

CNB FINANCIAL CORP/PA
Form 10-K
March 15, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

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

For the fiscal year ended December 31, 2006

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)

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive office)

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

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

Securities registered pursuant to Section 12 (b) of the Act: None

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

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

Common Stock, No Par Value

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Aggregate market value of the common stock held by nonaffiliates of the registrant as of June 30, 2006: \$112,270,314

The number of shares outstanding of the registrant's common stock as of March 8, 2007: 8,868,524 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to shareholders for the year ended December 31, 2006 are incorporated by reference into Part I, Part II and Part III.

Portions of the proxy statement for the annual shareholders' meeting on April 17, 2007 are incorporated by reference into Part III. The incorporation by reference herein of portions of the proxy statement shall not be deemed to incorporate by reference the information referred to in Item 402(a)(8) of regulation S-K.

Table of Contents

INDEX

PART I.

ITEM 1.	<u>BUSINESS</u>	3
ITEM 1A.	<u>RISK FACTORS</u>	11
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	12
ITEM 2.	<u>PROPERTIES</u>	12
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	12
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	12

PART II.

ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	13
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	13
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	13
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	13
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	14
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	14
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	14
ITEM 9A(T)	<u>CONTROLS AND PROCEDURES</u>	14
ITEM 9B.	<u>OTHER INFORMATION</u>	15

PART III.

ITEM 10.	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	15
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	15
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	15
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	15
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	15

PART IV.

ITEM 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	15
	<u>SIGNATURES</u>	17

Table of Contents

PART I.

ITEM 1. BUSINESS
CNB FINANCIAL CORPORATION

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 of 2006, County National Bank changed its name to CNB 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.

The Corporation is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System. In general, the Corporation is limited to owning or controlling banks and engaging in such other activities as are properly incident thereto. The Corporation is currently engaged in four non-banking activities through its wholly owned subsidiaries CNB Securities Corporation, County Reinsurance Company, CNB Insurance Agency, and Holiday Financial Services Corporation. CNB Securities Corporation was formed in 2005 to hold and manage investments that were previously owned by the Bank and the Corporation and to provide the Corporation with additional latitude to purchase other investments. County Reinsurance Company was formed in June of 2001 as a corporation in the state of Arizona. The company provides accidental death and disability and life insurance as a part of lending relationships of the Bank. CNB Insurance Agency was established in February of 2003. The company provides fixed annuity products to banking customers. The Corporation's newest subsidiary, Holiday Financial Services Corporation, was formed in the third quarter of 2005 to facilitate the Corporation's entry into the consumer discount loan and finance business. Finally, in addition to these operating subsidiaries, the Corporation has a wholly owned affiliate, CNB Statutory Trust I, which is accounted for using the equity method based on the nature and purpose of the entity.

The Corporation does not currently engage in any operating business activities, other than the ownership and management of CNB Bank (the Bank), CNB Securities Corporation, County Reinsurance Company, CNB Insurance Agency, and Holiday Financial Services Corporation.

CNB BANK

The Bank was incorporated in 1934 and is chartered in the State of Pennsylvania. The Bank's Main Office is located at 1 South Second Street, Clearfield, (Clearfield County) Pennsylvania. The primary marketing area consists of the Pennsylvania Counties of Clearfield, Elk (excluding the Townships of Millstone, Highland and Spring Creek), McKean, Cambria and Cameron. It also includes a portion of western Centre County including Philipsburg Borough, Rush Township and the western portions of Snow Shoe and Burnside Townships and a portion of Jefferson County, consisting of the boroughs of Brockway, Falls Creek, Punxsutawney, Reynoldsville and Sykesville, and the townships of Washington, Winslow and Henderson.

ERIEBANK, a division of CNB Bank, began operations in 2005 when the Bank established a loan production office in Erie, Pennsylvania and started offering commercial loan service to businesses located within Erie and Erie County. During the third quarter of 2006, management opened its first full service branch in the Erie market at a temporary location and has begun the process of growing the ERIEBANK franchise. In 2007, the Bank plans to continue expansion into the Erie market with the addition of three full-service branches. The primary market area for the ERIEBANK division will be the north western Pennsylvania county of Erie including the city of Erie.

