,446	20
Over 12 months	3,920,347	11	3,429,108	9	3,997,620	13
Total	$ 33,975,448	100%	$37,315,340	100%	$30,016,225	100%

Item 2. Properties

All of the corporation's banking and support facilities are owned and free of liens and encumbrances with the exception of one(1) banking office and an adjacent drive-up facility, both of which are leased. All of the properties are used in their entirety for banking purposes. In each case, the properties have been maintained in good repair, are well suited for their present use and appear to be adequate for the immediate needs of the corporation and the bank. Physical locations can be found on page 31 of the Annual Report to Shareholders.

Item 3. Legal Proceedings

Other than proceedings which occur in the normal conduct of business, there are no legal proceedings to which either the corporation or the subsidiaries is a party which will have any material effect on the financial position of the corporation and its subsidiaries.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table shows the names and ages of the current executive officers and the present and previous positions held by them for at least the past five years.

Name	Age	Present and Previous Positions
Louis A. Steiner	70	Chairman of the board (1977 to present) Chief executive officer (1977 to 1997)
Louis T. Steiner	39	President (April 1998 to present), chief executive officer (November 1997 to present), vice chairman (December 1995 to present), vice president (January 1994 to November 1995),
Gregg E. Hunter	42	Vice chairman and chief financial officer (December 1995 to present), vice president and chief financial officer (January 1994 to November 1995)
Wendy S. Schmucker	32	Secretary/treasurer and vice president, manager corporate administration (November 1997 to present), assistant vice president and managing corporate officer (December 1996 to October 1997), assistant secretary/treasurer and corporate and financial administrative officer (December 1995 to November 1996), corporate administrator (January 1995 to November 1995)
Ryan M. Glista	33	Vice president/comptroller (December 1997 to present), assistant vice president/ controller(December 1995 to November 1997),

		corporate accountant (June 1994 to November 1994)
Susan F. Robb	26	Assistant secretary (April 1998 to present), corporate administrator (September 1997 to present), customer service representative (September 1996 to September 1997)

Part II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters

Information appearing in the annual report to shareholders for the fiscal year ended December 31, 2000 on page 20 is incorporated herein by reference in response to this item. As of March 23, 2001 there were 517 shareholders of record of the registrant's common stock. The number of beneficial shareholders is approximately 767.

Item 6. Selected Financial Data

Information appearing in the annual report to shareholders for the fiscal year ended December 31, 2000 on page 21 is incorporated herein by reference in response to this item.

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations

Information appearing in the annual report to shareholders for the fiscal year ended December 31, 2000 on page 22 is incorporated herein by reference in response to this item.

Item 7.a Quantitative and Qualitative Disclosures of Market Risk

The corporation's interest rate risk management is the responsibility of the Asset/Liability Management Committee, which reports to the Board of and pricing of funds. The committee is also involved with management in the corporation's planning and budgeting process.

The corporation regularly reviews its exposure to changes in interest rates. Among the factors considered are changes in the mix of earning assets reviews on at least a quarterly basis the bank subsidiary's relative ratio of rate sensitive assets to rate sensitive liabilities and the related cumulativ model in assessing the corporation's interest rate sensitivity.

This simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to th
results of this model in evaluating its interest rate risk. This model incorporates a number of additional factors. These factors include: (1) the expe
various rate sensitive assets and liabilities will reprice, (3) the expected relative movements in different interest rate indexes which are used as the
rates on interest-bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or r
accurately project the corporation's changes in net interest income resulting from an immediate and sustained parallel shift in interest rates of up 1
model provides a useful projection of its interest rate risk, the model includes a number of assumptions and predictions which may or may not be
rates, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the simulation mod

The following table presents the simulation model's projected impact of an immediate and sustained parallel shift in interest rates on the projectec

	$ Change in Projected	% Change in Projected
Change in Interest	**Baseline**	**Baseline**
Rates	**Net Interest Income**	**Net Interest Income**
	(dollar amounts in thousands)	

+200 basis points	$ (134)	-0.9%
+100 basis points	$ 17	0.1%
-100 basis points	$ (71)	-0.5%
-200 basis points	$ (153)	-1.0%

In the event of a shift in interest rates, management may take certain actions intended to mitigate the negative impact to net interest income or to
restructuring of earning assets and interest-bearing liabilities, seeking alternative funding sources or investment opportunities and modifying the

Item 8. Financial Statements and Supplementary Data

The following information appearing in the annual report to shareholders for the fiscal year ended December 31, 2000 is incorporated herein by reference in response to this item.

