CNB FINANCIAL CORP/PA
Form 10-K
March 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 1 0 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011 Commission File Number 0-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1450605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive office)

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, no par value per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ Yes x No

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

Indicate by check mark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ 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

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 x 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 Act).

¨ Yes x No

Aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011:

$160,097,654

The number of shares outstanding of the registrant s common stock as of March 5, 2012:

12,419,245 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held on April 17, 2012 are incorporated by reference into Part III.

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PART I.

ITEM 1. BUSINESS

CNB Financial Corporation (the Corporation) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. It was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 for the purpose of engaging in the business of a financial holding company. On April 26, 1984, the Corporation acquired all of the outstanding capital stock of County National Bank, a national banking chartered institution. In December 2006, County National Bank changed its name to CNB Bank, referred to herein as the Bank, and became a state bank chartered in Pennsylvania and subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation.

In addition to the Bank, the Corporation has four other subsidiaries. CNB Securities Corporation, is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company 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, incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

CNB Bank

The Bank was incorporated in 1934 and is chartered in the Commonwealth of Pennsylvania. The Bank has 27 full service branch offices and one loan production office located in various communities in its market area. The Bank s primary market area consists of the Pennsylvania counties of Cambria, Cameron, Clearfield, Elk, Indiana, McKean and Warren. It also includes a portion of western Centre County including Philipsburg Borough, Rush Township and the western portions of Snow Shoe and Burnside Townships and a portion of Jefferson County, consisting of the boroughs of Brockway, Falls Creek, Punxsutawney, Reynoldsville and Sykesville, and the townships of Washington, Winslow and Henderson.

ERIEBANK, a division of CNB Bank, began operations in 2005 and provides financial services to individuals and businesses located within its market areas, which include the northwestern Pennsylvania county of Erie and the city of Meadville located in Crawford County. ERIEBANK currently has four full service branch offices in the city of Erie, Pennsylvania, and one full service branch office in the city of Meadville, Pennsylvania. In the first quarter of 2012, a CNB Bank branch office in Warren, Pennsylvania will be rebranded as ERIEBANK as a result of its geographic proximity to Erie.

The Bank is a full service bank engaging in a full range of banking activities and services for individual, business, governmental and institutional customers. These activities and services principally include checking, savings, and time deposit accounts; real estate, commercial, industrial, residential and consumer loans; and a variety of other specialized financial services. The Bank s Wealth & Asset Management Services division offers a full range of client services.

Holiday Financial Services Corporation

In 2005, the Corporation entered the consumer discount loan and finance business, which is conducted through a wholly owned subsidiary, Holiday Financial Services Corporation. Holiday currently has

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eight offices within the Corporation s footprint. Management believes that it has made the necessary investments in experienced personnel and technology which has helped facilitate the growth of Holiday into a successful and profitable subsidiary.

Competition

The financial services industry in the Corporation s service area continues to be extremely competitive, both among commercial banks and with other financial service providers such as consumer finance companies, thrifts, investment firms, mutual funds and credit unions. The increased competition has resulted from changes in the legal and regulatory guidelines as well as from economic conditions. Mortgage banking firms, leasing companies, financial affiliates of industrial companies, brokerage firms, retirement fund management firms, and even government agencies provide additional competition for loans and other financial services. Some of the financial service providers operating in the Corporation s market area operate on a large-scale regional or national basis and possess resources greater than those of the Corporation. The Corporation is generally competitive with all competing financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

Supervision and Regulation

The Corporation is a financial holding company and the Bank is a Pennsylvania state-chartered bank that is not a member of the Federal Reserve System. Accordingly, the Corporation is subject to the oversight of the Federal Reserve Board and the Pennsylvania Department of Banking, and the Bank is subject to the oversight of applicable federal and state banking agencies, including the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation (FDIC). The Corporation and Bank are also subject to various requirements and restrictions under federal and state law, such as requirements to maintain reserves against deposits, restrictions on the types, amounts and terms and conditions of loans that may be granted, and limitation on the types of investments that may be made and the types of services that may be offered. Various consumer protection laws and regulations also affect the operation of the Bank and, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Bureau of Consumer Financial Protection is authorized to write rules on consumer financial products which could affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board, including actions taken with respect to interest rates, as the Federal Reserve Board attempts to control the money supply and credit availability in the U.S. in order to influence the economy.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information about us and our subsidiaries. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business.

Bank Holding Company Regulation

As a bank holding company, the Corporation is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. We are required to file with the

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Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the BHC Act), and applicable regulations. For instance, the BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Corporation may only engage in, or own companies that engage in, activities deemed by the Federal Reserve Board to be permissible for bank holding companies or financial holding companies. Activities permissible for bank holding companies are those that are so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. Permissible activities for financial holding companies include those so closely related to banking as well as certain additional activities deemed financial in nature. The Corporation must obtain permission from the Federal Reserve Board prior to engaging in most new business activities.

A bank holding company and its subsidiaries are subject to certain restrictions imposed by the BHC Act on any extensions of credit to the Bank, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Under Federal Reserve Board regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board s policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations or both. This doctrine is commonly known as the source of strength doctrine.

The federal banking regulators have adopted risk-based capital guidelines for bank holding companies. Currently, the required minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the federal banking regulators have established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines

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provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

Regulation of CNB Bank

CNB Bank is a Pennsylvania-chartered bank and is subject to regulation, supervision and regular examination by the Pennsylvania Department of Banking and the FDIC. Federal and state banking laws and regulations govern, among other things, the scope of a bank s business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations, the establishment of branches, management practices, and numerous other aspects of banking operations.

Recent Legislation

The Dodd-Frank Act, enacted into law on July 21, 2010, includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency, and significantly changed the bank regulatory structure and affected and will continue to affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act also created a Consumer Financial Protection Bureau (CFPB), which is authorized to write rules on all consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations and is charged with reviewing, and when appropriate, submitting comments to the Securities and Exchange Commission and Financial Accounting Standards Board with respect to existing or proposed accounting principles, standards or procedures.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.

It is difficult to predict at this time what specific impact certain provisions of the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Corporation, including any regulations promulgated by the CFPB. The legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation s ability to conduct business. The Corporation will have to apply resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings.

Dividend Restrictions

The Corporation is a legal entity separate and distinct from the Bank. Declaration and payment of cash dividends depends upon cash dividend payments to the Corporation by the Bank, which is our primary source of revenue and cash flow. Accordingly, the right of the Corporation, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Corporation in its capacity as a creditor may be recognized.

As a Pennsylvania state-chartered bank, the Bank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements.

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The payment of dividends by the Bank and the Corporation may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice.

Capital Adequacy and Operations

Under applicable prompt corrective action (PCA) provisions, depository institutions are placed into one of five capital categories, ranging from well capitalized to critically undercapitalized. An institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market; in addition, pass through insurance coverage may not be available for certain employee benefit accounts. An undercapitalized depository institution must submit an acceptable capital restoration plan to the appropriate federal bank regulatory agency. One requisite element of such a plan is that the institution s parent holding company must guarantee compliance by the institution with the plan, subject to certain limitations. In the event of the parent holding company s bankruptcy, the guarantee, and any other commitments that the parent holding company has made to federal bank regulators to maintain the capital of its depository institution subsidiaries, would be assumed by the bankruptcy trustee and entitled to priority in payment.

At December 31, 2011, the Bank qualified as well capitalized under applicable regulatory capital standards.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 (CRA), the FDIC is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community (including low and moderate income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank received a CRA rating of Satisfactory at its most current CRA exam.

Restrictions on Transactions with Affiliates and Insiders

The Bank and Corporation also are subject to the restrictions of Sections 23A and 23B of the Federal Reserve Act, and their implementing Regulation W, issued by the Federal Reserve Board. Section 23A requires that loans or extensions of credit to an affiliate, purchases of securities issued by an affiliate, purchases of assets from an affiliate (except as may be exempted by order or regulation), the acceptance of securities issued by an affiliate as collateral and the issuance of a guarantee, acceptance of letters of credit on behalf of an affiliate (collectively, Covered Transactions) be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B

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requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets to an affiliate and the payment of money or the furnishing of services to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

The Bank and Corporation are also subject to Sections 22(g) and 22(h) of the Federal Reserve Act, and their implementing Regulation O issued by the Federal Reserve Board. These provisions impose limitations on loans and extensions of credit from the bank to its executive officers, directors and principal shareholders and their related interests. The limitations restrict the terms and aggregate amount of such transactions. Regulation O also imposes certain recordkeeping and reporting requirements.

Deposit Insurance and Premiums

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. The Dodd-Frank Act has permanently increased the standard maximum deposit insurance amount to $250,000 per depositor per insured depository institution, retroactive to January 1, 2008, and qualifying non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

Other Federal Laws and Regulations

State usury and other credit laws limit the amount of interest and various other charges collected or contracted by a bank on loans. The Bank is also subject to lending limits on loans to one borrower and regulatory guidance on concentrations of credit. The Bank s loans and other products and services are also subject to numerous federal and state laws, including, but not limited to, the following:

- Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;

- Truth-in-Savings Act, which governs disclosures of the terms of deposit accounts to consumers;

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to regulators to enable determinations as to whether financial institutions are fulfilling their obligations to meet the home lending needs of the communities they serve and not discriminating in their lending practices;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, gender or other prohibited factors in extending credit;

- Real Estate Settlement Procedures Act, which imposes requirements relating to real estate settlements, including requiring lenders to disclose certain information regarding the nature and cost of real estate settlement services;

- Fair Credit Reporting Act, covering numerous areas relating to certain types of consumer information and identity theft;

- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require that financial institutions provide privacy policies to consumers, to allow customers to opt out of certain sharing of their nonpublic personal information, and to safeguard sensitive and confidential customer information.

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Electronic Fund Transfer Act, which is a consumer protection law regarding electronic fund transfers;

The Bank Secrecy Act and USA Patriot Act, which require financial institutions to take certain actions to help prevent, detect and prosecute international money laundering and the financing of terrorism; and

Numerous other federal and state laws and regulations, including those related to consumer protection and bank operations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted on July 30, 2002 and represented a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, as amended, including publicly-held financial holding companies such as the Corporation. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws. Many of the provisions were effective immediately while other provisions became effective over a period of time and are subject to rulemaking by the SEC.

Governmental Policies

Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

Other Legislative Initiatives

Proposals may be introduced in the United States Congress, in the Pennsylvania Legislature, and/or by various bank regulatory authorities that could alter the powers of, and restrictions on, different types of banking organizations and which could restructure part or all of the existing regulatory framework for banks, bank and financial holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the regulatory framework. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on our business and earnings.

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Employees

As of December 31, 2011, the Corporation had a total of 314 employees of which 272 were full time and 42 were part time.

Executive Officers

The Corporation s executive officers, their ages, and their principal occupations are as follows:

Name	Age	Principal Occupation
Joseph B. Bower, Jr.	48	President and Chief Executive Officer, CNB Bank and CNB Financial Corporation, since January 1, 2010; and previously, Secretary, CNB Financial Corporation and Executive Vice President and Chief Operating Officer, CNB Bank.
Mark D. Breakey	53	Executive Vice President and Credit Risk Manager, CNB Bank.
Richard L. Greslick, Jr.	35	Senior Vice President/Administration and Secretary, CNB Financial Corporation, since July 2010; previously, Vice President/Operations since 2007; and previously Controller, CNB Bank and CNB Financial Corporation.
Richard L. Sloppy	61	Executive Vice President and Senior Loan Officer, CNB Bank.
Vincent C. Turiano	61	Senior Vice President/Operations, CNB Bank, since November 25, 2009; previously Financial Consultant for RBC Wealth Management (formerly Ferris, Baker Watts, Inc.) since 2006; and previously Executive Vice President of Omega Bank and Omega Financial Corporation.
Brian W. Wingard	37	Interim Treasurer, Principal Financial Officer and Principal Accounting Officer, CNB Financial Corporation, since November 2011; Interim Chief Financial Officer, CNB Bank, since November 2011; previously Controller, CNB Bank and CNB Financial Corporation, since 2007; and previously a Certified Public Accountant in public practice.

Officers are elected annually at the reorganization meeting of the Board of Directors. There are no arrangements or understandings between any officer and any other persons pursuant to which he was selected as an officer.

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Available Information

The Corporation makes available free of charge on its website (www.bankcnb.com) its Annual Report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on the Corporation s website is not incorporated by reference into this report.

Shareholders may obtain a copy of the Corporation s Annual Report on Form 10-K free of charge by writing to: CNB Financial Corporation, 1 South Second Street, PO Box 42, Clearfield, PA 16830, Attn: Shareholder Relations.

Statistical Disclosure

The following tables set forth statistical information relating to the Corporation and its wholly owned subsidiaries. The tables should be read in conjunction with the consolidated financial statements of the Corporation.

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Average Balances and Net Interest Margin

(Dollars in thousands)

	December 31, 2011			December 31, 2010			December 31, 2009		
	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.
Assets									
Interest-bearing deposits with banks	$ 11,475	0.96%	$ 110	$ 8,680	1.44%	$ 125	$ 9,088	2.37%	$ 215
Federal funds sold and securities purchased under agreements to resell	-		-	-		-	2	0.00%	0
Securities:									
Taxable (1)	487,746	2.97%	14,285	383,373	3.02%	11,603	223,814	3.29%	7,687
Tax-Exempt (1, 2)	86,851	5.14%	4,366	69,033	5.28%	3,572	55,642	5.60%	3,057
Equity Securities (1, 2)	1,906	2.49%	47	1,607	2.30%	37	1,502	2.89%	44
Total Securities	576,503	3.29%	18,698	454,013	3.35%	15,212	280,958	3.86%	10,788
Loans									
Commercial (2)	275,442	5.20%	14,329	258,550	5.62%	14,542	242,719	5.82%	14,129
Mortgage (2)	492,922	5.68%	28,015	431,599	6.14%	26,514	396,017	6.41%	25,387
Consumer	51,402	12.72%	6,536	51,565	12.81%	6,605	47,702	14.57%	6,952
Total Loans (3)	819,766	5.96%	48,880	741,714	6.43%	47,661	686,438	6.77%	46,468
Total earning assets	1,407,744	4.84%	$ 67,688	1,204,407	5.23%	$ 62,998	976,486	5.89%	$ 57,471
Non Interest Earning Assets									
Cash & Due From Banks	33,846			33,885			33,237		
Premises & Equipment	24,323			23,969			23,004		
Other Assets	56,616			53,867			49,640		
Allowance for Loan Losses	(11,750)			(10,443)			(9,320)		
Total Non Interest Earning Assets	103,035			101,278			96,561		
Total Assets	$ 1,510,779			$ 1,305,685			$ 1,073,047		
Liabilities and Shareholders Equity									
Interest-Bearing Deposits									
Demand interest-bearing	$ 296,440	0.77%	$ 2,287	$ 258,826	0.75%	$ 1,954	$ 241,505	0.79%	$ 1,904
Savings	501,475	1.09%	5,489	346,346	1.29%	4,464	201,827	1.70%	3,434
Time	320,704	1.82%	5,849	349,401	2.04%	7,140	320,477	2.42%	7,753
Total interest-bearing deposits	1,118,619	1.22%	13,625	954,573	1.42%	13,558	763,809	1.71%	13,091
Short-term borrowings	9,728	0.28%	27	5,282	0.15%	8	1,961	0.20%	4
Long-term borrowings	74,141	4.25%	3,149	87,336	5.39%	4,708	104,107	4.34%	4,523
Subordinated Debentures	20,620	3.77%	778	20,620	3.79%	782	20,620	4.12%	850
Total interest-bearing liabilities	1,223,108	1.44%	$ 17,579	1,067,811	1.78%	$ 19,056	890,497	2.07%	$ 18,468
Demand non-interest-bearing	148,287			127,287			104,773		

Other liabilities	17,173			13,203			11,568		
Total Liabilities	1,388,568			1,208,301			1,006,838		
Shareholders Equity	122,211			97,384			66,209		
Total Liabilities and Shareholders Equity	$ 1,510,779			$ 1,305,685			$ 1,073,047		
Interest Income/Earning Assets		4.84%	$ 67,688		5.23%	$ 62,998		5.89%	$ 57,471
Interest Expense/Interest Bearing Liabilities		1.44%	17,579		1.78%	19,056		2.07%	18,468
Net Interest Spread		3.40%	$ 50,109		3.45%	$ 43,942		3.82%	$ 39,003
Interest Income/Earning Assets		4.84%	$ 67,688		5.23%	$ 62,998		5.89%	$ 57,471
Interest Expense/Earning Assets		1.25%	17,579		1.58%	19,056		1.89%	18,468
Net Interest Margin		3.59%	$ 50,109		3.65%	$ 43,942		4.00%	$ 39,003

1. Includes unamortized discounts and premiums. Average balance is computed using the carrying value of securities. The average yield has been computed using the historical amortized cost average balance for available for sale securities.
2. Average yields and interest income are stated on a fully taxable equivalent basis using the Corporation s marginal federal income tax rate of 35%. Interest income has been increased by $1,976, $1,851, and $1,601 for the years ended December 31, 2011, 2010, and 2009, respectively, as a result of the effect of tax-exempt interest and dividends earned by the Corporation.
3. Average outstanding includes the average balance outstanding of all non-accrual loans. Loans consist of the average of total loans less average unearned income. Included in loan interest income is loan fees of $1,567, $1,835, and $1,774 for the years ended December 31, 2011, 2010, and 2009, respectively.