The approximate population of the general trade area is 450,000. The economy is diversified and includes manufacturing industries, wholesale and retail trade, services industries, family farms and the production of natural resources of coal, oil, gas and timber.

In addition to the Main Office, the Bank has 22 full-service branch offices and 2 loan production offices located in various communities in its market area.

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 such as wealth management. Its trust division offers a full range of client services.

Table of Contents

The Bank's customer base is such that loss of one customer relationship or a related group of depositors would not have a materially adverse effect on the business of the Bank.

The Bank's loan portfolio is diversified so that one industry, group of related industries or changes in household economic conditions would not comprise a material portion of the loan portfolio.

The Bank's business is not seasonal nor does it have any risks attendant to foreign sources.

HOLIDAY FINANCIAL SERVICES CORPORATION

In the fourth quarter of 2005, the Corporation formed Holiday Financial Services Corporation, a wholly owned subsidiary, and entered the consumer discount loan and finance business with one office located in Sidman, Pennsylvania. During 2006, three additional offices were opened in the communities of Hollidaysburg, Northern Cambria and Clearfield, Pennsylvania. Holiday Financial Services Corporation is currently not material to the Corporation based on revenue, net income or total asset measurements; however, the Corporation plans to continue growing this entity with three more new offices slated for 2007.

COMPETITION

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

SUPERVISION AND REGULATION

The Bank is subject to supervision and examination by applicable federal and state banking agencies, including the Pennsylvania State Department of Banking. The Bank is insured by and subject to some or all of the regulations of the Federal Deposit Insurance Corporation (FDIC). The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amounts and terms and conditions of loans that may be granted, and limitation on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operation 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 it attempts to control the money supply and credit availability in order to influence the economy.

EXECUTIVE OFFICERS

The table below lists the executive officers of the Corporation and CNB Bank and sets forth certain information with respect to such persons.

NAME	AGE	PRINCIPAL OCCUPATION FOR LAST FIVE YEARS
WILLIAM F. FALGER	59	PRESIDENT AND CHIEF EXECUTIVE OFFICER, CNB FINANCIAL CORPORATION, SINCE JANUARY 1, 2001; PRESIDENT AND CHIEF EXECUTIVE OFFICER, CNB BANK, SINCE JANUARY 1, 1993.
JOSEPH B. BOWER, JR.	43	SECRETARY SINCE DECEMBER 31, 2003, CNB FINANCIAL CORPORATION; EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, CNB BANK, SINCE DECEMBER 31, 2003; AND PREVIOUSLY CHIEF FINANCIAL OFFICER, CNB

Table of Contents

MARK D. BREakey	48	SENIOR VICE PRESIDENT AND CREDIT RISK MANAGER, CNB BANK, SINCE MAY, 1995.
CHARLES R. GUARINO	44	TREASURER, PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER, CNB FINANCIAL CORPORATION, SINCE APRIL 18, 2006, CHIEF FINANCIAL OFFICER, CNB BANK, SINCE APRIL 13, 2004 AND PREVIOUSLY A CERTIFIED PUBLIC ACCOUNTANT IN PUBLIC PRACTICE.
DONALD E. SHAWLEY	51	SENIOR VICE PRESIDENT, CNB BANK, SINCE SEPTEMBER 29, 1998; AND TRUST OFFICER SINCE NOVEMBER 1, 1985.
RICHARD L. SLOppy	56	SENIOR VICE PRESIDENT AND SENIOR LOAN OFFICER, CNB BANK, SINCE JANUARY 1, 2004; AND PREVIOUSLY VICE PRESIDENT COMMERCIAL BANKING, CNB BANK, SINCE OCTOBER 5, 1998.

Officers are elected annually at the reorganization meeting of the Board of Directors.

EMPLOYEES

The Corporation has no employees who are not employees of CNB Bank except for eleven individuals who are employees of Holiday Financial Services Corporation. As of December 31, 2006, the Corporation had a total of 273 employees of which 226 were full time and 47 were part time.

