CNB FINANCIAL CORP/PA
Form 10-K
March 08, 2013
Table of Contents

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, 2012

For the fiscal year ended December 31, 2012 Commission File Number 0-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive 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, 2012:

$190,857,076

The number of shares outstanding of the registrant s common stock as of March 4, 2013:

12,508,403 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held on April 16, 2013 are incorporated by reference into Part III.

TABLE OF CONTENTS

		Page Number
PART I.		
ITEM 1.	Business	1
ITEM 1A.	Risk Factors	16
ITEM 1B.	Unresolved Staff Comments	26
ITEM 2.	Properties	26
ITEM 3.	Legal Proceedings	26
ITEM 4.	Mine Safety Disclosures	26
PART II.		
ITEM 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
ITEM 6.	Selected Financial Data	29
ITEM 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	30
ITEM 7A.	Quantitative and Qualitative Disclosures about Market Risk	45
ITEM 8.	Financial Statements and Supplementary Data	46
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	100
ITEM 9A.	Controls and Procedures	100
ITEM 9B.	Other Information	102
PART III.		
ITEM 10.	Directors, Executive Officers and Corporate Governance	102
ITEM 11.	Executive Compensation	102
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	102
ITEM 14.	Principal Accountant Fees and Services	102
PART IV.		
ITEM 15.	Exhibits and Financial Statement Schedules	103
SIGNATURES		105

Table of Contents

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

CNB Bank (the Bank) was incorporated in 1934 and is chartered in the Commonwealth of Pennsylvania. ERIEBANK, a division of CNB Bank, began operations in 2005. The Bank has 28 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, Crawford Elk, Erie, 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.

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 ten 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

Table of Contents

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 bank holding company and a financial holding company and the Bank is a Pennsylvania state-chartered bank that is not a member of the Board of Governors of the Federal Reserve System (Federal Reserve Board). 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 limitations 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 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 any class of voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking.

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 or provide notice to the Federal Reserve Board prior to engaging in most new business activities.

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 Reserve has 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 Reserve has established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines 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 activities of a bank with respect to mergers and acquisitions, 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

Table of Contents

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 a number of consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations.

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 implementing rules and regulations, many which have yet to be written, 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.

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) statutes and regulations, depository institutions are placed into one of five capital categories, ranging from well capitalized to critically undercapitalized. The FDIC, in the case of the Bank, is required to take certain, and is authorized to take other, supervisory action against a depository institution that falls below certain of these levels.

Table of Contents

The PCA statute and regulations provide for progressively more stringent supervisory measures as a depository institution s capital category declines. 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. 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.

At December 31, 2012, 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 by the Bank to an affiliate, purchases of securities by the Bank issued by an affiliate, purchases of assets by the Bank from an affiliate (except as may be exempted by order or regulation), the acceptance by the Bank of securities issued by an affiliate as collateral and the issuance by the Bank of a guarantee, acceptance by the Bank 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 requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets by the Bank to an affiliate and the payment of money or the furnishing of services by the Bank to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

The Bank is 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 by the Bank to its executive officers, directors and principal shareholders and their related interests as well as to the Corporation and any subsidiary of the Corporation. 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 had unlimited deposit insurance through December 31, 2012.

Table of Contents

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 consumer financial protection 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.

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 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

6

Table of Contents

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.

Employees

As of December 31, 2012, the Corporation had a total of 337 employees of which 297 were full time and 40 were part time.

Table of Contents

Executive Officers

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

Name	Age	Principal Occupation
Joseph B. Bower, Jr.	49	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	54	Executive Vice President and Chief Credit Officer, CNB Bank.
Richard L. Greslick, Jr.	36	Executive Vice President/Chief Operating Officer, CNB Bank since December 2012 and Secretary, CNB Financial Corporation, since July 2010; previously, Senior Vice President/Administration since July 2010; Vice President/Operations since 2007; and previously Controller, CNB Bank and CNB Financial Corporation.
Richard L. Sloppy	62	Executive Vice President and Senior Loan Officer, CNB Bank.
Vincent C. Turiano	62	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	38	Treasurer, Principal Financial Officer and Principal Accounting Officer, CNB Financial Corporation, since March 2012; Senior Vice President/Chief Financial Officer, CNB Bank, since March 2012; 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.

Table of Contents

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, the SEC. 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.

Interested persons may also read and copy materials the Corporation files with, or furnishes to, the SEC at the SEC s Public Reference Room at 100 F Street, NE Washington, DC 20549. Information concerning the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy statements and other information about electronic filers such as the Corporation. The site is available at http://www.sec.gov.

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.

Table of Contents

Average Balances and Net Interest Margin

(Dollars in thousands)

	December 31, 2012			December 31, 2011			December 31, 2010		
	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	$ 3,891	0.08%	$ 3	$ 11,475	0.96%	$ 110	$ 8,680	1.44%	$ 125
Securities:									
Taxable (1)	602,083	2.51%	14,685	487,746	2.97%	14,285	383,373	3.02%	11,603
Tax-Exempt (1, 2)	115,634	4.89%	5,344	86,851	5.14%	4,366	69,033	5.28%	3,572
Equity Securities (1, 2)	2,843	4.08%	116	1,906	2.49%	47	1,607	2.30%	37
Total Securities	720,560	2.89%	20,145	576,503	3.29%	18,698	454,013	3.35%	15,212
Loans									
Commercial (2)	296,465	4.96%	14,718	275,442	5.20%	14,329	258,550	5.62%	14,542
Mortgage (2)	546,374	5.29%	28,919	492,922	5.68%	28,015	431,599	6.14%	26,514
Consumer	50,069	13.27%	6,642	51,402	12.72%	6,536	51,565	12.81%	6,605
Total Loans (3)	892,908	5.63%	50,279	819,766	5.96%	48,880	741,714	6.43%	47,661
Total earning assets	1,617,359	4.42%	$ 70,427	1,407,744	4.84%	$ 67,688	1,204,407	5.23%	$ 62,998
Non Interest Earning Assets									
Cash & Due From Banks	30,275			33,846			33,885		
Premises & Equipment	24,114			24,323			23,969		
Other Assets	55,851			56,616			53,867		
Allowance for Loan Losses	(13,424)			(11,750)			(10,443)		
Total Non Interest Earning Assets	96,816			103,035			101,278		
Total Assets	$ 1,714,175			$ 1,510,779			$ 1,305,685		
Liabilities and Shareholders Equity									
Interest-Bearing Deposits									
Demand interest-bearing	$ 313,673	0.50%	$ 1,559	$ 296,440	0.77%	$ 2,287	$ 258,826	0.75%	$ 1,954
Savings	738,023	0.76%	5,595	501,475	1.09%	5,489	346,346	1.29%	4,464
Time	229,694	1.62%	3,721	320,704	1.82%	5,849	349,401	2.04%	7,140
Total interest bearing deposits	1,281,390	0.85%	10,875	1,118,619	1.22%	13,625	954,573	1.42%	13,558
Short-term borrowings	9,402	0.15%	14	9,728	0.28%	27	5,282	0.15%	8
Long-term borrowings	74,370	4.34%	3,231	74,141	4.25%	3,149	87,336	5.39%	4,708
Subordinated Debentures	20,620	3.88%	800	20,620	3.77%	778	20,620	3.79%	782
Total interest-bearing liabilities	1,385,782	1.08%	$ 14,920	1,223,108	1.44%	$ 17,579	1,067,811	1.78%	$ 19,056
Demand non-interest-bearing	164,368			148,287			127,287		
Other liabilities	23,174			17,173			13,203		
Total Liabilities	1,573,324			1,388,568			1,208,301		
Shareholders Equity	140,851			122,211			97,384		

Total Liabilities and Shareholders Equity	$ 1,714,175			$ 1,510,779			$ 1,305,685		
Interest Income/Earning Assets		4.42%	$ 70,427		4.84%	$ 67,688		5.23%	$ 62,998
Interest Expense/Interest Bearing Liabilities		1.08%	14,920		1.44%	17,579		1.78%	19,056
Net Interest Spread		3.34%	$ 55,507		3.40%	$ 50,109		3.45%	$ 43,942
Interest Income/Earning Assets		4.42%	$ 70,427		4.84%	$ 67,688		5.23%	$ 62,998
Interest Expense/Earning Assets		0.92%	14,920		1.25%	17,579		1.58%	19,056
Net Interest Margin		3.49%	$ 55,507		3.59%	$ 50,109		3.65%	$ 43,942

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 $2,298, $1,976, and $1,851 for the years ended December 31, 2012, 2011, and 2010, 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 $1,636, $1,567, and $1,835 for the years ended December 31, 2012, 2011, and 2010, respectively.

