

CNB FINANCIAL CORP/PA
Form 10-Q
August 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

or

.. 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 0-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1450605
(I.R.S. Employer
Identification No.)

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive offices)

Registrant's telephone number, including area code, (814) 765-9621

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the issuer's common stock as of August 2, 2010

COMMON STOCK: \$0 PAR VALUE, 12,201,372 SHARES

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	Forward-Looking Statements	

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our financial condition, liquidity, results of operations, future performance and business. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that are not historical facts. Forward-looking statements include statements with respect to beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (some of which are beyond our control). Forward-looking statements often include words such as believes, expects, anticipates, estimates, intends, plans or similar expressions or future conditional verbs such as may, will, should, would and could. Such known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements include, but are not limited to: changes in

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general business, industry or economic conditions or competition; changes in any applicable law, rule, regulation, policy, guideline or practice governing or affecting financial holding companies and their subsidiaries or with respect to tax or accounting principals or otherwise; adverse changes or conditions in capital and financial markets; changes in interest rates; higher than expected costs or other difficulties related to integration of combined or merged businesses; the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions; changes in the quality or composition of our loan and investment portfolios; adequacy of loan loss reserves; increased competition; loss of certain key officers; continued relationships with major customers; deposit attrition; rapidly changing technology; unanticipated regulatory or judicial proceedings and liabilities and other costs; changes in the cost of funds, demand for loan products or demand for financial services; and other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices. Some of these and other factors are discussed in our annual and quarterly reports filed with the SEC.

The forward-looking statements are based upon management's beliefs and assumptions and are made as of the date of the filing of this document. We undertake no obligation to publicly update or revise any forward-looking statements included in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise, except to the extent required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur and you should not put undue reliance on any forward-looking statements.

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CNB FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	(unaudited) June 30, 2010	December 31, 2009
<u>ASSETS</u>		
Cash and due from banks	\$ 41,934	\$ 19,959
Interest bearing deposits with other banks	2,352	2,399
 Total cash and cash equivalents	 44,286	 22,358
Interest bearing time deposits with other banks	3,667	6,388
Securities available for sale	463,133	345,415
Trading securities	898	955
Loans held for sale		1,218
Loans	743,834	718,022
Less: unearned discount	(2,624)	(2,880)
Less: allowance for loan losses	(10,415)	(9,795)
 Net loans	 730,795	 705,347
FHLB and other equity interests	6,783	6,907
Premises and equipment, net	24,322	23,355
Bank owned life insurance	19,342	16,440
Mortgage servicing rights	898	876
Goodwill	10,821	10,821
Other intangible assets	35	85
Accrued interest receivable and other assets	20,000	21,426
 TOTAL	 \$ 1,324,980	 \$ 1,161,591
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Non-interest bearing deposits	\$ 137,317	\$ 116,310
Interest bearing deposits	957,644	840,548
 Total deposits	 1,094,961	 956,858
Treasury, tax and loan borrowings	1,283	1,380
FHLB and other borrowings	83,946	100,003
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	14,071	13,321
 Total liabilities	 1,214,881	 1,092,182
 Common stock, \$0 par value; authorized 50,000,000 shares; issued 12,599,603 shares at June 30, 2010 and 9,233,750 shares at December 31, 2009		
Additional paid in capital	44,970	12,631

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Retained earnings	71,058	68,676
Treasury stock, at cost (410,820 shares at June 30, 2010 and 472,477 sharesat December 31, 2009)	(6,153)	(7,023)
Accumulated other comprehensive income (loss)	224	(4,875)

Total shareholders equity	110,099	69,409
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TOTAL	\$ 1,324,980	\$ 1,161,591
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See Notes to Consolidated Financial Statements

Table of Contents**CNB FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF INCOME (unaudited)****Dollars in thousands, except per share data**

	Three months ended June 30,	
	2010	2009
INTEREST AND DIVIDEND INCOME:		
Loans including fees	\$ 11,815	\$ 11,404
Deposits with banks	31	60
Securities:		
Taxable	2,929	1,872
Tax-exempt	547	489
Dividends	6	8
Total interest and dividend income	15,328	13,833
INTEREST EXPENSE:		
Deposits	3,368	3,120
Borrowed funds	1,079	1,127
Subordinated debentures	196	219
Total interest expense	4,643	4,466
NET INTEREST INCOME	10,685	9,367
PROVISION FOR LOAN LOSSES	1,161	1,008
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,524	8,359
NON-INTEREST INCOME:		
Wealth and asset management fees	429	409
Service charges on deposit accounts	1,052	1,081
Other service charges and fees	373	372
Net realized and unrealized gains (losses) on securities for which fair value was elected	(139)	93
Mortgage banking	48	344
Bank owned life insurance	200	180
Other	293	272
	2,256	2,751
Total other-than-temporary impairment losses on available-for-sale securities	(318)	(240)
Less portion of loss recognized in other comprehensive income (loss)		
Net impairment losses recognized in earnings	(318)	(240)
Net realized gains on available-for-sale securities	141	291
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	(177)	51

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Total non-interest income	2,079	2,802
NON-INTEREST EXPENSES:		
Salaries and benefits	3,714	3,498
Net occupancy expense of premises	1,016	969
FDIC insurance premiums	386	810
Amortization of intangibles	25	25
Other	2,261	2,508
Total non-interest expenses	7,402	7,810
INCOME BEFORE INCOME TAXES	4,201	3,351
INCOME TAX EXPENSE	1,077	863
NET INCOME	\$ 3,124	\$ 2,488
EARNINGS PER SHARE:		
Basic	\$ 0.34	\$ 0.29
Diluted	\$ 0.34	\$ 0.29
DIVIDENDS PER SHARE:		
Cash dividends per share	\$ 0.165	\$ 0.165
See Notes to Consolidated Financial Statements		

Table of Contents**CNB FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF INCOME (unaudited)****Dollars in thousands, except per share data**

	Six months ended June 30,	
	2010	2009
INTEREST AND DIVIDEND INCOME:		
Loans including fees	\$ 23,127	\$ 22,834
Deposits with banks	63	132
Securities:		
Taxable	5,269	3,778
Tax-exempt	1,023	1,026
Dividends	14	18
Total interest and dividend income	29,496	27,788
INTEREST EXPENSE:		
Deposits	6,808	6,451
Borrowed funds	2,177	2,318
Subordinated debentures	385	449
Total interest expense	9,370	9,218
NET INTEREST INCOME	20,126	18,570
PROVISION FOR LOAN LOSSES	1,746	1,870
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,380	16,700
NON-INTEREST INCOME:		
Wealth and asset management fees	824	779
Service charges on deposit accounts	1,997	2,014
Other service charges and fees	674	721
Net realized and unrealized losses on securities for which fair value was elected	(57)	(58)
Mortgage banking	249	497
Bank owned life insurance	402	360
Other	553	405
	4,642	4,718
Total other-than-temporary impairment losses on available-for-sale securities	(1,102)	(240)
Less portion of loss recognized in other comprehensive income (loss)		
Net impairment losses recognized in earnings	(1,102)	(240)
Net realized gains on available-for-sale securities	573	275
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	(529)	35