	Annual Report Page
Report of Independent Certified Public Accountants	19
Financial Statements:	
Consolidated Statements of Financial Condition as of December 31, 2000 and 1999	6
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999, and 1998.	7
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2000, 1999 and 1998	8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998	9
Notes to Consolidated Financial Statements	10
Quarterly Summary of Financial Data (Unaudited)	20

Prior Years Opinion Letter from previous Certifying Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders

Commercial National Financial Corporation

and Subsidiaries

Latrobe, Pennsylvania

We have audited the accompanying consolidated statement of financial condition of Commercial National Financial Corporation and subsidiaries as of December 31, 1999 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commercial National Financial Corporation and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ Stokes & Hinds, LLC

Stokes & Hinds, LLC

Pittsburgh, Pennsylvania

January 28, 2000

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On October 23, 2000, the corporation filed Form 8-K with the Securities and Exchange Commission reporting its change in the corporation's certifying accountant from Stokes Kelly & Hinds LLC to Beard Miller Company LLP.

Part III

Item 10. Directors and Executive Officers of the Registrant

Information appearing in the definitive proxy statement related to the annual meeting of shareholders to be held May 15, 2001 on pages 4 and 5 and from part I of this report on Form 10-K is incorporated herein by reference in response to this item.

Based on a review of the applicable forms, there was no director, officer or beneficial owner of more than 10 percent of common stock who failed to file on a timely basis reports required by Section 16(a) of the 1934 Act during the most recent fiscal year or prior years.

Item 11. Executive Compensation

Information appearing in the definitive proxy statement related to the annual meeting of shareholders to be held May 15, 2001 on page 11 is incorporated herein by reference in response to this item.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information appearing in the definitive proxy statement related to the annual meeting of shareholders to be held May 15, 2001 on page 7 is incorporated herein by reference in response to this item.

Item 13. Certain Relationships and Related Transactions

Information appearing in the definitive proxy statement related to the annual meeting of shareholders to be held May 15, 2001 on page 14 is incorporated herein by reference to this item.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial statements

All financial statements of the registrant as set forth under Item 8 of this report on Form 10-K.

(2) Financial statement schedules are omitted as they are not applicable.

(3) Exhibit Number	Description	Page Number or Incorporated by Reference to
3.1	Articles of Incorporation	Exhibit C to Form S-4 Registration Statement Filed April 9, 1990
3.2	By-laws of Registrant	Exhibit D to Form S-4 Registration Statement Filed April 9, 1990
3.3	Amendment to Articles of Incorporation	Exhibit A to definitive Proxy Statement filed for the special meeting of shareholders held September 18, 1990
3.4	Amendment to Articles of Incorporation	Exhibit A to definitive Proxy Statement filed for the meeting of shareholders held on April 15, 1997
16	Letter regarding Change in Certifying Accountant	Exhibit A to Form 8-K filed on October 23, 2000
13	Annual Report to Shareholders for the Fiscal Year Ended December 31, 2000	Filed on March 30, 2001

21	Subsidiaries of the Registrant	
22	Commercial National Financial Corporation 2001 Annual Proxy Statement to Shareholders	Filed on March 23, 2001

(b) Report on Form 8-K filed in the fourth quarter of 2000:

October 23, 2000 - Commercial National Financial Corporation notifies the Securities and Exchange Commission of its change in the Registrants Certifying Accountant from Stokes Kelly & Hinds, LLC to Beard Miller Company LLP effective on October 17, 2000.

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.

	COMMERCIAL NATIONAL FINANCIAL CORPORATION
	(Registrant)
	By: /s/ Louis T. Steiner
	Louis T. Steiner, Vice Chairman, President
	and Chief Executive Officer

March 29, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE AND CAPACITY	**DATE**
/s/Louis A. Steiner Louis A. Steiner, Chairman of the Board and Director	March 20, 2001
/s/Louis T. Steiner Louis T. Steiner, Vice Chairman of the Board, Director and Principal Executive Officer	March 20, 2001
/s/ Gregg E. Hunter Gregg E. Hunter, Vice Chairman of the Board, Director, Principal Financial and Accounting Officer	March 20, 2001
/s/Wendy S. Schmucker Wendy S. Schmucker, Secretary/Treasurer	March 20, 2001
/s/ John T. Babilya John T. Babilya, Director	March 20, 2001
/s/George A. Conti, Jr. George A. Conti Jr., Director	March 20, 2001
/s/ Richmond H. Ferguson Richmond H. Ferguson, Director	March 20, 2001
/s/Dorothy S. Hunter Dorothy S. Hunter, Director	March 20, 2001
/s/Frank E. Jobe Frank E. Jobe, Director	March 20, 2001
Roy M. Landers, Director	
/s/John C. McClatchey John C. McClatchey, Director	March 20, 2001
/s/Joseph A. Mosso Joseph A. Mosso, Director	March 20, 2001
/s/Joedda M. Sampson Joedda M. Sampson, Director	March 20, 2001
/s/Debra L. Spatola Debra L. Spatola, Director	March 20, 2001
/s/George V. Welty George V. Welty, Director	March 20, 2001
/c/C. Edward Wible C. Edward Wible, Director	March 20, 2001

EXHIBIT INDEX TABLE OF CONTENTS

Exhibit Number	Description
21	Subsidiaries of the Registrant

Exhibit 21 - Subsidiaries of Commercial National Financial Corporation

	Percent Ownership By Registrant
Commercial National Bank of Pennsylvania 900 Ligonier Street Latrobe, PA 15650 Nationally Chartered Bank	100%
Commercial National Investment Corporation 900 Ligonier Street Latrobe, PA 15650	100%

