CNB FINANCIAL CORP/PA
Form 10-K
March 10, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

F O R M 1 0 K

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016 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 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 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). 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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the common stock held by nonaffiliates of the registrant as of June 30, 2016:

$239,539,993

The number of shares outstanding of the registrant s common stock as of March 6, 2017:

15,297,360 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held on April 18, 2017 are incorporated by reference into Part III.

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PART I.

ITEM 1. BUSINESS

CNB Financial Corporation (the Corporation) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the BHC Act). 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 October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, The Farmers Citizens Bank. In July 2016, the Corporation acquired Lake National Bank.

In addition to the Bank, the Corporation has three other subsidiaries. CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. 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. In October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, Farmers Citizens Bank. Farmers Citizens Bank served the central Ohio markets of Bucyrus, Cardington, Fredericktown, Mount Hope and Shiloh, as well as the markets of Worthington and Upper Arlington in the greater Columbus, Ohio area, with 8 branch locations. The Corporation is continuing to operate these 8 branch locations as FCBank, a division of CNB Bank, with local decision making and oversight. An additional FCBank full service branch location was opened in 2014 in Dublin, Ohio, and a loan production office was opened in Lancaster, Ohio in 2016. In January 2017, the Corporation announced the sale of the Mount Hope branch of FCBank to First Federal Community Bank of Dover, Ohio, with closing of the transaction expected to occur in the second quarter of 2017.

In July 2016, the Corporation acquired Lake National Bank, which operated two full service branches in Mentor, Ohio, approximately 20 miles east of Cleveland, Ohio. The Corporation is continuing to operate these 2 branch locations within its ERIEBANK franchise. In February 2017, the Corporation completed construction of a full service branch location in Ashtabula, Ohio, which is also operating within the ERIEBANK franchise.

In 2016, the Corporation received regulatory approval to conduct business in the state of New York as Bank on Buffalo, a division of CNB Bank. The Corporation opened a loan production office in Buffalo, New York in May 2016, which was closed in February 2017 with the concurrent opening of a full service location in downtown Buffalo in February 2017. Full service locations in Williamsville, New York and Orchard Park, New York will open in the second quarter of 2017.

In February 2017, the Corporation completed construction of a full service branch location in Duncansville, Pennsylvania and concurrently closed its loan production office in Hollidaysburg, Pennsylvania. The full service branch is being operated as part of the CNB Bank franchise.

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The Bank has 42 full service branch offices and one loan production offices located in various communities in its market area. CNB Bank s primary market area includes the Pennsylvania counties of Blair, Cambria, Cameron, Centre, Clearfield, Crawford, Elk, Indiana, Jefferson, and McKean. As ERIEBANK, a division of CNB Bank, the Bank operates in the Pennsylvania counties of Crawford, Erie, and Warren and the Ohio counties of Ashtabula and Lake. As FCBank, a division of CNB Bank, the Bank operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Holmes, Delaware, and Franklin. As Bank on Buffalo, a division of CNB Bank, the Bank operates in Erie County, New York.

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 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 that has elected financial holding company status, and the Bank is a Pennsylvania state-chartered bank that is not a member of the Federal Reserve System. Accordingly, the Corporation is subject to the oversight of the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the Pennsylvania Department of Banking, and the Bank is subject to the oversight of the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation (FDIC), as its primary federal regulator. 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 financial protection laws and regulations also affect the operation of

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the Bank and, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Consumer Financial Protection Bureau (CFPB) 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 significantly affected 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 that controls a Pennsylvania state-chartered bank, 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 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.

In May 2013, the Securities and Exchange Commission and the Commodity Futures Trading Commission (together, the Commissions) jointly issued final rules and guidelines to require certain

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regulated entities to establish programs to address risks of identity theft. The rules and guidelines implement provisions of the Dodd-Frank Act. These provisions amend Section 615(e) of the Fair Credit Reporting Act and directed the Commissions to adopt rules requiring entities that are subject to the Commissions jurisdiction to address identity theft in two ways. First, the rules require financial institutions and creditors to develop and implement a written identity theft prevention program that is designed to detect, prevent, and mitigate identity theft in connection with certain existing accounts or the opening of new accounts. The rules include guidelines to assist entities in the formulation and maintenance of programs that would satisfy the requirements of the rules. Second, the rules establish special requirements for any credit and debit card issuers that are subject to the Commissions jurisdiction, to assess the validity of notifications of changes of address under certain circumstances.