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Total non-interest income	4,113	4,753
NON-INTEREST EXPENSES:		
Salaries and benefits	7,691	7,063
Net occupancy expense of premises	2,151	2,073
FDIC insurance premiums	775	1,083
Amortization of intangibles	50	50
Other	4,824	4,900
Total non-interest expenses	15,491	15,169
INCOME BEFORE INCOME TAXES	7,002	6,284
INCOME TAX EXPENSE	1,718	1,570
NET INCOME	\$ 5,284	\$ 4,714
EARNINGS PER SHARE:		
Basic	\$ 0.59	\$ 0.55
Diluted	\$ 0.58	\$ 0.55
DIVIDENDS PER SHARE:		
Cash dividends per share	\$ 0.33	\$ 0.33

See Notes to Consolidated Financial Statements

Table of Contents**CNB FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)****Dollars in thousands**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
NET INCOME	\$ 3,124	\$ 2,488	\$ 5,284	\$ 4,714
Other comprehensive income (loss), net of tax:				
Change in fair value of interest rate swap agreement designated as a cash flow hedge, net of tax of \$50 and (\$108) for the three months ended June 30, 2010 and 2009, and \$82 and (\$120) for the six months ended June 30, 2010 and 2009	(93)	200	(152)	223
Net change in unrealized gains (losses) on securities available for sale:				
Unrealized losses on other-than-temporarily impaired securities available for sale:				
Unrealized losses arising during the period, net of tax of \$129 and \$228 for the three months ended June 30, 2010 and 2009, and \$135 and \$106 for the six months ended June 30, 2010 and 2009	(240)	(423)	(251)	(196)
Reclassification adjustment for losses included in net income, net of tax of (\$111) and (\$84) for the three months ended June 30, 2010 and 2009, and (\$386) and (\$84) for the six months ended June 30, 2010 and 2009	207	156	716	156
	(33)	(267)	465	(40)
Unrealized gains (losses) on other securities available for sale:				
Unrealized gains (losses) arising during the period, net of tax of (\$2,151) and (\$230) for the three months ended June 30, 2010 and 2009, and (\$2,777) and \$523 for the six months ended June 30, 2010 and 2009	3,994	428	5,158	(971)
Reclassification adjustment for accumulated gains included in net income, net of tax of \$50 and \$102 for the three months ended June 30, 2010 and 2009, and \$200 and \$96 for the six months ended June 30, 2010 and 2009	(92)	(189)	(372)	(179)
	3,902	239	4,786	(1,150)
Other comprehensive income (loss)	3,776	172	5,099	(967)
COMPREHENSIVE INCOME	\$ 6,900	\$ 2,660	\$ 10,383	\$ 3,747

See Notes to Consolidated Financial Statements

Table of Contents**CNB FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****Dollars in thousands**

	Six months ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,284	\$ 4,714
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	1,746	1,870
Depreciation and amortization	1,017	993
Amortization, accretion and deferred loan fees and costs	1,054	549
Net impairment losses recognized in earnings and realized gains (losses) on available-for-sale securities	529	(35)
Net realized and unrealized losses on securities for which fair value was elected	57	58
Gain on sale of loans	(183)	(435)
Net gains on dispositions of premises and equipment and foreclosed assets	(88)	
Proceeds from sale of loans	3,695	27,605
Origination of loans held for sale	(5,750)	(31,555)
Increase in bank owned life insurance	(402)	(360)
Stock-based compensation expense	122	56
Changes in:		
Accrued interest receivable and other assets	(1,139)	700
Accrued interest payable and other liabilities	2	1,589
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,944	5,749
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in interest bearing time deposits with other banks	2,721	778
Proceeds from maturities, prepayments and calls of securities	52,476	44,749
Proceeds from sales of securities	38,065	51,227
Purchase of securities	(201,759)	(116,201)
Loan origination and payments, net	(24,210)	(4,176)
Purchase of bank owned life insurance	(2,500)	
Redemption (purchase) of FHLB and other equity interests	124	(1,247)
Purchase of premises and equipment	(1,307)	(797)
Proceeds from the sale of premises and equipment and foreclosed assets	263	66
NET CASH USED IN INVESTING ACTIVITIES	(136,127)	(25,601)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Checking, money market and savings accounts	119,787	57,359
Certificates of deposit	18,316	(26,968)
Proceeds from sale of treasury stock	608	606
Proceeds from exercise of stock options	42	22
Proceeds from stock offering, net of issuance costs	32,414	
Cash dividends paid	(2,902)	(2,848)
Advances from long-term borrowings		625

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Repayment of long-term borrowings	(16,057)	(4,545)
Net change in short-term borrowings	(97)	4,991

NET CASH PROVIDED BY FINANCING ACTIVITIES	152,111	29,242
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NET INCREASE IN CASH AND CASH EQUIVALENTS	21,928	9,390
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CASH AND CASH EQUIVALENTS, Beginning	22,358	31,256
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CASH AND CASH EQUIVALENTS, Ending	\$ 44,286	\$ 40,646
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 9,537	\$ 9,411
Income taxes	\$ 1,986	\$ 630

SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers to other real estate owned	\$ 333	\$ 19
Transfers to assets held for sale	\$	\$ 699
Loans transferred from held for sale to held for investment	\$ 3,321	\$
Grant of restricted stock awards from treasury stock	\$ 233	\$

See Notes to Consolidated Financial Statements

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (SEC) and in compliance with accounting principles generally accepted in the United States of America (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of management of the registrant, the accompanying consolidated financial statements as of June 30, 2010 and for the three and six month periods ended June 30, 2010 and 2009 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the period. The financial performance reported for CNB Financial Corporation (the Corporation) for the three and six month periods ended June 30, 2010 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Corporation's Form 10-K for the period ended December 31, 2009.

STOCK COMPENSATION

The Corporation has a stock incentive plan for key employees and independent directors. The Stock incentive plan, which is administered by a committee of the Board of Directors, provides for up to 500,000 shares of common stock in the form of nonqualified options or restricted stock. For key employees, the plan vesting is one-fourth of the granted options or restricted stock per year beginning one year after the grant date, with 100% vested on the fourth anniversary of the grant. For independent directors, the vesting schedule is one-third of the granted options per year beginning one year after the grant date, with 100% vested on the third anniversary of the grant.

At June 30, 2010, there was no unrecognized compensation cost related to nonvested stock options granted under this plan, and no stock options were granted during the three or six month periods then ended.

Compensation expense for the restricted stock awards is recognized over the requisite service period noted above based on the fair value of the shares at the date of grant. Unearned restricted stock awards are recorded as a reduction of shareholders' equity until earned. Compensation expense resulting from these restricted stock awards was \$45,000 and \$122,000 for the three and six months ended June 30, 2010, and \$31,000 and \$56,000 for the three and six months ended June 30, 2009. As of June 30, 2010, there was \$457,000 of total unrecognized compensation cost related to unvested restricted stock awards.

A summary of changes in unvested restricted stock awards for the three months ended June 30, 2010 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	36,834	\$ 15.11
Granted		
Vested		
Forfeited	(550)	14.98
Nonvested at end of period	36,284	\$ 15.12

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

A summary of changes in unvested restricted stock awards for the six months ended June 30, 2010 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	30,144	\$ 14.83
Granted	16,500	15.00
Vested	(9,810)	14.06
Forfeited	(550)	14.98
Nonvested at end of period	36,284	\$ 15.12

FAIR VALUE***Fair Value Option***

Management elected to adopt the fair value option for its investment in perpetual preferred equity securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as well as its investment in certain other equity securities. Management elected the fair value option for these securities to provide financial statement users with greater visibility into the Corporation's financial instruments that do not have a defined maturity date.