The corporation will provide without charge to any shareholder a copy of its 2000 annual report on form 10-K as required to be filed with the Securities and Exchange Commission. Requests should be made in writing to:

COMMERCIAL NATIONAL FINANCIAL CORPORATION

STOCK TRANSFER DEPARTMENT

P.O. BOX 429

LATROBE, PA 15650

Our Commitment To Those We Serve

In detailing the elements of our mission, the significant components must be equally ranked regardless of their order of presentation since substantial progress can be achieved only as these elements interact harmoniously to advance the mission of the corporation.

Our mission is to acquire, organize and manage the resources required to offer personalized and professional financial services in a manner that demonstrates our concern for understanding and meeting the needs of the individuals, families business and other organizations in our marketplace.

In fulfilling our mission, we give constant consideration to the well-being of our employees, not only in terms of economic benefit, but also by guaranteeing a working environment that...

- encourages personal and professional development
- fosters individual dignity and
- demands the highest ethical standards

...so that each employee can experience a sense of satisfaction in and personal identity with the accomplishments we achieve together.

Our responsibility to the areas we are privileged to serve requires our involvement as a corporation, as well as a commitment by our employees and directors, to respond to community development and improvement needs a continual investment of both time and funds.

All of our activities are carefully planned and professionally conducted to provide our shareholders with a reasonable and regular profit so that their ongoing investment will constantly increase in value.

To Our Shareholders

With another year having passed, I am pleased to report on the activities of your company during 2000. We posted near-record earnings rivaling those achieved in 1998, a clear indication that our core financial condition and performance remained solid even after experiencing an income decline in 1999 that resulted from a commercial loan charge-off. The comeback in 2000 also was helped by undertaking a number of initiatives and by the hard work and dedication of our employees who implemented them.

In March 2000, the Federal Reserve Board designated Commercial National Financial Corporation as a "financial holding company," giving us flexibility to provide products and services to our customers.

Commercial National Insurance Services, in which the company holds a 50 percent interest, completed its first full year of operation. During that time we saw client volume increase, which subsequently grew the associated commission revenues. By offering insurance services to those we serve, we can give customers the benefit of "one-stop shopping" for financial needs. The insurance agency's Website at www.cnbinsurance.com further enables customers to review products and services any time.

The Asset Management and Trust Division of Commercial National Bank of Pennsylvania continued its outstanding performance in the past year. The division now manages more than $100 million in assets, the highest volume since its 1994 formation, helping to continue its trend of double-digit growth of revenue, which amounted to more than $449,000 in 2000. Also during the year, trust division clients were given the ability to view accounts online via the bank's Website at www.cnbthebank.com. Accounts are updated weekly to provide reasonably current information.

The company's Online Banking product continued to grow in popularity among customers with marked expansion noticeable in both the number of enrollments and transaction volume. A free demonstration of Online Banking, available at the bank's Website, helps introduce and familiarize viewers with this convenient system.

As should be evident from this report, much of our most recent advancement has come about largely through the use of technology. We believe that alternative methods of service delivery will continue to be in demand, and so we seek to provide customers with a variety of channels by which they may do business. Of course, we regularly review the technology landscape to offer our customers the latest innovations available, provided that the benefit to the company is worth the investment.

We look forward to a very busy year in 2001 when many of the initiatives previously described will continue to flourish as we lay the groundwork for an even more productive future.

The support you give as shareholders -- to both the corporation and its staff -- is greatly appreciated. We value the opportunity you have given us to work on your behalf.

/s/ Louis T. Steiner

Louis T. Steiner

Vice Chairman,

President and Chief Executive Officer

In year 2000 ,

we returned to

"business as usual"

after an earlier

business downturn in 1999 ...

... that resulted from the default on sizeable borrowings made to a single commercial account. During 2000, however, the corporation moved aggressively to overcome that decline and continued to carefully build new business.

Audited earnings for the year of $4,631,512, for a record $1.32 per share, were up considerably from the $3,203,605 or $0.90 per share realized in 1999. An especially strong fourth-quarter generated earnings of $1.36 million, also a company record.

As indicated by the information in the following pages, the core financial standing of Commercial National Financial Corporation remains strong, the company remains heavily capitalized and it continues to maintain adequate reserves for the years ahead.

Despite a volatile market,

the business stayed strong.

In spite of some depreciation in the year-end share price to $14.63, Commercial National Financial Corporation (traded as CNAF on the Nasdaq Stock Market, Inc.) was not alone in experiencing such an effect as most other "old market" financial services had similar results through 2000. During the year, stock traded at prices ranging from a low of $13.25 per share to a high of $19.75. Further affecting the performance, we believe, was the "irrational exuberance" in the market with a bias toward high-tech investments, a bent that later proved to be misguided.