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Net Interest Income Rate-Volume Variance (Dollars in thousands)	For Twelve Months Ended December 31, 2011 over (under) 2010 Due to Change In (1)			For Twelve Months Ended December 31, 2010 over (under) 2009 Due to Change In (1)		
	Volume	Rate	Net	Volume	Rate	Net
Assets						
Interest-Bearing Deposits with Banks	$ 40	$ (55)	$ (15)	$ (10)	$ (80)	$ (90)
Securities:						
Taxable	2,926	(244)	2,682	4,951	(1,035)	3,916
Tax-Exempt (2)	916	(122)	794	736	(221)	515
Equity Securities (2)	6	4	10	2	(9)	(7)
Total Securities	3,848	(362)	3,486	5,689	(1,265)	4,424
Loans						
Commercial (2)	950	(1,163)	(213)	922	(509)	413
Mortgage (2)	3,767	(2,266)	1,501	2,281	(1,154)	1,127
Consumer	(21)	(48)	(69)	563	(910)	(347)
Total Loans (3)	4,696	(3,477)	1,219	3,766	(2,573)	1,193
Total Earning Assets	$ 8,584	$ (3,894)	$ 4,690	$ 9,445	$ (3,918)	$ 5,527
Liabilities and Shareholders Equity						
Interest-Bearing Deposits						
Demand Interest-Bearing	$ 284	$ 49	$ 333	$ 137	$ (87)	$ 50
Savings	1,999	(974)	1,025	2,459	(1,429)	1,030
Time	(586)	(705)	(1,291)	700	(1,313)	(613)
Total Interest-Bearing Deposits	1,697	(1,630)	67	3,296	(2,829)	467
Short-Term Borrowings	7	12	19	7	(3)	4
Long-Term Borrowings	(711)	(848)	(1,559)	(729)	914	185
Subordinated debentures	-	(4)	(4)	-	(68)	(68)
Total Interest-Bearing Liabilities	$ 993	$ (2,470)	$ (1,477)	$ 2,574	$ (1,986)	$ 588
Change in Net Interest Income	$ 7,591	$ (1,424)	$ 6,167	$ 6,871	$ (1,932)	$ 4,939

1. The change in interest due to both volume and rate have been allocated entirely to volume changes.
2. Changes in interest income on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation s marginal federal income tax rate of 35%.

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Securities

(Dollars In Thousands)	December 31, 2011				December 31, 2010				December 31, 2009			
	Amortized	Unrealized		Market	Amortized	Unrealized		Market	Amortized	Unrealized		Market
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Securities Available for Sale												
U.S. Treasury	$8,064	$66	$ -	$8,130	$8,139	$66	$ -	$8,205	$10,288	$5	$ (24)	$10,269
U.S. Government Sponsored Entities	102,258	5,249	(15)	107,492	104,328	2,016	(403)	105,941	107,615	94	(748)	106,961
State and Political Subdivisions	149,685	8,844	(92)	158,437	117,928	1,011	(2,528)	116,411	55,710	991	(140)	56,561
Residential mortgage and asset backed	292,297	8,043	(214)	300,126	221,304	2,364	(1,249)	222,419	144,878	1,188	(666)	145,400
Commercial mortgage and asset backed	2,077	45	-	2,122	-	-	-	-	-	-	-	-
Corporate notes and bonds	17,358	50	(3,548)	13,860	14,347	-	(3,596)	10,751	18,713	-	(5,082)	13,631
Pooled trust preferred	800	-	(460)	340	2,190	12	(910)	1,292	4,594	-	(2,685)	1,909
Pooled SBA	44,851	1,282	(77)	46,056	33,788	266	(92)	33,962	8,894	102	(7)	8,989
Other securities	1,521	23	-	1,544	1,670	26	-	1,696	1,670	28	(3)	1,695
	$618,911	$23,602	$(4,406)	$638,107	$503,694	$5,761	$(8,778)	$500,677	$352,362	$2,408	$(9,355)	$345,415

Maturity Distribution of Investment Securities

(Dollars In Thousands)

December 31, 2012

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Collaterialized Mortgage Obligations and Other Asset Backed Securities	
	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield
Securities Available for Sale										
U.S. Treasury	$4,054	1.29%	$4,076	1.29%						
U.S. Government Sponsored Entities	17,076	1.49%	49,810	2.36%	$39,081	3.67%	$1,523	4.40%		
State and Political Subdivisions	2,045	6.17%	27,754	4.52%	84,561	5.04%	44,077	5.47%		
Corporate notes and bonds			1,863	2.27%	1,943	4.00%	10,054	3.11%		
Pooled trust preferred							340	0.00%		
Pooled SBA					1,341	2.46%	44,715	2.41%		
Residential mortgage and asset backed									$300,126	3.64%
Commercial mortgage and asset backed									2,122	4.70%
TOTAL	$23,175	1.87%	$83,503	2.82%	$126,926	4.50%	$100,709	3.84%	$302,248	2.65%

The weighted average yields are based on market value and effective yields weighted for the scheduled maturity with tax-exempt securities adjusted to a taxable-equivalent basis using a tax rate of 35%.

The portfolio contains no holdings of a single issuer that exceeds 10% of shareholders equity other than the US Treasury and governmental sponsored entities.

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LOAN PORTFOLIO

(Dollars in thousands)

A. TYPE OF LOAN

	2011	2010	2009	2008	2007
Commercial, industrial and agricultural	$ 253,324	$ 257,491	$ 239,966	$ 227,141	$ 217,651
Commercial mortgages	242,511	212,878	193,632	210,080	176,470
Residential real estate	298,628	266,604	226,931	179,420	160,585
Consumer	54,677	53,202	54,854	57,241	46,112
Credit cards	3,206	2,870	2,248	1,411	1,535
Overdrafts	423	3,964	391	859	1,188
Gross loans	852,769	797,009	718,022	676,152	603,541
Less: unearned income	2,886	2,447	2,880	4,596	3,853
Total loans net of unearned	$ 849,883	$ 794,562	$ 715,142	$ 671,556	$ 599,688

B. LOAN MATURITIES AND INTEREST SENSITIVITY

	December 31, 2011			
	One Year or Less	One Through Five Years	Over Five Years	Total Gross Loans
Commercial, industrial and agricultural				
Loans With Fixed Interest Rate	$ 99,436	$ 74,510	$ 15,257	$ 189,203
Loans With Floating Interest Rate	14,947	24,764	24,410	64,121
	$ 114,383	$ 99,274	$ 39,667	$ 253,324

C. RISK ELEMENTS

	2011	2010	2009	2008	2007
Loans on non-accrual basis	$ 16,567	$ 11,926	$ 12,757	$ 3,046	$ 1,979
Accruing loans which are contractually past due 90 days or more as to interest or principal payment	441	889	584	533	395
Troubled debt restructurings	7,688	1,714	-	-	-
	$ 24,696	$ 14,529	$ 13,341	$ 3,579	$ 2,374

Interest income recorded on the non-accrual loans for the year ended December 31, 2011 was $26. Additional interest income which would have been recorded on non-accrual loans had they been on accrual status was $685 for the year ended December 31, 2011.

Loans are placed in non-accrual status when the interest or principal is 90 days past due, unless the loan is in collection, well secured and it is believed that there will be no loss of interest or principal.

At December 31, 2011, there were $7,348 in special mention loans, $33,261 in substandard loans, and $0 in doubtful loans which are considered problem loans. These loans are not included in the table above. In the opinion of management, these loans are adequately secured and losses are

believed to be minimal.

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SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in Thousands)

Analysis of the Allowance for Loan Losses Years Ended December 31,	2011	2010	2009	2008	2007
Balance at beginning of Period	$ 10,820	$ 9,795	$ 8,719	$ 6,773	$ 6,086
Charge-Offs:					
Commercial, industrial and agricultural	1,796	543	860	33	39
Commercial mortgages	175	2,061	381	178	28
Residential real estate	217	211	378	330	180
Consumer	907	1,223	1,622	1,123	322
Credit cards	39	94	101	46	95
Overdrafts	222	239	269	334	346
	3,356	4,371	3,611	2,044	1,010
Recoveries:					
Commercial, industrial and agricultural	9	11	2	2	-
Commercial mortgages	-	3	-	-	-
Residential real estate	13	2	1	6	12
Consumer	88	100	62	72	67
Credit cards	10	10	13	12	24
Overdrafts	94	112	144	111	82
	214	238	222	203	185
Net charge-offs	(3,142)	(4,133)	(3,389)	(1,841)	(825)
Provision for loan losses	4,937	5,158	4,465	3,787	1,512
Balance at end of period	$ 12,615	$ 10,820	$ 9,795	$ 8,719	$ 6,773
Percentage of net charge-offs during the period to average loans outstanding	0.38%	0.56%	0.49%	0.28%	0.14%

The provision for loan losses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the present and foreseeable risk characteristics of the present loan portfolio. Management s judgment is based on the evaluation of individual loans, the overall risk characteristics of various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(Dollars In Thousands)

	2011		2010		2009		2008		2007	
	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category
Commercial, industrial, and agricultural	$ 4,511	29.71%	$ 3,517	32.31%	$ 2,790	33.42%	$ 2,660	33.59%	$ 2,253	36.06%
Commercial mortgages	4,470	28.44%	3,511	26.71%	3,291	26.97%	2,836	31.07%	1,915	29.24%
	1,991	35.02%	1,916	33.45%	1,583	31.61%	1,273	26.54%	1,012	26.61%

Residential real estate										
Consumer	1,404	6.41%	1,561	6.68%	1,751	7.64%	1,589	8.47%	1,196	7.64%
Credit Cards	71	0.37%	96	0.35%	85	0.31%	82	0.20%	91	0.25%
Overdrafts	168	0.05%	219	0.50%	295	0.05%	279	0.13%	306	0.20%
Total	$ 12,615	100.00%	$ 10,820	100.00%	$ 9,795	100.00%	$ 8,719	100.00%	$ 6,773	100.00%

In determining the allocation of the allowance for loan losses, the Corporation considers economic trends, historical patterns and specific credit reviews.

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With regard to the credit reviews, a watchlist is evaluated on a monthly basis to determine potential commercial losses. Consumer loans and mortgage loans are allocated using historical loss experience.

DEPOSITS

(Dollars In Thousands)

	Year Ended December 31,					
	2011		2010		2009	
	Average Amount	Annual Rate	Average Amount	Annual Rate	Average Amount	Annual Rate
Demand Non Interest Bearing	$ 148,287		$ 127,287		$ 104,773	
Demand Interest Bearing	296,440	0.77%	258,826	0.75%	241,505	0.79%
Savings Deposits	501,475	1.09%	346,346	1.29%	201,827	1.70%
Time Deposits	320,704	1.82%	349,401	2.04%	320,477	2.42%
TOTAL	$ 1,266,906		$ 1,081,860		$ 868,582	

The maturity of certificates of deposits and other time deposits in denomination of $100,000 or more as of December 31, 2011	
Maturing in:	
Three months or less	$ 17,017
Greater than three months and through twelve months	23,394
Greater than one year and through three years	61,981
Greater than three years	13,180
	$ 115,572

RETURN ON EQUITY AND ASSETS

	Year Ended December 31,		
	2011	2010	2009
Return on average assets	1.00%	0.87%	0.79%
Return on average equity	12.36%	11.62%	12.86%
Dividend payout ratio	53.79%	61.27%	67.27%
Average equity to average assets ratio	8.09%	7.46%	6.17%

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ITEM 1A. RISK FACTORS

The Corporation s financial condition and results of operations are subject to various risks inherent in its business. The material risks and uncertainties that management believes affect the Corporation are described below. If any of these risks actually occur, the Corporation s business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

Since the economic downturn, difficult market conditions remain and have adversely affected the banking and financial services industry and the Corporation s business, and a continuation of these conditions could adversely affect the Corporation s financial condition and results of operations.

Since the economic downturn, challenging conditions, including a depressed national housing market since 2008, high unemployment and under-employment, remain and have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. Further, there exists instability in the global credit markets, including U.S. debt ceiling and budget deficit concerns and concerns regarding deteriorating sovereign debt conditions in Europe. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity and access to capital generally. The resulting economic pressure on consumers and lack of confidence in the financial markets could adversely affect the Corporation s ability to access capital markets and its business, financial condition and results of operations. In particular, the Corporation may face the following risks in connection with these events:

- The Corporation s and the Bank s ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- The Corporation expects to face increased regulation of the banking and financial services industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.
- Market developments may affect customer confidence levels and may cause increases in loan delinquencies and default rates, which management expects would adversely impact the Bank s charge-offs and provision for loan losses.
- Market developments may adversely affect the Bank s securities portfolio by causing other-than-temporary-impairments, prompting write-downs and securities losses.
- Competition in banking and financial services industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.
- The Bank may be required to pay significantly higher premiums to the FDIC because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

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The Bank s allowance for loan losses may not be adequate to cover loan losses which could have a material adverse effect on the Corporation s business, financial condition and results of operations.

A significant source of risk for the Corporation arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Bank are secured, but some loans are unsecured based upon management s evaluation of the creditworthiness of the borrowers. With respect to secured loans, the collateral securing the repayment of these loans principally includes a wide variety of real estate, and to a lesser extent personal property, either of which may be insufficient to cover the obligations owed under such loans.

Collateral values and the financial performance of borrowers may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates and debt service levels, changes in oil and gas prices, changes in monetary and fiscal policies of the federal government, widespread disease, terrorist activity, environmental contamination and other external events, which are beyond the control of the Bank. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards might create the impression that a loan is adequately collateralized when in fact it is not. Although the Bank may acquire any real estate or other assets that secure defaulted loans through foreclosures or other similar remedies, the amounts owed under the defaulted loans may exceed the value of the assets acquired.