On July 2, 2013, the Federal Reserve Board issued final rules, and on July 9, 2013, the FDIC issued interim final rules that revise existing regulatory capital requirements to incorporate certain revisions to the Basel capital framework, including Basel III, and to implement certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets.

The final rules, among other things:

- revise minimum capital requirements and adjust prompt corrective action thresholds;
- revise the components of regulatory capital, add a new minimum common equity Tier 1 capital ratio of 4.5% of risk-weighted assets, increase the minimum Tier 1 capital ratio requirement from 4% to 6%;
- retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;
- permit most banking organizations, including the Corporation, to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;
- implement a new capital conservation buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% common equity Tier 1 capital ratio and be phased in over a three year period beginning January 1, 2016 which buffer is generally required to make capital distributions and pay executive bonuses;
- require a minimum leverage ratio of 4%;
- require a total capital ratio of 8%;
- increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;
- require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of common equity Tier 1 capital in each category and 15% of common equity Tier 1 capital in the aggregate; and
- remove references to credit ratings consistent with the Dodd-Frank Act and establish due diligence requirements for securitization exposures.

Under the interim and final rules, compliance was required beginning January 1, 2015, for most banking organizations including the Corporation, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. The Corporation adopted Basel III on January 1, 2015, and continues to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis.

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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, as its primary federal regulator. 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.

Legislation

The Dodd-Frank Act, enacted into law on July 21, 2010, includes numerous provisions designed to strengthen the financial industry, enhance consumer financial 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 the CFPB, which is authorized to write rules on a number of consumer financial products, and the Financial Stability Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations.

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 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 is applying 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 requirements. 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 PCA statute and regulations provide for progressively more stringent supervisory measures as an insured 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 banking 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, 2016, 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 it supervises 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 recent CRA exam.

Restrictions on Transactions with Affiliates and Insiders

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

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.

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Deposit Insurance and Premiums

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. The standard maximum deposit insurance amount is $250,000 per depositor per insured depository institution.

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, sex 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 Funds 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

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under the Securities Exchange Act of 1934, as amended, including publicly-held financial holding companies such as the Corporation. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

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 any such proposals will be enacted into law or, even if enacted, what effect such action may have on our business and earnings.

Employees

As of December 31, 2016, the Corporation had a total of 507 employees of which 448 were full time and 59 were part time.

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Executive Officers

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

Name	Age	Principal Occupation
Joseph B. Bower, Jr.	53	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.
Richard L. Greslick, Jr.	40	Senior 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.
Mark D. Breakey	58	Senior Executive Vice President and Chief Credit Officer, CNB Bank since 2003.
Joseph E. Dell, Jr.	60	Senior Executive Vice President and Chief Commercial Banking Officer, CNB Bank since December 31, 2013; previously, Senior Vice President and Senior Commercial Lending Officer since February 2013; previously, Chief Lending Officer and Commercial Line of Business Manager for First Security Group, Inc. and FSG Bank, N.A. from 2011 to February 2013; and previously served in various executive level positions with First Commonwealth Bank, including Chief Lending Officer and Commercial Line of Business Leader since 2008.
Brian W. Wingard	42	Treasurer, Principal Financial Officer and Principal Accounting Officer, CNB Financial Corporation, since March 2012; Executive 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.

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Available Information

The Corporation makes available free of charge on its website (www.cnbbank.bank) 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.

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Average Balances and Net Interest Margin

(Dollars in thousands)