MONETARY POLICIES

The earnings and growth of the banking industry are affected by the credit policies of monetary authorities, including the Federal Reserve System. An important function of the Federal Reserve System is to regulate the national supply of bank credit in order to control recessionary and inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open market activities in U.S. Government Securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These operations are used in varying combinations to influence overall economic growth and indirectly, bank loans, securities, and deposits. These variables may also affect interest rates charged on loans or paid for deposits. The monetary policies of the Federal Reserve authorities have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have such an effect in the future.

In view of the changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities including the Federal Reserve System, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or their effect on the business and earnings of the Corporation and the Bank.

DISTRIBUTION OF ASSETS, LIABILITIES, & SHAREHOLDER S EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

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 which are incorporated by reference hereinafter.

Table of Contents**CNB Financial Corporation****Average Balances and Net Interest Margin**

(Dollars in thousands)

	December 31, 2006			December 31, 2005			December 31, 2004		
	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	\$ 6,951	6.29%	\$ 437	\$ 7,422	4.26%	\$ 316	\$ 3,484	3.36%	\$ 117
Federal funds sold and securities purchased under agreements to resell	3,518	8.33%	293	9,576	4.11%	394	6,246	1.92%	120
Securities:									
Taxable (1)	114,092	5.12%	5,876	120,938	3.99%	4,817	108,437	3.45%	3,746
Tax-Exempt (1, 2)	36,904	6.49%	2,331	40,784	6.67%	2,593	41,508	6.94%	2,881
Equity Securities (1, 2)	14,269	3.65%	495	13,013	3.21%	403	14,027	3.95%	554
Total Securities	175,734	5.75%	9,432	191,733	4.95%	8,523	173,702	4.27%	7,418
Loans									
Commercial (2)	205,659	7.90%	16,255	187,985	6.94%	13,043	180,422	6.19%	11,163
Mortgage (2)	298,176	7.25%	21,632	278,256	6.85%	19,055	263,083	6.65%	17,495
Installment	28,538	10.66%	3,042	27,905	9.05%	2,526	30,178	8.70%	2,626
Leasing	288	5.90%	17	1,146	6.11%	70	3,669	6.70%	246
Total Loans (3)	532,661	7.69%	40,946	495,292	7.00%	34,694	477,352	6.61%	31,530
Total earning assets	708,395	7.11%	50,378	687,025	6.29%	43,217	651,054	5.98%	38,948
Non Interest Bearing Assets									
Cash & Due From Banks	16,982			16,323			14,268		
Premises & Equipment	14,476			14,069			13,124		
Other Assets	36,598			35,734			39,311		
Allowance for Possible Loan Losses	(5,940)			(5,596)			(5,904)		
Total Non Interest Earning Assets	62,116			60,530			60,799		
Total Assets	\$ 770,511			\$ 747,555			\$ 711,853		
Liabilities and Shareholders Equity									
Interest-Bearing Deposits									
Demand - interest-bearing	\$ 138,226	1.36%	\$ 1,879	\$ 142,298	0.76%	\$ 1,084	\$ 127,272	0.29%	\$ 373
Savings	59,090	0.59%	347	70,436	0.60%	423	76,440	0.62%	473
Time	344,801	4.32%	14,880	317,444	3.50%	11,126	311,227	3.12%	9,705
Total interest-bearing deposits	542,117	3.16%	17,106	530,178	2.38%	12,633	514,939	2.05%	10,551
Short-term borrowings	2,286	5.07%	116	3,509	1.68%	59	3,739	0.88%	33
Long-term borrowings	58,961	4.69%	2,765	53,102	4.85%	2,578	40,000	5.10%	2,041
Subordinated Debentures	10,000	8.66%	866	10,000	6.85%	685	10,000		503
Total interest-bearing liabilities	613,364	3.40%	20,853	596,789	2.67%	15,955	568,678	2.31%	13,128
Demand - non-interest-bearing	79,588			74,454			68,986		
Other liabilities	6,316			6,577			6,576		