Table of Contents

Net Interest Income **Rate-Volume Variance** **(Dollars in thousands)**	**For Twelve Months Ended December 31, 2012 over (under) 2011**			**For Twelve Months Ended December 31, 2011 over (under) 2010**		
	Due to Change In (1)			**Due to Change In (1)**		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Assets						
Interest-Bearing Deposits with Banks	$ (73)	$ (34)	$ (107)	$ 40	$ (55)	$ (15)
Securities:						
Taxable	3,170	(2,770)	400	2,926	(244)	2,682
Tax-Exempt (2)	1,267	(289)	978	916	(122)	794
Equity Securities (2)	24	45	69	6	4	10
Total Securities	4,460	(3,013)	1,447	3,848	(362)	3,486
Loans						
Commercial (2)	1,094	(705)	389	950	(1,163)	(213)
Mortgage (2)	3,038	(2,134)	904	3,767	(2,266)	1,501
Consumer	(169)	275	106	(21)	(48)	(69)
Total Loans (3)	3,962	(2,563)	1,399	4,696	(3,477)	1,219
Total Earning Assets	$ 8,350	$ (5,611)	$ 2,739	$ 8,584	$ (3,894)	$ 4,690
Liabilities and Shareholders Equity						
Interest-Bearing Deposits						
Demand Interest-Bearing	$ 133	$ (861)	$ (728)	$ 284	$ 49	$ 333
Savings	2,589	(2,483)	106	1,999	(974)	1,025
Time	(1,660)	(468)	(2,128)	(586)	(705)	(1,291)
Total Interest-Bearing Deposits	1,062	(3,812)	(2,750)	1,697	(1,630)	67
Short-Term Borrowings	(1)	(12)	(13)	7	12	19
Long-Term Borrowings	10	72	82	(711)	(848)	(1,559)
Subordinated debentures	-	22	22	-	(4)	(4)
Total Interest-Bearing Liabilities	$ 1,072	$ (3,731)	$ (2,659)	$ 993	$ (2,470)	$ (1,477)
Change in Net Interest Income	$ 7,278	$ (1,880)	$ 5,398	$ 7,591	$ (1,424)	$ 6,167

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%.

Table of Contents

Securities

(Dollars In Thousands)	December 31, 2012				December 31, 2011				December 31, 2010			
	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	$4,018	$18	$ -	$4,036	$8,064	$66	$ -	$8,130	$8,139	$66	$ -	$8,205
U.S. Government Sponsored Entities	157,965	5,977	(161)	163,781	102,258	5,249	(15)	107,492	104,328	2,016	(403)	105,941
State and Political Subdivisions	170,223	11,113	(57)	181,279	149,685	8,844	(92)	158,437	117,928	1,011	(2,528)	116,411
Residential and multi-family mortgage	308,800	8,724	(702)	316,822	292,297	8,043	(214)	300,126	221,304	2,364	(1,249)	222,419
Commercial mortgage	1,275	29	-	1,304	2,077	45	-	2,122	-	-	-	-
Corporate notes and bonds	17,368	26	(2,370)	15,024	17,358	50	(3,548)	13,860	14,347	-	(3,596)	10,751
Pooled trust preferred	800	-	(200)	600	800	-	(460)	340	2,190	12	(910)	1,292
Pooled SBA	50,667	2,277	(17)	52,927	44,851	1,282	(77)	46,056	33,788	266	(92)	33,962
Other securities	1,521	17	-	1,538	1,521	23	-	1,544	1,670	26	-	1,696
	$712,637	$28,181	$(3,507)	$737,311	$618,911	$23,602	$(4,406)	$638,107	$503,694	$5,761	$(8,778)	$500,677

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		Pooled SBA, Residential and Multi-Family Mortgage and Commercial Mortgage	
	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield	$ Amt.	Yield
Securities Available for Sale										
U.S. Treasury	$4,036	0.83%								
U.S. Government Sponsored Entities	18,163	2.02%	62,056	1.77%	$83,562	2.28%				
State and Political Subdivisions	4,542	5.44%	43,133	3.98%	92,036	4.59%	$41,568	5.35%		
Corporate notes and bonds			1,001	6.25%	1,935	4.00%	12,088	2.47%		
Pooled trust preferred							600	0.00%		
Pooled SBA									$52,927	3.08%
Residential and multi-family mortgage									316,822	2.23%
Commercial mortgage									1,304	4.70%
TOTAL	$26,741	2.42%	$106,190	2.71%	$177,533	3.50%	$54,256	4.65%	$371,053	2.36%

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.

Table of Contents

LOAN PORTFOLIO

(Dollars in thousands)

A. TYPE OF LOAN

	2012	2011	2010	2009	2008
Commercial, industrial and agricultural	$ 257,091	$ 253,324	$ 257,491	$ 239,966	$ 227,141
Commercial mortgages	261,791	242,511	212,878	193,632	210,080
Residential real estate	347,904	298,628	266,604	226,931	179,420
Consumer	58,668	53,471	51,966	53,542	55,554
Credit cards	4,800	4,412	4,106	3,560	3,098
Overdrafts	971	423	3,964	391	859
Gross loans	931,225	852,769	797,009	718,022	676,152
Less: unearned income	3,401	2,886	2,447	2,880	4,596
Total loans net of unearned	$ 927,824	$ 849,883	$ 794,562	$ 715,142	$ 671,556

B. LOAN MATURITIES AND INTEREST SENSITIVITY

	December 31, 2012			
	One Year or Less	One Through Five Years	Over Five Years	Total Gross Loans
Commercial, industrial and agricultural				
Loans With Fixed Interest Rate	$ 106,804	$ 62,837	$ 13,779	$ 183,420
Loans With Floating Interest Rate	16,361	28,173	29,137	73,671
	$ 123,165	$ 91,010	$ 42,916	$ 257,091

C. RISK ELEMENTS

	2012	2011	2010	2009	2008
Loans on non-accrual basis	$ 14,445	$ 16,567	$ 11,926	$ 12,757	$ 3,046
Accruing loans which are contractuallypast due 90 days or more as to interestor principal payment	357	441	889	584	533
Performing troubled debt restructurings	9,961	7,688	1,714	-	-
	$ 24,763	$ 24,696	$ 14,529	$ 13,341	$ 3,579

Interest income recorded on the non-accrual loans for the year ended December 31, 2012 was $20. Additional interest income which would have been recorded on non-accrual loans had they been on accrual status was $542 for the year ended December 31, 2012.

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, 2012, there were $18,935 in special mention loans, $38,960 in substandard loans, and $858 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.