The allowance for loan losses is subject to a formal analysis by the credit administrator of CNB using a methodology whereby loan pools are segregated into special mention, substandard, doubtful and unclassified categories and the pools are evaluated based on historical loss factors. The Bank monitors delinquencies and losses on a monthly basis. The Bank has adopted underwriting and credit monitoring policies and procedures, including the review of borrower financial statements and collateral appraisals, which management believes are appropriate to mitigate the risk of loss by assessing the likelihood of borrower non-performance and the value of available collateral. The Bank also manages credit risk by diversifying its loan portfolio. An ongoing independent review, subsequent to management s review, of individual credits is performed by an independent loan review function, which reports to the Loan Committee of the Corporation s Board of Directors. However, such policies and procedures have limitations, including judgment errors in management s risk analysis, and may not prevent unexpected losses that could have a material adverse effect on the Corporation s business, financial condition and results of operations.

Interest rate volatility could significantly reduce the Corporation s profitability.

The Corporation s earnings largely depend on the relationship between the yield on its earning assets, primarily loans and investment securities, and the cost of funds, primarily deposits and borrowings. This relationship, commonly known as the net interest margin, is susceptible to significant fluctuation and is affected by economic and competitive factors that influence the yields and rates, and the volume and mix of the Bank s interest earning assets and interest bearing liabilities.

Interest rate risk can be defined as the sensitivity of net interest income and of the market value of financial instruments to the direction and frequency of changes in interest rates. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. The Corporation is subject to interest rate risk to the degree that its interest bearing liabilities re-price or mature more slowly or more rapidly or on a different basis than its interest earning assets. Changes

in interest rates will affect the levels of income and expense recorded on a large portion of the Bank s assets and liabilities, and fluctuations in interest rates will impact the market value of all interest sensitive assets. Significant fluctuations in interest rates could have a material adverse impact on the Corporation s business, financial condition, results of operations, or liquidity.

The Bank s interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of its balance sheet and off-balance sheet instruments as they relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on earnings, is determined through the use of static gap analysis and earnings simulation modeling under multiple interest rate scenarios. Management s objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank s balance sheet in order to preserve the sensitivity of net interest income to actual or potential changes in interest rates. At December 31, 2011, the interest rate sensitivity position was asset sensitive in the short-term. For further information on risk relating to interest rates, refer to Part I, Item 7a, Quantitative and Qualitative Disclosures about Market Risk, herein.

The Corporation cannot assure you that actions by governmental agencies and regulators, as well as recently enacted legislation, will stabilize the U.S. financial system, and new legislation may significantly affect the Corporation s financial condition.

Beginning in 2008 and continuing into 2009, 2010 and 2011, the Board of Governors of the Federal Reserve System, the United States Congress, the United States Department of the Treasury, the FDIC and others took numerous steps to stabilize and stimulate the financial services industry. These measures included: (1) homeowner relief that encouraged loan restructuring and modification; (2) the establishment of significant liquidity and credit facilities for financial institutions and investment banks; (3) the lowering of the federal funds rate; and (4) coordinated efforts to address liquidity and other weaknesses in the banking sector.

The Corporation cannot predict the actual impact, if any, that new legislation or other governmental initiatives will have on the economy or the financial markets, or whether any impact will be positive or negative. The failure of legislation or other initiatives to stabilize the financial markets could weaken public confidence in financial institutions and have a substantial and material adverse effect on the Corporation s business, financial condition, results of operations, access to credit, or the trading price of our common stock. Additionally, compliance with such initiatives may increase the Corporation s costs and limit its ability to pursue business opportunities, and participation in specific programs may subject it to additional restrictions. Further, it may be required to pay significantly higher FDIC premiums in the future if market developments which have significantly depleted the FDIC insurance fund and reduced the ratio of reserves to insured deposits continue.

The Bank s loans are principally concentrated in certain areas of Pennsylvania, and adverse economic conditions in those markets could adversely affect the Corporation s business, financial condition and results of operations.

The Corporation s success is dependent to a significant extent upon general economic conditions in the United States and, in particular, the local economies in northwest and central Pennsylvania, the primary markets served by the Bank. The Bank is particularly exposed to real estate and economic factors in the northwest and central areas of Pennsylvania, as most of its loan portfolio is concentrated among borrowers in these markets. Furthermore, because a substantial portion of the Bank s loan portfolio is secured by real estate in these areas, the value of the associated collateral is also subject to regional real estate market conditions.

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The Bank is not immune to negative consequences arising from overall economic weakness and, in particular, a sharp downturn in the local real estate markets served by the Bank. While the Bank s loan portfolio has not shown significant signs of credit quality deterioration despite continued challenges in the U.S. economy, we cannot assure you that no deterioration will occur. An economic recession in the markets served by the Bank, and the nation as a whole, could negatively impact household and corporate incomes. This impact could lead to decreased loan demand and increase the number of borrowers who fail to pay the Bank interest or principal on their loans, and accordingly, could have a material adverse effect on the Corporation s business, financial condition, results of operations, or liquidity.

The Corporation s investment securities portfolio is subject to credit risk, market risk, and liquidity risk, and declines in value in its investment securities portfolio may require it to record other than temporary impairment charges that could have a material adverse effect on its results of operations and financial condition.

The Corporation s investment securities portfolio has risks beyond its control that can significantly influence the portfolio s fair value. These factors include, but are not limited to, rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and continued instability in the credit markets. Recent lack of market activity with respect to certain of the securities has, in certain circumstances, required the Corporation to base its fair market valuation on unobservable inputs. The Corporation has engaged valuation experts to price these certain securities using proprietary models, which incorporate assumptions that market participants would use in pricing the securities, including bid/ask spreads and liquidity and credit premiums. Any change in current accounting principles or interpretations of these principles could impact the Corporation s assessment of fair value and thus its determination of other-than-temporary impairment of the securities in its investment securities portfolio.

The Bank may be required to record other-than-temporary impairment charges on its investment securities if they suffer declines in value that are considered other-than-temporary. Numerous factors, including collateral deterioration underlying certain private label mortgage-backed securities, lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for certain investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect the Bank s securities portfolio in future periods. An other-than-temporary impairment charge could have a material adverse effect on the Corporation s results of operations and financial condition.

The Corporation s business and that of the Bank is highly regulated and impacted by monetary policy, limiting the manner in which the Corporation and the Bank may conduct business and obtain financing, and modifications to the existing regulatory framework under which the Corporation operates could have a material adverse effect on its business, financial condition, results of operations or liquidity.

As a financial holding company and state-chartered financial institution, respectively, the Corporation and the Bank are subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations, along with the existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies and laws and interpretations, limit the manner in which the Corporation and the Bank conduct business, undertake new investments and activities, and obtain financing. These laws and regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit shareholders. These laws and regulations may sometimes impose significant limitations on the Corporation s operations. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time.

The nature, extent, and timing of the adoption of significant new laws and regulations, or changes in or repeal of existing laws and regulations, or specific actions of our regulators, could have a material adverse effect on our business, financial condition, results of operations or liquidity. Furthermore, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit risk and interest rate risk conditions for the Bank and the Corporation, and any unfavorable change in these conditions could have a material adverse effect on the Corporation s business, financial condition, results of operations or liquidity.

Compliance with the Dodd-Frank Act Is Increasing Our Regulatory Compliance Burdens and May Increase Our Operating Costs and/or Adversely Impact Our Earnings and/or Capital Ratios.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted on July 21, 2010. The Dodd-Frank Act represented a significant overhaul of many aspects of the regulation of the financial-services industry. Among other things, the Dodd-Frank Act created a new federal Consumer Financial Protection Bureau (CFPB), tightened capital standards, imposed clearing and margining requirements on many derivatives activities, and generally increased oversight and regulation of financial institutions and financial activities.

In addition to the self-implementing provisions of the statute, the Dodd-Frank Act calls for over 200 administrative rulemakings by various federal agencies to implement various parts of the legislation. While some rules have been finalized and/or issued in proposed form, many have yet to be proposed. It is impossible to predict when all such additional rules will be issued or finalized, and what the content of such rules will be. We will have to apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

The Dodd-Frank Act and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and/or our ability to conduct business.

The Corporation relies on its management and other key personnel, and the loss of any of them may adversely affect its operations.

The Corporation is and will continue to be dependent upon the services of its executive management team. In addition, it will continue to depend on its ability to retain and recruit key client relationship managers. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on its business and financial condition.

Strong competition within the Corporation s markets may have a material adverse impact on its profitability.

The Corporation competes with an ever-increasing array of financial service providers. As noted above, as a financial holding company and state-chartered financial institution, respectively, the Corporation and the Bank are subject to extensive regulation and supervision, including, in many cases, regulations that limit the type and scope of activities. The non-bank financial service providers that compete with the Corporation and the Bank may not be subject to such extensive regulation, supervision, and tax burden. Competition from nationwide banks, as well as local institutions, is strong in the Corporation s markets.

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The financial services industry is undergoing rapid technological change. In addition to improving customer services, effective use of technology increases efficiency and enables financial institutions to reduce costs. Furthermore, technological advances are likely to intensify competition by enabling more companies to provide financial resources. Accordingly, the Corporation s future success will depend in part on its ability to address customer needs by using technology. The Corporation cannot assure you that it will be able to develop new technology driven products and services, or be successful in marketing these products to its customers. Many of its competitors have far greater resources to invest in technology.

Regional, national and international competitors have far greater assets and capitalization than the Corporation has and they have greater access to capital markets and can offer a broader array of financial services than it can. We cannot assure you that we will continue to be able to compete effectively with other financial institutions in the future. Furthermore, developments increasing the nature or level of competition could have a material adverse effect on the Corporation s business, financial condition, results of operations, or liquidity. For further information on competition, refer to Part I, Item 1, Competition herein.

Non-compliance with applicable laws and/or regulations, including the Bank Secrecy Act and USA Patriot Act, may adversely affect the Corporation s operations and its financial results and could result in significant fines or sanctions.

Federal and state regulators have the ability to impose substantial sanctions, restrictions and requirements on the Corporation s banking and nonbanking subsidiaries if they determine, upon examination or otherwise, that any such subsidy has violated laws or regulations with which it or its subsidiaries must comply, or that weaknesses or failures exist with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include, among other things, civil money penalties and orders to take certain actions or to refrain from certain actions. The imposition of regulatory sanctions, including any monetary penalties, may have a material impact on the Corporation s financial condition and results of operations, damage its reputation, and/or cause it to lose its financial holding company status. In addition, compliance with any such action could distract management s attention from the Corporation s operations, cause the Corporation to incur significant expenses, restrict it from engaging in potentially profitable activities, and limit its ability to raise capital.

The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent the institutions from being used for money laundering and terrorist activities. If certain activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department s Financial Crimes Enforcement Network. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts or conduct transactions, and require the filing of certain reports, such as those for cash transactions above a certain threshold. Financial institutions must also refrain from transacting business with certain countries or persons designated by the Office of Foreign Assets Control.

Non-compliance with laws and regulations such as these could result in significant fines or sanctions. These particular laws and regulations have significant implications for all financial institutions, establish new crimes and penalties, and require the federal banking agencies, in reviewing merger and acquisition transactions, to consider the effectiveness of the parties to such transactions in combating money laundering and terrorist activities. Even inadvertent non-compliance and technical failure to follow the regulations may result in significant fines or other penalties, which could have a material adverse impact on the Corporation s business, financial condition, results of operations or liquidity.

A failure in or breach of the Corporation s operational or security systems or infrastructure, or those of third party vendors and other service providers, including as a result of cyber attacks, could disrupt the Corporation s businesses, result in the disclosure or misuse of confidential or proprietary information, damage its reputation, increase its costs and cause losses.

As a financial institution, the Corporation depends on its ability to continuously process, record and monitor a large number of customer transactions and customer, public and regulatory expectations regarding operational and information security have increased over time. Accordingly, its operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. The Corporation s business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond the Corporation s control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters; pandemics; events arising from political or social matters, including terrorist acts; and, as described below, cyber attacks. Although the Corporation has business continuity plans and other safeguards in place, disruptions or failures in the physical infrastructure or operating systems that support its businesses and customers, or cyber attacks or security breaches of the networks, systems or devices on which customers personal information is stored and that customers use to access the Corporation s products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect the Corporation s results of operations or financial condition.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. The Corporation s operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. In addition, to access the Corporation s products and services, its customers may use personal smartphones, tablet PC s, and other devices that are beyond its control systems. Although the Corporation believes that it has robust information security procedures and controls, its technologies, systems, networks, and its customers devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of its or its customers confidential, proprietary and other information, or otherwise disrupt its or its customers or other third parties business operations.

Third parties with which the Corporation does business or that facilitate its business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for its operations, could also be sources of operational and information security risk to the Corporation, including from breakdowns or failures of their own systems or capacity constraints.

Although to date the Corporation has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that it will not suffer such losses in the future. Its risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, its plans to continue to implement our Internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve its customers when and how they want to be served. As a result, cybersecurity and the continued development and enhancement of the Corporation s controls, processes and practices designed to protect its systems,

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computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Corporation. As cyber threats continue to evolve, the Corporation may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

The Corporation may not be able to meet its cash flow needs on a timely basis at a reasonable cost, and the Corporation s cost of funds for banking operations may significantly increase as a result of general economic conditions, interest rates and competitive pressures.

Liquidity is the ability to meet cash flow obligations as they come due and cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to make loans and to repay deposit and borrowing liabilities as they become due, or are demanded by customers and creditors. Many factors affect the Bank s ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and standing in the marketplace, and general economic conditions.

The Bank s primary source of funding is retail deposits, gathered throughout its network of banking offices. Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank of Pittsburgh, or FHLB, of which the Bank is a member, and other lenders to meet funding obligations. The Bank s securities and loan portfolios provide a source of contingent liquidity that could be accessed in a reasonable time period through sales.

Significant changes in general economic conditions, market interest rates, competitive pressures or otherwise, could cause the Bank s deposits to decrease relative to overall banking operations, and it would have to rely more heavily on brokered funds and borrowings in the future, which are typically more expensive than deposits.

Management and the Board of Directors of CNB, through its Asset/Liability Committee, or the ALCO, monitor liquidity and the ALCO establishes and monitors acceptable liquidity ranges. The Bank actively manages its liquidity position through target ratios. Continual monitoring of these ratios, both historical and through forecasts under multiple rate scenarios, allows the Bank to employ strategies necessary to maintain adequate liquidity.

Changes in economic conditions, including consumer savings habits and availability of or access to capital, could potentially have a significant impact on the Bank s liquidity position, which in turn could materially impact the Corporation s financial condition, results of operations and cash flows.

A substantial decline in the value of the Bank s FHLB common stock may adversely affect the Corporation s results of operations, liquidity and financial condition.

As a requirement of membership in the FHLB of Pittsburgh, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. Borrowings from the FHLB represent the Bank s primary source of short-term and long-term wholesale funding.

In an extreme situation, it is possible that the capitalization of an FHLB, including the FHLB of Pittsburgh, could be substantially diminished or reduced to zero. Consequently, given that there is no trading market for the Bank s FHLB common stock, the Corporation s management believes that there is a risk that the Corporation s investment could be deemed impaired at some time in the future. If this occurs, it may adversely affect the Corporation s results of operations and financial condition.

In addition, if the capitalization of the FHLB of Pittsburgh is substantially diminished, the Bank s liquidity may be adversely impaired if it is not able to obtain alternative sources of funding.

There are 12 banks of the FHLB, including Pittsburgh. To conserve capital, some FHLB banks are suspending dividends, cutting dividend payments, and not buying back excess FHLB stock that member banks hold. The 12 FHLB banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB bank cannot meet its obligations to pay its share of the system s debt, other FHLB banks can be called upon to make the payment. The Corporation cannot assure you, however, that the FHLB system will be able to meet these obligations.

The Bank could be held responsible for environmental liabilities relating to properties acquired through foreclosure, resulting in significant financial loss.