Nevertheless, the dividend payout on shares owned by Commercial National investors improved again in 2000, increasing by more than 13 percent from $0.60 per share paid in 1999 to $0.68 per share this year.

Although non-interest-bearing deposits held by the company actually grew by 18 percent, a slip of nearly 6 percent in the larger category of interest-bearing funds resulted in an overall 2.3 percent decline in total deposits. By December 31, total deposits managed by the corporation had receded to $266.6 million from $272.9 million in 1999.

This deposit shift we attribute to a continuation of highly competitive pricing in a rising-rate environment (during the first half) and the maturity of numerous "jumbo" certificates of deposit, those valued at $100,000 or more. Consumers also seemed to maintain a preference for investing through nontraditional service providers. Despite the potential -- and later, obvious -- risks of a market with such high volatility, deposits here still showed outflow into other investments.

The loan portfolio at Commercial National grew by a bit more than 1 percent in 2000 to nearly $208 million from $204.8 million last year. Most of that growth resulted from a $9.4 million surge in the company's commercial-loan segments. Tax-free loans -- those on which our interest income is nontaxable because they're made to governmental and nonprofit agencies -- showed a dramatic jump from $4.3 million in 1999 to $7.1 million in 2000.

Purchase-mortgage and home-equity loan categories both posted slight growth for the year while totals for construction mortgages and installment loans actually declined. Vigorous loan activity in the first half of the year helped offset the February sale of the company's $6.3 million credit-card portfolio.

Interest income for 2000 totaled $26.1 million at year-end, up more than $1.7 million or about 7 percent from the $24.3 million earned a year earlier. Concurrently, however, interest expense rose by $1.7 million to $11.7 million from $10 million last year, a 17 percent increase. As a result, net interest income of $14.3 million was up by only $61,000 or less than 1 percent from that realized in 1999.

Because of substantial growth in the commercial loan portfolio, the company reevaluated its loan-review process and increased the adequacy of its allowance for loan losses. The allowance increased by about $817,000 over that allowed in 1999 to equal 1.32 percent of total loans compared to 0.94 percent at the end of last year. Charge-offs against the allowance declined significantly to $358,741 from the $3,284,427 incurred in the prior year, a change that calculated net charge-offs at only 0.17 percent for 2000 compared to the 1.69 percent realized in 1999, both figures considerably lower than those of similarly sized banks nationwide.

Other operating income of $2.36 million was up 19 percent from the $1.99 million earned last year. Contributing to the improvement were a 47 percent increase in income from the Asset Management and Trust Division, a nearly 10 percent increase in general service charges and fees, and a 3.5 percent growth in service charges collected on deposit accounts. Such improvement is evidence of a conscientious effort to further diversify revenue streams.

The return on average assets, after taxes, improved to 1.32 percent from the 0.95 percent return posted for the preceding year. The substantial change principally is attributed to the 1999 decline in return on average assets that resulted from the commercial loan charge-off.

Total assets of the corporation dropped to $329.9 million at the end of 2000 from $355.3 million a year prior, a 7 percent change due primarily to the general economic slowdown and a restructuring of the firm's investment portfolio, including the retirement of long-term debt.

Service and technology were maintained as our 2000 watchwords.

As year 2000 arrived, Commercial National experienced no disruption of business whatsoever, in spite of many dire predictions. Our "Year 2000 Committee" obviously had devoted the appropriate time and resources to avoid any threat of a shutdown. The arrival of the New Year without incident quietly reinforced what we had been telling customers all along - that Commercial National indeed was "Y2K-OK."

Understanding that no single delivery channel could keep the corporation successful, our management team determined that 2000 would be a true example of blending "high tech" electronics with "high touch" personal-service.

During the year, staff at the nine community offices of Commercial National Bank of Pennsylvania worked closely with agents from Commercial National Insurance Services, a partnership of Gooder & Mary, Inc. and Commercial National Investment Corporation. Together, their efforts generated additional business for the company as they provided customers with a wider array of financial services, all available from a single location. Plans were begun to blend insurance services offerings into standard marketing materials in 2001, attempting to reach an even broader audience.

Excellent growth in our Asset Management and Trust Division enabled that group to become self-sustaining much sooner than we had anticipated. Typically such units require ten years to generate net income. Ours, on the other hand, became productive in its sixth year, managing more than $100 million by year's end. Mutual fund sales company-wide grew by more than 35 percent.

By the end of the year, more than 350 Commercial National customers had become regular users of the company's Online Banking service. System users can check account balances, transfer funds, print reports and even pay bills electronically to virtually any vendor. Online customers averaged about 800 bill-pay transactions each month during the year.

Additionally, Web surfers continued to use the Internet site, www.cnbthebank.com, which makes available product information, rates and loan calculators for anyone, anywhere, 24 hours a day. By the end of the year, users had logged onto the system for more than 106,000 sessions, which consists of one visit during which several pages of the site are viewed.