Table of Contents

SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in Thousands)

Analysis of the Allowance for Loan Losses					
Years Ended December 31,	2012	2011	2010	2009	2008
Balance at beginning of Period	$ 12,615	$ 10,820	$ 9,795	$ 8,719	$ 6,773
Charge-Offs:					
Commercial, industrial and agricultural	2,871	1,796	543	860	33
Commercial mortgages	401	175	2,061	381	178
Residential real estate	304	217	211	378	330
Consumer	1,279	907	1,223	1,622	1,123
Credit cards	78	39	94	101	46
Overdrafts	257	222	239	269	334
	5,190	3,356	4,371	3,611	2,044
Recoveries:					
Commercial, industrial and agricultural	45	9	11	2	2
Commercial mortgages	-	-	3	-	-
Residential real estate	1	13	2	1	6
Consumer	91	88	100	62	72
Credit cards	18	10	10	13	12
Overdrafts	99	94	112	144	111
	254	214	238	222	203
Net charge-offs	(4,936)	(3,142)	(4,133)	(3,389)	(1,841)
Provision for loan losses	6,381	4,937	5,158	4,465	3,787
Balance at end of period	$ 14,060	$ 12,615	$ 10,820	$ 9,795	$ 8,719
Percentage of net charge-offs during the periodto average loans outstanding	0.55%	0.38%	0.56%	0.49%	0.28%

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)

	2012		2011		2010		2009		2008	
	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	$ 4,940	27.61%	$ 4,511	29.71%	$ 3,517	32.31%	$ 2,790	33.42%	$ 2,660	33.59%

agricultural										
Commercial mortgages	4,697	28.11%	4,470	28.44%	3,511	26.71%	3,291	26.97%	2,836	31.07%
Residential real estate	2,466	37.36%	1,991	35.02%	1,916	33.45%	1,583	31.61%	1,273	26.54%
Consumer	1,699	6.30%	1,404	6.27%	1,561	6.52%	1,751	7.46%	1,589	8.22%
Credit Cards	83	0.51%	71	0.51%	96	0.52%	85	0.49%	82	0.46%
Overdrafts	175	0.10%	168	0.05%	219	0.50%	295	0.05%	279	0.13%
Total	$ 14,060	100.00%	$ 12,615	100.00%	$ 10,820	100.00%	$ 9,795	100.00%	$ 8,719	100.00%

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

Table of Contents

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,					
	2012		2011		2010	
	Average Amount	Annual Rate	Average Amount	Annual Rate	Average Amount	Annual Rate
Demand Non Interest Bearing	$ 164,368		$ 148,287		$ 127,287	
Demand Interest Bearing	313,673	0.50%	296,440	0.77%	258,826	0.75%
Savings Deposits	738,023	0.76%	501,475	1.09%	346,346	1.29%
Time Deposits	229,694	1.62%	320,704	1.82%	349,401	2.04%
TOTAL	$ 1,445,758		$ 1,266,906		$ 1,081,860	

The maturity of certificates of deposits and other time deposits in denominations of $100,000 or more as of December 31, 2012 is as follows:	
Three months or less	$ 17,531
Greater than three months and through twelve months	16,969
Greater than one year and through three years	39,874
Greater than three years	12,644
	$ 87,018

RETURN ON EQUITY AND ASSETS

	Year Ended December 31,		
	2012	2011	2010
Return on average assets	1.00%	1.00%	0.87%
Return on average equity	12.17%	12.36%	11.62%
Dividend payout ratio	47.93%	53.79%	61.27%
Average equity to average assets ratio	8.22%	8.09%	7.46%

Table of Contents

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.

The possibility of the economy s return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on the Corporation s business, financial position and results of operations.

The economy in the United States and globally began to recover from severe recessionary conditions in mid-2009 and is currently in the midst of a moderate economic recovery. The sustainability of the moderate recovery is dependent on a number of factors that are not within the Corporation s control, such as a return to private sector job growth and investment, strengthening of housing sales and construction, continuation of the economic recovery globally, and the timing and impact of changing governmental policies. The Corporation continues to face risks resulting from the aftermath of the severe recession generally and the moderate pace of the current recovery. A slowing or failure of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Corporation and on others in the financial services industry. In particular, the Corporation may face the following risks in connection with the current economic or market environment:

- 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.

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, 2012, 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 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.

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 negatively 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.

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.

Many regional, national and international competitors have far greater assets and capitalization than the Corporation has and greater access to capital markets and can consequently 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 subsidiary 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 actions 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. 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.

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. The Corporation s risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet

banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our 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, 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 have suspended or reduced dividend payments and ceased 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.

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.

Table of Contents

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 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 28 full-service offices and 1 loan production office. Of these 29 offices, 21 are owned and 8 are leased from independent owners. Holiday Financial Services Corporation has ten full-service offices of which seven are leased from independent owners and three 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

Table of Contents

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, 2012, the approximate number of shareholders of record of the Corporation s common stock was 3,604.

Price Range of Common Stock

	2012		2011	
	High	Low	High	Low
First quarter	$ 17.50	$ 14.59	$ 15.14	$ 13.51
Second quarter	17.32	14.24	14.50	12.38
Third quarter	18.20	15.28	14.37	11.17
Fourth quarter	17.90	14.62	17.21	12.17

Cash Dividends Paid

	2012	2011
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

The following table provides information with respect to any purchase of shares of the Corporation s common stock made by or on behalf of the Corporation for the quarter ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 31, 2012	-	-	-	168,386
November 1 31, 2012	-	-	-	168,386

December 1 31, 2012	-	-	-	168,386

Table of Contents

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, 2007 and ending December 31, 2012.

	Period Ending					
Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
CNB Financial Corporation	100.00	86.61	130.33	126.26	141.05	152.64
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
SNL Bank NASDAQ	100.00	72.62	58.91	69.51	61.67	73.51

Source : SNL Financial LC, Charlottesville, VA
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Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	Year ended December 31, 2012	2011	2010	2009	2008
INTEREST AND DIVIDEND INCOME:					
Loans including fees	$ 49,760	$ 48,324	$ 46,955	$ 45,839	$ 47,355
Deposits with banks	3	110	125	215	429
Federal funds sold	-	-	-	-	342
Securities:					
Taxable	14,685	14,285	11,603	7,687	7,419
Tax-exempt	3,595	2,957	2,435	2,095	1,414
Dividends	86	36	29	34	224
Total interest and dividend income	68,129	65,712	61,147	55,870	57,183
INTEREST EXPENSE:					
Deposits	10,875	13,625	13,558	13,091	14,956
Borrowed funds	3,245	3,176	4,716	4,527	4,609
Subordinated debentures	800	778	782	850	1,018
Total interest expense	14,920	17,579	19,056	18,468	20,583
NET INTEREST INCOME	53,209	48,133	42,091	37,402	36,600
PROVISION FOR LOAN LOSSES	6,381	4,937	5,158	4,465	3,787
Net interest income after provision for loan losses	46,828	43,196	36,933	32,937	32,813
NON-INTEREST INCOME	12,664	10,719	9,650	7,950	2,168
NON-INTEREST EXPENSES	35,945	33,282	31,798	30,021	28,479
INCOME BEFORE INCOME TAXES	23,547	20,633	14,785	10,866	6,502
INCOME TAX EXPENSE	6,411	5,529	3,469	2,354	1,267
NET INCOME	$ 17,136	$ 15,104	$ 11,316	$ 8,512	$ 5,235
PER SHARE DATA:					
Basic	$ 1.38	$ 1.23	$ 1.06	$ 0.98	$ 0.61
Fully diluted	1.38	1.23	1.06	0.98	0.61
Dividends declared	0.66	0.66	0.66	0.66	0.645
Book value per share at year end	11.65	10.66	8.96	7.92	7.27
AT END OF PERIOD:					
Total assets	$ 1,773,079	$ 1,602,207	$ 1,413,511	$ 1,161,591	$ 1,016,518
Securities	741,770	641,340	503,028	347,748	238,181
Loans, net of unearned discount	927,824	849,883	794,562	715,142	671,556
Allowance for loan losses	14,060	12,615	10,820	9,795	8,719
Deposits	1,485,003	1,353,851	1,162,868	956,858	814,596