In the event the Bank forecloses on a defaulted commercial or residential mortgage loan to recover its investment, it may be subject to environmental liabilities in connection with the underlying real property, which could significantly exceed the value of the real property. Although the Bank exercises due diligence to discover potential environmental liabilities prior to acquiring any property through foreclosure, hazardous substances or wastes, contaminants, pollutants, or their sources may be discovered on properties during its ownership or after a sale to a third party. The Corporation cannot assure you that the Bank would not incur full recourse liability for the entire cost of any removal and cleanup on an acquired property, that the cost of removal and cleanup would not exceed the value of the property, or that the Bank could recover any of the costs from any third party. Losses arising from environmental liabilities could have a material adverse impact on the Corporation s business, financial condition, results of operations, or liquidity.

Federal and state governments could pass legislation responsive to current credit conditions which could cause the Corporation to experience higher credit losses.

The Corporation could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Corporation could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank s ability to foreclose on property or other collateral or makes foreclosure less economically feasible. The Corporation cannot assure you that future legislation will not significantly and adversely impact its ability to collect on its current loans or foreclose on collateral.

The preparation of the Corporation s financial statements requires the use of estimates that could significantly vary from actual results, which could have a material adverse effect on the Corporation s business, financial condition, results of operations or liquidity.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make significant estimates that affect the financial statements. For example, one of these significant estimates is the allowance for loan losses. Due to the inherent nature of estimates, the Corporation cannot provide absolute assurance that it will not significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the provided allowance, which could have a material adverse effect on the Corporation s business, financial condition, results of operations or liquidity.

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The Corporation s financial results may be subject to the impact of changes in accounting standards or interpretation in new or existing standards.

From time to time the Financial Accounting Standards Board, or FASB, and the SEC change accounting regulations and reporting standards that govern the preparation of the Corporation s financial statements. In addition, the FASB, SEC, and bank regulators may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These revisions in their interpretations are out of the Corporation s control and may have a material impact on its financial statements.

Customer information may be obtained and used fraudulently, which may negatively impact the Corporation s reputation and customer base, cause increased regulatory scrutiny and expose the Corporation to litigation.

Risk of theft of customer information resulting from security breaches by third parties exposes the Corporation to reputation risk and potential monetary loss. CNB has exposure to fraudulent use of its customers personal information resulting from its general business operations and through customer use of financial instruments such as debit cards. While CNB has policies and procedures designed to prevent or limit the effect of this risk, the Corporation cannot assure you that any such security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any security breaches could damage CNB s reputation, result in a loss of customer business, subject CNB to additional regulatory scrutiny, or expose CNB to civil litigation and possible financial liability, any of which could have a material adverse effect on CNB s financial condition and results of operations.

The unsoundness of other financial institutions with which the Corporation does business could adversely affect the Corporation s business, financial condition or results of operations.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, investment or other relationships. The Corporation routinely executes transactions with counterparties in the financial services industry such as commercial banks, brokers and dealers, investment banks and other institutional clients for a range of transactions including loan participations, derivatives and hedging transactions. In addition, the Corporation invests in securities or loans originated or issued by financial institutions or supported by the loans they originate. As a result, defaults by, or even rumors or questions about, one or more financial institutions, or the financial industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or other institutions. Many of these transactions expose the Corporation to credit or investment risk in the event of default by the Corporation s counterparty. In addition, the Corporation s credit risk may be exacerbated if the collateral it holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or other exposure to the Corporation. The Corporation could incur losses to its securities portfolio as a result of these issues. These types of losses may have a material adverse effect on the Corporation s business, financial condition or results of operation.

Some provisions contained in the Corporation s articles of incorporation and its bylaws and under Pennsylvania law could deter a takeover attempt or delay changes in control or management of the Corporation.

Certain anti-takeover provisions of the Pennsylvania Business Corporation Law of 1988, as amended, apply to Pennsylvania registered corporations (e.g., publicly traded companies) including, but not limited to, those relating to (1) control share acquisitions, (2) disgorgement of profits by certain

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controlling persons, (3) business combination transactions with interested shareholders, and (4) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law permits corporations to opt-out of these anti-takeover provisions, but the Corporation has not done so. Such provisions could have the effect of deterring takeovers or delaying changes in control or management of the Corporation. Additionally, such provisions could limit the price that some investors might be willing to pay in the future for shares of the Corporation s common stock.

For example, the Corporation s amended and restated articles of incorporation require the affirmative vote of 66% of the outstanding shares entitled to vote to effect a business combination. In addition, the Corporation s amended and restated articles of incorporation, subject to the limitations prescribed in such articles and subject to limitations prescribed by Pennsylvania law, authorize the Corporation s board of directors, from time to time by resolution and without further shareholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. As a result of its broad discretion with respect to the creation and issuance of preferred stock without shareholder approval, the board of directors could adversely affect the voting power and other rights of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of CNB.

The Corporation s bylaws, as amended and restated, provide for the division of the Corporation s board of directors into three classes of directors, with each serving staggered terms. In addition, any amendment to the Corporation s bylaws must be approved by the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class.

Any of the foregoing provisions may have the effect of deterring takeovers or delaying changes in control or management of the Corporation.

The price of the Corporation s common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The price of the Corporation s common stock on the NASDAQ constantly changes. The Corporation expects that the market price of its common stock will continue to fluctuate, and the Corporation cannot give you any assurances regarding any trends in the market prices for its common stock.

The Corporation s stock price may fluctuate as a result of a variety of factors, many of which are beyond its control. These factors include the Corporation s:

- past and future dividend practice;
- financial condition, performance, creditworthiness and prospects;
- quarterly variations in the Corporation s operating results or the quality of the Corporation s assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to the Corporation s future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by the Corporation or its competitors;

- the operating and securities price performance of other companies that investors believe are comparable to the Corporation;
- future sales of the Corporation s equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- instability in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility, budget deficits or sovereign debt level concerns and other geopolitical, regulatory or judicial events.

The Corporation s ability to pay dividends is limited by law and regulations.

The future declaration of dividends by the Corporation s Board of Directors will depend on a number of factors, including capital requirements, regulatory limitations, the Corporation s operating results and financial condition and general economic conditions. The Corporation s ability to pay dividends depends primarily on the receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on retained earnings, imposed by bank regulatory agencies. The ability of the Bank to pay dividends is also subject to financial condition, regulatory capital requirements, capital expenditures and other cash flow requirements. The Corporation cannot assure you that the Bank will be able to pay dividends to CNB in the future. The Corporation may decide to limit the payment of dividends to its stockholders even when the Corporation has the legal ability to pay them in order to retain earnings for use in the Corporation s business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The headquarters of the Corporation and the Bank are located at 1 South Second Street, Clearfield, Pennsylvania, in a building owned by the Corporation. The Bank operates 27 full-service offices and one loan production office. Of these 28 offices, 21 are owned and seven are leased from independent owners. Holiday Financial Services Corporation has eight full-service offices of which six are leased from independent owners and two are leased from the Bank. There are no encumbrances on the offices owned and the rental expense on the leased property is immaterial in relation to operating expenses. The initial lease terms range from one to twenty years.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Corporation or any of its subsidiaries is a party, or of which any of their property is the subject, except ordinary routine proceedings which are incidental to the business.

ITEM 4. MINE SAFETY DISCLOSURES

None

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PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Quarterly Share Data; Holders

Our common stock is traded on the Global Select Market of The NASDAQ Stock Market LLC under the symbol CCNE. The following tables set forth, for the periods indicated, the quarterly high and low sales price of the Corporation s common stock as reported by the NASDAQ Global Select Market and actual cash dividends paid per share. As of December 31, 2011, the approximate number of shareholders of record of the Corporation s common stock was 3,731.

Price Range of Common Stock

	2011		2010	
	High	Low	High	Low
First quarter	$ 15.14	$ 13.51	$ 18.99	$ 14.70
Second quarter	14.50	12.38	16.50	10.53
Third quarter	14.37	11.17	13.93	10.75
Fourth quarter	17.21	12.17	15.83	13.00

Cash Dividends Paid

	2011	2010
First quarter	$ 0.165	$ 0.165
Second quarter	0.165	0.165
Third quarter	0.165	0.165
Fourth quarter	0.165	0.165

See Note 17 to the consolidated financial statements in Item 8 and Supervision and Regulation Dividend Restrictions in Part I, Item 1 for a discussion of dividend restrictions.

Issuer Purchases of Equity Securities

There were no shares purchased as part of publicly announced plans or programs from October 1, 2011 to December 31, 2011. The maximum number of shares that may yet be purchased under publicly announced plans or programs is 168,386.

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Performance Graph

Set forth below is a chart comparing the Corporation s cumulative return to stockholders against the cumulative return of the NASDAQ Composite Index and a Peer Group Index of banking organizations for the five-year period commencing December 31, 2006 and ended December 31, 2011.

	Period Ending					
Index	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
CNB Financial Corporation	100.00	99.95	86.56	130.26	126.19	140.97
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Bank NASDAQ	100.00	78.51	57.02	46.25	54.57	48.42

Source : SNL Financial LC, Charlottesville, VA
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ITEM 6. SELECTED FINANCIAL DATA

	Year ended December 31,				
(Dollars in thousands, except per share data)	2011	2010	2009	2008	2007
INTEREST AND DIVIDEND INCOME:					
Loans including fees	$ 48,324	$ 46,955	$ 45,839	$ 47,355	$ 44,559
Deposits with banks	110	125	215	429	492
Federal funds sold	-	-	-	342	334
Securities:					
Taxable	14,285	11,603	7,687	7,419	6,669
Tax-exempt	2,957	2,435	2,095	1,414	1,457
Dividends	36	29	34	224	422
Total interest and dividend income	65,712	61,147	55,870	57,183	53,933
INTEREST EXPENSE:					
Deposits	13,625	13,558	13,091	14,956	18,087
Borrowed funds	3,176	4,716	4,527	4,609	3,510
Subordinated debentures	778	782	850	1,018	1,325
Total interest expense	17,579	19,056	18,468	20,583	22,922
NET INTEREST INCOME	48,133	42,091	37,402	36,600	31,011
PROVISION FOR LOAN LOSSES	4,937	5,158	4,465	3,787	1,512
Net interest income after provision for loan losses	43,196	36,933	32,937	32,813	29,499
NON-INTEREST INCOME	10,719	9,650	7,950	2,168	8,189
NON-INTEREST EXPENSES	33,282	31,798	30,021	28,479	25,273
INCOME BEFORE INCOME TAXES	20,633	14,785	10,866	6,502	12,415
INCOME TAX EXPENSE	5,529	3,469	2,354	1,267	3,281
NET INCOME	$ 15,104	$ 11,316	$ 8,512	$ 5,235	$ 9,134
PER SHARE DATA:					
Basic	$ 1.23	$ 1.06	$ 0.98	$ 0.61	$ 1.05
Fully diluted	1.23	1.06	0.98	0.61	1.05
Dividends declared	0.66	0.66	0.66	0.645	0.62
Book value per share at year end	10.66	8.96	7.92	7.27	8.10
AT END OF PERIOD:					
Total assets	$ 1,602,207	$ 1,413,511	$ 1,161,591	$ 1,016,518	$ 858,700
Securities	641,340	503,028	347,748	238,181	162,792
Loans, net of unearned discount	849,883	794,562	715,142	671,556	599,688
Allowance for loan losses	12,615	10,820	9,795	8,719	6,773
Deposits	1,353,851	1,162,868	956,858	814,596	659,157

FHLB and other borrowings	74,456	105,259	100,003	107,478	98,000
Subordinated debentures	20,620	20,620	20,620	20,620	20,620
Shareholders' equity	131,889	109,645	69,409	62,467	69,283
KEY RATIOS:					
Return on average assets	1.00%	0.87%	0.79%	0.55%	1.12%
Return on average equity	12.36%	11.62%	12.86%	7.88%	12.82%
Loan to deposit ratio	62.78%	68.33%	74.74%	82.44%	90.98%
Dividend payout ratio	53.79%	61.27%	67.27%	105.53%	59.05%
Average equity to average assets ratio	8.09%	7.46%	6.17%	7.00%	8.65%

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ITEM 7. 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 subsidiary, CNB Bank (the Bank), provides financial services to individuals and businesses primarily within the west central Pennsylvania counties of Cambria, Cameron, Centre, Clearfield, Elk, Indiana, Jefferson, McKean and Warren. ERIEBANK, a division of CNB Bank, provides financial services to individuals and business 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 of the Corporation and its consolidated subsidiaries are not necessarily indicative of future performance. CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company 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.

Risk identification and management are essential elements for the successful management of the Corporation. In the normal course of business, the Corporation is subject to various types of risk, including interest rate, credit, and liquidity risk. These risks are controlled through policies and procedures established by the Corporation.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the direction and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of the financial instruments owned by the Corporation. The Corporation uses its asset/liability management policy and systems to control, monitor and manage interest rate risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from loans to customers and the purchase of securities. The Corporation manages credit risk by following an established credit policy and using a disciplined evaluation of the adequacy of the allowance for loan losses. Also, the investment policy limits the amount of credit risk that may be taken in the securities portfolio.

Liquidity risk represents the inability to generate or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers and obligations to depositors. The Corporation has established guidelines within its asset-liability management policy to manage liquidity risk. These guidelines include contingent funding alternatives.

Forward-Looking Statements

The information below includes 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 the financial condition, liquidity, results of operations, future performance and our 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 the words believes, expects, anticipates, estimates, forecasts, intends, plans, targets, potentially, probably, projects, outlook or sin conditional verbs such as may, will, should, would and could. Such known and unknown risks, uncertainties and other factors that could c the actual results to differ materially from the statements, include, but are not limited to, (i) changes in general business, industry or economic conditions or competition; (ii) 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; (iii) adverse changes or conditions in capital and financial markets; (iv) changes in interest rates; (v) higher than expected costs or other difficulties related to integration of combined or merged businesses; (vi) the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions; (vii) changes in the quality or composition of our loan and investment portfolios; (viii) adequacy of loan loss reserves; (ix) increased competition; (x) loss of certain key officers; (xi) continued relationships with major customers; (xii) deposit attrition; (xiii) rapidly changing technology; (xiv) unanticipated regulatory or judicial proceedings and liabilities and other costs; (xv) changes in the cost of funds, demand for loan products or demand for financial services; and (xvi) other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices. Such developments could have an adverse impact on our financial position and our results of operations.

The forward-looking statements are based upon management s beliefs and assumptions. Any forward-looking statement made herein speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

General Overview

The Bank expanded its ERIEBANK division by opening a full service office in Meadville, Pennsylvania in the second quarter of 2010. In addition, a CNB Bank branch was opened in Kylertown, Pennsylvania in the third quarter of 2010, and a CNB Bank loan production office was opened in Indiana, Pennsylvania in the third quarter of 2011. A CNB Bank loan production office in Johnstown, Pennsylvania was closed in the third quarter of 2011. Management believes that our ERIEBANK division, along with our traditional CNB Bank market areas, should provide the Bank with sustained loan growth during 2012. Deposit growth was significant in 2010 and 2011.

Management concentrates on return on average equity and earnings per share metrics, plus other methods to measure the performance of the Corporation. 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 2011 and some additional compression is expected in 2012 as a result of the current interest rate environment. During the past several years, we have taken measures such as

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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. In addition, we decreased interest rates on certain deposit products during 2010 and 2011. Non-interest costs are expected to increase with the growth of the Corporation; however, management s growth strategies are expected to result in an increase in earning assets as well as enhanced non-interest income which we believe will more than offset increases in non-interest expenses in 2012 and beyond. While past results are not an indication of future earnings, we feel the Corporation is well positioned to sustain core earnings during 2012.