Another electronic-access system, the Commercial National Bank TouchTone Teller, also handled a great deal of business in 2000. On average, calls to the service each month tallied more than 18,000. Callers checked balances, inquired about the status of a particular checks, transferred funds between accounts and more. Such a system has allowed our staff to focus on more substantial business instead of handling more routine but easily resolved inquiries.

Finally, by December 2000, we had installed and gone live with our first platform automation installations, a service that enables community office staff to open accounts more efficiently by doing it directly online. The procedure saves money for the corporation by saving time for the customer and our staff.

We know good people

build a good company.

Recognizing that our employees make the company what it is, we presented two Chairman's Awards in 2000 to individuals who consistently performed above the expectations of their jobs. They were ...

-- Eleanor A. Bridge

Operations Specialist

Bank Operations Center

... who was acknowledged in March for coordinating the elements required to effect the sale of our credit-card loan portfolio. By doing it so efficiently, she enabled the company to realize a positive impact on its financial condition and performance.

In November, another Chairman's Award was presented to ...

--Patricia A. Queer

Assistant Manager

Ligonier Community Office

... for the record-breaking number of referrals made to the Asset Management and Trust Division. She proved to be the top referral source for the group this year, helping it to develop several new relationships and capture more than $2 million in new business.

The year was a good one.

In the face of difficult times, our Commercial National managers and staff again managed well and improved the business so that investments of our shareholders could perform well and so that our communities could remain vibrant. We're working every day to make banking - and life - even easier for all we're privileged to serve.

President and Chief Executive Officer

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31,		**2000**		1999
ASSETS				
Cash and due from banks on demand	**$**	**9,532,528**	$	8,654,617
Interest bearing deposits with banks		**284,136**		558,781
Federal funds sold		**-**		5,750,000
Securities available for sale		**104,703,464**		124,743,186
Loans		**207,956,789**		204,839,335
Allowance for loan losses		**(2,736,712)**		(1,919,453)
Net loans		**205,220,077**		202,919,882
Premises and equipment		**6,027,137**		6,304,454
Accrued interest receivable		**1,941,771**		2,057,925
Other assets		**2,156,010**		4,309,145
Total assets	**$**	**329,865,123**	$	355,297,990
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Non-interest bearing	**$**	**49,027,941**	$	41,534,998
Interest bearing		**217,583,429**		231,412,405
Total deposits		**266,611,370**		272,947,403
Short-term borrowings		**7,575,000**		15,000,000
Other liabilities		**2,541,836**		2,946,694
Long-term borrowings		**10,000,000**		25,000,000
Total liabilities		**286,728,206**		315,894,097
Shareholders' equity:				
Common stock, par value $ 2 per share; authorized 10,000,000				
shares; issued 3,600,000 shares; outstanding 3,458,355 and				
3,539,643 shares in 2000 and 1999, respectively		**7,200,000**		7,200,000
Retained earnings		**37,438,970**		35,190,986

Accumulated other comprehensive income (loss), net of deferred				
taxes 2000 $ 563,721; 1999 $ (931,218)		**1,094,282**		(1,807,660)
		45,733,252		40,583,326
Less treasury stock, at cost, 141,645 and 60,357 shares in 2000				
and 1999		**(2,596,335)**		(1,179,433)
Total shareholders' equity		**43,136,917**		39,403,893
Total liabilities and shareholders' equity	**$**	**329,865,123**	$	355,297,990

See Notes to Consolidated Financial Statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,		**2000**		1999		1998
Interest income:						
Interest and fees on loans	**$**	**17,513,408**	$	16,693,455	$	16,755,493
Interest and dividends on securities:						
Taxable		**6,916,752**		5,432,186		4,967,679
Exempt from federal income taxes		**1,504,099**		2,043,482		1,894,515
Interest on deposits with banks		**16,498**		10,824		7,858
Interest on federal funds sold		**105,030**		122,785		41,547
Total interest income		**26,055,787**		24,302,732		23,667,092
Interest expense		**11,704,900**		10,013,456		10,318,581
Net interest income		**14,350,887**		14,289,276		13,348,511
Provision for loan losses		**1,176,000**		3,289,706		435,000
Net interest income after provision						
for loan losses		**13,174,887**		10,999,570		12,913,511
Other operating income:						
Service charges on deposit accounts		**716,231**		691,899		584,783
Other service charges and fees		**677,756**		616,811		530,530
Net security gains (losses)		**(691,700)**		(349,940)		10,113
Trust department income		**448,708**		304,998		240,418
Gain on sale of credit card loans		**822,875**		-		-
Other income		**391,048**		721,452		367,246
Total other operating income		**2,364,918**		1,985,220		1,733,090
Other operating expenses:						
Salaries and employee benefits		**5,108,578**		5,111,197		4,883,607
Net occupancy		**588,858**		580,883		604,730
Furniture and equipment		**890,429**		712,922		601,934
Pennsylvania shares tax		**381,829**		344,333		306,602
Other expenses		**2,519,329**		2,544,746		2,143,771
Total other operating expenses		**9,489,023**		9,294,081		8,540,644
Income before income taxes		**6,050,782**		3,690,709		6,105,957