FHLB and other borrowings	97,806	74,456	105,259	100,003	107,478
Subordinated debentures	20,620	20,620	20,620	20,620	20,620
Shareholders equity	145,364	131,889	109,645	69,409	62,467
KEY RATIOS:					
Return on average assets	1.00%	1.00%	0.87%	0.79%	0.55%
Return on average equity	12.17%	12.36%	11.62%	12.86%	7.88%
Loan to deposit ratio	62.48%	62.78%	68.33%	74.74%	82.44%
Dividend payout ratio	47.93%	53.79%	61.27%	67.27%	105.53%
Average equity to average assets ratio	8.22%	8.09%	7.46%	6.17%	7.00%

Table of Contents

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 its primary market area of the Pennsylvania counties of Cambria, Cameron, Clearfield, Crawford Elk, Erie, Indiana, McKean and Warren. The Bank s market area 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. 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 contained herein 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 second full service office in Meadville, Pennsylvania in the third quarter of 2012. In addition, 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. The Corporation also opened a ninth office for Holiday in Dubois, Pennsylvania in the third quarter of 2012. The Corporation also purchased a consumer discount company in Ebensburg, Pennsylvania during the third quarter of 2012, resulting in the acquisition of a loan portfolio of approximately $1 million with a purchase premium of $200 thousand. The Corporation is operating the acquired location as its tenth Holiday office. Management believes that our ERIEBANK market area, along with our traditional CNB Bank market areas, should provide the Bank with sustained loan growth during 2013. Deposit growth was significant in 2012 and 2011.

Management concentrates on return on average equity and earnings per share metrics, plus other metrics, 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 2012 and some additional compression is expected in 2013 as a result of the current interest rate environment. During the past several years, in order to address the historic lows on various key interest rates such as the Prime Rate and 3-month LIBOR, the Corporation has taken a variety of measures, including instituting rate floors on our commercial lines of credit and home equity lines. In addition, we decreased interest rates on certain deposit products during 2012 and 2011 but maintained deposit growth as a result of marketing a savings product which carries a highly competitive annual percentage yield. Non-interest costs are expected to increase with the growth of the Corporation. However, management s growth strategies are expected to increase earning assets as well as non-interest income which are expected to more than offset increases in non-interest expenses in 2013 and beyond. While past results are not an indication of future earnings, management believes the Corporation is well-positioned to sustain core earnings during 2013.

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 a number of consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations.

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 implementing rules and regulations, many which have yet to be written, 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.

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):

	2012 Balance	$ Change vs. prior year	% Change vs. prior year	2011 Balance	$ Change vs. prior year	% Change vs. prior year	2010 Balance
Total assets	$ 1,773.1	$ 170.9	10.7%	$ 1,602.2	$ 188.7	13.3%	$ 1,413.5
Total loans, net	913.8	76.5	9.1	837.3	53.6	6.8	783.7
Total securities	741.7	100.4	15.7	641.3	138.3	27.5	503.0
Total deposits	1,485.0	131.1	9.7	1,353.9	191.0	16.4	1,162.9
Total shareholders equity	145.4	13.5	10.2	131.9	22.3	20.3	109.6

Overview of Balance Sheet

The increase in assets of 10.7% during 2012 was primarily the result of continued deposit growth, with corresponding investments in the loan and securities portfolios. Loan growth occurred in both the commercial and residential mortgage portfolios due to our competitive advantage in commercial lending and the historically low interest rates throughout 2012 which resulted in refinancing activity as well as new residential mortgage loans and home equity borrowings. Although the Corporation s loan growth was $76.5 million, or 9.1%, for the year ended December 31, 2012, its deposit growth was even more significant as total deposits grew by $131.1 million, or 9.7%, during 2012, resulting in the Corporation s purchase of available-for-sale securities with the excess liquidity.

Cash and Cash Equivalents

Cash and cash equivalents totaled $31.9 million at December 31, 2012 compared to $39.7 million at December 31, 2011. Cash and cash equivalents fluctuate based on the timing and amount of liquidity events that occur in the normal course of business. We believe the year end balance to be adequate 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 $100.4 million, or 15.7%, at December 31, 2012 when compared to December 31, 2011. The increase is primarily due to purchases of securities issued by U.S. government sponsored entities and state and local political subdivisions, 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 the overall effect of different rate environments is minimized. The Corporation monitors 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, 2012, the Corporation had $927.8 million in loans outstanding, net of unearned discount, an increase of $77.9 million (or 9.2%) since December 31, 2011. 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 2012, resulting in both refinancing activity as well as new mortgage loans and home equity borrowings.

(dollars in thousands)	2012	2011
Commercial, industrial, and agricultural	$ 257,091	$ 253,324
Commercial mortgages	261,791	242,511
Residential real estate	347,904	298,628
Consumer	58,668	53,471
Credit cards	4,800	4,412
Overdrafts	971	423
Less: unearned discount	(3,401)	(2,886)
Total loans, net of unearned discount	$ 927,824	$ 849,883

With continued economic improvement in our market areas, the Corporation expects loan demand in 2013 to be consistent with 2012.

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, 2012, 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, 2012, 2011, and 2010 (dollars in thousands):

	2012	2011	2010
Non-accrual loans	$ 14,445	$ 16,567	$ 11,926
Accrual loans greater than 89 days past due	357	441	889
Total nonperforming loans	14,802	17,008	12,815
Other real estate owned	325	505	396
Total nonperforming assets	$ 15,127	$ 17,513	$ 13,211
Loans modified in a troubled debt restructuring (TDR):			
Performing TDR loans	$ 9,961	$ 7,688	$ 1,714
Non-performing TDR loans *	1,660	-	-
Total TDR loans	$ 11,621	$ 7,688	$ 1,714
Total loans, net of unearned income	$ 927,824	$ 849,883	$ 794,562
Nonperforming loans as a percentage of loans, net	1.60%	2.00%	1.61%
Total assets	$ 1,773,079	$ 1,602,207	$ 1,413,511
Nonperforming assets as a percentage of total assets	0.85%	1.09%	0.93%

* Nonperforming TDR loans are also included in the balance of non-accrual loans in the previous table.

Management continues to closely monitor nonperforming loans, and 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 changes 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.

Table of Contents

The following table presents activity within the allowance for loan losses during the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	2012	2011	2010
Balance at beginning of period	$ 12,615	$ 10,820	$ 9,795
Charge-offs:			
Commercial, industrial, and agricultural	2,871	1,796	543
Commercial mortgages	401	175	2,061
Residential real estate	304	217	211
Consumer	1,279	907	1,223
Credit cards	78	39	94
Overdrafts	257	222	239
	5,190	3,356	4,371
Recoveries:			
Commercial, industrial, and agricultural	45	9	11
Commercial mortgages	-	-	3
Residential real estate	1	13	2
Consumer	91	88	100
Credit cards	18	10	10
Overdrafts	99	94	112
	254	214	238
Net charge-offs	(4,936)	(3,142)	(4,133)
Provision for loan losses	6,381	4,937	5,158
Balance at end of period	$ 14,060	$ 12,615	$ 10,820
Loans, net of unearned income	$ 927,824	$ 849,883	$ 794,562
Allowance to net loans	1.52%	1.48%	1.36%

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, impaired loans are selected and that group of loans 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 reviewed 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.

36

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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Commercial, industrial and agricultural	$ 4,940	$ 4,511	$ 3,517
Commercial mortgages	4,697	4,470	3,511
Residential real estate	2,466	1,991	1,916
Consumer	1,699	1,404	1,561
Credit cards	83	71	96
Overdrafts	175	168	219
Total	$ 14,060	$ 12,615	$ 10,820

Throughout 2012, the Corporation evaluated its provision and allowance for loan losses in light of changes in reserves required for impaired loans, changes in nonperforming loans, and growth in loans outstanding. Note 4 to the consolidated financial statements provides further disclosure of loan balances by portfolio segment as of December 31, 2012 and 2011, as well as the nature and scope of loans modified in a troubled debt restructuring during 2012 and 2011 and the related effect on the provision and allowance for loan losses.