	December 31, 2016			December 31, 2015			December 31, 2014		
	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.
Assets									
Securities:									
Taxable (1)	$ 380,534	2.44%	$ 9,134	$ 485,792	2.29%	$ 10,977	$ 565,859	2.34%	$ 13,257
Tax-Exempt (1, 2)	124,360	4.24%	5,103	133,789	4.32%	5,680	131,551	4.38%	5,590
Equity Securities (1, 2)	19,277	4.09%	788	14,108	5.84%	824	10,925	4.96%	542
Total Securities	524,171	2.93%	15,025	633,689	2.80%	17,481	708,335	2.75%	19,389
Loans									
Commercial (2)	522,345	4.63%	24,201	449,970	4.78%	21,507	420,737	5.39%	22,679
Mortgage (2)	1,110,287	4.54%	50,437	937,978	4.62%	43,341	827,520	4.87%	40,274
Consumer	84,592	9.14%	7,730	72,215	10.68%	7,714	68,488	10.52%	7,207
Total Loans (3)	1,717,224	4.80%	82,368	1,460,163	4.97%	72,562	1,316,745	5.33%	70,160
Total earning assets	2,241,395	4.37%	$ 97,393	2,093,852	4.32%	$ 90,043	2,025,080	4.43%	$ 89,549
Non-Interest Earning Assets									
Cash & Due From Banks	29,869			26,787			28,701		
Premises & Equipment	43,758			37,683			33,177		
Other Assets	121,554			91,046			91,452		
Allowance for Loan Losses	(16,336)			(17,487)			(17,334)		
Total Non-Interest Earning Assets	178,845			138,029			135,996		
Total Assets	$ 2,420,240			$ 2,231,881			$ 2,161,076		
Liabilities and Shareholders Equity									
Interest Bearing Deposits									
Demand interest bearing	$ 513,445	0.35%	$ 1,801	$ 451,784	0.35%	$ 1,602	$ 451,873	0.36%	$ 1,616
Savings	954,010	0.46%	4,429	942,916	0.50%	4,734	958,574	0.48%	4,587
Time	214,684	1.04%	2,240	196,661	1.10%	2,162	203,885	1.03%	2,097
Total interest bearing deposits	1,682,139	0.50%	8,470	1,591,361	0.53%	8,498	1,614,332	0.51%	8,300
Short-term borrowings	99,075	0.57%	565	62,136	0.26%	161	20,316	0.20%	41
Long-term borrowings	81,937	2.95%	2,416	77,874	3.93%	3,061	75,668	4.23%	3,200
Subordinated Debentures	33,120	4.76%	1,577	20,620	3.64%	751	20,620	3.62%	746
Total interest bearing liabilities	1,896,271	0.69%	$ 13,028	1,751,991	0.71%	$ 12,471	1,730,936	0.71%	$ 12,287
Demand non-interest bearing	267,876			257,842			229,144		
Other liabilities	44,035			24,361			20,220		
Total Liabilities	2,208,182			2,034,194			1,980,300		
Shareholders Equity	212,058			197,687			180,776		
Total Liabilities and Shareholders Equity	$ 2,420,240			$ 2,231,881			$ 2,161,076		

Interest Income/Earning Assets	4.37%	$ 97,393	4.32%	$ 90,043	4.43%	$ 89,549
Interest Expense/Interest Bearing Liabilities	0.69%	13,028	0.71%	12,471	0.71%	12,287
Net Interest Spread	3.68%	$ 84,365	3.61%	$ 77,572	3.72%	$ 77,262
Interest Income/Earning Assets	4.37%	$ 97,393	4.32%	$ 90,043	4.43%	$ 89,549
Interest Expense/Earning Assets	0.59%	13,028	0.59%	12,471	0.61%	12,287
Net Interest Margin	3.78%	$ 84,365	3.73%	$ 77,572	3.82%	$ 77,262

1. Includes unamortized discounts and premiums. Average balance is computed using the amortized cost 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 $3,078, $2,865, and $2,667 for the years ended December 31, 2016, 2015, and 2014, 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 nonaccrual loans. Loans consist of the average of total loans less average unearned income. Included in loan interest income is loan fees of $3,170, $2,447, and $2,338 for the years ended December 31, 2016, 2015, and 2014, respectively.