Income tax expense		**1,419,270**		487,104		1,465,071
Net income	**$**	**4,631,512**	$	3,203,605	$	4,640,886
Net income per common share	**$**	**1.32**	$	0.90	$	1.29

See Notes to Consolidated Financial Statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2000 and 1999

	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1997	$ 3,600,000	$ 34,604,120	$ 240,891	$ -	$ 38,445,011
Comprehensive income:					
Net income	-	4,640,886	-	-	4,640,886
Change in unrealized net gains on securities available for sale of $ 1,594,427, net of reclassification adjustment for losses included in net income of $ (6,675)	-	-	1,587,752	-	1,587,752
Total comprehensive income					6,228,638
Stock split in the form of a dividend	3,600,000	(3,600,000)	-	-	-
Cash dividends declared, $ 0.42 per share	-	(1,512,000)	-	-	(1,512,000)
Balance, December 31, 1998	7,200,000	34,133,006	1,828,643	-	43,161,649
Comprehensive income:					
Net income	-	3,203,605	-	-	3,203,605
Change in unrealized net losses on securities available for sale of $ (3,867,263), net of reclassification adjustment for losses included in net income of $ 230,960	-	-	(3,636,303)	-	(3,636,303)
Total comprehensive loss					(432,698)

Cash dividends declared, $ 0.60 per share	-	(2,145,625)	-	-	(2,145,625)
Purchases of treasury stock	-	-	-	(1,179,433)	(1,179,433)
Balance, December 31, 1999	7,200,000	35,190,986	(1,807,660)	(1,179,433)	39,403,893
Comprehensive income:					
Net income	**-**	**4,631,512**	**-**	**-**	**4,631,512**
Change in unrealized net gains on securities available for sale of $ 2,445,420, net of reclassification adjustment for losses included in net income of $ 456,522	**-**	**-**	**2,901,942**	**-**	**2,901,942**
Total comprehensive income					**7,533,454**
Cash dividends declared, $ 0.68 per share	**-**	**(2,383,528)**	**-**	**-**	**(2,383,528)**
Purchases of treasury stock	**-**	**-**	**-**	**(1,416,902)**	**(1,416,902)**
Balance, December 31, 2000	**$ 7,200,000**	**$ 37,438,970**	**$ 1,094,282**	**$ (2,596,335)**	**$ 43,136,917**

See Notes to Consolidated Financial Statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2000**	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 4,631,512**	$ 3,203,605	$ 4,640,886
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**793,492**	717,001	604,772
Provision for loan losses	**1,176,000**	3,289,706	435,000
Net amortization (accretion) of securities and loan fees	**(297,449)**	77,801	202,283
Net security (gains) losses	**691,700**	349,940	(10,113)
Gain on sale of credit card loans	**(822,875)**	-	-
Deferred tax expense (benefit)	**(78,687)**	(118,693)	17,176
Change in assets and liabilities:			
(Increase) decrease in:			
Accrued interest receivable	**116,154**	152,984	234,255
Other assets	**(108,064)**	(403,630)	(185,021)
Increase (decrease) in:			
Interest payable	**(130,519)**	316,569	52,939
Income taxes payable	**-**	(3,307)	23,409
Income taxes receivable	**869,947**	(963,219)	-
Other liabilities	**(274,339)**	(69,128)	(130,976)
Net cash provided by operating activities	**6,566,872**	6,549,629	5,884,610
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (increase) decrease in deposits with other banks	**274,645**	(490,846)	63,002
(Increase) decrease in federal funds sold	**5,750,000**	(5,750,000)	-
Purchases of securities available for sale	**(58,047,132)**	(69,437,582)	(25,334,138)
Purchases of securities held to maturity	**-**	-	(1,966,778)
Maturities, calls and principal repayments of securities available for sale	**15,524,813**	28,192,935	7,654,065
Proceeds from sales of securities available for sale	**66,509,684**	29,625,903	8,996,484
Maturities and calls of securities held to maturity	**-**	-	12,175,000
Net increase in loans	**(8,946,824)**	(16,084,250)	(9,069,590)
Proceeds from sale of credit card loans	**6,323,491**	-	-
Purchases of premises and equipment	**(516,175)**	(993,959)	(641,482)
Net cash provided by (used in) investing activities	**26,872,502**	(34,937,799)	(8,123,437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	**(6,336,033)**	6,486,882	5,770,764
Net increase (decrease) in short-term borrowings	**(7,425,000)**	11,225,000	(14,075,000)

Proceeds from issuance of long-term borrowings		**-**		15,000,000		10,000,000
Repayments of long-term borrowings		**(15,000,000)**		-		-
Dividends paid		**(2,383,528)**		(2,145,625)		(1,512,000)
Purchase of treasury stock		**(1,416,902)**		(1,179,433)		-
Net cash provided by (used in) financing activities		**(32,561,463)**		29,386,824		183,764
Increase (decrease) in cash and cash						
equivalents		**877,911**		998,654		(2,055,063)
Cash and cash equivalents:						
Beginning		**8,654,617**		7,655,963		9,711,026
Ending	**$**	**9,532,528**	$	8,654,617	$	7,655,963