Fair value changes attributable to unrealized gains (losses) that were included in earnings for the three and six months ended June 30, 2010 were (\$139,000) and (\$57,000). Fair value changes included in earnings for the three and six month months ended June 30, 2009 were \$93,000 and (\$58,000). There were no sales of securities for which the fair value option was elected during the three and six months ended June 30, 2010 and 2009.

Dividend income is recorded based on cash dividends and comprises the Dividends line item in the accompanying consolidated statement of income. Dividend income was \$6,000 and \$14,000 for the three and six months ended June 30, 2010, and \$8,000 and \$18,000 for the three and six months ended June 30, 2009.

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has also been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs are used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most trading securities and securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair values of certain mortgage-backed securities and one corporate bond classified as available for sale have been determined by using Level 3 inputs. The Corporation has engaged valuation experts to price these securities using proprietary models, which incorporate

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assumptions that market participants would use in pricing the securities, including bid/ask spreads and liquidity and credit premiums.

Trust preferred securities which are issued by financial institutions and insurance companies are priced using Level 3 inputs. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely, and the once active market has become comparatively inactive.

The Corporation engaged a third party consultant who has developed a model for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral and default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies are utilized in determining individual security valuations. Due to the current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

The Corporation's derivative instrument is an interest rate swap that trades in liquid markets. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgments (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2010 and December 31, 2009:

Description	Total	Fair Value Measurements at June 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Treasury	\$ 9,289	\$	\$ 9,289	\$
U.S. Government sponsored entities	149,480	18,502	130,978	
States and political subdivisions	85,189	11,085	74,104	
Residential mortgage and asset backed	180,779	25,636	154,728	415
Corporate notes and bonds	11,468		10,168	1,300
Pooled trust preferred	1,524			1,524
Pooled SBA	23,691	22,715	976	
Other securities	1,713	1,713		

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Total Securities Available For Sale	\$ 463,133	\$ 79,651	\$ 380,243	\$ 3,239
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Trading Securities:

Equity securities	financial services	\$ 473	\$ 473	\$	\$
Equity securities	health care	144	144		
Equity securities	energy	90	90		
Equity securities	U.S. Government sponsored entities	42	42		
Equity securities	industrials	94	94		
Equity securities	utilities	55	55		

Total Trading Securities	\$ 898	\$ 898	\$	\$
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Liabilities	Interest rate swap	\$ (935)	\$	\$ (935)	\$
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Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

Description	Total	Fair Value Measurements at December 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Treasury	\$ 10,269	\$	\$ 10,269	\$
U.S. Government sponsored entities	106,961	30,643	76,318	
States and political subdivisions	56,561	3,273	53,288	
Residential mortgage and asset backed	145,400	5,625	139,272	503
Corporate notes and bonds	13,631		13,631	
Pooled trust preferred	1,909			1,909
Pooled SBA	8,989	5,017	3,972	
Other securities	1,695	1,695		
Total Securities Available For Sale	\$ 345,415	\$ 46,253	\$ 296,750	\$ 2,412
Trading Securities:				
Equity securities financial services	\$ 440	\$ 440	\$	\$
Equity securities health care	164	164		
Equity securities energy	109	109		
Equity securities U.S. Government sponsored entities	102	102		
Equity securities industrials	81	81		
Equity securities other	59	59		
Total Trading Securities	\$ 955	\$ 955	\$	\$
Liabilities Interest rate swap	\$ (701)	\$	\$ (701)	\$

The table below presents a reconciliation and income statement classification of gains and losses for all securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010:

Three months ended June 30, 2010			Six months ended June 30, 2010		
Residential mortgage and asset	Corporate notes and bonds	Pooled trust preferred	Residential mortgage and asset	Corporate notes and bonds	Pooled trust preferred

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	backed			backed		
Beginning balance	\$ 460	\$ 1,360	\$ 1,894	\$ 503	\$ 1,300	\$ 1,909
Transfers into Level 3 (a) (b)					1,040	
Transfers out of Level 3						
Total gains or losses (realized/unrealized):						
Included in earnings			(318)			(1,102)
Included in other comprehensive income		(60)	(42)		260	727
Purchases, issuances, sales, and settlements:						
Sales						
Settlements	(45)		(10)	(88)		(10)
Ending balance	\$ 415	\$ 1,300	\$ 1,524	\$ 415	\$ 1,300	\$ 1,524

- (a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity for this security.
- (b) The Corporation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The unrealized losses reported in earnings for the three and six months ended June 30, 2010 for Level 3 assets that are still held at June 30, 2010 relate to pooled trust preferred securities deemed to be other-than-temporarily impaired.

During the quarter ended June 30, 2010, the following available for sale securities reported as Level 1 securities as of the beginning of the period were transferred to the Level 2 category:

Description	Fair value on date of transfer
U.S. Government sponsored entities	\$ 10,038
States and political subdivisions	10,248
Residential mortgage and asset backed	15,910
 Total	 \$ 36,196

During the six months ended June 30, 2010, the following available for sale securities reported as Level 1 securities as of the beginning of the period were transferred to the Level 2 category:

Description	Fair value on date of transfer
U.S. Government sponsored entities	\$ 24,643
States and political subdivisions	3,273
Residential mortgage and asset backed	5,625
 Total	 \$ 33,541

These securities were transferred from the Level 1 category to the Level 2 category since there were no longer quoted prices for identical assets in active markets that the Corporation had the ability to access.

During the quarter ended June 30, 2010, one Pooled SBA security that was classified as a Level 2 security at both December 31, 2009 and March 31, 2010 was transferred to the Level 1 category. The fair value on the date of transfer was \$938. This security was transferred since the Corporation was able to access a quoted price for identical assets in an active market.

Assets and liabilities measured at fair value on a non-recurring basis are as follows at June 30, 2010 and December 31, 2009:

Fair Value Measurements at June 30, 2010 Using				
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)		
		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets, Impaired loans	\$ 9,256	\$	\$	\$ 9,256

Fair Value Measurements at December 31, 2009 Using				
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)		
		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets, Impaired loans	\$ 9,471	\$	\$	\$ 9,471

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

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Assets and liabilities measured at fair value on a non-recurring basis are as follows at June 30, 2010 and December 31, 2009:

Description	Total	Fair Value Measurements at June 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, Impaired loans	\$ 9,256	\$	\$	\$ 9,256

Description	Total	Fair Value Measurements at December 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets, Impaired loans	\$ 9,471	\$	\$	\$ 9,471

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a principal balance of \$10,873, with a valuation allowance of \$1,617 as of June 30, 2010, resulting in an additional provision for loan losses of \$142 and \$376 for the three and six months then ended. Impaired loans had a principal balance of \$10,880, with a valuation allowance of \$1,409 as of December 31, 2009, resulting in an additional provision for loan losses of \$730 for the year then ended.

Fair Value of Financial Instruments

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, other borrowings, and variable rate loans, deposits or borrowings that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. It is not practical to determine the fair value of FHLB stock and other equity interests due to restrictions placed on the transferability of these instruments. The fair value of off balance sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements. The fair value of off balance sheet items is not material.

While these estimates of fair value are based on management's judgment of the most appropriate factors as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets had been disposed of or the liabilities settled at that date, since market values may differ depending on various circumstances. The estimated fair values would also not apply to subsequent dates.