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Net Interest Income Rate-Volume Variance (Dollars in thousands)	For Twelve Months Ended December 31, 2016 over (under) 2015			For Twelve Months Ended December 31, 2015 over (under) 2014		
	Due to Change In (1)			Due to Change In (1)		
	Volume	Rate	Net	Volume	Rate	Net
Assets						
Securities:						
Taxable	$ (2,404)	$ 561	$ (1,843)	$ (2,061)	$ (219)	$ (2,280)
Tax-Exempt (2)	(472)	(105)	(577)	165	(75)	90
Equity Securities (2)	302	(338)	(36)	158	124	282
Total Securities	(2,574)	118	(2,456)	(1,738)	(170)	(1,908)
Loans						
Commercial (2)	3,459	(765)	2,694	1,574	(2,746)	(1,172)
Mortgage (2)	7,962	(866)	7,096	5,406	(2,339)	3,067
Consumer	1,322	(1,306)	16	390	117	507
Total Loans	12,743	(2,937)	9,806	7,370	(4,968)	2,402
Total Earning Assets	$ 10,169	$ (2,819)	$ 7,350	$ 5,632	$ (5,138)	$ 494
Liabilities and Shareholders Equity						
Interest Bearing Deposits						
Demand Interest Bearing	$ 219	$ (20)	$ 199	$ 10	$ (24)	$ (14)
Savings	56	(361)	(305)	(61)	208	147
Time	198	(120)	78	(71)	136	65
Total Interest Bearing Deposits	473	(501)	(28)	(122)	320	198
Short-Term Borrowings	96	308	404	83	37	120
Long-Term Borrowings	160	(805)	(645)	94	(233)	(139)
Subordinated Debentures	455	371	826	0	4	4
Total Interest Bearing Liabilities	$ 1,184	$ (627)	$ 557	$ 55	$ 126	$ 184
Change in Net Interest Income	$ 8,985	$ (2,192)	$ 6,793	$ 5,577	$ (5,264)	$ 310

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

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Securities

(Dollars In Thousands)	December 31, 2016 Amortized Cost	December 31, 2016 Unrealized Gains	December 31, 2016 Unrealized Losses	December 31, 2016 Market Value	December 31, 2015 Amortized Cost	December 31, 2015 Unrealized Gains	December 31, 2015 Unrealized Losses	December 31, 2015 Market Value	December 31, 2014 Amortized Cost	December 31, 2014 Unrealized Gains	December 31, 2014 Unrealized Losses	December 31, 2014 Market Value
Securities Available for Sale												
U.S. Government Sponsored Entities	$139,823	$1,107	$(579)	$140,351	$141,300	$1,579	$(1,128)	$141,751	$155,482	$2,301	$(2,219)	$155,564
State and Political Subdivisions	153,492	4,194	(649)	157,037	165,828	6,234	(243)	171,819	174,600	6,804	(402)	181,002
Residential and multi-family mortgage	136,807	551	(2,382)	134,976	160,316	1,060	(3,394)	157,982	265,678	2,291	(2,805)	265,164
Corporate notes and bonds	18,299	77	(962)	17,414	19,794	165	(1,271)	18,688	20,791	139	(1,500)	19,430
Pooled trust preferred	800	1,249	0	2,049	800	2,613	0	3,413	800	105	0	905
Pooled SBA	43,450	505	(918)	43,037	51,556	760	(907)	51,409	63,139	1,074	(1,560)	62,653
Other securities	1,020	0	(49)	971	1,020	0	(39)	981	1,020	0	(18)	1,002
	$493,691	$7,683	$(5,539)	$495,835	$540,614	$12,411	$(6,982)	$546,043	$681,510	$12,714	$(8,504)	$685,720

Maturity Distribution of Investment Securities

(Dollars In Thousands)

December 31, 2016

	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 (1)	$ Amt.	Yield (1)	$ Amt.	Yield (1)	$ Amt.	Yield (1)	$ Amt.	Yield (1)
Securities Available for Sale (2)										
U.S. Government Sponsored Entities	$33,152	1.52%	$78,344	1.85%	$28,855	2.03%				
State and Political Subdivisions	22,900	3.33%	85,585	4.32%	39,303	4.60%	$9,249	5.00%		
Corporate notes and bonds	3,539	2.05%	8,839	3.11%	99	6.00%	4,937	2.02%		
Pooled trust preferred							2,049	10.91%		
Pooled SBA									$43,037	2.60%
Residential and multi-family mortgage									134,976	2.08%
TOTAL	$59,591	2.25%	$172,768	3.14%	$68,257	3.52%	$16,235	4.84%	$178,013	2.21%

(1) 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%.