As noted above, on July 21, 2010, the Dodd-Frank Wall Street and Consumer Protection Act (the Dodd-Frank Act) was enacted and this law could impact the performance of the Corporation in future periods. The Dodd-Frank Act includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency. Some of these provisions include changes to FDIC insurance coverage, which has now been increased to $250,000. Additional provisions create a Consumer Financial Protection Bureau, which is authorized to write rules on all consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations and is charged with reviewing, and when appropriate, submitting comments to the Securities and Exchange Commission and Financial Accounting Standards Board with respect to existing or proposed accounting principles, standards or procedures. Although the aforementioned provisions are only a few of the numerous ones included in the Dodd-Frank Act, the full impact of the entire Dodd-Frank Act will not be known until the full implementation is completed.

Financial Condition

The following table presents ending balances, growth, and the percentage change of certain measures of our financial condition for specified years (dollars in millions):

	2011 Balance	$ Change vs. prior year	% Change vs. prior year	2010 Balance	$ Change vs. prior year	% Change vs. prior year	2009 Balance
Total assets	$ 1,602.2	$ 188.7	13.3	$ 1,413.5	$ 251.9	21.7	$ 1,161.6
Total loans, net	837.3	53.6	6.8	783.7	78.4	11.1	705.3
Total securities	641.3	138.3	27.5	503.0	155.3	44.7	347.7
Total deposits	1,353.9	191.0	16.4	1,162.9	206.0	21.5	956.9
Total shareholders equity	131.9	22.3	20.3	109.6	40.2	57.9	69.4

Overview of Balance Sheet

The increase in assets of 13.3% during 2011 was primarily the result of continued deposit growth, with corresponding investments in the loan and securities portfolios. The loan growth occurred in both the commercial and residential mortgage areas due to our focus on private banking and the historically low interest rates throughout 2011 which resulted in refinancing activity as well as new mortgage loans and home equity borrowings. Although the Corporation s loan growth was 6.8% for the year ended December 31, 2011, its deposit growth was even more significant as total deposits grew by $191.0 million, or 16.4%, during 2011. As such, the Corporation purchased additional available-for-sale securities. The specific effects to each area are described in the following sections.

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Cash and Cash Equivalents

Cash and cash equivalents totaled $39.7 million at December 31, 2011 compared to $37.4 million at December 31, 2010. Cash and cash equivalents will fluctuate based on the timing and amount of liquidity events that occur in the normal course of business. The year end balance is considered reasonable to support our expected funding needs in the short term.

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, Federal Home Loan Bank financing, and the portion of the securities and loan portfolios that matures 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 $138.3 million, or 27.5%, at December 31, 2011 when compared to December 31, 2010. The increase is primarily due to purchases of securities issued by state and local political subdivisions, structured collateralized mortgage obligations, and pooled Small Business Association securities, and resulted from excess deposit growth not reinvested in loans. Note 3 to the consolidated financial statements provides more detail concerning the composition of the Corporation s securities portfolio, the process for evaluating securities for other-than-temporary impairment, and for valuation of structured pooled trust preferred securities.

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 meetings of the Asset/Liability Committee of the Corporation s Board of Directors (ALCO). The ALCO also reviews and manages interest rate risk for the 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 s 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.

As detailed in the table below, at December 31, 2011, the Corporation had $849.9 million in loans outstanding, net of unearned discount, an increase of $55.3 million (or 7.0%) since December 31, 2010. The increase was primarily the result of two factors. The first factor was increasing demand for commercial mortgage 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 second factor was increasing demand for residential mortgage loan products due to historically low interest rates throughout 2011, resulting in both refinancing activity as well as new mortgage loans and home equity borrowings.

(dollars in thousands)	2011	2010
Commercial, industrial, and agricultural	$ 253,324	$ 257,491
Commercial mortgages	242,511	212,878
Residential real estate	298,628	266,604
Consumer	54,677	53,202
Credit cards	3,206	2,870
Overdrafts	423	3,964
Less: unearned discount	(2,886)	(2,447)
Total loans, net of unearned discount	$ 849,883	$ 794,562

With continued economic improvement in our market areas, the Corporation expects loan demand in 2012 to be consistent with 2011.

Loan Concentration

The Corporation monitors loan concentrations by individual industries in order to track potential risk exposures resulting from industry related downturns. At December 31, 2011, no concentration existed within our commercial or real estate loan portfolio that exceeded 10% of the total loans.

Loan Quality

The Corporation has established written lending policies and procedures that require underwriting standards, loan documentation, and credit analysis standards to be met prior to funding a loan. Subsequent to the funding of a loan, ongoing review of credits is required. Credit reviews are performed annually on a minimum of 65% of the commercial loan portfolio by an outsourced loan review firm. In addition, classified assets, past due loans and nonaccrual loans are reviewed by the loan review partner semiannually and monthly by our credit administration staff.

The following table presents information concerning loan delinquency and other non-performing assets at December 31, 2011, 2010, and 2009 (dollars in thousands):

	2011	2010	2009
Non-accrual loans	$ 16,567	$ 11,926	$ 12,757
Accrual loans greater than 89 days past due	441	889	548
Total nonperforming loans	17,008	12,815	13,305
Other real estate owned	505	396	252
Total nonperforming assets	$ 17,513	$ 13,211	$ 13,557
Total loans, net of unearned income	$ 849,883	$ 794,562	$ 715,142
Nonperforming loans as a percentage of loans, net	2.00%	1.61%	1.86%
Total assets	$ 1,602,207	$ 1,413,511	$ 1,161,591
Nonperforming assets as a percentage of total assets	1.09%	0.93%	1.17%

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Management continues to closely monitor nonperforming loans. Although the ratio of nonperforming loans to total net loans increased from 1.61% in 2010 to 2.00% in 2011, management does not believe the increase to be a result of deterioration in our underwriting or credit analysis processes, but more a result of overall economic conditions regionally as well as nationally. The Corporation s nonperforming loans to total loans ratio continues to be favorable compared to peer institutions. See the Allowance for Loan Losses section for further discussion of credit review procedures and increases in nonperforming loans.

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 following table presents activity within the allowance for loan losses during the years ended December 31, 2011, 2010, and 2009 (dollars in thousands):

	2011	2010	2009
Balance at beginning of period	$ 10,820	$ 9,795	$ 8,719
Charge-offs:			
Commercial, industrial, and agricultural	1,796	543	860
Commercial mortgages	175	2,061	381
Residential real estate	217	211	378
Consumer	907	1,223	1,622
Credit cards	39	94	101
Overdrafts	222	239	269
	3,356	4,371	3,611
Recoveries:			
Commercial, industrial, and agricultural	9	11	2
Commercial mortgages	-	3	-
Residential real estate	13	2	1
Consumer	88	100	62
Credit cards	10	10	13
Overdrafts	94	112	144
	214	238	222
Net charge-offs	(3,142)	(4,133)	(3,389)
Provision for loan losses	4,937	5,158	4,465
Balance at end of period	$ 12,615	$ 10,820	$ 9,795
Loans, net of unearned income	$ 849,883	$ 794,562	$ 715,142
Allowance to net loans	1.48%	1.36%	1.37%

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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 impaired 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 three categories: special mention, substandard, and doubtful. 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; and
- 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. As a result of the application of these procedures, the allocation of the allowance for loan losses was as follows at December 31, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Commercial, industrial, and agricultural	$ 4,511	$ 3,517	$ 2,790
Commercial mortgages	4,470	3,511	3,291
Residential real estate	1,991	1,916	1,583
Consumer	1,404	1,561	1,751
Credit cards	71	96	85
Overdrafts	168	219	295
Total	$ 12,615	$ 10,820	$ 9,795

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Throughout 2011, the Corporation evaluated its provision and allowance for loan losses in light of increases in reserves required for impaired loans, increases in nonperforming loans, as well as growth in loans outstanding. Note 4 to the consolidated financial statements provides further disclosure of loan balances by portfolio segment as of December 31, 2011 and 2010, as well as the nature and scope of loans modified in a troubled debt restructuring during 2011 and 2010 and the related effect on the provision and allowance for loan losses.

During the year ended December 31, 2011, one relationship comprising two commercial loans became impaired, resulting in a provision for loan losses of $1.7 million and a chargeoff of $1.4 million. As of December 31, 2011, the carrying value of the loans is $2.4 million, with a specific reserve of $300 thousand. In addition, a relationship comprising one commercial loan and two commercial real estate loans became impaired during the fourth quarter of 2011, resulting in a provision for loan losses of $600 thousand, or 65% of the carrying value of the loans.

Finally, the effect of increases in net chargeoffs in 2011, 2010, and 2009 as compared to net chargeoffs in 2008 and 2007, as disclosed in the Summary of Loan Loss Experience table in Item 1, continued to have a significant impact on the loan loss reserves required for homogeneous loan pools during the year ended December 31, 2011. As disclosed in Note 4 to the consolidated financial statements, the homogeneous reserve for commercial, industrial, and agricultural loans increased from $3.4 million at December 31, 2010 to $4.2 million at December 31, 2011 and the homogeneous reserved for commercial mortgage loans increased from $2.8 million at December 31, 2010 to $3.3 million at December 31, 2011.

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 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 that 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.

Management believes that both its 2011 provision and allowance for loan losses were reasonable and adequate to absorb probable incurred losses in its portfolio at December 31, 2011.

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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 2011, additional BOLI of $5.0 million was purchased.

Funding Sources

Although the Corporation considers short-term borrowings and long-term debt when evaluating funding sources, traditional deposits continue to be the main source for funding. As noted in the following table, traditional deposits increased 16.4% during 2011.

	Percentage change 2011 vs. 2010	Percentage change 2010 vs. 2009	2011	2010	2009
Demand, Non interest bearing	8.4%	21.1%	$ 152,732	$ 140,836	$ 116,310
Demand, Interest bearing	7.5%	16.5%	305,960	284,538	244,218
Savings deposits	70.4%	34.8%	627,106	368,055	273,096
Time deposits	(27.4%)	14.3%	268,053	369,439	323,234
Total	16.4%	21.5%	$ 1,353,851	$ 1,162,868	$ 956,858

The growth in deposits was primarily due to increases in savings accounts of $259.1 million from December 31, 2010 to December 31, 2011 as a result of the Corporation s marketing of a new savings product which carries an annual percentage yield which is highly competitive in the current interest rate environment. This increase in savings accounts was offset by an expected decrease in time deposits of $101.4 million as customers who previously held certificates of deposit migrated to the savings product.

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding obligations or match fund certain loan assets. The terms of these borrowings are detailed at Note 10 to the consolidated financial statements.

Shareholders Equity

The Corporation s capital continues to provide a base for profitable growth. The Corporation earned $15.1 million and declared dividends of $8.1 million, resulting in a dividend payout ratio of 53.8% of net income.

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The Corporation has complied with the standards of capital adequacy mandated by the banking industry. 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 at December 31, 2011 and 2010 are as follows:

	2011	2010
Total risk-based capital ratio	15.14%	15.38%
Tier 1 capital ratio	13.89%	14.13%
Leverage ratio	8.22%	8.81%
Tangible common equity/tangible assets (1)	7.61%	7.05%
Book value per share	$ 10.66	$ 8.96
Tangible book value per share (1)	$ 9.78	$ 8.08

(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).

	December 31, 2011	December 31, 2010
Shareholders equity	$ 131,889	$ 109,645
Less goodwill	10,821	10,821
Tangible common equity	$ 121,068	$ 98,824
Total assets	$ 1,602,207	$ 1,413,511
Less goodwill	10,821	10,821
Tangible assets	$ 1,591,386	$ 1,402,690
Ending shares outstanding	12,377,318	12,237,261
Tangible book value per share	$ 9.78	$ 8.08
Tangible common equity/tangible assets	7.61%	7.05%

Liquidity

Liquidity measures an organization s ability to meet cash obligations as they come due. The consolidated statements of cash flows included in the accompanying financial statements provide analysis of the Corporation s cash and cash equivalents and the sources and uses of cash. Additionally,

the portion of the loan portfolio that matures within one year and maturities within one year in the investment portfolio is considered part of the Corporation s liquid assets. Liquidity is monitored by both management and the Board s ALCO, which establishes and monitors ranges of acceptable liquidity. Also, the Bank is a member of FHLB which provides the Bank with a total borrowing line of approximately $514 million with approximately $444 million available at December 31, 2011. Management believes that the Corporation s current liquidity position is acceptable.

Year Ended December 31, 2011 vs. Year Ended December 31, 2010

Overview of the Income Statement

The Corporation had net income of $15.1 million for 2011 compared to $11.3 million for 2010. The increase in net income is attributable to an increase in net interest income of $6.0 million, or 14.4%, as well as an increase in non-interest income of $1.1 million, or 11.1%. The earnings per diluted share increased from $1.06 in 2010 to $1.23 in 2011. The return on assets and the return on equity for 2011 are 1.00% and 12.36% as compared to 0.87% and 11.62% for 2010.

Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.59% for the year ended December 31, 2011, compared to 3.65% for the year ended December 31, 2010. Total interest and dividend income increased by $4.6 million, or 7.5%, as compared to 2010. Although the Corporation s earning assets continue to grow, these increases have been offset by decreases in the yield on earning assets as a result of the current interest rate environment. The Corporation s average earning assets increased by $203.3 million for the year ended December 31, 2011 while the yield during that time decreased by 66 basis points from 5.23% to 4.84%. Total interest expense decreased $1.5 million, or 7.8%, for the year ended December 31, 2011 as compared to the comparable period in 2010 due in part to the Corporation s repayment and refinancing of long-term debt in 2010. In addition, as a result of the Corporation s focus on deposit mix and active management of deposit rates, the cost of interest bearing deposits decreased by 20 basis points which offset the increase in average interest bearing deposits of $164.0 million.

Provision for Loan Losses

The Corporation recorded a provision for loan losses of $4.9 million in 2011 compared to $5.2 million in 2010. Net loan chargeoffs were $3.1 million during the year ended December 31, 2011 compared to $4.1 million during the year ended December 31, 2010. However, as disclosed in the Allowance for Loan Losses section of Management s Discussion and Analysis, the Corporation significantly increased its general reserve for both commercial, industrial, and agricultural loans and commercial loans during 2011. In combination, these factors resulted in a slightly lower provision for loan losses in 2011 compared to 2010.

Management believes the charges to the provision in 2011 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2011.

Non-Interest Income

Net realized securities gains during the year ended December 31, 2011 were $614 thousand, compared to net realized securities gains of $1.7 million for the year ended December 31, 2010. During the years

ended December 31, 2011 and 2010, other-than-temporary impairment charges of $398 thousand and $2.2 million, respectively, were recorded in earnings on structured pooled trust preferred securities. In addition, the Corporation recorded realized and unrealized gains during the years ended December 31, 2011 and 2010 of $64 thousand and $162 thousand, respectively, for securities for which the fair value option was elected.

Excluding the effects of securities transactions, non-interest income was $10.4 million for the year ended December 31, 2011, compared to $10.1 million for the year ended December 31, 2010.

Non-Interest Expense

Total non-interest expenses increased $1.5 million, or 4.7%, during the year ended December 31, 2011 compared to the year ended December 31, 2010. Salaries and benefits expenses increased $1.6 million, or 10.2%, during the year ended December 31, 2011 compared to the year ended December 31, 2010, in part due to an increase in average full-time equivalent employees from 288 in 2010 to 297 in 2011. In addition, certain employee benefit expenses, such as health insurance premiums, continued to increase in line with market conditions. FDIC insurance expenses decreased $360 thousand, or 22.2%, during the year ended December 31, 2011 compared to the year ended December 31, 2010 due to the change in the FDIC insurance calculation from a deposit based formula to a tangible assets based formula in the second quarter of 2011.

Year Ended December 31, 2010 vs. Year Ended December 31, 2009

Overview of the Income Statement

The Corporation had net income of $11.3 million for 2010 compared to $8.5 million for 2009. The increase in net income is attributable to an increase in net interest income of $4.7 million, or 12.5%, as well as an increase in non-interest income of $1.7 million, or 21.4%. The earnings per diluted share increased from $0.98 in 2009 to $1.06 in 2010. The return on assets and the return on equity for 2010 are 0.87% and 11.62% as compared to 0.79% and 12.86% for 2009.

Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.65% for the year ended December 31, 2010, compared to 4.00% for the year ended December 31, 2009. Total interest and dividend income increased by $5.3 million, or 9.4%, as compared to 2009. Although the Corporation s earning assets continued to grow in 2010, the increases were offset by decreases in the yield on earning assets as a result of the then-current interest rate environment. The Corporation s average earning assets increased by $227.9 million for the year ended December 31, 2010 while the yield during that time decreased by 66 basis points from 5.89% to 5.23%. Total interest expense increased $588 thousand, or 3.2%, for the year ended December 31, 2010 as compared to the comparable period in 2009. As a result of the Corporation s focus on deposit mix and active management of deposit rates, the cost of interest bearing deposits decreased by 29 basis points which offset the increase in average interest bearing deposits of $190.8 million.

The Corporation s interest expense on borrowings was negatively impacted by a $707 thousand prepayment penalty that was recorded in the fourth quarter of 2010 when management elected to prepay a long-term borrowing having a fixed interest rate of 5.63%. The effect of this prepayment penalty was to reduce the net interest margin by 6 basis points for the year ended December 31, 2010.

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Provision for Loan Losses

The Corporation recorded a provision for loan losses of $5.2 million in 2010 compared to $4.5 million in 2009. The Corporation experienced an increased level of charge-offs over 2009 even though net charge-offs as a percentage of average loans remain at a modest level in comparison to our peer group. However, because of the increase in net charge-offs and the overall growth of the loan portfolio, as well as management s detailed evaluation of problem loans, criticized assets, and the overall effects of the economy in our markets, an increase in the provision was deemed necessary. Management believes the charges to the provision in 2010 were appropriate.

Non-Interest Income

Net realized securities gains during the year ended December 31, 2010 were $1.7 million, compared to net realized securities gains of $395 thousand for the year ended December 31, 2009. During the year ended December 31, 2010 and 2009, an other-than-temporary impairment charge of $2.2 million and $2.4 million, respectively, was recorded in earnings on structured pooled trust preferred securities.

Excluding the effects of securities transactions, non-interest income was $10.1 million for the year ended December 31, 2010, compared to $9.7 million for the year ended December 31, 2009. Wealth and asset management fees increased $378 thousand, or 26.1%, during the year ended December 31, 2010 as a result of growth in this business segment s customer base as well as growth in the market value of the portfolios of existing customers.

Non-Interest Expense

Total non-interest expense increased $1.8 million, or 5.9%, during the year ended December 31, 2010 compared to the year ended December 31, 2009. Salaries and benefits expenses increased $1.0 million, or 7.0%, during the year ended December 31, 2010 compared to the year ended December 31, 2009, primarily as a result of an increase in full-time equivalent employees from 280 at December 31, 2009 to 288 at December 31, 2010.

Insurance premiums due to the FDIC decreased by $128 thousand, or 7.3%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 due to the special assessment in the amount of $475 thousand that was incurred during the quarter ended June 30, 2009. Excluding this special assessment, FDIC insurance premiums increased $347 thousand during the year ended December 31, 2010 as compared to the year ended December 31, 2009, as a result of increases in the deposits on which the premium assessment is based as well as higher assessment rates in 2010.

Net occupancy expenses increased $255 thousand, or 6.3%, and data processing expenses increased $309 thousand, or 12.4%, during the year ended December 31, 2010 as a result of the Corporation s continued growth.

Income Tax Expense

Income taxes were $5.5 million in 2011, compared to $3.5 million in 2010 and $2.4 million in 2009. The effective tax rates were 26.8%, 23.5%, and 21.7% for 2011, 2010 and 2009, respectively. The effective tax rate for the periods differed from the federal statutory rate of 35.0% principally as a result of tax-exempt income from securities and loans as well as earnings from bank owned life insurance. The increase in the effective tax rate from 2009 and 2010 to 2011 is attributable to a lower percentage of tax-exempt income in 2011 compared to pre-tax income.

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Contractual Obligations and Commitments

The Corporation has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents, as of December 31, 2011, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(dollars in thousands)	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity		$ 1,085,798	-	-	-	$ 1,085,798
Certificates of deposit	9	92,132	135,127	33,274	7,520	268,053
FHLB and other borrowings	10	162	342	20,374	53,578	74,456
Operating leases	6	345	478	405	1,252	2,480
Sale-leaseback	6	112	224	224	1,117	1,677
Subordinated debentures	10	-	-	-	20,620	20,620

The Corporation s operating lease obligations represent short and long-term lease and rental payment for facilities. The Corporation s sale-leaseback obligation represents a long-term real estate lease associated with one of the Corporation s branch office locations.

The Corporation also has obligations under its postretirement plan for health care and supplemental executive retirement plan as described in Note 13 to the consolidated financial statements. The postretirement benefit payments represent actuarially determined future benefit payments to eligible plan participants. The supplemental executive retirement plan allocates expenses over the participant s service period. The Corporation reserves the right to terminate these plans at any time.

Off-Balance Sheet Arrangements

See Note 18 to the consolidated financial statements for information about our off-balance sheet arrangements.

Applications of Critical Accounting Policies

The Corporation s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. and follow general practices within the industries in which the Corporation operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

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The most significant accounting policies used by the Corporation are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements.

A material estimate that is susceptible to significant change is the determination of the allowance for loan losses. The Corporation s methodology for determining the allowance for loan losses is described previously in Management s Discussion and Analysis. Given the subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make materially different assumptions and could therefore calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation s allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Corporation s debt securities. For most of the Corporation s debt securities, the Corporation receives estimated fair values from an independent valuation service or from brokers. In developing fair values, the valuation service and the brokers use estimates of cash flows, based on historical performance of similar instruments in similar interest rate environments. Based on experience, management is aware that estimated fair values of debt securities tend to vary among brokers and other valuation services.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. As a financial holding company, the Corporation is primarily sensitive to the interest rate risk component. Changes in interest rates will affect the levels of income and expense recorded on a large portion of the Bank s assets and liabilities. Additionally, such fluctuations in interest rates will impact the market value of all interest sensitive assets. The ALCO is responsible for reviewing the interest rate sensitivity position and establishing policies to control exposure to interest rate fluctuations. The primary goal established by these policies is to increase total income within acceptable risk limits.

The Corporation monitors interest rate risk through the use of two models: earnings simulation and static gap. Each model standing alone has limitations; however, taken together they represent in management s opinion a reasonable view of the Corporation s interest rate risk position.

STATIC GAP: Gap analysis is intended to provide an approximation of projected repricing of assets and liabilities at a point in time on the basis of stated maturities, prepayments, and scheduled interest rate adjustments within selected time intervals. A gap is defined as the difference between the principal amount of assets and liabilities which reprice within those time intervals. The cumulative one year gap at December 31, 2011 was 11.83% of total earning assets compared to policy guidelines of plus or minus 15.0%. The one year gap was 3.23% at December 31, 2010.

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Fixed rate securities, loans and CDs are included in the gap repricing based on time remaining until maturity. Mortgage prepayments are included in the time frame in which they are expected to be received.

Certain shortcomings are inherent in the method of analysis presented in Static Gap. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features, like annual and lifetime rate caps, which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. Finally, the ability of certain borrowers to make scheduled payments on their adjustable-rate loans may decrease in the event of an interest rate increase.

EARNINGS SIMULATION: This model forecasts the projected change in net income resulting from an increase or decrease in the federal funds rate. The model assumes a one time shock of plus or minus 200 basis points or 2%.

The model makes various assumptions about cash flows and reinvestments of these cash flows in the different rate environments. Generally, repayments, maturities and calls are assumed to be reinvested in like instruments and no significant change in the balance sheet mix is assumed. Actual results could differ significantly from these estimates which would produce significant differences in the calculated projected change in income. The limits stated above do not necessarily represent measures that would be taken by management in order to stabilize income results. The instruments on the balance sheet react at different speeds to various changes in interest rates as discussed under Static Gap. In addition, there are strategies available to management that may help mitigate a decline in income caused by a rapid change in interest rates.

The following table below summarizes the information from the interest rate risk measures reflecting rate sensitive assets to rate sensitive liabilities at December 31, 2011 and 2010:

	2011	2010
Static 1-Yr. Cumulative Gap	11.83%	3.23%
Earnings Simulation:		
-200 bps vs. Stable Rate	N/A	N/A
+200 bps vs. Stable Rate	16.93%	0.10%

The interest rate sensitivity position at both December 31, 2011 and 2010 was asset sensitive in the short term. As the federal funds rate was at 0.25% on December 31, 2011 and 2010, the -200 bps scenario has been excluded. Management measures the potential impact of significant changes in interest rates on both earnings and equity. By the use of computer generated models, the potential impact of these changes has been determined to be acceptable with modest effects on net income and equity given an interest rate shock of an increase in the federal funds rate of 2.0%. We continue to monitor the interest rate sensitivity through the ALCO and use the data to make strategic decisions.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	December 31,	
	2011	2010
ASSETS		
Cash and due from banks	$ 36,032	$ 24,584
Interest bearing deposits with other banks	3,671	12,848
Total cash and cash equivalents	39,703	37,432
Interest bearing time deposits with other banks	224	2,817
Securities available for sale	638,107	500,677
Trading securities	3,233	2,351
Loans held for sale	1,442	4,451
Loans	852,769	797,009
Less: unearned discount	(2,886)	(2,447)
Less: allowance for loan losses	(12,615)	(10,820)
Net loans	837,268	783,742
FHLB and other equity interests	6,537	6,415
Premises and equipment, net	24,004	24,135
Bank owned life insurance	25,672	19,742
Mortgage servicing rights	906	908
Goodwill	10,821	10,821
Accrued interest receivable and other assets	14,290	20,020
TOTAL ASSETS	$ 1,602,207	$ 1,413,511
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 152,732	$ 140,836
Interest bearing deposits	1,201,119	1,022,032
Total deposits	1,353,851	1,162,868
Treasury, tax and loan borrowings	0	1,248
FHLB and other borrowings	74,456	105,259
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	21,391	13,871
Total liabilities	1,470,318	1,303,866
Common stock, $0 par value; authorized 50,000,000 shares; issued 12,599,603 shares	0	0
Additional paid in capital	44,350	44,676
Retained earnings	80,038	73,059
Treasury stock, at cost (222,285 shares for 2011 and 362,342 for 2010)	(3,260)	(5,417)
Accumulated other comprehensive income (loss)	10,761	(2,673)

Total shareholders equity	131,889	109,645
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,602,207	$ 1,413,511

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share data

	Year ended December 31,		
	2011	2010	2009
INTEREST AND DIVIDEND INCOME:			
Loans including fees	$ 48,324	$ 46,955	$ 45,839
Deposits with banks	110	125	215
Securities:			
Taxable	14,285	11,603	7,687
Tax-exempt	2,957	2,435	2,095
Dividends	36	29	34
Total interest and dividend income	65,712	61,147	55,870
INTEREST EXPENSE:			
Deposits	13,625	13,558	13,091
Borrowed funds	3,176	4,716	4,527
Subordinated debentures	778	782	850
Total interest expense	17,579	19,056	18,468
NET INTEREST INCOME	48,133	42,091	37,402
PROVISION FOR LOAN LOSSES	4,937	5,158	4,465
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	43,196	36,933	32,937
NON-INTEREST INCOME:			
Wealth and asset management fees	1,691	1,829	1,451
Service charges on deposit accounts	4,233	4,226	4,309
Other service charges and fees	1,626	1,396	1,322
Net realized gains (losses) from sales of securities for which fair value was elected	30	(68)	0
Net unrealized gains on securities for which fair value was elected	34	230	293
Mortgage banking	735	814	1,058
Bank owned life insurance	930	802	720
Other	1,224	1,002	845
	10,503	10,231	9,998
Total other-than-temporary impairment losses on available-for-sale securities	(398)	(2,241)	(2,443)
Less portion of loss recognized in other comprehensive income (loss)	0	0	0
Net impairment losses recognized in earnings	(398)	(2,241)	(2,443)
Net realized gains on available-for-sale securities	614	1,660	395
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	216	(581)	(2,048)
Total non-interest income	10,719	9,650	7,950

NON-INTEREST EXPENSES:			
Salaries	12,349	11,358	10,403
Employee benefits	4,936	4,328	4,257
Net occupancy expense	4,416	4,326	4,071
Data processing	2,754	2,797	2,488
State and local taxes	1,275	1,162	908
Legal, professional and examination fees	956	849	897
Advertising	822	795	620
FDIC insurance	1,259	1,619	1,747
Intangible asset amortization	0	85	100
Directors fees and benefits	591	437	732
Other	3,924	4,042	3,798
Total non-interest expenses	33,282	31,798	30,021
INCOME BEFORE INCOME TAXES	20,633	14,785	10,866
INCOME TAX EXPENSE	5,529	3,469	2,354
NET INCOME	$ 15,104	$ 11,316	$ 8,512
EARNINGS PER SHARE:			
Basic	$ 1.23	$ 1.06	$ 0.98
Diluted	1.23	1.06	0.98

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

	Year ended December 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 15,104	$ 11,316	$ 8,512
Adjustments to reconcile net income to net cash provided by operations:			
Provision for loan losses	4,937	5,158	4,465
Depreciation and amortization of premises and equipment	2,075	2,034	1,997
Securities amortization and accretion and deferred loan fees and costs	2,786	1,466	1,240
Deferred taxes	441	2,251	(1,746)
Net impairment losses realized in earnings and gains on sales of available-for-sale securities	(216)	581	2,048
Net realized and unrealized gains on securities for which fair value was elected	(64)	(162)	(293)
Proceeds from sale of securities for which fair value was elected	343	34	0
Purchase of securities for which fair value was elected	(1,266)	0	0
Gain on sale of loans	(638)	(688)	(931)
Net gains on dispositions of premises and equipment and foreclosed assets	(104)	(117)	(24)
Proceeds from sale of loans	23,324	22,585	50,507
Origination of loans held for sale	(19,927)	(28,706)	(49,717)
Increase in bank owned life insurance	(930)	(802)	(720)
Stock-based compensation expense	213	205	122
Contribution of treasury stock	120	26	0
Changes in:			
Accrued interest receivable and other assets	(1,342)	(3,661)	(3,385)
Accrued interest payable and other liabilities	5,529	(374)	2,859
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,385	11,146	14,934
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in interest bearing time deposits with other banks	2,593	3,571	127
Proceeds from maturities, prepayments and calls of securities	101,178	111,827	89,371
Proceeds from sales of securities	69,740	95,381	107,561
Purchase of securities	(288,757)	(360,837)	(305,099)
Loan origination and payments, net	(58,552)	(80,435)	(45,544)
Purchase of bank owned life insurance	(5,000)	(2,500)	0
Redemption (purchase) of FHLB and other equity interests	(122)	492	(1,092)
Purchase of premises and equipment	(1,705)	(1,992)	(1,479)
Proceeds from the sale of premises and equipment and foreclosed assets	257	823	696
NET CASH USED IN INVESTING ACTIVITIES	(180,368)	(233,670)	(155,459)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in:			
Checking, money market and savings accounts	292,369	159,805	162,670
Certificates of deposit	(101,386)	46,205	(20,408)
Proceeds from sale of treasury stock	1,188	1,200	1,144
Proceeds from exercise of stock options, including tax benefit	259	69	761
Proceeds from stock offering, net of issuance costs	0	32,128	0
Cash dividends paid	(8,125)	(6,933)	(5,726)
Proceeds from long-term borrowings	700	20,000	625
Repayments on long-term borrowings	(133)	(46,114)	(4,600)
Net change in short-term borrowings	(32,618)	31,238	(2,839)
NET CASH PROVIDED BY FINANCING ACTIVITIES	152,254	237,598	131,627