In addition, other assets and liabilities that are not financial instruments, such as premises and equipment, are not included in the disclosures. Also, non-financial instruments typically not recognized on the balance sheet may have value but are not included in the fair value disclosures. These include, among other items, the estimated earnings power of core deposits, the earnings potential of trust accounts, the trained workforce, customer goodwill, and similar items.

The following table presents the carrying amount and fair value of financial instruments at June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS				
Cash and cash equivalents	\$ 44,286	\$ 44,286	\$ 22,358	\$ 22,358
Interest bearing time deposits with other banks	3,667	3,681	6,388	6,565
Securities available for sale	463,133	463,133	345,415	345,415
Trading securities	898	898	955	955
Loans held for sale			1,218	1,228
Net loans	730,795	755,929	705,347	728,074
FHLB and other equity interests	6,783	N/A	6,907	N/A
Accrued interest receivable	5,626	5,626	4,728	4,728
LIABILITIES				
Deposits	\$ (1,094,961)	\$ (1,049,178)	\$ (956,858)	\$ (956,231)

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FHLB, Treasury, tax and loan, and other borrowings	(85,229)	(86,140)	(101,383)	(109,753)
Subordinated debentures	(20,620)	(10,092)	(20,620)	(10,609)
Interest rate swap	(935)	(935)	(701)	(701)
Accrued interest payable	(1,739)	(1,739)	(1,906)	(1,906)

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(UNAUDITED)

SECURITIES

Securities available for sale at June 30, 2010 and December 31, 2009 were as follows (in thousands):

	June 30, 2010			December 31, 2009				
	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair		
	Cost	Gains	Losses	Cost	Gains	Losses		Value
U.S. Treasury	\$ 9,213	\$ 77	\$ (1)	\$ 9,289	\$ 5	\$ (24)		\$ 10,269
U.S. Gov t sponsored entities	146,859	2,621		149,480	94	(748)		106,961
State & political subdivisions	83,783	1,571	(165)	85,189	991	(140)		56,561
Residential mortgage & asset backed	178,135	2,705	(61)	180,779	1,188	(666)		145,400
Corporate notes & bonds	15,331		(3,863)	11,468		(5,082)		13,631
Pooled trust preferred	3,482	11	(1,969)	1,524		(2,685)		1,909
Pooled SBA	23,531	186	(26)	23,691	102	(7)		8,989
Other securities	1,670	44	(1)	1,713	28	(3)		1,695
Total	\$ 462,004	\$ 7,215	\$ (6,086)	\$ 463,133	\$ 2,408	\$ (9,355)		\$ 345,415

At June 30, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at June 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

June 30, 2010		Less than 12 Months		12 Months or More		Total	
Description of Securities		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury		\$ 999	\$ (1)	\$	\$	\$ 999	\$ (1)
U.S. Gov t sponsored entities							
State & political subdivisions		13,497	(117)	2,961	(48)	16,458	(165)
Residential mortgage & asset backed		8,149	(36)	7,458	(25)	15,607	(61)
Corporate notes & bonds				11,468	(3,863)	11,468	(3,863)
Pooled trust preferred				368	(1,969)	368	(1,969)
Pooled SBA		8,133	(26)			8,133	(26)
Other securities				148	(1)	148	(1)
		\$ 30,778	\$ (180)	\$ 22,403	\$ (5,906)	\$ 53,181	\$ (6,086)

December 31, 2009	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
U.S. Treasury	\$ 6,201	\$ (24)	\$	\$	\$ 6,201	\$ (24)
U.S. Gov t sponsored entities	49,420	(748)			49,420	(748)
State & political subdivisions	9,865	(103)	3,710	(37)	13,575	(140)
Residential mortgage & asset backed	68,293	(644)	3,198	(22)	71,491	(666)
Corporate notes & bonds			13,631	(5,082)	13,631	(5,082)
Pooled trust preferred			1,909	(2,685)	1,909	(2,685)
Pooled SBA	1,009	(7)			1,009	(7)
Other securities			146	(3)	146	(3)
	\$ 134,788	\$ (1,526)	\$ 22,594	\$ (7,829)	\$ 157,382	\$ (9,355)

The Corporation evaluates securities for other-than-temporary impairment on a quarterly basis, or more frequently when economic or market conditions warrant such an evaluation.

At June 30, 2010, management evaluated the structured pooled trust preferred securities for other-than-temporary impairment by estimating the cash flows expected to be received from each security within the collateral pool, taking into account estimated levels of deferrals and defaults by the underlying issuers, and discounting those cash flows at the appropriate

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

accounting yield. Management also assumed that all issuers in deferral will default prior to their next payment date. Trust preferred collateral is deeply subordinated within issuers' capital structures, so large recoveries are unlikely. Accordingly, management assumed 10% recoveries on bank collateral and none on collateral issued by other companies. Due to the current crisis in the U.S. economy, management also added a baseline default rate of 2% annually for the next two years to our default projections for specific issuers. This percentage represents the peak, post-war bank default rate that occurred at the height of the savings and loan crisis, which we believe is an accurate proxy for the current environment. Within the next two years, management expects that credit markets will normalize and that banks with the financial strength to survive will default at a .36% average annual rate, which represents Moody's idealized default probability for BBB corporate credits, and is in line with historical bank failure rates.

Using this methodology, five of the Corporation's structured pooled trust preferred securities are deemed to be other-than-temporarily impaired. An impairment loss for the entire cost basis of two of these securities was recognized in earnings prior to 2010, and impairment losses for the remaining securities were recognized in earnings during the three and six months ended June 30, 2010 as disclosed in the table on the following page. The Corporation separated the other-than-temporary impairment related to these structured pooled trust preferred securities into (a) the amount of the total impairment related to credit loss, which is recognized in the income statement, and (b) the amount of the total impairment related to all other factors, which is recognized in other comprehensive income. The Corporation measured the credit loss component of other-than-temporary impairment based on the difference between the cost basis and the present value of cash flows expected to be collected.

The following table provides detailed information related to the Corporation's structured pooled trust preferred securities as of and for the three and six months ended June 30, 2010:

	Adjusted Amortized Cost	Unrealized Gain (Loss)	Fair Value	Credit Losses Realized in Earnings Three Months Ended June 30, 2010	Credit Losses Realized in Earnings Six Months Ended June 30, 2010
ALESCO Preferred Funding V, Ltd.	\$ 1,040	\$ (760)	\$ 280	\$ 200	\$ 200
ALESCO Preferred Funding XII, Ltd.	429	(410)	19		784
ALESCO Preferred Funding XVII, Ltd.					
Preferred Term Securities XVI, Ltd.	868	(799)	69	118	118
US Capital Funding VI, Ltd.					
MM Community Funding II, Ltd.	1,145	11	1,156		
Total	\$ 3,482	\$ (1,958)	\$ 1,524	\$ 318	\$ 1,102

A roll-forward of the other-than-temporary impairment amount related to credit losses for the three months ended June 30, 2010 is as follows:

Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, beginning of period	\$ 2,199
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Additional credit loss for which other-than-temporary impairment was not previously recognized	318
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Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, end of period	\$ 2,517
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Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

A roll-forward of the other-than-temporary impairment amount related to credit losses for the six months ended June 30, 2010 is as follows:

Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, beginning of period	\$ 1,415
Additional credit loss for which other-than-temporary impairment was not previously recognized	1,102
 Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, end of period	 \$ 2,517

At June 30, 2010, approximately 32% of the total unrealized losses relate to structured pooled trust preferred securities, primarily from issuers in the financial services industry, which are not currently trading in an active, open market with readily observable prices. As a result, these securities were classified within Level 3 of the valuation hierarchy. The fair values of these securities have been calculated using a discounted cash flow model and market liquidity premium. With the current market conditions, the assumptions used to determine the fair value of Level 3 securities has greater subjectivity due to the lack of observable market transactions. The fair values of these securities have declined due to the fact that subsequent offerings of similar securities pay a higher market rate of return. This higher rate of return reflects the increased credit and liquidity risks in the marketplace. Except as described above, based on management's evaluation of the structured pooled trust preferred securities, the present value of the projected cash flows is sufficient for full repayment of the amortized cost of the securities and, therefore, it is believed that the decline in fair value is temporary due to current market conditions. However, without recovery of these securities, other-than-temporary impairments may occur in future periods.