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

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LOAN PORTFOLIO

(Dollars in thousands)

A. TYPE OF LOAN

	2016	2015	2014	2013	2012
Commercial, industrial and agricultural	$ 567,800	$ 475,364	$ 428,458	$ 427,715	$ 257,091
Commercial mortgages	574,826	448,179	352,752	343,465	261,791
Residential real estate	652,883	574,225	502,317	459,114	347,904
Consumer	74,816	78,345	69,648	63,491	58,668
Credit cards	6,046	5,201	5,233	5,065	4,800
Overdrafts	595	1,040	1,188	409	971
Gross loans	1,876,966	1,582,354	1,359,596	1,299,259	931,225
Less: unearned income	3,430	4,556	4,307	3,896	3,401
Total loans net of unearned	$ 1,873,536	$ 1,577,798	$ 1,355,289	$ 1,295,363	$ 927,824

B. LOAN MATURITIES AND INTEREST SENSITIVITY

	December 31, 2016			
	One Year or Less	One Through Five Years	Over Five Years	Total Gross Loans
Commercial, industrial and agricultural				
Loans With Fixed Interest Rate	$ 4,622	$ 63,155	$ 59,246	$ 127,023
Loans With Floating Interest Rate	19,793	79,090	341,894	440,777
	$ 24,415	$ 142,245	$ 401,140	$ 567,800

C. RISK ELEMENTS

	2016	2015	2014	2013	2012
Loans on nonaccrual basis	$ 15,329	$ 12,159	$ 9,190	$ 11,573	$ 14,445
Accruing loans which are contractually past due 90 days or more as to interest or principal payment	10	105	213	344	357
Performing troubled debt restructurings	8,710	9,304	14,771	8,006	9,961
	$ 24,049	$ 21,568	$ 24,174	$ 19,923	$ 24,763

Interest income recorded on the nonaccrual loans for the year ended December 31, 2016 was $86. Additional interest income which would have been recorded on nonaccrual loans had they been on accrual status was $470 for the year ended December 31, 2016.

Loans are placed in nonaccrual 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, 2016, there were $15,925 in special mention loans, $43,374 in substandard loans, and $0 in doubtful loans which are considered problem loans. These loans are not included in the table above. In the opinion of management, these loans are adequately secured and losses are believed to be minimal.

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SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in Thousands)

Analysis of the Allowance for Loan Losses Years Ended December 31,	2016	2015	2014	2013	2012
Balance at beginning of Period	$ 16,737	$ 17,373	$ 16,234	$ 14,060	$ 12,615
Charge-Offs:					
Commercial, industrial and agricultural	601	307	618	958	2,871
Commercial mortgages	201	486	50	1,931	401
Residential real estate	499	632	436	467	304
Consumer	3,324	1,956	1,744	1,919	1,279
Credit cards	96	116	78	97	78
Overdrafts	240	221	256	258	257
	4,961	3,718	3,182	5,630	5,190
Recoveries:					
Commercial, industrial and agricultural	89	267	1	7	45
Commercial mortgages	8	52	210	1,430	0
Residential real estate	93	8	41	5	1
Consumer	122	96	93	114	91
Credit cards	22	14	25	16	18
Overdrafts	71	85	111	94	99
	405	522	481	1,666	254
Net charge-offs	(4,556)	(3,196)	(2,701)	(3,964)	(4,936)
Provision for loan losses	4,149	2,560	3,840	6,138	6,381
Balance at end of period	$ 16,330	$ 16,737	$ 17,373	$ 16,234	$ 14,060
Percentage of net charge-offs during the period to average loans outstanding	0.27%	0.22%	0.21%	0.38%	0.55%

The provision for loan losses reflects the amount deemed appropriate by management to establish an adequate reserve for probable incurred losses. 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)

	2016		2015		2014		2013		2012	
	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category
Commercial, industrial, and agricultural	$ 5,428	30.25%	$ 6,035	30.04%	$ 7,114	31.51%	$ 8,212	32.92%	$ 4,940	27.61%
Commercial mortgages	6,753	30.63%	5,605	28.32%	5,310	25.95%	3,536	26.44%	4,697	28.11%

Residential real estate	1,653	34.78%	2,475	36.29%	2,479	36.95%	2,450	35.34%	2,466	37.36%
Consumer	2,215	3.99%	2,371	4.95%	2,205	5.12%	1,763	4.89%	1,699	6.30%
Credit Cards	93	0.32%	90	0.33%	71	0.38%	66	0.38%	83	0.51%
Overdrafts	188	0.03%	161	0.07%	194	0.09%	207	0.03%	175	0.10%
Total	$ 16,330	100.00%	$ 16,737	100.00%	$ 17,373	100.00%	$ 16,234	100.00%	$ 14,060	100.00%