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Total Liabilities	699,268	677,820	644,240
Shareholders Equity	71,243	69,735	67,613
Total Liabilities and Shareholders Equity	\$ 770,511	\$ 747,555	\$ 711,853
Interest Income/Earning Assets	7.11% \$ 50,378	6.29% \$ 43,217	5.98% \$ 38,948
Interest Expense/Interest Bearing Liabilities	3.40% 20,853	2.67% 15,955	2.31% 13,128
Net Interest Spread	3.71% \$ 29,525	3.62% \$ 27,262	3.67% \$ 25,820
Interest Income/Interest Earning Assets	7.11% \$ 50,378	6.29% \$ 43,217	5.98% \$ 38,948
Interest Expense/Interest Earning Assets	2.94% 20,853	2.32% 15,955	2.02% 13,128
Net Interest Margin	4.17% \$ 29,525	3.97% \$ 27,262	3.97% \$ 25,820

-
- (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 are stated on a fully taxable equivalent basis.
 - (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. The amount of loan fees included in the interest income on loans is not material.

Table of Contents**Net Interest Income****Rate-Volume Variance**

(Dollars in thousands)

	For Twelve Months Ended December 31, 2006 over (under) 2005			For Twelve Months Ended December 31, 2005 over (under) 2004		
	Due to Change In			Due to Change In		
	Volume	Rate	Net	Volume	Rate	Net
Assets						
Interest-Bearing Deposits with Banks	\$ (20)	\$ 141	\$ 121	\$ 132	\$ 67	\$ 199
Federal Funds Sold and securities purchased under agreements to resell	(249)	148	(101)	64	210	274
Securities:						
Taxable	(273)	1,289	1,016	432	648	1,080
Tax-Exempt	(259)	(66)	(325)	(50)	(110)	(160)
Equity Securities	40	63	103	(40)	(96)	(136)
Total Securities	(761)	1,575	814	538	719	1,257
Loans						
Commercial	1,226	1,986	3,212	468	1,412	1,880
Mortgage	1,364	1,213	2,577	1,009	551	1,560
Installment	57	459	516	(198)	98	(100)
Leasing	(52)	(1)	(53)	(169)	(7)	(176)
Total Loans	2,595	3,657	6,252	1,110	2,054	3,164
Total Earning Assets	\$ 1,834	\$ 5,232	\$ 7,066	\$ 1,648	\$ 2,773	\$ 4,421
Liabilities and Shareholders Equity						
Interest-Bearing Deposits						
Demand-Interest-Bearing	\$ (31)	\$ 826	\$ 795	\$ 44	\$ 667	\$ 711
Savings	(68)	(8)	(76)	(37)	(13)	(50)
Time	959	2,795	3,754	194	1,227	1,421
Total Interest-Bearing Deposits	860	3,613	4,473	201	1,881	2,082
Short-Term Borrowings	(21)	78	57	(2)	28	26
Long-Term Borrowings	284	(97)	187	669	(132)	537
Subordinated debentures	0	181	181	0	182	182
Total Interest-Bearing Liabilities	\$ 1,123	\$ 3,775	\$ 4,898	\$ 868	\$ 1,959	\$ 2,827
Change in Net Interest Income	\$ 711	\$ 1,457	\$ 2,168	\$ 780	\$ 814	\$ 1,594

- The change in interest due to both volume and rate had been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.
- Included in interest income is \$1,969, \$1,815 and \$1,992 of fees for the years ending 2006, 2005 and 2004, respectively.

Table of Contents**Securities**

(Dollars In Thousands)