For all of the securities that comprise corporate notes and bonds, management monitors publicly available financial information such as filings with the Securities and Exchange Commission in order to evaluate the securities for other-than-temporary impairment. For financial institution issuers, management also monitors information from quarterly call report filings that are used to generate Uniform Bank Performance Reports. When reviewing this information, management considers the financial condition and near term prospects of the issuer and whether downgrades by bond rating agencies have occurred. The Corporation does not intend to sell and it is not more likely than not that it will be required to sell the securities in an unrealized loss position before recovery of its amortized cost basis.

As of June 30, 2010 and December 31, 2009, management concluded that the previously mentioned securities were not other-than-temporarily impaired for the following reasons:

There is no indication of any significant deterioration of the creditworthiness of the institutions that issued the securities.

The unrealized losses are predominantly attributable to liquidity disruptions within the credit markets and the generally stressed condition of the financial services industry.

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All contractual interest payments on the securities have been received as scheduled, and no information has come to management's attention through the processes previously described which would lead to a conclusion that future contractual payments will not be received timely.

Information pertaining to security sales is as follows:

	Proceeds	Gross Gains	Gross Losses
Three months ended June 30, 2010	\$ 11,095	\$ 141	(\$)
Six months ended June 30, 2010	\$ 38,065	\$ 587	(\$ 14)

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year or less	\$ 35,044	\$ 35,236	\$ 27,183	\$ 27,175
1 year 5 years	67,285	68,325	74,532	74,608
5 years 10 years	119,389	121,364	61,617	61,077
After 10 years	60,481	55,716	42,482	35,460
	282,199	280,641	205,814	198,320
Residential mortgage & asset backed securities	178,135	180,779	144,878	145,400
Total debt securities	\$ 460,334	\$ 461,420	\$ 350,692	\$ 343,720

Mortgage and asset backed securities are not due at a single date; periodic payments are received based on the payment patterns of the underlying collateral.

LOANS

Total loans at June 30, 2010 and December 31, 2009 are summarized as follows:

	June 30, 2010	December 31, 2009
Residential mortgage	\$ 247,973	\$ 225,845
Commercial, industrial, and agricultural	241,794	240,357
Commercial mortgage	199,201	194,718
Consumer and other	54,866	57,102
	\$ 743,834	\$ 718,022

At June 30, 2010 and December 31, 2009, net unamortized loan costs and fees of (\$387) and (\$417), respectively, have been included in the carrying value of loans.

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The Corporation's outstanding loans and related unfunded commitments are primarily concentrated within Central and Western Pennsylvania. The Bank attempts to limit concentrations within specific industries by utilizing dollar limitations to single industries or customers, and by entering into participation agreements with third parties. Collateral requirements are established based on management's assessment of the customer.

Deposit accounts that have overdrawn their current balance, known as overdrafts, are reclassified to loans. Overdrafts included in loans are \$329 at June 30, 2010 and \$391 at December 31, 2009.

Impaired loans are as follows at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Loans with no allocated allowance for loan losses	\$ 3,082	\$ 3,182
Loans with allocated allowance for loan losses	10,873	10,880
	\$ 13,955	\$ 14,062

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CNB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Amount of the allowance for loan losses allocated	\$ 1,617	\$ 1,409
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Average impaired loans outstanding during the three and six month periods ended June 30, 2010 were \$14,718 and \$15,046, respectively. Interest income recognized during impairment and cash basis interest income recognized was not material in any period presented.

Nonaccrual loans and loans past 90 days still on accrual at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Loans past due over 90 days still on accrual	\$ 1,615	\$ 584
Nonaccrual loans	9,984	12,757

Nonaccrual loans and loans past 90 days still on accrual include impaired loans that are not performing and smaller balance homogeneous loans, such as residential mortgage and consumer loans, that are collectively evaluated for impairment.

FEDERAL HOME LOAN BANK (FHLB) STOCK

As a member of the Federal Home Loan Bank of Pittsburgh (FHLB), the Corporation is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants.

As of June 30, 2010, the Corporation holds \$5,401 of stock in FHLB. In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity, and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

its operating performance;

the severity and duration of declines in the fair value of its net assets related to its capital stock amount;

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its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and

its liquidity and funding position

After evaluating all of these considerations, the Corporation concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****DEPOSITS**

Total deposits at June 30, 2010 and December 31, 2009 are summarized as follows (in thousands):

	Percentage Change	June 30, 2010	December 31, 2009
Checking, non-interest bearing	18.1%	\$ 137,317	\$ 116,310
Checking, interest bearing	4.6%	255,535	244,218
Savings accounts	32.0%	360,559	273,096
Certificates of deposit	5.7%	341,550	323,234
	14.4%	\$ 1,094,961	\$ 956,858

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per share is computed using the weighted average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. For the three and six month periods ended June 30, 2010, 86,750 shares under option were excluded from the diluted earnings per share calculations since they were anti-dilutive. For the three and six month periods ended June 30, 2009, 134,875 and 152,337 shares respectively were excluded from the diluted earnings per share calculations since they were anti-dilutive.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Corporation has determined that its outstanding non-vested stock awards are participating securities

The computation of basic and diluted EPS is shown below (in thousands except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Basic earnings per common share computation:				
Distributed earnings allocated to common stock	\$ 1,447	\$ 1,423	\$ 2,892	\$ 2,841
Undistributed earnings allocated to common stock	1,665	1,060	2,371	1,864
Net earnings allocated to common stock	\$ 3,112	\$ 2,483	\$ 5,263	\$ 4,705

Weighted average common shares outstanding, including shares considered participating securities	9,253	8,640	9,019	8,624
Less: Average participating securities	(31)	(14)	(32)	(15)

Weighted average shares	9,222	8,626	8,987	8,609
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Basic earnings per common share	\$ 0.34	\$ 0.29	\$ 0.59	\$ 0.55
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Diluted earnings per common share computation:

Net earnings allocated to common stock	\$ 3,112	\$ 2,483	\$ 5,263	\$ 4,705
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Weighted average common shares outstanding for basic earnings per common share	9,222	8,626	8,987	8,609
Add: Dilutive effects of assumed exercises of stock options	9	15	11	11

Table of Contents**CNB FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

Weighted average shares and dilutive potential common shares	9,231	8,641	8,998	8,620
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Diluted earnings per common share	\$ 0.34	\$ 0.29	\$ 0.58	\$ 0.55
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COMMON STOCK ISSUANCE

On June 18, 2010, the Corporation completed an equity offering, resulting in the issuance of 3,365,853 shares of common stock at \$10.25 per share. In total, the Corporation raised proceeds of \$32,414, net of issuance costs accrued on or prior to June 30, 2010.