In May 2012, CNB management determined that one relationship comprising a commercial and industrial loan of $2.4 million and two consumer loans totaling $200 thousand had become impaired. CNB charged off the balances of the consumer loans and recorded a specific allocation of $1.1 million for the commercial loan based on CNB s evaluation of the estimated present value of future cash flows. As a result, the provision for loan losses increased by $1.3 million. CNB charged off $750 thousand related to the commercial loan in the third quarter of 2012. In September 2012, one relationship comprising two commercial mortgage loans totaling $1.7 million that had previously been modified in a troubled debt restructuring defaulted under its restructured terms, resulting in an increase in the provision for loan losses of $503 thousand. It is possible that further deterioration with respect to these loan relationships may occur in the future.

In October 2012, an impaired commercial loan was partially repaid, resulting in an additional chargeoff of $109 thousand and a reduction in nonperforming assets of $1.8 million.

In December 2012, one impaired commercial and industrial loan with a balance of $1.4 million was charged off. As of September 30, 2012, a workout agreement with the borrower was probable, which would have resulted in no loss to CNB. As a result, no specific reserve was recorded as of the end of the third quarter of 2012. In December, CNB obtained new information from the borrower and determined that the likelihood of a workout agreement or any future payments from the borrower was remote. Therefore, the loan was charged off and the provision for loan losses was increased by $1.4 million.

Finally, the effect of increases in net chargeoffs in 2012, 2011, 2010, and 2009, as compared to net chargeoffs in 2008, as disclosed in the Summary of Loan Loss Experience table in Item 1, as well as the increase in the Corporation s loan portfolio in 2012, had a significant impact on the loan loss reserves required for homogeneous loan pools during the year ended December 31, 2012. As disclosed in Note 4 to the consolidated financial statements, the allowance for loan loss balance attributable to loans collectively evaluated for impairment increased from $11.1 million at December 31, 2011 to $12.2 million at December 31, 2012.

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 evaluate 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 2012 provision and allowance for loan losses were reasonable and adequate to absorb probable incurred losses in its portfolio at December 31, 2012.

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 third quarter of 2012, additional BOLI of $1.0 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 9.7% during 2012.

	Percentage change 2012 vs. 2011	Percentage change 2011 vs. 2010	2012	2011	2010
Demand, Non interest bearing	14.7%	8.4%	$ 175,239	$ 152,732	$ 140,836
Demand, Interest bearing	10.1%	7.5%	336,911	305,960	284,538
Savings deposits	21.2%	70.4%	759,910	627,106	368,055
Time deposits	(20.6%)	(27.4%)	212,943	268,053	369,439
Total	9.7%	16.4%	$ 1,485,003	$ 1,353,851	$ 1,162,868

The growth in deposits was primarily due to increases in savings accounts of $132.8 million from December 31, 2011 to December 31, 2012 as a result of the Corporation s marketing of a 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 $55.1 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 in Note 10 to the consolidated financial statements.

Shareholders Equity and Capital Ratios and Metrics

The Corporation s capital continues to provide a base for profitable growth. In 2012, the Corporation earned $17.1 million and declared dividends of $8.2 million, resulting in a dividend payout ratio of 47.9% of net income.

The Corporation has complied with the standards of capital adequacy mandated by government regulations. 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, 2012 and 2011 are as follows:

	2012	2011
Total risk-based capital ratio	15.28%	15.14%
Tier 1 capital ratio	14.03%	13.89%
Leverage ratio	8.06%	8.22%
Tangible common equity/tangible assets (1)	7.63%	7.61%
Book value per share	$ 11.65	$ 10.66
Tangible book value per share (1)	10.77	9.78

(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, 2012	December 31, 2011
Shareholders equity	$ 145,364	$ 131,889
Less goodwill	10,946	10,821
Tangible common equity	$ 134,418	$ 121,068
Total assets	$ 1,773,079	$ 1,602,207
Less goodwill	10,946	10,821
Tangible assets	$ 1,762,133	$ 1,591,386
Ending shares outstanding	12,475,904	12,377,318
Tangible book value per share	$ 10.77	$ 9.78
Tangible common equity/tangible assets	7.63%	7.61%

Liquidity

Liquidity measures an organization s ability to meet its 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 securities with maturities within one year in the investment portfolio are 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 $422 million with approximately $358 million available at December 31, 2012. Management believes that the Corporation s current liquidity position is acceptable.

Year Ended December 31, 2012 vs. Year Ended December 31, 2011

Overview of the Income Statement

The Corporation had net income of $17.1 million for 2012 compared to $15.1 million for 2011. The increase in net income is attributable to an increase in net interest income of $5.1 million, or 10.5%, as well as an increase in non-interest income of $1.8 million, or 17.2%. The provision for loan losses increased by $1.4 million, or 29.2%, and non-interest expenses increased by $2.7 million, or 8.0%, from 2012 to 2011. The earnings per diluted share increased from $1.23 in 2011 to $1.38 in 2012. The return on assets and the return on equity for 2012 are 1.00% and 12.17% as compared to 1.00% and 12.36% for 2011.

Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.49% for the year ended December 31, 2012, compared to 3.59% for the year ended December 31, 2011. Total interest and dividend income increased by $2.4 million, or 3.7%, as compared to 2011. 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 $209.6 million for the year ended December 31, 2012 while the yield during that time decreased by 42 basis points from 4.84% to 4.42%. Total interest expense decreased $2.7 million, or 15.1%, for the year ended December 31, 2012 as compared to the comparable period in 2011 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 37 basis points which offset the increase in average interest bearing deposits of $162.8 million.

Provision for Loan Losses

The Corporation recorded a provision for loan losses of $6.4 million in 2012 compared to $4.9 million in 2011. Net loan chargeoffs were $4.9 million during the year ended December 31, 2012 compared to $3.1 million during the year ended December 31, 2011. As disclosed in the Allowance for Loan Losses section of Management s Discussion and Analysis, the Corporation increased the provision for loan losses as a result of management s evaluation of impaired loans as well as an evaluation of general reserves required for loans that are not impaired.

Management believes the charges to the provision in 2012 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2012.

Non-Interest Income

Excluding the effects of the securities transactions described below, non-interest income was $10.7 million for the year ended December 31, 2012, compared to $10.4 million for the year ended December 31, 2011. Net realized gains on available-for-sale securities were $1.4 million during the year ended December 31, 2012, compared to $614 thousand during the year ended December 31, 2011. Net realized and unrealized gains on securities for which fair value was elected were $461 thousand and $64 thousand during the years ended December 31, 2012 and 2011, respectively. An other-than-temporary impairment charge of $398 thousand was recorded in earnings on structured pooled trust preferred securities during the year ended December 31, 2011.

Non-Interest Expense

Total non-interest expenses increased $2.7 million, or 8.0%, during the year ended December 31, 2012 compared to the year ended December 31, 2011. Salaries and employee benefit expenses combined to increase $1.6 million, or 9.3%, during the year ended December 31, 2012 compared to the year ended December 31, 2011, in part due to routine merit increases, an increase in full-time equivalent employees from 300 at December 31, 2011 to 323 at December 31, 2012, and increases in certain employee benefit expenses, such as health insurance costs, which continue to increase in line with market conditions. The remaining non-interest expenses increased $1.1 million, or 6.6%, as a result of CNB s continued growth.

Total non-interest expenses on an annualized basis in relation to CNB s average asset size declined from 2.20% for the year ended December 31, 2011 to 2.10% for the year ended December 31, 2012.

Table of Contents

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 continued to grow in 2011, these increases were offset by decreases in the yield on earning assets as a result of the 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.

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.

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, 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 were appropriate.

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 employee benefit expenses combined to increase $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.