	December 31, 2006				Amortized Cost	December 31, 2005				Amortized Cost	December 31, 2004				
	Unrealized		Market Value	Gains		Losses	Unrealized		Market Value		Gains	Losses	Unrealized		Market Value
	Cost	Gains					Losses	Cost					Gains	Losses	
Securities Available for Sale:															
U.S. Treasury	\$ 10,965	\$ 10	\$ 35	\$ 10,940	\$ 11,961	\$	\$ 111	\$ 11,850	\$ 13,096	\$	\$ 85	\$ 13,011			
U.S. Government Sponsored Entities	24,272	3	248	\$ 24,027	31,378	6	415	30,969	30,563		303	30,260			
State and Political Subdivisions	35,046	1,016	20	\$ 36,042	39,352	1,340	20	40,672	41,712	2,567		44,279			
Mortgage-backed	44,030	41	444	\$ 43,627	39,907	71	551	39,427	40,489	241	50	40,680			
Corporate notes and bonds	31,124	634	38	\$ 31,720	29,820	815	187	30,448	26,404	1,558	97	27,865			
Marketable Equities	9,291	1,126	77	\$ 10,340	7,688	986	143	8,531	7,811	665	369	8,107			
	\$ 154,728	\$ 2,830	\$ 862	\$ 156,696	\$ 160,106	\$ 3,218	\$ 1,427	\$ 161,897	\$ 160,075	\$ 5,031	\$ 904	\$ 164,202			

Maturity Distribution of Investment Securities

(Dollars In Thousands)

December 31, 2006

	Within				After				Collateralized Mortgage Obligation and Other Asset Backed Securities		
	One Year		After One But Within Five Years		After Five But Within Ten Years		Ten Years		\$ Amt.	Yield	
	\$ Amt.	Yield	\$ Amt.	Yield	\$ Amt.	Yield	\$ Amt.	Yield			
Securities Available for Sale:											
U.S. Treasury		\$ 6,938	4.09%	\$ 4,002	5.01%						
U.S. Government Sponsored Entities		15,066	4.23%	8,961	4.47%						
State and Political Subdivisions		3,190	6.17%	6,200	6.84%	\$ 9,300	6.40%	\$ 17,352	6.94%		
Corporate notes and bonds				12,008	6.71%	2,000	4.00%	17,712	6.72%	\$ 43,627	4.80%
TOTAL		\$ 25,194	4.43%	\$ 31,171	5.87%	\$ 11,300	5.98%	\$ 35,064	6.83%	\$ 43,627	4.80%

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

	2006	2005	2004	2003	2002
Commercial, Financial and Agricultural	\$ 214,804	\$ 194,044	\$ 187,261	\$ 168,794	\$ 130,121
Residential Mortgage	160,159	153,130	149,621	141,720	143,569
Commercial Mortgage	143,453	135,417	115,566	110,951	97,928
Installment	29,411	27,840	27,526	30,910	36,289
Lease Receivables	119	611	2,074	6,285	13,600
GROSS LOANS	547,946	511,042	482,048	458,660	421,507
Less: Unearned Income	926	429	111	411	1,143
TOTAL LOANS NET OF UNEARNED	547,020	510,613	481,937	458,249	420,364

B. LOAN MATURITIES AND INTEREST SENSITIVITY

	One Year or Less	December 31, 2006		Total Gross Loans
		One Through Five Years	Over Five Years	
<u>Commercial, Financial and Agricultural</u>				
Loans With Predetermined Rate	\$ 12,139	\$ 52,856	\$ 16,010	\$ 81,005
Loans With Floating Rate	79,216	41,051	13,532	133,799
	\$ 91,355	\$ 93,907	\$ 29,542	\$ 214,804

C. RISK ELEMENTS

	2006	2005	2004	2003	2002
Loans on non-accrual basis	\$ 1,619	\$ 1,561	\$ 1,683	\$ 1,873	\$ 1,830
Accruing loans which are contractually past due 90 days or more as to interest or principal payment	128	462	177	1,076	1,106
Troubled Debt Restructurings					
	\$ 1,747	\$ 2,023	\$ 1,860	\$ 2,949	\$ 2,936

- Interest income recorded on the non-accrual loans for the year ended December 31, 2006 was \$71. Interest income which would have been recorded on these loans had they been on accrual status was \$289.
- 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.