DERIVATIVE INSTRUMENTS

The Corporation records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of the changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Corporation assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

On August 1, 2008, the Corporation executed an interest rate swap agreement with a 5 year term to hedge \$10 million of a subordinated note that was entered into by the Corporation during 2007 and elected cash flow hedge accounting for the agreement. The Corporation's objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. At June 30, 2010, the variable rate on the subordinated debt was 2.09% (LIBOR plus 155 basis points) and the Corporation was paying 5.84% (4.29% fixed rate plus 155 basis points).

As of June 30, 2010, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Corporation does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following tables provide information about the amounts and locations of activity related to the interest rate swap designated as a cash flow hedge within the Corporation's consolidated balance sheet and statement of income as of June 30, 2010 and for the three and six month periods then ended (in thousands):

As of June 30, 2010

	Liability Derivative	Fair
	Balance Sheet Location	Value

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Interest rate contract	Accrued interest payable and other liabilities	(\$ 935)
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For the Three Months

Ended June 30, 2010

	(a)	(b)	(c)	(d)	(e)
	Interest expense				
Interest rate contract	\$ (93)	subordinated debentures	(\$ 101)	Other income	\$

For the Six Months

Ended June 30, 2010

	Interest expense				
Interest rate contract	\$ (152)	subordinated debentures	(\$ 202)	Other income	\$

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CNB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

- (a) Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivative (Effective Portion), net of tax
- (b) Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
- (c) Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
- (d) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
- (e) Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)

Amounts reported in accumulated other comprehensive loss related to the interest rate swap will be reclassified to interest expense as interest payments are made on the subordinated debentures. Such amounts reclassified from accumulated other comprehensive loss to interest expense in the next 12 months are expected to approximate \$375,000.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2010, the FASB issued Accounting Standards Update No. 2010-11, Derivatives and Hedging (Topic 815); Scope Exception Related to Embedded Credit Derivatives. This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. For example, the cash flows associated with a typical collateralized debt obligation are allocated first to senior tranches then to subordinated tranches as available. This results in an embedded credit derivative as the cash flows to the lower tranches are subordinated to the more senior tranches. Entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. In initially adopting the amendments in this update, an entity may elect the fair value option for any investment in a beneficial interest in a securitized financial asset. The amendments in this update are effective at the beginning of an entity's first fiscal quarter beginning after June 15, 2010, and early adoption is permitted. The Corporation is not adopting the fair value option for its structured pooled trust preferred securities; therefore, the adoption of this update is not expected to have a material effect on the Corporation's results of operations or financial position.

In April 2010, the FASB issued Accounting Standards Update No. 2010-12, Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts. This update clarifies the view of the Securities and Exchange Commission with respect to a registrant's incorporation of the effects of the Health Care and Education Reconciliation Act of 2010 when accounting for the Patient Protection and Affordable Care Act. The update was effective on issuance and did not have a material effect on the Corporation's results of operations or financial position.

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial statements of CNB Financial Corporation (the "Corporation") is presented to provide insight into management's assessment of financial results. The Corporation's principal subsidiary, CNB Bank (the "Bank"), provides financial services to individuals and businesses primarily within the west central Pennsylvania counties of Cambria, Clearfield, Centre, Elk, Jefferson and McKean. ERIEBANK, a division of CNB Bank, provides financial services to individuals and businesses in the northwestern Pennsylvania counties of Erie and Crawford. The Bank is subject to regulation, supervision and examination by the Pennsylvania State Department of Banking as well as the Federal Deposit Insurance Corporation. The financial condition and results of operations are not necessarily indicative of future performance. One of the Corporation's subsidiaries, CNB Securities Corporation, is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company, also a subsidiary, is an Arizona Corporation, and provides credit life and disability insurance for customers of CNB Bank. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. Holiday Financial Services Corporation ("Holiday"), incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics. Management's discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes.

GENERAL OVERVIEW

In September 2009, the Corporation expanded its ERIEBANK franchise by opening a temporary location in Meadville, Pennsylvania and construction of a full service office was completed in the second quarter of 2010. Management believes that our ERIEBANK division, along with our traditional CNB Bank market areas, should provide the Bank with moderate loan growth during 2010. Deposit growth was significant in 2009 and the first six months of 2010 as a result of the Corporation's continued offering of competitive rates and growth of its ERIEBANK franchise. Deposit growth is expected to be moderate throughout the remainder of 2010 due to the continued historically low interest rate environment and the resulting adjustments that management made to certain deposit rates in the first quarter of 2010.

While non-interest costs are expected to increase with the growth of the Corporation's banking and consumer discount loan franchises, these new ventures should continue to provide growth in earning assets as well as growth in relationships and enhanced non-interest income which we believe will more than offset these costs in 2010 and beyond. In addition, throughout 2009 and the first six months of 2010, management conducted a cost management study covering all areas of non-interest expense. Cost savings as a result of this study were recognized in 2009 and the first six months of 2010, with benefits expected to continue into subsequent periods.

The interest rate environment will continue to play an important role in the future earnings of the Corporation. We experienced some compression of our net interest margin in the first six months of 2010 as a result of the current interest rate environment. However, management will continue to apply a disciplined approach to managing our balance sheet in these uncertain times. We have taken measures such as instituting rate floors on our commercial lines of credit and home equity lines as a result of the historic lows on various key interest rates such as the Prime Rate and 3-month LIBOR. The Corporation's net interest margin increased from 3.57% for the three months ended March 31, 2010 to 3.67% for the six months ended June 30, 2010 as the Corporation continued to attract and deploy low cost core deposits and was able to actively manage the cost of its existing deposit base.

In addition, we will implement strategies intended to effectively reduce our cost of funds. Due to our continued growth, non-interest income should be enhanced in several areas including trust income, service charges and other fees. While our business plan continues to focus on commercial lending, we also offer a full service approach to servicing the needs of high net worth individuals through our Private Banking groups in both our CNB Bank and ERIEBANK franchises.

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Management concentrates on return on average equity and earnings per share evaluations, plus other methods to measure and direct the performance of the Corporation. While past results are not an indication of future earnings, we feel the Corporation is positioned to sustain core earnings through the remainder of 2010.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled \$44.3 million at June 30, 2010 compared to \$22.4 million at December 31, 2009. Cash and cash equivalents will fluctuate based on the timing and amount of liquidity events that occur in the normal course of business. During the first six months of 2010, the Corporation had significant deposit growth that was not immediately invested in the securities portfolio. During the third quarter of 2010, management expects to reduce its cash and cash equivalents balance as a result of loan growth and new investments in the securities portfolio.

We believe the liquidity needs of the Corporation are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, and the portion of the investment and loan portfolios that mature within one year. These sources of funds will enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due.

SECURITIES

Securities available for sale and trading securities have combined to increase \$117.7 million or 34.0% since December 31, 2009. The increase is primarily the result of purchases of securities issued by government sponsored entities and securities issued by state and local political subdivisions, and resulted from deposit growth and proceeds from the Corporation's capital raise not reinvested in loans.

The Corporation's structured pooled trust preferred securities currently do not trade in an active, open market with readily observable prices and are therefore classified within Level 3 of the valuation hierarchy. The fair value of these securities has been calculated using a discounted cash flow model and market liquidity premium. With the current market conditions, the assumptions used to determine the fair value of Level 3 securities has greater subjectivity due to the lack of observable market transactions. The fair values of these securities have declined due to the fact that the subsequent offerings of similar securities pay a higher market rate of return. The higher rate of return reflects the increased credit and liquidity risks in the market.