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31,		**2000**		1999		1998
SUPPLEMENTAL DISCLOSURES OF CASH FLOW						
INFORMATION Cash payments for:						
Interest	**$**	**11,835,419**	$	9,696,887	$	10,265,642
Income taxes	**$**	**1,442,900**	$	1,598,200	$	1,423,900

See Notes to Consolidated Financial Statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1

SIGNIFICANT ACCOUNTING POLICIES

General:

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation (the corporation) and its wholly-owned subsidiaries, Commercial National Bank of Pennsylvania (the bank) and Commercial National Investment Corporation. All material intercompany transactions have been eliminated.

The bank operates under a national bank charter and provides full banking services. The corporation is subject to regulation by the Federal Reserve Board and the bank is subject to regulation by the Office of the Comptroller of the Currency. The bank's primary business consists of taking deposits and granting loans to customers who generally do business in the area of Westmoreland County, Pennsylvania.

The following summary of accounting and reporting policies is presented to aid the reader in obtaining a better understanding of the consolidated financial statements and related financial data of the corporation and its subsidiaries contained in this report. Such policies conform to generally accepted accounting principles (GAAP) and to general practice within the banking industry. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and income and expenses during the reporting period. Actual results could differ from those estimates.

Certain items of the consolidated financial statements for the years ended December 31, 1999 and 1998 have been reclassified to conform with the December 31, 2000 presentation. None of these reclassifications affected net income.

Securities:

Debt securities that the corporation has the positive intent and ability to hold to maturity are classified as "securities held to maturity" and are reported at amortized cost. Debt and equity securities not classified as held to maturity securities are classified as "securities available for sale" and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Premiums and discounts are recognized as interest income using the interest method over the terms of the securities.

Net gain or loss on the sale of securities is determined using the specific identification method.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1

36177: **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Loans:

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The corporation is generally amortizing these amounts over the contractual life of the loan.

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

Loan fees:

Loan origination and commitment fees, net of associated direct costs, are deferred and the net amount is amortized as an adjustment to the related loan yield on the interest method, generally over the contractual life of the related loans or commitments.

Other real estate owned :

Foreclosed real estate is composed of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure when the bank has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses form operations and changes in the valuation allowance are included in other expenses.

Allowance for loan losses:

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1

36461: **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Allowance for loan losses (continued):

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and equipment:

Premises and equipment are carried at cost less accumulated depreciation and amortization. For financial statement reporting and income tax purposes, depreciation is computed both on straight-line and accelerated methods over the estimated useful life of the premises and equipment. Charges for maintenance and repairs are expensed as incurred. Amortization is charged over the term of the respective lease or the estimated useful life of the asset, whichever is shorter.

Advertising costs:

The corporation follows the policy of charging the costs of advertising expense as incurred. Total advertising expense for the years ended December 31, 2000, 1999 and 1998 was $72,000, $115,000 and $122,000, respectively.

Income taxes:

Certain income and expense items are accounted for in different years for financial reporting purposes than for income tax purposes. Deferred taxes are provided to recognize these temporary differences. The principal items involved are investment securities, employee benefit plans, provision for loan losses, net deferred loan fees and costs and depreciation. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date. Income tax expense is not proportionate to earnings before taxes, principally because a portion of revenues from obligations of states and political subdivisions are nontaxable.

COMMERCIAL NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1

36745: **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Earnings per share:

Earnings per share have been calculated on the weighted average number of shares outstanding of 3,511,603 in 2000, 3,578,894 shares in 1999 and 3,600,000 shares in 1998. The weighted average number of shares outstanding has been adjusted for the effect of a two-for-one stock split effected in the form of a stock dividend for 1998.

The corporation currently maintains a simple capital structure, thus there are no dilutive effects on earnings per share.

Treasury stock:

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissue, the treasury stock is reduced by the cost of such stock on the average cost basis, with any excess proceeds being credited to additional paid-in capital.

Cash and cash equivalents:

For purposes of reporting cash flows, the corporation has defined cash and cash equivalents as those amounts included in the balance sheet caption, "Cash and due from banks on demand".

New accounting standards:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (as amended by Statement Nos. 137 and 138), Accounting for Derivative Instruments and Hedging Activities. This statement and its amendments establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. The statement requires that changes in the fair value of derivatives be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The corporation is required to adopt the statement on January 1, 2001. The adoption of the statement did not have a significant impact on the financial condition or results of operations of the corporation.

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37023: **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

New accounting standards (continued):

In September 2000, the Financial Accounting Standards Board issued Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement replaces SFAS No. 125 of the same name. It revises the standards of securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. This statement is to be applied prospectively with certain exceptions. Other than these exceptions, earlier or retroactive application of its accounting provision is not permitted. The adoption of the statement is not expected to have a significant impact on the corporation.