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

3. At December 31, 2006 there was \$17,641 in loans which are considered problem loans which were 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,

	2006	2005	2004	2003	2002
Balance at beginning of Period	\$ 5,603	\$ 5,585	\$ 5,764	\$ 5,036	\$ 4,095
Charge-Offs:					
Commercial, Financial and Agricultural		16	51	19	152
Commercial Mortgages	144	135	226	174	82
Residential Mortgages	203	152	147	109	127
Installment	451	372	409	511	468
Overdraft Deposit Accounts	272	300	236		
Leasing	21		30	111	235
	1,091	975	1,099	924	1,064
Recoveries:					
Commercial, Financial and Agricultural	3	1	1		1
Commercial Mortgages	3	18	13		52
Residential Mortgages	4		20	3	
Installment	89	99	56	80	87
Overdraft Deposit Accounts	93	91	21		
Leasing	11	1	9	34	65
	203	210	120	117	205
Net Charge-Offs:	(888)	(765)	(979)	(807)	(859)
Provision for Loan Losses	1,371	783	800	1,535	1,800
Balance at End-of-Period	\$ 6,086	\$ 5,603	\$ 5,585	\$ 5,764	\$ 5,036

	2006	2005	2004	2003	2002
Percentage of net charge-offs during the period to average loans outstanding	0.17	0.15	0.21	0.18	0.21

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 condition on borrowers, and other relevant factors.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(Dollars In Thousands)

	2006		2005		2004		2003		2002	
	% of Loans in		% of Loans in		% of Loans in		% of Loans in		% of Loans in	
	each Category		each Category		each Category		each Category		each Category	
Domestic:										
Real Estate Mortgages	\$ 2,712	55.98%	\$ 2,434	56.21%	\$ 2,400	55.01%	\$ 2,042	55.09%	\$ 1,428	57.29%
Installment	615	5.19%	486	5.42%	446	5.74%	497	6.74%	490	8.61%
Commercial, Financial and Agricultural	2,553	38.61%	2,365	37.80%	2,396	38.23%	2,472	36.80%	1,776	30.87%
Overdraft Deposit Accounts	199	0.17%	261	0.45%	308	0.61%				

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Leasing	2	0.05%	16	0.12%	20	0.41%	79	1.37%	178	3.23%
Unallocated	5	0.00%	41	0.00%	15	0.00%	674	0.00%	1,164	0.00%
TOTALS	\$ 6,086	100.00%	\$ 5,603	100.00%	\$ 5,585	100.00%	\$ 5,764	100.00%	\$ 5,036	100.00%

1. In determining the allocation of the allowance for loan losses, the Corporation considers economic trends, historical patterns and specific credit reviews.
2. 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. The total of these reserves is deemed allocated, while the remaining balance is unallocated.

Analysis of the Allowance for Loan Losses

The unallocated component of the allowance for loan losses has declined over the last year as management has refined its methodology for monitoring and measuring credit risk. In 2006 additional individual loans were subject to specific review, resulting in an increase in specific allowance allocations. In addition, consideration of current economic risk factors were applied to individual pools of homogeneous pools of loans. In prior years, economic risk factors were applied to the portfolio of loans as a whole and were reflected as unallocated.

Table of Contents**DEPOSITS**

(Dollars In Thousands)

December 31,	2006		2005		2004	
	Average Amount	Annual Rate	Average Amount	Annual Rate	Average Amount	Annual Rate
Demand - Non Interest Bearing	\$ 79,588		\$ 74,454		\$ 68,986	
Demand - Interest Bearing	138,226	1.36%	142,298	0.76%	127,272	0.29%
Savings Deposits	59,090	0.59%	70,436	0.60%	76,440	0.62%
Time Deposits	344,801	4.32%	317,444	3.50%	311,227	3.12%
TOTAL	\$ 621,705		\$ 604,632		\$ 583,925	

The maturity of certificates of deposits and other time deposits in denomination of \$100,000 or more as of December 31, 2006

(Dollars In Thousands)

Maturing in:	
Three months or less	\$ 1,694
Greater than three months and through six months	3,105
Greater than six months and through twelve months	8,846
Greater than twelve months	110,856
	\$ 124,501

Key ratios for the Corporation for the years ended December 31, 2006 and 2005 appear in the Annual Shareholders' Report for the year ended December 31, 2006 under the caption "Selected Financial Data" on pages 33 and 34 and are incorporated herein by reference. Short-term borrowings for the Corporation on average were less than 30% of the Corporation's stockholders' equity at December 31, 2006.