When the structured pooled trust preferred securities were purchased, they were considered to be investment grade based on ratings assigned by Moody's. As a result of liquidity disruptions within the credit markets and the generally stressed conditions within the financial services industry, Moody's has downgraded the rating of these securities since they were purchased by the Corporation. As of June 30, 2010, the Corporation held three structured pooled trust preferred securities rated Ca by Moody's having an amortized cost of \$2,337,000 and fair value of \$368,000, and one structured pooled trust preferred security rated Baa2 by Moody's having an amortized cost of \$1,145,000 and fair value of \$1,156,000. Based on our evaluation of certain structured pooled trust preferred securities, the present value of the projected cash flows was not sufficient for full repayment of the amortized cost for three of the securities resulting in total impairment charges realized during the first six months and second quarter of 2010 of \$1,102,000 and \$318,000, respectively. For the other pooled trust preferred security, the present value of the projected cash flows was sufficient for full repayment of amortized cost, and, therefore, it is believed the decline in fair value is temporary due to current market conditions. However, without recovery, other-than-temporary impairments may occur in future periods.

During the first six months of 2010, management sold certain debt securities in an attempt to re-position a portion of its portfolio into lower risk-weighted assets. Proceeds from the sales were reinvested in other available for sale securities. Individually and in the aggregate, none of these sales resulted in the realization of a significant loss.

The Corporation generally buys into the market over time and does not attempt to time its transactions. In doing this, the highs and lows of the market are averaged into the portfolio and minimize the overall effect of different rate environments. We monitor the earnings performance and the effectiveness of the liquidity of the securities portfolio on a regular basis through Asset/Liability Committee (ALCO) meetings. The ALCO also reviews and manages interest rate risk for the

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Corporation. Through active balance sheet management and analysis of the securities portfolio, we maintain a sufficient level of liquidity to satisfy depositor requirements and various credit needs of our customers.

LOANS

The Corporation experienced an increase in loans, net of unearned discount, of \$26.1 million, or 3.6%, during the first six months of 2010. Our lending is focused in the west, central and northwest Pennsylvania markets and consists principally of commercial and retail lending, which includes single family residential mortgages and other consumer loans. The Corporation views commercial lending as its competitive advantage and continues to focus on this area by hiring and retaining experienced loan officers and supporting them with quality credit analysis. The Corporation expects moderate loan demand throughout the remainder of 2010.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established by provisions for losses in the loan portfolio as well as overdrafts in deposit accounts. These provisions are charged against current income. Loans and overdrafts deemed not collectible are charged off against the allowance while any subsequent collections are recorded as recoveries and increase the allowance. The table below shows activity within the allowance account (in thousands):

	Six months ended June 30, 2010	Year ending December 31, 2009	Six months ended June 30, 2009
Balance at beginning of period	\$ 9,795	\$ 8,719	\$ 8,719
Charge-offs:			
Commercial, industrial, and agricultural	226	860	153
Commercial mortgages	91	381	78
Residential mortgages	175	378	228
Consumer	656	1,723	900
Overdraft deposit accounts	108	269	108
	1,256	3,611	1,467
Recoveries:			
Commercial, industrial, and agricultural	3	2	1
Commercial mortgages	3		
Residential mortgages	3	1	
Consumer	55	75	45
Overdraft deposit accounts	66	144	62
	130	222	108
Net charge-offs	(1,126)	(3,389)	(1,359)
Provision for loan losses	1,746	4,465	1,870
Balance at end of period	\$ 10,415	\$ 9,795	\$ 9,230
Loans, net of unearned discount	\$ 741,210	\$ 715,142	\$ 674,182
Allowance to net loans	1.41%	1.37%	1.37%
Net charge-offs to average loans	0.31%	0.49%	0.40%
Nonperforming assets	\$ 12,004	\$ 13,593	\$ 7,028
Nonperforming assets divided by total loans plus other real estate owned	1.62%	1.90%	1.04%

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The adequacy of the allowance for loan losses is subject to a formal analysis by the credit administrator of the Corporation. As part of the formal analysis, delinquencies and losses are monitored monthly. The loan portfolio is divided into several categories in order to better analyze the entire pool. First is a selection of classified loans that is given a specific reserve. The remaining loans are pooled, by category, into these segments:

Reviewed

Commercial, industrial, and agricultural

Commercial mortgages

Homogeneous

Residential real estate

Consumer

Credit cards

Overdrafts

The reviewed loan pools are further segregated into four categories: special mention, substandard, doubtful, and unclassified. Historical loss factors are calculated for each pool excluding overdrafts based on the previous eight quarters of experience. The homogeneous pools are evaluated by analyzing the historical loss factors from the most previous quarter end and the two most recent year ends. The historical loss factors for both the reviewed and homogeneous pools are adjusted based on these six qualitative factors:

Levels of and trends in delinquencies, non-accrual loans, and classified loans

Trends in volume and terms of loans

Effects of any changes in lending policies and procedures

Experience, ability and depth of management

National and local economic trends and conditions

Concentrations of credit

The methodology described above was created using the experience of our credit administrator, guidance from the regulatory agencies, expertise of our third party loan review provider, and discussions with our peers. The resulting factors are applied to the pool balances in order to estimate

the probable risk of loss within each pool. Prudent business practices dictate that the level of the allowance, as well as corresponding charges to the provision for loan losses, should be commensurate with identified areas of risk within the loan portfolio and the attendant risks inherent therein. The quality of the credit risk management function and the overall administration of this vital segment of the Corporation's assets are critical to the ongoing success of the Corporation.

The previously mentioned analysis considered numerous historical and other factors to analyze the adequacy of the allowance and current period charges against the provision for loan losses. Management paid special attention to a section of the analysis that compared and plotted the actual level of the allowance against the aggregate amount of loans adversely classified in order to compute the estimated probable losses associated with those loans. By noting the spread at the present time, as well as prior periods, management can determine the current adequacy of the allowance as well as evaluate trends that may be developing. The volume and composition of the Corporation's loan portfolio continue to reflect growth in commercial credits including commercial real estate loans.

As mentioned in the Loans section of this analysis, management considers commercial lending a competitive advantage and continues to focus on this area as part of its strategic growth initiatives. However, management must also consider the fact that the inherent risk is more pronounced in these types of credits and is also driven by the economic environment of its market areas.

During the six month period ended June 30, 2010, the Corporation decreased its provision for loan losses as compared to the six month period ended June 30, 2009. The decrease was a result of reductions in net charge-offs, primarily in the consumer discount portfolio.

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Nonperforming assets have increased significantly from June 30, 2009 to June 30, 2010, primarily due to the effect of the overall challenging economic environment on certain borrowers. One large commercial loan, a shared national credit in which the Corporation participates, with a carrying value of \$3.8 million was placed on nonaccrual status during the quarter ended September 30, 2009. Management has reviewed this loan to determine if a specific loss allocation was required and has determined that no significant allocation is warranted at this time. In addition, most of the Corporation's loans that have nonaccrual status are also impaired and subject to the Corporation's specific loss allocation process. The resulting specific losses identified have remained consistent. As such, during the twelve month period ended June 30, 2010, the allowance for loan losses as a percentage of net loans increased by four basis points from 1.37% at June 30, 2009 to 1.41% at June 30, 2010 due to reserves related to loans that do not require a specific allocation, primarily as a result of the current economic environment.