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37109: **CASH AND DUE FROM BANKS ON DEMAND**

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.) and non-personal time deposits (deposits with original maturities of 14 days or more). Reserves are maintained in the form of vault cash or a non-interest bearing balance held with the Federal Reserve Bank. The bank also maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The average required reserve at December 31, 2000 and 1999 was approximately $ 3,370,000 and $ 2,549,000, respectively.

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37281: **SECURITIES**

The amortized cost and fair values of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
December 31, 2000:				
Obligations of U.S. Government agencies	**$ 12,953,725**	**$ 224,102**	**$ -**	**$ 13,177,827**
Obligations of states and political subdivisions	**18,450,654**	**394,969**	**(101,601)**	**18,744,022**
Mortgage-backed securities	**68,271,470**	**1,392,757**	**(252,224)**	**69,412,003**
Other securities	**3,369,612**	**-**	**-**	**3,369,612**
	$ 103,045,461	**$ 2,011,828**	**$ (353,825)**	**$ 104,703,464**
December 31, 1999:				
U.S. Treasury securities	$ 3,002,818	$ 5,312	$ -	$ 3,008,130
Obligations of U.S. Government agencies	14,497,290	6,120	(60,218)	14,443,192
Obligations of states and political subdivisions	51,542,799	371,814	(903,809)	51,010,804
Mortgage-backed securities	55,067,520	-	(2,158,098)	52,909,422
Other securities	3,371,638	-	-	3,371,638
	$ 127,482,065	$ 383,246	$ (3,122,125)	$ 124,743,186

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SECURITIES (CONTINUED)

The amortized cost and fair values of securities at December 31, 2000 by contractual maturity, are shown below. Mortgage-backed security maturities are based upon their estimated contractual maturities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		Amortized Cost		Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		**22,697,365**		**22,949,200**
Due after five years through ten years		**54,704,507**		**55,177,634**
Due after ten years		**22,273,977**		**23,207,018**
Equity securities		**3,369,612**		**3,369,612**
	$	**103,045,461**	**$**	**104,703,464**

Securities with amortized cost and fair values of $33,896,711 and $33,919,513, respectively, at December 31, 2000 and $62,760,127 and $60,739,684, respectively, at December 31, 1999 were pledged to secure public deposits and for other purposes required or permitted by law.

Gross gains of $400,475, $243,708 and $17,915 and gross losses of $1,092,175, $593,648 and $7,802 were realized on those sales and calls during 2000, 1999 and 1998, respectively.

Equity securities consist of restricted investments of Federal Reserve Bank stock, Federal Home Loan Bank stock and an investment in Commercial National Insurance Services.

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LOANS

Loans at December 31, 2000 and 1999 are summarized as follows :

		2000		1999
Commercial loans	**$**	**25,802,529**	$	23,069,385
Real estate loans:				
Commercial		**66,051,811**		59,386,543
Construction		**2,380,737**		4,275,988
Other		**100,347,143**		99,769,594
Installment loans		**3,433,993**		4,396,065
Municipal loans		**7,114,306**		4,290,289
Other loans		**2,891,746**		9,771,934
	$	**208,022,265**	$	204,959,798

The corporation's loan portfolio is collateralized with assets located within Western Pennsylvania. Although the corporation has a diversified portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

During 2000, the corporation sold its credit card loan portfolio which had a principal balance of $ 6.3 million. The gain recognized on this sale was $ 822,875, which is included in other income.

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ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses are summarized as follows:

	2000	1999	1998
Balance, January 1	**$ 1,919,453**	$ 1,914,174	$ 1,882,251
Loss charged against the allowance	**(395,276)**	(3,308,023)	(412,867)
Recoveries on previously charged-off loans	**36,535**	23,596	9,790
Provision charged to operating expense	**1,176,000**	3,289,706	435,000
Balance, December 31	**$ 2,736,712**	$ 1,919,453	$ 1,914,174

At December 31, 2000 and 1999, the recorded investment in loans considered to be impaired was $ 13,195,222 and $ 3,900,080, respectively. The average recorded investment in impaired loans during 2000, 1999 and 1998 was $ 14,569,050, $ 6,697,653 and $ 4,545,916, respectively. Impaired loan, with balances of $3,656,173 and #288,242 at December 31, 2000 and 1999, had related allowance for loan losses of $1,601,651 and $95,181, respectively. Interest income on impaired loans of $1,302,588, $ 624,414 and $ 331,642 was recognized for cash payments received in 2000, 1999 and 1998, respectively.

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FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, financial standby letters of credit and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amount of those instruments reflect the extent of involvement the corporation has in particular classes of financial instruments. The corporation does not issue any other instruments with significant off-balance-sheet risk.

The corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, financial standby letters of credit and commercial letters of credit written is represented by the contract or notional amount of those instruments. The corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The following table identifies the contract or notional amount of those instruments:

		2000		1999
Financial instruments whose contracts amounts				
represent credit risk:				
Commitments to extend credit	**$**	**35,543,427**	$	