ITEM 1A. RISK FACTORS

Investments in CNB Financial Corporation common stock involve risk. The market price of CNB Financial Corporation common stock may fluctuate significantly in response to a number of items which are mainly beyond the control of the Corporation and could include, but are not limited to, the following:

Changes in the market valuations of similar corporations

Changes in interest rates

Volatility of stock market prices and volumes

Rumors or erroneous information

New developments in the financial services industry

Variations in quarterly or annual operating results

Litigation or regulatory actions

Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

Business conditions in the communities we serve.

If CNB Financial Corporation does not adjust to future changes in the financial services industry, its financial performance may suffer. As such, the Corporation's ability to maintain its history of strong financial performance and return on investment to shareholders will depend in part on its ability to expand its scope of available financial services to its customers. In addition to other banks, competitors include securities dealers, brokers, mortgage bankers, investment advisors, and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial service providers.

Future governmental regulation and legislation could limit growth. CNB Financial Corporation and its subsidiaries are subject to extensive regulation, supervision and legislation that govern nearly every aspect of its operations. Changes to these laws could affect CNB Financial Corporation's ability to deliver or expand its services and diminish the value of its business.

Table of Contents

Changes in interest rates could reduce income and cash flow. CNB Financial Corporation's income and cash flow depends to a great extent on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. Interest rates are beyond CNB Financial Corporation's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits.

Additional factors could have a negative effect on the financial performance of CNB Financial Corporation and CNB Financial Corporation common stock. Some of these factors are general economic and financial market conditions, competition, continuing consolidation in the financial services industry, litigation, regulatory actions, and losses.

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 22 full-service and 2 loan production offices. Of these 24 offices, 18 are owned and 6 are leased from independent owners. Holiday Financial Services Corporation has four full-service offices of which three are leased from independent owners and one is leased from the Bank. There are no incumbrances on the offices owned, and the rental expense on the leased property is immaterial in relation to operating expenses. The lease terms range from five to ten 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. In the opinion of management, pending legal proceedings will not have a material adverse effect on the consolidated financial position of the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Table of Contents**PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Information relating to the Corporation's common stock is on page 31 of the Annual Report to Shareholders for the year ended December 31, 2006 and is incorporated herein by reference. There were 2582 registered shareholders of record as of March 8, 2007. The following table contains information about our purchases of our common stock during the fourth quarter of 2006.

ISSUER PURCHASES OF EQUITY SECURITIES

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 of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/06 to 10/31/06	18,215	\$ 13.89	17,208	170,261
11/1/06 to 11/30/06	28,247	13.90	28,200	142,061
12/1/06 to 12/31/06	50,548	13.98	50,542	591,519
Total	97,010	\$ 13.94	95,950	

On December 13, 2006 the Corporation announced a plan to purchase up to an additional 500,000 shares of its common stock which caused the significant increase in shares that may yet be purchased as of December 2006 in the table above.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this item is presented on pages 33 and 34 of the Annual Report to Shareholders for 2006 and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item is presented on pages 35 to 44 of the Annual Report to Shareholders for 2006 and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is presented on pages 42 and 43 of the Annual Report to Shareholders for 2006 and is incorporated herein by reference.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements and reports, which appear in the Annual Report to Shareholders for 2006, are incorporated herein by reference:

	Pages in Annual Report
Consolidated Statements of Financial Condition	5
Consolidated Statements of Income	6
Consolidated Statements of Cash Flows	7
Consolidated Statements of Changes in Shareholders' Equity	8
Notes to Consolidated Financial Statements	9-27
Management's Report on Internal Control over Financial Reporting	28
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	29
Report of Independent Registered Public Accounting Firm on Financial Statements	30

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of the Corporation's management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2006 our disclosure controls and procedures were effective to ensure that the financial and nonfinancial information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act of 1934, including this Annual Report on Form 10-K for the year ended December 31, 2006, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Management's responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report on Management's Assessment of Internal Control Over Financial Reporting on page 28 of our Annual Report to Shareholders for 2006, management assessed the Corporation's system of internal control over financial reporting as of December 31, 2006, in relation to criteria for effective internal control over financial reporting as described in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that as of December 31, 2006, its system of internal control over financial reporting met those criteria and is effective. Our auditors attested to the fairness of our assessment that we maintained effective internal control over financial reporting and their report is included on page 29 of our Annual Report to Shareholders for 2006, which page is provided as part of Exhibit 13 hereto.