Management believes that both its 2010 provision and allowance for loan losses are reasonable and adequate to absorb probable incurred losses in its portfolio at June 30, 2010.

PREMISES AND EQUIPMENT

Premises and equipment increased \$967 thousand, or 4.1%, since December 31, 2009. This increase is the result of growth initiatives with the ERIEBANK division. As mentioned in the General Overview section, the Corporation completed the construction of a full service branch in Meadville, Pennsylvania in the second quarter of 2010.

BANK OWNED LIFE INSURANCE

The Corporation has periodically purchased Bank Owned Life Insurance (BOLI). The policies cover executive officers and a select group of other employees with the Bank being named as beneficiary. Earnings from the BOLI assist the Corporation in offsetting its benefit costs. During the first quarter of 2010, additional BOLI of \$2.5 million was purchased.

FUNDING SOURCES

The Corporation considers deposits, short-term borrowings, and term debt when evaluating funding sources. Traditional deposits continue to be the main source of funds in the Corporation, increasing \$138.1 million from \$956.9 million at December 31, 2009 to \$1,095.0 million at June 30, 2010. The growth in deposits was primarily due to increases in savings accounts of \$87.5 million as a result of the Corporation's offering of competitive rates and growth of its ERIEBANK franchise. In addition, the Corporation's non-interest bearing checking deposits increased by \$21.0 million since December 31, 2009 due to increases in business and consumer checking balances totaling \$11.9 million, as well as temporary deposits totaling \$9.1 million.

During the first six months of 2010, the Corporation continued to expand its business and consumer relationships in the ERIEBANK market, including the territory that is served by its new Meadville, Pennsylvania branch. In addition, a large regional bank that had a significant presence in northwestern Pennsylvania merged with another financial institution in 2009, resulting in opportunities to market the Corporation's deposit products to potential new customers.

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding needs. Management plans to maintain access to short- and long-term borrowings as an available funding source when deemed appropriate.

SHAREHOLDERS EQUITY AND CAPITAL RATIOS AND METRICS

On June 18, 2010, the Corporation completed an equity offering, resulting in the issuance of 3,365,853 shares of common stock at \$10.25 per share. In total, the Corporation raised proceeds of \$32.4 million, net of issuance costs accrued on or prior to June 30, 2010. Prior to June 30, 2010, the Corporation used proceeds from the offering of approximately \$9.1 million to repay long-term debt. In addition \$20.0 million was invested in CNB Bank.

The Corporation's capital continued to provide a base for profitable growth through June 30, 2010. Total shareholders' equity was \$110.1 million at June 30, 2010 and \$69.4 million at December 31, 2009. In the first six months of 2010, the

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Corporation earned \$5.3 million and declared dividends of \$2.9 million, a dividend payout ratio of 54.9% of net income. The Corporation has also complied with the standards of capital adequacy mandated by the banking regulators. Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets), is assigned to each asset on the balance sheet.

The Corporation's capital ratios and book value per common share as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Total risk-based capital ratio	15.92%	11.95%
Tier 1 capital ratio	14.67%	10.70%
Leverage ratio	9.65%	7.87%
Tangible common equity/tangible assets (1)	7.55%	5.08%
Book value per share	\$ 9.03	\$ 7.92
Tangible book value per share (1)	\$ 8.14	\$ 6.68

- (1) Tangible common equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity is calculated by excluding the balance of goodwill and other intangible assets from the calculation of stockholders' equity. Tangible assets is calculated by excluding the balance of goodwill and other intangible assets from the calculation of total assets. Tangible book value per share is calculated by dividing tangible common equity by the number of shares outstanding. The Corporation believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition. Because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. A reconciliation of these non-GAAP financial measures is provided below (dollars in thousands, except per share data).

	June 30, 2010	December 31, 2009
Shareholders' equity	\$ 110,099	\$ 69,409
Less goodwill	10,821	10,821
Less other intangible assets	35	85
Tangible common equity	\$ 99,243	\$ 58,503
Total assets	\$ 1,324,980	\$ 1,161,591
Less goodwill	10,821	10,821
Less other intangible assets	35	85
Tangible assets	\$ 1,314,124	\$ 1,150,685
Ending shares outstanding	12,188,783	8,761,273
Tangible book value per share	\$ 8.14	\$ 6.68
Tangible common equity/tangible assets	7.55%	5.08%

LIQUIDITY

Liquidity measures an organization's ability to meet cash obligations as they come due. The consolidated statement of cash flows presented on page 7 provides analysis of the Corporation's cash and cash equivalents. Additionally, management considers that portion of the loan and investment portfolio that matures within one year as part of the Corporation's liquid assets. The Corporation's liquidity is monitored by both management and the ALCO, which establishes and monitors ranges of acceptable liquidity. Management believes the Corporation's current liquidity position is acceptable.

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OFF BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. The contractual amount of financial instruments with off-balance sheet risk was as follows at June 30, 2010 (in thousands):

Commitments to extend credit	\$ 204,195
Standby letters of credit	20,868
	\$ 225,063

Table of Contents**CNB FINANCIAL CORPORATION****CONSOLIDATED YIELD COMPARISONS****AVERAGE BALANCES AND NET INTEREST MARGIN FOR THE SIX MONTHS ENDED**

Dollars in thousands

	June 30, 2010			June 30, 2009		
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
ASSETS:						
Interest-bearing deposits with other banks	\$ 7,089	1.78%	\$ 63	\$ 9,054	2.92%	\$ 132
Federal funds sold and securities purchased under agreements to resell				2	0.00%	
Securities:						
Taxable (1)	351,238	2.95%	5,269	195,154	3.65%	3,778
Tax-Exempt (1,2)	57,138	5.38%	1,506	52,316	5.79%	1,483
Equity Securities (1,2)	1,658	2.17%	18	1,428	3.36%	24
Total securities	410,034	3.28%	6,793	248,898	4.07%	5,285
Loans:						
Commercial (2)	254,637	5.75%	7,317	240,537	5.75%	6,920
Mortgage (2)	416,933	6.21%	12,940	388,487	6.51%	12,646
Consumer	49,448	13.15%	3,251	47,526	14.96%	3,556
Total loans (3)	721,018	6.52%	23,508	676,550	6.84%	23,122
Total earning assets	1,138,141	5.32%	\$ 30,364	934,504	6.04%	\$ 28,539
Non interest-bearing assets:						
Cash and due from banks	39,067			36,135		
Premises and equipment	23,994			23,424		
Other assets	54,056			49,327		
Allowance for loan losses	(10,040)			(9,047)		
Total non interest-bearing assets	107,077			99,839		
TOTAL ASSETS	\$ 1,245,218			\$ 1,034,343		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Demand - interest-bearing	\$ 245,968	0.72%	889	\$ 242,389	0.87%	1,052
Savings	328,971	1.41%	2,315	163,810	1.72%	1,408
Time	340,838	2.11%	3,604	323,349	2.47%	3,991
Total interest-bearing deposits	915,777	1.49%	6,808	729,548	1.77%	6,451

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Short-term borrowings	1,863	0.21%	2	2,375	0.34%	4
Long-term borrowings	95,760	4.54%	2,175	106,656	4.34%	2,314
Subordinated debentures	20,620	3.73%	385	20,620	4.35%	449