Income Tax Expense

Income taxes were $6.3 million in 2012, compared to $5.5 million in 2011 and $3.5 million in 2010. The effective tax rates were 26.9%, 26.8%, and 23.5% for 2012, 2011 and 2010, 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 2010 to 2011 and 2012 is attributable to a lower percentage of tax-exempt income in 2012 and 2011 compared to pre-tax income.

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, 2012, 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		$ 1,272,060	0	0	0	$ 1,272,060
Certificates of deposit	9	71,033	94,287	35,987	11,636	212,943
FHLB and other borrowings	10	23,677	20,358	50,390	3,381	97,806
Operating leases	6	402	717	587	1,209	2,915
Sale-leaseback	6	112	224	224	1,005	1,565
Subordinated debentures	10	0	0	0	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.

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.

Table of Contents

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a financial institution, the Corporation s primary source of market risk is interest rate risk, which is the exposure to fluctuations in the Corporation s future earnings resulting from changes in interest rates. This exposure is correlated to the repricing characteristics of the Corporation s portfolio of assets and liabilities. Each asset or liability reprices either at maturity or during the life of the instrument.

The principal purpose of asset/liability management is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Net interest income is enhanced by increasing the net interest margin and by the growth in earning assets. As a result, the primary goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

The Corporation uses an asset-liability management model to measure the effect of interest rate changes on its net interest income. The Corporation s management also reviews asset-liability maturity gap and repricing analyses regularly. The Corporation does not always attempt to achieve a precise match between interest sensitive assets and liabilities because it believes that an actively managed amount of interest rate risk is inherent and appropriate in the management of the Corporation s profitability.

Asset-liability modeling techniques and simulation involve assumptions and estimates that inherently cannot be measured with precision. Key assumptions in these analyses include maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturing deposit sensitivity, and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude, and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of the Corporation s interest rate risk position over time.

Management reviews interest rate risk on a quarterly basis and reports to the ALCO. This review includes earnings shock scenarios whereby interest rates are immediately increased and decreased by 100, 300, and 400 basis points. These scenarios, detailed in the table below, indicate that there would not be a significant variance in net interest income over a one-year period due to interest rate changes; however, actual results could vary significantly. At December 31, 2012 and 2011, all interest rate risk levels according to the model were within the tolerance limits of ALCO approved policy of +/- 25%. In addition, the table does not take into consideration changes that management would make to realign its assets and liabilities in the event of an unexpected changing interest rate environment. Due to the historically low interest rate environment, the -300 and -400 scenarios have been excluded from the table.

December 31, 2012		December 31, 2011	
Change in Basis Points	% Change in Net Interest Income	Change in Basis Points	% Change in Net Interest Income
400	-0.5%	400	-2.3%
300	0.8%	300	-0.1%
100	2.3%	100	1.5%
(100)	-4.0%	(100)	-5.5%

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	December 31,	
	2012	2011
ASSETS		
Cash and due from banks	$ 28,570	$ 36,032
Interest bearing deposits with other banks	3,311	3,671
Total cash and cash equivalents	31,881	39,703
Interest bearing time deposits with other banks	225	224
Securities available for sale	737,311	638,107
Trading securities	4,459	3,233
Loans held for sale	2,398	1,442
Loans	931,225	852,769
Less: unearned discount	(3,401)	(2,886)
Less: allowance for loan losses	(14,060)	(12,615)
Net loans	913,764	837,268
FHLB and other equity interests	6,684	6,537
Premises and equipment, net	24,072	24,004
Bank owned life insurance	27,645	25,672
Mortgage servicing rights	714	906
Goodwill	10,946	10,821
Accrued interest receivable and other assets	12,980	14,290
Total Assets	$ 1,773,079	$ 1,602,207
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 175,239	$ 152,732
Interest bearing deposits	1,309,764	1,201,119
Total deposits	1,485,003	1,353,851
FHLB and other borrowings	97,806	74,456
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	24,286	21,391
Total liabilities	1,627,715	1,470,318
Common stock, $0 par value; authorized 50,000,000 shares; issued 12,599,603 shares	-	-
Additional paid in capital	44,223	44,350
Retained earnings	88,960	80,038
Treasury stock, at cost (123,699 shares for 2012 and 222,285 for 2011)	(1,743)	(3,260)
Accumulated other comprehensive income	13,924	10,761
Total shareholders equity	145,364	131,889

Total Liabilities and Shareholders Equity	$ 1,773,079	$ 1,602,207

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Dollars in thousands, except per share data

	Year ended December 31,		
	2012	2011	2010
Interest and Dividend Income:			
Loans including fees	$ 49,760	$ 48,324	$ 46,955
Deposits with banks	3	110	125
Securities:			
Taxable	14,685	14,285	11,603
Tax-exempt	3,595	2,957	2,435
Dividends	86	36	29
Total interest and dividend income	68,129	65,712	61,147
Interest Expense:			
Deposits	10,875	13,625	13,558
Borrowed funds	3,245	3,176	4,716
Subordinated debentures	800	778	782
Total interest expense	14,920	17,579	19,056
Net Interest Income	53,209	48,133	42,091
Provision for Loan Losses	6,381	4,937	5,158
Net Interest Income After Provision for Loan Losses	46,828	43,196	36,933
Non-Interest Income:			
Wealth and asset management fees	1,819	1,691	1,829
Service charges on deposit accounts	4,106	4,233	4,226
Other service charges and fees	1,868	1,626	1,396
Net realized gains (losses) from sales of securities for which fair value was elected	298	30	(68)
Net unrealized gains on securities for which fair value was elected	266	34	230
Mortgage banking	990	735	814
Bank owned life insurance	973	930	802
Other	965	1,224	1,002
	11,285	10,503	10,231
Total other-than-temporary impairment losses on available-for-sale securities	-	(398)	(2,241)
Less portion of loss recognized in other comprehensive income	-	-	-
Net impairment losses recognized in earnings	-	(398)	(2,241)
Net realized gains on available-for-sale securities	1,379	614	1,660
Net impairment losses recognized in earnings and realized gains on available-for-sale securities	1,379	216	(581)
Total non-interest income	12,664	10,719	9,650
Non-Interest Expenses:			
Salaries	13,106	12,349	11,358
Employee benefits	5,787	4,936	4,328
Net occupancy expense	4,651	4,416	4,326

Data processing	2,791	2,754	2,797
State and local taxes	1,474	1,275	1,162
Legal, professional and examination fees	1,265	956	849
Advertising	859	822	795
FDIC insurance	1,115	1,259	1,619
Directors fees and benefits	666	591	437
Other	4,231	3,924	4,127
Total non-interest expenses	35,945	33,282	31,798
Income Before Income Taxes	23,547	20,633	14,785
Income Tax Expense	6,411	5,529	3,469
Net Income	17,136	15,104	11,316
Other Comprehensive Income:			
Net change in unrealized gains/losses on available-for-sale securities, net of reclassification and tax	3,561	14,441	2,554
Change in actuarial gain, net of amortization and tax, for post-employment health care plan, net of tax	(349)	(485)	(245)
Change in fair value of interest rate swap agreements designated as a cash flow hedge, net of tax	(49)	(522)	(107)
Total other comprehensive income	3,163	13,434	2,202
Comprehensive Income	$ 20,299	$ 28,538	$ 13,518
Earnings Per Share:			
Basic	$ 1.38	$ 1.23	$ 1.06
Diluted	1.38	1.23	1.06