During the fourth quarter of 2006 there was no change in the Corporation's internal controls over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, our internal controls or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions were taken.

ITEM 9A(T). CONTROLS AND PROCEDURES

Not Applicable

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to our directors appears on pages 3 and 4 of the Proxy Statement for our 2007 Annual Meeting and is incorporated herein by reference. Information relating to executive officers is included in Item I.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item appears on pages 7-13 of the Proxy Statement for our 2007 Annual Meeting and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item appears on pages 11, 12, 23 and 24 of our Annual Report to Shareholders for the year ended December 31, 2006 and pages 2-4 of the Proxy Statement for our 2007 Annual Meeting. This information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item appears on page 14 of the Proxy Statement for our 2007 Annual Meeting and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item appears on page 14 and 15 of the Proxy Statement for our 2007 annual meeting and is incorporated herein by reference.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) The following documents are filed as a part of this report:

1. The following financial statements and reports of the Corporation incorporated by reference in Item 8:
Consolidated Statements of Condition at December 31, 2006 and 2005

Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Notes to Consolidated Financial Statements

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Financial Statements

2. All financial statement schedules are omitted since they are not applicable.

3. The following exhibits:

EXHIBIT NUMBER	DESCRIPTION
3 i	Articles of Incorporation, filed as Appendix B to the 2005 Proxy Statement and incorporated herein by reference.
3 ii	By-Laws, filed as Appendix C in the 2005 Proxy Statement and incorporated herein by reference.

Table of Contents

10(iii)-1	*Employment Contract with William F. Falger, filed as Exhibit 10(iii)-1 in the 2005 Form 10-K incorporated herein by reference.
10(iii)-2	*Employment contract with Joseph B. Bower, Jr., filed as Exhibit 10 (iii)-2 in the 2005 Form 10-K incorporated herein by reference.
10(iii)-3	1999 Stock Incentive Plan filed in the 1999 Proxy Statement as Appendix A and incorporated herein by reference.
13	Portions of Annual Report to Shareholders for 2006, filed herewith.
21	Subsidiaries of the Registrant, filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm, filed herewith.
31.1	Certification of Principal Executive Officer, filed herewith.
31.2	Certification of Principal Financial Officer, filed herewith.
32.1	Section 1350 Certifications (CEO and Chief Financial Officer), provided herewith.

* Management contract or compensatory plan.

Table of Contents

SIGNATURES

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

CNB FINANCIAL CORPORATION
(Registrant)

Date: March 15, 2007

By: /s/ William F. Falger
WILLIAM F. FALGER
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2007.

/s/ William F. Falger
WILLIAM F. FALGER
President
(Principal Executive Officer)
Director

/s/ Robert W. Montler
ROBERT W. MONTLER, Director

/s/ Charles R. Guarino
CHARLES R. GUARINO
Treasurer
(Principal Financial and Accounting Officer)

/s/ William R. Owens
WILLIAM R. OWENS, Chairman

/s/ Joseph B. Bower, Jr.
JOSEPH B. BOWER, JR., Director

/s/ Deborah Dick Pontzer
DEBORAH DICK PONTZER, Director

/s/ Robert E. Brown
ROBERT E. BROWN, Director

/s/ Jeffrey S. Powell
JEFFREY S. POWELL, Director

/s/ James J. Leitzinger
JAMES J. LEITZINGER, Director

/s/ Charles H. Reams
CHARLES H. REAMS, Director

/s/ Michael F. Lezzer
MICHAEL F. LEZZER, Director

/s/ James B. Ryan
JAMES B. RYAN, Director

/s/ Dennis L. Merrey
DENNIS L. MERREY, Director

/s/ Peter F. Smith
PETER F. SMITH, Director