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,271	15,074	(8,898)
CASH AND CASH EQUIVALENTS, Beginning	37,432	22,358	31,256
CASH AND CASH EQUIVALENTS, Ending	$ 39,703	$ 37,432	$ 22,358
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 17,937	$ 19,296	$ 18,552
Income taxes	3,991	3,342	2,484
SUPPLEMENTAL NONCASH DISCLOSURES:			
Transfers to other real estate owned	$ 249	$ 453	$ 253
Loans transferred from held for sale to held for investment	0	3,321	1,736
Grant of restricted stock awards from treasury stock	266	233	198

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

Dollars in thousands, except share and per share data

	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Share-holders Equity
Balance, January 1, 2009	$ 12,913	$ 65,890	$ (9,332)	$ (7,004)	$ 62,467
Comprehensive income:					
Net income for 2009		8,512			8,512
Other comprehensive loss:					
Net change in unrealized losses on available for sale securities,net of reclassification and taxes of $1,111				2,063	2,063
Change in actuarial gain, net of amortization and tax effects forpost-employment health care plan, net of tax of ($74)				(138)	(138)
Change in fair value of interest rate swap agreement designatedas a cash flow hedge, net of tax of $110				204	204
Total other comprehensive loss					2,129
Total comprehensive income					10,641
Restricted stock award grants (14,159 shares)	(198)		198		
Forfeiture of restricted stock award grants (1,701 shares)	17		(17)		
Exercise of stock options (63,712 shares), including tax benefit	(125)		886		761
Stock based compensation expense	122				122
Reissue of treasury stock (89,047 shares)	(98)		1,242		1,144
Cash dividends declared ($0.66 per share)		(5,726)			(5,726)
Balance, December 31, 2009	12,631	68,676	(7,023)	(4,875)	69,409
Comprehensive income:					
Net income for 2010		11,316			11,316
Other comprehensive income:					
Net change in unrealized losses on available for sale securities,net of reclassification and taxes of $1,375				2,554	2,554
Change in actuarial gain, net of amortization and tax effects forpost-employment health care plan, net of tax of ($132)				(245)	(245)
Change in fair value of interest rate swap agreement designatedas a cash flow hedge, net of tax of ($58)				(107)	(107)
Total other comprehensive income					2,202
Total comprehensive income					
Common shares issued (3,365,853 shares)	32,128				13,518
Restricted stock award grants (16,500 shares)	(233)		233		32,128
Forfeiture of restricted stock award grants (1,343 shares)	20		(20)		
Exercise of stock options (8,206 shares), including tax benefit	(37)		121		84
Stock based compensation expense	205				205
Reissue of treasury stock (86,772 shares)	(38)		1,272		1,234
Cash dividends declared ($0.66 per share)		(6,933)			(6,933)
Balance, December 31, 2010	44,676	73,059	(5,417)	(2,673)	109,645
Comprehensive income:					
Net income for 2011		15,104			15,104
Other comprehensive income:					

Net change in unrealized losses on available for sale securities,net of reclassification and taxes of $7,772			14,441		14,441
Change in actuarial gain, net of amortization and tax effects forpost-employment health care plan, net of tax of ($261)				(485)	(485)
Change in fair value of interest rate swap agreements designatedas a cash flow hedge, net of tax of ($280)				(522)	(522)
Total other comprehensive income					13,434
Total comprehensive income					
Restricted stock award grants (17,900 shares)	(266)		266		
Forfeiture of restricted stock award grants (1,488 shares)	22		(22)		
Exercise of stock options (28,750 shares), including tax benefit	(133)		443		310
Stock based compensation expense	213				213
Reissue of treasury stock (94,895 shares)	(162)		1,470		1,308
Cash dividends declared ($0.66 per share)		(8,125)			(8,125)
Balance, December 31, 2011	$ 44,350	$ 80,038	$ (3,260)	$ 10,761	$ 131,889

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Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Unless otherwise indicated, dollar amounts are in thousands, except per share data.

Business and Organization

CNB Financial Corporation (the Corporation) is headquartered in Clearfield, Pennsylvania, and provides a full range of banking and related services through its wholly owned subsidiary, CNB Bank (the Bank), which opened its ERIEBANK division during 2005 in the Erie, Pennsylvania market area. In addition, the Bank provides trust and asset management services, including the administration of trusts and estates, retirement plans, and other employee benefit plans as well as a full range of wealth management services. The Bank serves individual and corporate customers and is subject to competition from other financial institutions and intermediaries with respect to these services. In addition to the Bank, the Corporation also entered the consumer discount loan and finance business in 2005 through its wholly owned subsidiary, Holiday Financial Services Corporation (Holiday). The Corporation and these and its several other subsidiaries are subject to examination by federal and state regulators. The Corporation s market area is primarily concentrated in the central and northwest regions of the Commonwealth of Pennsylvania.

Basis of Financial Presentation

The financial statements are consolidated to include the accounts of the Corporation and the Bank, CNB Securities Corporation, Holiday, County Reinsurance Company, and CNB Insurance Agency. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the U.S., management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, mortgage servicing rights, and fair values of financial instruments are particularly subject to change.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis. Operating segments are aggregated into one as operating results for all segments are similar and the accounts of County Reinsurance Company and CNB Insurance Agency are not material to the consolidated financial statements. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Interest Bearing Time Deposits with Other Banks

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

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Securities

When purchased, securities are classified as held to maturity, trading or available for sale. Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Held to maturity securities are carried at amortized cost. Debt or equity securities are classified as trading when purchased principally for the purpose of selling them in the near term, or when the fair value option has been elected. Trading securities are recorded at fair value with changes in fair value included in earnings in non-interest income. Available for sale securities are those securities not classified as held to maturity or trading and are carried at their fair value. Unrealized gains and losses, net of deferred tax, on securities classified as available for sale are recorded as other comprehensive income. Management has not classified any debt securities as held to maturity.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for the amortization of premiums and the accretion of discounts over the period through contractual maturity or, in the case of mortgage-backed securities and collateralized mortgage obligations, over the estimated life of the security. Such amortization is included in interest income from securities. Gains and losses on securities sold are recorded on the trade date and based on the specific identification method.

Declines in the fair value of debt securities below their cost that are other than temporary and attributable to credit losses are reflected in earnings. Other-than-temporary impairment losses that are not attributable to credit losses are reported as a component of accumulated other comprehensive income. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Corporation s intent to sell, or whether it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If the Corporation intends to sell a security or it is more likely than not it will be required to sell a security before recovery of its amortized cost basis, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on commercial, industrial, and agricultural loans, commercial mortgage loans, and residential real estate loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. Loans, including loans modified in a troubled debt restructuring, are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. For all portfolio segments, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Concentration of Credit Risk

Most of the Corporation s business activity is with customers located within the Commonwealth of Pennsylvania. Therefore, the Corporation s exposure to credit risk is significantly affected by changes in Pennsylvania s economy.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of the mortgage loan sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance account.

Management determines the adequacy of the allowance based on historical patterns of charge-offs and recoveries, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, industry experience, economic conditions, and other qualitative factors relevant to the collectability of the loan portfolio. While management believes that the allowance is adequate to absorb probable loan losses incurred at the balance sheet date, future adjustments may be necessary due to circumstances that differ substantially from the assumptions used in evaluating the adequacy of the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent 2 years. This actual loss experience is supplemented with other factors based on the risks present for each portfolio segment. These historical loss factors include consideration of the following: 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; and concentrations of credit.

The following portfolio segments, which are the same as the Corporation s portfolio classifications, and associated risk characteristics have been identified:

- Commercial, industrial, and agricultural risk characteristics include recession-like economic conditions in many of the markets served by the Corporation and high levels of unemployment, which has caused consumer spending to slow.
- Commercial mortgages the most significant risk characteristic is the subjectivity involved in real estate valuations for properties located in areas with stagnant or low growth economies.
- Residential real estate risk characteristics include higher than historical levels of delinquencies and a weakened housing market.
- Consumer risk characteristics include continuing weakness in industrial employment in many of the markets served by the Corporation and inflation.
- Credit cards the most significant risk characteristic is the unsecured nature of credit card loans.
- Overdrafts risk characteristics include the Corporation s continued deposit growth and overall economic conditions which may lead to a greater likelihood of overdrawn deposit accounts.

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 December 31, 2011, the Corporation holds $5,516 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. In 2011, the FHLB began repurchasing a limited amount of excess stock owned by its member banks, and on February 22, 2012, the FHLB declared its first dividend since the third quarter of 2008.

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FHLB stock is held as a long-term investment, is valued at its cost basis and is analyzed for impairment 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;
- 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 in 2011, 2010, or 2009. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation of premises and equipment is computed principally by the straight line method. In general, useful lives range from 3 to 39 years with lives for furniture, fixtures and equipment ranging from 3 to 10 years and lives of buildings and building improvements ranging from 15 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over useful lives of the leasehold improvements or the term of the lease, whichever is shorter. Maintenance, repairs and minor renewals are charged to expense as incurred.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis, and are them carried at the lower of cost or fair value. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Bank Owned Life Insurance

The Corporation has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. Goodwill and intangible

assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives. Goodwill is the only intangible asset with an indefinite life on the Corporation s balance sheet.

Long-term Assets

Premises and equipment, goodwill and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives

Derivative financial instruments are recognized as assets or liabilities at fair value. The Corporation has an interest rate swap agreement, which is used as part of its asset liability management to help manage interest rate risk. The Corporation does not use derivatives for trading purposes.

At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the purpose of the contract and belief as to its effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) an instrument with no hedging designation (stand-alone derivative). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions, at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge s inception and on an ongoing

basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Advertising Costs

Advertising costs are generally expensed as incurred and amounted to $822, $795, and $620, for 2011, 2010 and 2009 respectively.

Mortgage Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Corporation compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with mortgage banking income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as mortgage banking income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The

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amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $349, $349, and $321 for the years ended December 31, 2011, 2010 and 2009. Late fees and ancillary fees related to loan servicing are not material.

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 $32,128, net of issuance costs.

Treasury Stock

The purchase of the Corporation s common stock is recorded at cost. Purchases of the stock are made both in the open market and through negotiated private purchases based on market prices. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a first-in-first-out basis.

Stock-Based 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 schedule is one-fourth of granted stock-based awards per year beginning one year after the grant date with 100% vested on the fourth anniversary. For independent directors, the vesting schedule is one-third of granted stock-based awards per year beginning one year after the grant date with 100% vested on the third anniversary.

At December 31, 2011 and 2010, there was no unrecognized compensation cost related to nonvested stock options granted under this plan, and no stock options were granted during the years then ended.

During 2011, 2010 and 2009, the Executive Compensation and Personnel Committee of the Board of Directors granted a total of 17,900, 16,500 and 14,159 shares, respectively, of restricted common stock to certain key employees and all independent directors of the Corporation. Compensation expense for the restricted stock awards is recognized over the requisite service period based on the fair value of the shares at the date of grant on a straight-line basis. Unearned restricted stock awards are recorded as a reduction of shareholders equity until earned. Compensation expense resulting from these restricted stock awards was $213, $205 and $122 for the years ended December 31, 2011, 2010 and 2009, respectively.

Comprehensive Income

The Corporation presents comprehensive income as part of the Statement of Changes in Shareholders Equity. Other comprehensive income (loss) consists of unrealized holding gains (losses) on the available for sale securities portfolio, changes in the unrecognized actuarial gain and transition obligation related to the Corporation s post retirement benefits plan, and changes in the fair value of the Corporation s interest rate swap.

Income Taxes

The Corporation files a consolidated U.S. income tax return that includes all subsidiaries except County Reinsurance Company which files a separate return. Income tax expense is the total of the

current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans

The Corporation s expense associated with its 401(k) plan is determined under the provisions of the plan document and includes both matching and profit sharing components. Deferred compensation and supplemental retirement plan expenses allocate the benefits over years of service.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common shareholders 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. 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.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Corporation defines cash and cash equivalents as cash and due from banks, interest bearing deposits with other banks, and Federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing time deposits with other banks and borrowings with original maturities of 90 days or less.

Restrictions on Cash

The Bank is required to maintain average reserve balances with the Federal Reserve Bank or in vault cash. The average amount of these non-interest bearing reserve balances for the year ended December 31, 2011 and 2010, was $50, which was maintained in vault cash.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

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Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of New Accounting Standards

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. This update addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in the update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The effect of adopting this new guidance did not have a material effect on the Corporation s financial statements.

In April 2011, the FASB issued Accounting Standards Update No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update clarifies guidance on a creditor s evaluation of whether it has granted a concession to a borrower and a creditor s evaluation of whether a borrower is experiencing financial difficulties. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, an entity should disclose the information required by Accounting Standards Codification paragraphs 310-10-50-33 through 50-34, which was deferred by Accounting Standards Update No. 2011-01, for interim and annual periods beginning on or after June 15, 2011. The effect of adopting this new guidance did not have a material effect on the Corporation s financial statements.

Effect of Newly Issued But Not Yet Effective Accounting Standards

In May 2011, the FASB issued Accounting Standards Update No. 2011-4, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. Some amendments in this update clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this update are effective during interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-5, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This update amends the FASB Accounting

Standards Codification (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and retrospective application is required. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles Goodwill and Other (Topic 350), Testing Goodwill for Impairment. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than fifty percent. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This update defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net income separately within their respective components of net income and other comprehensive income. As such, the amendments in this update supersede only those paragraphs in Accounting Standards Update No. 2011-05 that pertain to how and where reclassification adjustments are presented. The amendments are effective at the same time as the amendments in Accounting Standards Update 2011-05. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes.

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2. Earnings Per Share

The computation of basic and diluted earnings per share is shown below (in thousands, except per share data). For the years ended December 31, 2011, 2010, and 2009, options to purchase 75,500, 84,250, and 86,750 shares of common stock were not considered in computing diluted earnings per share because they were anti-dilutive.

	Years Ended December 31		
	2011	2010	2009
Net income per consolidated statements of income	$ 15,104	$ 11,316	$ 8,512
Net earnings allocated to participating securities	(42)	(33)	(23)
Net earnings allocated to common stock	$ 15,062	$ 11,283	$ 8,489
Basic earnings per common share computation			
Distributed earnings allocated to common stock	$ 8,101	$ 6,914	$ 5,704
Undistributed earnings allocated to common stock	6,961	4,369	2,785
Net earnings allocated to common stock	$ 15,062	$ 11,283	$ 8,489
Weighted average common shares outstanding, including shares considered participating securities	12,306	10,630	8,668
Less: Average participating securities	(33)	(30)	(13)
Weighted average shares	12,273	10,600	8,655
Basic earnings per common share	$ 1.23	$ 1.06	$ 0.98
Diluted earnings per common share computation			
Net earnings allocated to common stock	$ 15,062	$ 11,283	$ 8,489
Weighted average common shares outstanding for basic earnings per common share	12,273	10,600	8,655
Add: Dilutive effects of assumed exercises of stock options	6	9	17
Weighted average shares and dilutive potential common shares	12,279	10,609	8,672
Diluted earnings per common share	$ 1.23	$ 1.06	$ 0.98

3. Securities

Securities available-for-sale at December 31, 2011 and 2010 are as follows:

	December 31, 2011				December 31, 2010			
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
U.S. Treasury	$ 8,064	$ $66	$	$ 8,130	$ 8,139	$ 66	$	$ 8,205
U.S. Gov t sponsored entities	102,258	5,249	(15)	107,492	104,328	2,016	(403)	105,941
State & political subdivisions	149,685	8,844	(92)	158,437	117,928	1,011	(2,528)	116,411
Residential mortgage & asset backed	292,297	8,043	(214)	300,126	221,304	2,364	(1,249)	222,419
Commercial mortgage & asset backed	2,077	45	-	2,122	-	-	-	-

Corporate notes & bonds	17,358	50	(3,548)	13,860	14,347	-	(3,596)	10,751
Pooled trust preferred	800	-	(460)	340	2,190	12	(910)	1,292
Pooled SBA	44,851	1,282	(77)	46,056	33,788	266	(92)	33,962
Other securities	1,521	23	-	1,544	1,670	26	-	1,696
Total	$618,911	$23,602	$(4,406)	$638,107	$503,694	$5,761	$(8,778)	$500,677

At December 31, 2011 and 2010, there were no holdings of securities by any one issuer, other than U.S. Government sponsored entities, in an amount greater than 10% of shareholders equity.