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

	Year ended December 31,		
	2012	2011	2010
Cash Flows From Operating Activities:			
Net income	$ 17,136	$ 15,104	$ 11,316
Adjustments to reconcile net income to net cash provided by operations:			
Provision for loan losses	6,381	4,937	5,158
Depreciation and amortization of premises and equipment	2,225	2,075	2,034
Securities amortization and accretion and deferred loan fees and costs	4,509	2,786	1,466
Deferred taxes	(240)	441	2,251
Net impairment losses realized in earnings and gains on sales of available-for-sale securities	(1,379)	(216)	581
Net realized and unrealized gains on securities for which fair value was elected	(564)	(64)	(162)
Proceeds from sale of securities for which fair value was elected	3,386	343	34
Purchase of securities for which fair value was elected	(4,187)	(1,266)	-
Gain on sale of loans	(927)	(638)	(688)
Net gains on dispositions of premises and equipment and foreclosed assets	(158)	(104)	(117)
Proceeds from sale of loans	32,512	23,324	22,585
Origination of loans held for sale	(32,626)	(19,927)	(28,706)
Income on bank owned life insurance	(973)	(930)	(802)
Stock-based compensation expense	277	213	205
Contribution of treasury stock	120	120	26
Changes in:			
Accrued interest receivable and other assets	(455)	(1,342)	(3,661)
Accrued interest payable and other liabilities	2,523	5,529	(374)
Net Cash Provided By Operating Activities	27,560	30,385	11,146
Cash Flows from Investing Activities:			
Net (increase) decrease in interest bearing time deposits with other banks	(1)	2,593	3,571
Proceeds from maturities, prepayments and calls of securities	109,673	101,178	111,827
Proceeds from sales of securities	125,579	69,740	95,381
Purchase of securities	(332,155)	(288,757)	(360,837)
Loan origination and payments, net	(82,393)	(58,552)	(80,435)
Purchase of bank owned life insurance	(1,000)	(5,000)	(2,500)
Acquisition of consumer discount company	(1,248)	-	-
Redemption (purchase) of FHLB and other equity interests	(147)	(122)	492
Purchase of premises and equipment	(2,016)	(1,705)	(1,992)
Proceeds from the sale of premises and equipment and foreclosed assets	1,088	257	823
Net Cash Used In Investing Activities	(182,620)	(180,368)	(233,670)
Cash Flows From Financing Activities:			
Net change in:			
Checking, money market and savings accounts	186,262	292,369	159,805
Certificates of deposit	(55,110)	(101,386)	46,205
Proceeds from sale of treasury stock	526	1,188	1,200
Proceeds from exercise of stock options	424	259	69
Proceeds from stock offering, net of issuance costs	-	-	32,128
Cash dividends paid	(8,214)	(8,125)	(6,933)
Proceeds from long-term borrowings	-	700	20,000
Repayments on long-term borrowings	(160)	(133)	(46,114)
Net change in short-term borrowings	23,510	(32,618)	31,238
Net Cash Provided By Financing Activities	147,238	152,254	237,598

Net (Decrease) Increase in Cash and Cash Equivalents	(7,822)	2,271	15,074
Cash and Cash Equivalents, Beginning	39,703	37,432	22,358
Cash and Cash Equivalents, Ending	$ 31,881	$ 39,703	$ 37,432
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for:			
Interest	$ 15,205	$ 17,937	$ 19,296
Income taxes	7,548	3,991	3,342
Supplemental Noncash Disclosures:			
Transfers to other real estate owned	$ 750	$ 249	$ 453
Loans transferred from held for sale to held for investment	-	-	3,321
Grant of restricted stock awards from treasury stock	419	266	233

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

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, 2010	$ 12,631	$ 68,676	$ (7,023)	$ (4,875)	$ 69,409
Net income		11,316			11,316
Other comprehensive income				2,202	2,202
Common shares issued (3,365,853 shares)	32,128				32,128
Restricted stock award grants (16,500 shares)	(233)		233		
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
Net income		15,104			15,104
Other comprehensive income				13,434	13,434
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
Net income		17,136			17,136
Other comprehensive income				3,163	3,163
Restricted stock award grants (26,900 shares)	(414)		414		
Exercise of stock options (31,875 shares), including tax benefit	(27)		491		464
Stock based compensation expense	277				277
Reissue of treasury stock (39,811 shares)	37		612		649
Cash dividends declared ($0.66 per share)		(8,214)			(8,214)
Balance, December 31, 2012	$ 44,223	$ 88,960	$ (1,743)	$ 13,924	$ 145,364

See Notes to Consolidated Financial Statements

Table of Contents

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)

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). 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 operates a consumer discount loan and finance business through its wholly owned subsidiary, Holiday Financial Services Corporation (Holiday). The Corporation and these and its 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, carrying value of goodwill, 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.

Table of Contents

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.

Table of Contents

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.

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.

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.

Table of Contents

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 interest rate swap agreements which are 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 $859, $822, and $795, for 2012, 2011 and 2010 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 amortization of mortgage servicing rights is netted against loan servicing fee income. 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, 2012 and 2011, 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 2012, 2011 and 2010, the Executive Compensation and Personnel Committee of the Board of Directors granted a total of 26,900, 17,900 and 16,500 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 $277, $213 and $205 for the years ended December 31, 2012, 2011 and 2010, respectively.

Comprehensive Income

The Corporation presents comprehensive income as part of the Consolidated Statement of Income and Comprehensive Income. 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 swaps.

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, 2012 and 2011, was $50, which was maintained in vault cash. Note 11 to the consolidated financial statements discloses the cash collateral balances required to be maintained in connection with the Corporation s interest rate swaps.

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.

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 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 Corporation complied with the revised disclosure requirements.

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 Corporation complied with the revised disclosure requirements.

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 did not have a material effect on the Corporation s financial statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). This ASU defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. Entities are to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The other requirements in ASU 2011-05 were not affected by this ASU. Further guidance surrounding the reclassification of items out of accumulated other comprehensive income was provided by FASB in ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*.

In February 2013, FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). The ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. The new guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Corporation is evaluating the effect that the adoption of ASU 2013-02 will have on its financial statements.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes.

Table of Contents

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, 2012, 2011, and 2010, options to purchase 37,500, 75,500, and 84,250 shares of common stock were not considered in computing diluted earnings per share because they were anti-dilutive.

	Years Ended December 31		
	2012	2011	2010
Basic earnings per common share computation			
Net income per consolidated statements of income	$ 17,136	$ 15,104	$ 11,316
Net earnings allocated to participating securities	(62)	(42)	(33)
Net earnings allocated to common stock	$ 17,074	$ 15,062	$ 11,283
Distributed earnings allocated to common stock	$ 8,182	$ 8,101	$ 6,914
Undistributed earnings allocated to common stock	8,892	6,961	4,369
Net earnings allocated to common stock	$ 17,074	$ 15,062	$ 11,283
Weighted average common shares outstanding, including shares considered participating securities	12,441	12,306	10,630
Less: Average participating securities	(41)	(33)	(30)
Weighted average shares	12,400	12,273	10,600
Basic earnings per common share	$ 1.38	$ 1.23	$ 1.06
Diluted earnings per common share computation			
Net earnings allocated to common stock	$ 17,074	$ 15,062	$ 11,283
Weighted average common shares outstanding for basic earnings per common share	12,400	12,273	10,600
Add: Dilutive effects of assumed exercises of stock options	3	6	9
Weighted average shares and dilutive potential common shares	12,403	12,279	10,609
Diluted earnings per common share	$ 1.38	$ 1.23	$ 1.06

3. Securities

Securities available-for-sale at December 31, 2012 and 2011 are as follows:

	December 31, 2012				December 31, 2011			
		Unrealized				Unrealized		
	Amortized Cost	Gains	Losses	Fair Value	Amortized Cost	Gains	Losses	Fair Value
U.S. Treasury	$ 4,018	$ 18	$ -	$ 4,036	$ 8,064	$66	$ -	$ 8,130
U.S. Gov t sponsored entities	157,965	5,977	(161)	163,781	102,258	5,249	(15)	107,492
State & political subdivisions	170,223	11,113	(57)	181,279	149,685	8,844	(92)	158,437
Residential & multi-family mortgage	308,800	8,724	(702)	316,822	292,297	8,043	(214)	300,126
Commercial mortgage	1,275	29	-	1,304	2,077	45	-	2,122

Corporate notes & bonds	17,368	26	(2,370)	15,024	17,358	50	(3,548)	13,860
Pooled trust preferred	800	-	(200)	600	800	-	(460)	340
Pooled SBA	50,667	2,277	(17)	52,927	44,851	1,282	(77)	46,056
Other securities	1,521	17	-	1,538	1,521	23	-	1,544
Total	$712,637	$28,181	$(3,507)	$737,311	$618,911	$23,602	$(4,406)	$638,107

At December 31, 2012 and 2011, 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.