Trading securities accounted for under the fair value option at December 31, 2011 and 2010 are as follows:

	2011	2010
Corporate equity securities	$ 1,959	$ 952
International mutual funds	257	430
Certificates of deposit	255	208
Money market mutual funds	241	75
Large cap growth mutual funds	145	139
Large cap value mutual funds	105	247
Corporate notes and bonds	100	96
Real estate investment trust mutual funds	68	-
U.S. Government sponsored entities	55	147
Small cap mutual funds	25	29
Mid cap mutual funds	23	28
Total	$ 3,233	$ 2,351

Securities with unrealized losses at December 31, 2011 and 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

December 31, 2011	**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	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Gov t sponsored entities	7,671	(15)	-	-	7,671	(15)
State & political subdivisions	5,314	(92)	-	-	5,314	(92)
Residential mortgage & asset backed	36,626	(162)	9,485	(52)	46,111	(214)
Commercial mortgage & asset backed	-	-	-	-	-	-
Corporate notes & bonds	2,860	(139)	8,841	(3,409)	11,701	(3,548)
Pooled trust preferred	-	-	340	(460)	340	(460)
Pooled SBA	8,139	(77)	-	-	8,139	(77)
Other securities	-	-	-	-	-	-
	$ 60,610	$ (485)	$ 18,666	$ (3,921)	$ 79,276	$ (4,406)

	Less than 12 Months		**12 Months or More**		**Total**	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2010						
U.S. Treasury	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Gov t sponsored entities	11,077	(403)	-	-	11,077	(403)
State & political subdivisions	61,312	(2,440)	3,904	(88)	65,216	(2,528)
Residential mortgage & asset backed	69,576	(1,228)	5,770	(21)	75,346	(1,249)
Corporate notes & bonds	992	(3)	9,770	(3,593)	10,762	(3,596)
Pooled trust preferred	-	-	288	(910)	288	(910)

Pooled SBA	12,147	(92)	-	-	12,147	(92)
Other securities	-	-	-	-	-	-
	$ 155,104	$ (4,166)	$ 19,732	$ (4,612)	$ 174,836	$ (8,778)

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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 December 31, 2011, 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 future estimated levels of deferrals and defaults by the underlying issuers, and discounting those cash flows at the appropriate 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 ongoing crisis in the U.S. economy, management also added a baseline default rate of 2% annually for the next two years to 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. Management expects that credit markets will begin to 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. In addition, management expects prepayments to occur at a rate of approximately 5% over a five year period, with the exception of certain large institutions that are expected to call their collateral in 2012 as a result of the elimination of the Tier I capital treatment of trust preferred securities for institutions with greater than $15 billion in assets beginning in 2013.

Using this methodology, five of the Corporation s structured pooled trust preferred securities are deemed to be other-than-temporarily impaired as disclosed in the table that follows. 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.

In addition, Standard & Poors downgraded one of Corporation s private label collateralized mortgage obligations from AAA to CCC during the third quarter of 2009 and, as a result, the Corporation evaluated this security for other-than-temporary impairment. The amount of other-than-temporary impairment recognized in income during the year ended December 31, 2009 was $28. Because of the continuing deterioration of fair value, as well as additional information about this security that was published in the fourth quarter of 2009, the security was sold in November 2009, resulting in a realized loss of $572.

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The following table provides detailed information related to the Corporation s structured pooled trust preferred securities as of December 31, 2011 and for the years ended December 31, 2011, 2010, and 2009:

	As of December 31, 2011			Credit Losses Realizedin Earnings		
	Adjusted Amortized Cost	Unrealized Gain (Loss)	Fair Value	Year Ended December 31 , 2011	2010	2009
ALESCO Preferred Funding V, Ltd.	$ 800	$ (460)	$ 340	$ -	$ 440	$ 760
ALESCO Preferred Funding XII, Ltd.	-	-	-	280	933	655
ALESCO Preferred Funding XVII, Ltd.	-	-	-	-	-	1,000
Preferred Term Securities XVI, Ltd.	-	-	-	118	868	-
US Capital Funding VI, Ltd.	-	-	-	-	-	-
Total	$ 800	$ (460)	$ 340	$ 398	$ 2,241	$ 2,415

A roll-forward of the other-than-temporary impairment amount related to credit losses for the year ended December 31, 2011 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	$ 3,656
Additional credit loss for which other-than-temporary impairment was not previously recognized	
Additional credit loss for which other-than-temporary impairment was previously recognized	398
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	$ 4,054

A roll-forward of the other-than-temporary impairment amount related to credit losses for the year ended December 31, 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	868
Additional credit loss for which other-than-temporary impairment was previously recognized	1,373
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	$ 3,656

At December 31, 2011, the Corporation held five 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 have 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 the securities that comprise corporate notes and bonds and the securities that comprise states and political subdivisions, 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. Management also considers the length of time and extent to which fair value has been less than cost and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2011 and 2010, management concluded that the securities described in the previous paragraph 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.
- 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.

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.

On December 31, 2011 and 2010, securities carried at $264,166 and $127,364, respectively, were pledged to secure public deposits and for other purposes as provided by law.

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at December 31, 2011 and 2010:

	December 31, 2011	
	Amortized Cost	Fair Value
1 year or less	$ 23,053	$ 23,175
1 year 5 years	81,421	83,503
5 years 10 years	118,393	126,928
After 10 years	100,149	100,709
	323,016	334,315
Residential mortgage & asset backed securities	292,297	300,126
Commercial mortgage & asset backed securities	2,077	2,122
Total debt securities	$ 617,390	$ 636,563

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.

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Information pertaining to security sales is as follows:

Year ended December 31	Proceeds	Gross Gains	Gross Losses
2011	$ 69,740	$ 878	$ 264
2010	95,381	1,677	17
2009	107,561	2,042	1,647

The tax provision related to these net realized gains was $215, $581, and $138, respectively.

During 2011 and 2010, the Corporation sold securities carried at fair value under the fair value option. Proceeds were $343 in 2011 and $34 in 2010, resulting in net gains (losses) of $30 in 2011 and ($68) in 2010.

4. Loans

Total net loans at December 31, 2011 and 2010 are summarized as follows:

	2010	2009
Commercial, industrial, and agricultural	$ 253,324	$ 257,491
Commercial mortgages	242,511	212,878
Residential real estate	298,628	266,604
Consumer	54,677	53,202
Credit cards	3,206	2,870
Overdrafts	423	3,964
Less: unearned discount	(2,886)	(2,447)
allowance for loan losses	(12,615)	(10,820)
Loans, net	$ 837,268	$ 783,742

At December 31, 2011 and 2010, net unamortized loan costs and fees of ($7) and ($167), respectively, have been included in the carrying value of loans.

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.

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Transactions in the allowance for loan losses for the year ended December 31, 2011 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2011	$ 3,517	$ 3,511	$ 1,916	$ 1,561	$ 96	$ 219	$ 10,820
Charge-offs	(1,796)	(175)	(217)	(907)	(39)	(222)	(3,356)
Recoveries	9	-	13	88	10	94	214
Provision for loan losses	2,781	1,134	279	662	4	77	4,937
Allowance for loan losses, December 31, 2011	$ 4,511	$ 4,470	$ 1,991	$ 1,404	$ 71	$ 168	$ 12,615

Transactions in the allowance for loan losses for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Balance, beginning of year	$ 9,795	$ 8,719
Charge-offs	(4,371)	(3,611)
Recoveries	238	222
Net charge-offs	(4,133)	(3,389)
Provision for loan losses	5,158	4,465
Balance, end of year	$ 10,820	$ 9,795

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation s impairment method as of December 31, 2011 and 2010:

December 31, 2011	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 329	$ 917	$ 19	$ -	$ -	$ -	$ 1,265
Collectively evaluated for impairment	4,182	3,325	1,972	1,404	71	168	11,122
Modified in a troubled debt restructuring	-	228	-	-	-	-	228
Total ending allowance balance	$ 4,511	$ 4,470	$ 1,991	$ 1,404	$ 71	$ 168	$ 12,615
Loans:							
Loans individually evaluated for impairment	$ 6,115	$ 8,457	$ 124	$ -	$ -	$ -	$ 14,696
Loans collectively evaluated for impairment	247,209	226,366	298,504	54,677	3,206	423	830,385
Loans modified in a troubled debt restructuring	-	7,688	-	-	-	-	7,688
Total ending loans balance	$ 253,324	$ 242,511	$ 298,628	$ 54,677	$ 3,206	$ 423	$ 852,769

December 31, 2010	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 142	$ 509	$ 69	$ -	$ -	$ -	$ 720
Collectively evaluated for impairment	3,375	2,759	1,847	1,561	96	219	9,857
Modified in a troubled debt restructuring	-	243	-	-	-	-	243
Total ending allowance balance	$ 3,517	$ 3,511	$ 1,916	$ 1,561	$ 96	$ 219	$ 10,820
Loans:							
Loans individually evaluated for impairment	$ 2,616	$ 8,759	$ 235	$ -	$ -	$ -	$ 11,610
Loans collectively evaluated for impairment	254,875	202,405	266,369	53,202	2,870	3,964	783,685
Loans modified in a troubled debt restructuring	-	1,714	-	-	-	-	1,714
Total ending loans balance	$ 257,491	$ 212,878	$ 266,604	$ 53,202	$ 2,870	$ 3,964	$ 797,009

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The following tables present information related to loans individually evaluated for impairment by portfolio segment as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010, and 2009:

December 31, 2011	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 5,991	$ 4,477	$ 557
Commercial mortgage	3,062	2,403	917
Residential real estate	187	124	19
With no related allowance recorded:			
Commercial, industrial, and agricultural	9,918	9,326	
Commercial mortgage	7,813	6,054	
Residential real estate			
Total	$ 26,971	$ 22,384	$ 1,493

December 31, 2010	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 4,755	$ 4,330	$ 385
Commercial mortgage	11,356	8,759	509
Residential real estate	339	235	69
Total	$ 16,450	$ 13,324	$ 963

The unpaid principal balance of impaired loans includes the Corporation s recorded investment in the loan and amounts that have been charged off. There were no loans evaluated for impairment as of December 31, 2010 that had no related allowance recorded.

	Year Ended December 31, 2011		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,711	$ 3	$ 3
Commercial mortgage	4,836	19	19
Residential real estate	179	4	4
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,050		

Commercial mortgage	4,631		
Residential real estate			
Total	$ 15,407	$ 26	$ 26

	Year ended December 31,	
	2010	2009
Average recorded investment in impaired loans	$ 12,106	$ 10,812
Interest income recognized during impairment	383	116
Cash-basis interest income recognized	383	116

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	$ 6,949	$ 10	$ 2,344	$ 23
Commercial mortgages	8,359	122	8,276	321
Residential real estate	1,254	157	1,306	386
Consumer	5	125	-	154
Credit cards		27		5
Total	$ 16,567	$ 441	$ 11,926	$ 889

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2011 and 2010 by class of loans. The recorded investment in loans excludes accrued interest and loan origination fees, net due to their insignificance.

December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 239	$ 53	$ 6,959	$ 7,251	$ 246,073	$ 253,324
Commercial mortgages	1,064	2,620	8,481	12,165	230,346	242,511
Residential real estate	1,816	682	1,411	3,909	294,719	298,628
Consumer	392	185	130	707	53,970	54,677
Credit cards	34	19	27	80	3,126	3,206
Overdrafts					423	423
Total	$ 3,545	$ 3,559	$ 17,008	$ 24,112	$ 828,657	$ 852,769

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 225	$ 2,512	$ 2,367	$ 5,104	$ 252,387	$ 257,491
Commercial mortgages	129	1,184	8,597	9,910	202,968	212,878
Residential real estate	1,629	262	1,692	3,583	263,021	266,604
Consumer	455	145	154	754	52,448	53,202
Credit cards	20	10	5	35	2,835	2,870
Overdrafts					3,964	3,964
Total	$ 2,458	$ 4,113	$ 12,815	$ 19,386	$ 777,623	$ 797,009

Troubled Debt Restructurings

The Corporation has allocated $228 and $243 of specific reserves to one commercial mortgage customer whose loan terms have been modified in troubled debt restructurings as of December 31, 2011 and 2010, respectively. The interest rate on the original loan was 6.60%. Due to

financial difficulties experienced by the customer, the interest rate was reduced to 4.19% in the third quarter of 2010, resulting in an additional provision for loan losses of $253 thousand for the year ended December 31, 2010. The interest rate on this loan was further reduced to 4.07% in 2011, resulting in an additional provision for loan losses of $5 thousand for the year ended December 31, 2011. This loan had a total recorded investment of $1,662 and $1,714 as of December 31, 2011 and 2010, respectively.

The Corporation has a commercial mortgage customer whose loan relationships have interest-only terms that were extended during 2011. The original interest rates on the loans, which are also currently the market rates of interest, were not reduced; therefore, no additional provision for loan losses was required to be recorded. These loans have a total recorded investment of $4,588 at December 31, 2011. In addition, the Corporation has a commercial mortgage customer whose loan relationship was restructured due to the forgiveness of accrued interest and late charges. The original interest rate on the loan, which is also currently the market rate of interest, was not reduced; therefore, no additional provision for loan losses was required to be recorded. This loan has a recorded investment of $1,438 at December 31, 2011.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without a loan modification. This evaluation is performed using the Corporation s internal underwriting policies.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. All loans modified in troubled debt restructurings are performing in accordance with their modified terms as of December 31, 2011 and no principal balances were forgiven in connection with the loan restructurings. The Corporation has no further loan commitments to customers whose loans are classified as a troubled debt restructuring.

Credit Quality Indicators

The Corporation classifies commercial, industrial, and agricultural loans and commercial mortgage loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $1 million bi-annually and loans with an outstanding balance of less than $1 million at least annually.

The Corporation uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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Loans not rated as special mention, substandard, or doubtful are considered to be pass rated loans. All loans included in the following tables have been assigned a risk rating within 12 months of the balance sheet date.

December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 229,572	$ 4,176	$ 19,576	$ -	$ 253,324
Commercial mortgages	225,654	3,172	13,685	-	242,511
Total	$ 455,226	$ 7,348	$ 33,261	$ -	$ 495,835

December 31, 2010	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 236,945	$ 3,875	$ 16,671	$ -	$ 257,491
Commercial mortgages	188,457	5,332	19,051	38	212,878
Total	$ 425,402	$ 9,207	$ 35,722	$ 38	$ 470,369

The Corporation s portfolio of residential real estate and consumer loans maintained within Holiday, a subsidiary that offers small balance unsecured and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics than are typical in the Bank s consumer loan portfolio, are considered to be subprime loans. The Bank does not have any subprime loans. Holiday s loan portfolio is summarized as follows at December 31, 2011 and 2010:

	2011	2010
Consumer	$ 18,176	$ 16,532
Residential real estate	1,056	1,149
Less: unearned discount	(2,886)	(2,447)
Total	$ 16,346	$ 15,234

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate, consumer, and credit card loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010
	Residential Real Estate	Consumer	