Table of Contents

Trading securities accounted for under the fair value option at December 31, 2012 and 2011 are as follows:

	2012	2011
Corporate equity securities	$ 3,117	$ 1,959
Certificates of deposit	408	255
International mutual funds	287	257
Large cap growth mutual funds	157	145
Money market mutual funds	110	241
Large cap value mutual funds	104	105
Corporate notes and bonds	101	100
Real estate investment trust mutual funds	65	68
U.S. Government sponsored entities	58	55
Small cap mutual funds	26	25
Mid cap mutual funds	26	23
Total	$ 4,459	$ 3,233

Securities with unrealized losses at December 31, 2012 and 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

December 31, 2012	**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	41,715	(161)	-	-	41,715	(161)
State & political subdivisions	7,857	(57)	-	-	7,857	(57)
Residential & multi-family mortgage	32,159	(688)	4,254	(14)	36,413	(702)
Commercial mortgage	-	-	-	-	-	-
Corporate notes & bonds	-	-	13,002	(2,370)	13,002	(2,370)
Pooled trust preferred	-	-	600	(200)	600	(200)
Pooled SBA	3,521	(17)	-	-	3,521	(17)
Other securities	-	-	-	-	-	-
	$ 85,252	$ (923)	$ 17,856	$ (2,584)	$ 103,108	$ (3,507)

	Less than 12 Months		**12 Months or More**		**Total**	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2011						
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 and multi-family mortgage	36,626	(162)	9,485	(52)	46,111	(214)
Commercial mortgage	-	-	-	-	-	-
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)

Table of Contents

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.

The following table provides detailed information related to the Corporation s structured pooled trust preferred securities as of December 31, 2012 and for the years ended December 31, 2012, 2011, and 2010:

	As of December 31, 2012			Credit Losses Realized in Earnings		
	Adjusted Amortized Cost	Unrealized Gain (Loss)	Fair Value	Year Ended December 31, 2012	2011	2010
ALESCO Preferred Funding V, Ltd.	$ 800	$ (200)	$ 600	$ -	$ -	$ 440
ALESCO Preferred Funding XII, Ltd.	-	-	-	-	280	933
ALESCO Preferred Funding XVII, Ltd.	-	-	-	-	-	-
Preferred Term Securities XVI, Ltd.	-	-	-	-	118	868
US Capital Funding VI, Ltd.	-	-	-	-	-	-
Total	$ 800	$ (200)	$ 600	$ -	$ 398	$ 2,241

At December 31, 2012, the Corporation evaluated the ALESCO Preferred Funding V, Ltd. Security for other than-temporary impairment by estimating the cash flows expected to be received, taking into account future estimated levels of deferrals and defaults by the underlying issuers and discounting those cash flows at the appropriate accounting yield.

A roll-forward of the other-than-temporary impairment amount related to credit losses for the years ended December 31, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
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	$ 4,054	$ 3,656	$ 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	-	398	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	$ 4,054	$ 4,054	$ 3,656

Due to the insignificance of the adjusted amortized cost of structured pooled trust preferred securities as of December 31, 2012 and 2011, no further disclosures are required.

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, 2012 and 2011, 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.
- 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, 2012 and 2011, securities carried at $264,813 and $264,166, 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, 2012:

	December 31, 2012	
	Amortized Cost	Fair Value
1 year or less	$ 26,495	$ 26,741
1 year 5 years	102,828	106,190
5 years 10 years	167,676	177,533
After 10 years	53,375	54,256
	350,374	364,720
Residential and multi-family mortgage	308,800	316,822
Pooled SBA	50,667	52,927
Commercial mortgage	1,275	1,304
Total debt securities	$ 711,116	$ 735,773

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

Information pertaining to security sales is as follows:

Year ended December 31	Proceeds	Gross Gains	Gross Losses
2012	$ 125,579	$ 1,809	$ 430
2011	69,740	878	264
2010	95,381	1,677	17

The tax provision related to these net realized gains was $483, $215, and $581, respectively.

Table of Contents

During 2012, 2011 and 2010, the Corporation sold securities carried at fair value under the fair value option. Proceeds were $3,386 in 2012, $343 in 2011 and $34 in 2010, resulting in net gains (losses) of $298 in 2012, $30 in 2011, and ($68) in 2010.

4. Loans

Total net loans at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Commercial, industrial, and agricultural	$ 257,091	$ 253,324
Commercial mortgages	261,791	242,511
Residential real estate	347,904	298,628
Consumer	58,668	53,471
Credit cards	4,800	4,412
Overdrafts	971	423
Less: unearned discount	(3,401)	(2,886)
allowance for loan losses	(14,060)	(12,615)
Loans, net	$ 913,764	$ 837,268

At December 31, 2012 net unamortized loan costs of $232 have been included in the carrying value of loans. As of December 31, 2011, net unamortized loan fees of $7 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.

Transactions in the allowance for loan losses for the year ended December 31, 2012 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2012	$ 4,511	$ 4,470	$ 1,991	$ 1,404	$ 71	$ 168	$ 12,615
Charge-offs	(2,871)	(401)	(304)	(1,279)	(78)	(257)	(5,190)
Recoveries	45	-	1	91	18	99	254
Provision for loan losses	3,255	628	778	1,483	72	165	6,381
Allowance for loan losses, December 31, 2012	$ 4,940	$ 4,697	$ 2,466	$ 1,699	$ 83	$ 175	$ 14,060

Table of Contents

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 year ended December 31, 2010 were as follows:

Balance, beginning of year	$ 9,795
Charge-offs	(4,371)
Recoveries	238
Net charge-offs	(4,133)
Provision for loan losses	5,158
Balance, end of year	$ 10,820

65

Table of Contents

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, 2012 and 2011:

December 31, 2012	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	$ 541	$ 131	$ 81	$ -	$ -	$ -	$ 753
Collectively evaluated for impairment	4,399	3,467	2,385	1,699	83	175	12,208
Modified in a troubled debt restructuring	-	1,099	-	-	-	-	1,099
Total ending allowance balance	$ 4,940	$ 4,697	$ 2,466	$ 1,699	$ 83	$ 175	$ 14,060
Loans:							
Loans individually evaluated for impairment	$ 2,623	$ 10,683	$ 593	$ -	$ -	$ -	$ 13,899
Loans collectively evaluated for impairment	253,048	240,907	347,311	58,668	4,800	971	905,705
Loans modified in a troubled debt restructuring	1,420	10,201	-	-	-	-	11,621
Total ending loans balance	$ 257,091	$ 261,791	$ 347,904	$ 58,668	$ 4,800	$ 971	$ 931,225

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	53,471	4,412	423	830,385
Loans modified in a troubled debt restructuring	-	7,688	-	-	-	-	7,688
Total ending loans balance	$ 253,324	$ 242,511	$ 298,628	$ 53,471	$ 4,412	$ 423	$ 852,769

Table of Contents

The recorded investment in loans within the tables above and below excludes accrued interest receivable and unearned discount due to immateriality.

The following tables present information related to loans individually evaluated for impairment by portfolio segment as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010:

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 2,542	$ 1,792	$ 541
Commercial mortgage	5,870	5,329	1,230
Residential real estate	416	381	81
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,804		