

CNB FINANCIAL CORP/PA  
Form 10-Q  
August 05, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10 - Q**

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from            to

Commission File Number 000-13396

**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 offices)

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares outstanding of the issuer's common stock as of August 5, 2011

COMMON STOCK NO PAR VALUE PER SHARE: 12,313,319 SHARES

**Table of Contents**

**INDEX**

**PART I.**

**FINANCIAL INFORMATION**

	<u>Page Number</u>
ITEM 1 Financial Statements (unaudited)	
<u>Consolidated Balance Sheets June 30, 2011 and December 31, 2010</u>	4
<u>Consolidated Statements of Income Three months ended June 30, 2011 and 2010</u>	5
<u>Consolidated Statements of Income Six months ended June 30, 2011 and 2010</u>	6
<u>Consolidated Statements of Comprehensive Income Three and six month periods Ended June 30, 2011 and 2010</u>	7
<u>Consolidated Statements of Cash Flows Six months ended June 30, 2011 and 2010</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>ITEM 3 Quantitative and Qualitative Disclosures about Market Risk</u>	39
<u>ITEM 4 Controls and Procedures</u>	41

**PART II.  
OTHER INFORMATION**

<u>ITEM 1 Legal Proceedings</u>	41
<u>ITEM 1A Risk Factors</u>	41
<u>ITEM 6 Exhibits</u>	41
<u>Signatures</u>	42

**Table of Contents**

**Forward-Looking Statements**

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our financial condition, liquidity, results of operations, future performance and business. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that are not historical facts. Forward-looking statements include statements with respect to beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (some of which are beyond our control). Forward-looking statements often include words such as believes, expects, anticipates, estimates, intends, plans or similar expressions or future conditional verbs such as may, will, should, would and could. Such known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements include, but are not limited to: changes in general business, industry or economic conditions or competition; changes in any applicable law, rule, regulation, policy, guideline or practice governing or affecting financial holding companies and their subsidiaries or with respect to tax or accounting principles or otherwise; adverse changes or conditions in capital and financial markets; changes in interest rates; higher than expected costs or other difficulties related to integration of combined or merged businesses; the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions; changes in the quality or composition of our loan and investment portfolios; adequacy of loan loss reserves; increased competition; loss of certain key officers; continued relationships with major customers; deposit attrition; rapidly changing technology; unanticipated regulatory or judicial proceedings and liabilities and other costs; changes in the cost of funds, demand for loan products or demand for financial services; and other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices. Some of these and other factors are discussed in our annual and quarterly reports filed with the Securities and Exchange Commission. Such factors could cause actual results to differ materially from those in the forward-looking statements.

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

**Table of Contents**

## Part I Financial Information

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	(unaudited)	
	June 30, 2011	December 31, 2010
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 30,238	\$ 24,584
Interest bearing deposits with other banks	13,379	12,848
Total cash and cash equivalents	43,617	37,432
Interest bearing time deposits with other banks	1,622	2,817
Securities available for sale	548,164	500,677
Trading securities	2,441	2,351
Loans held for sale	2,706	4,451
Loans	824,455	797,009
Less: unearned discount	(2,668)	(2,447)
Less: allowance for loan losses	(11,715)	(10,820)
Net loans	810,072	783,742
FHLB and other equity interests	6,581	6,415
Premises and equipment, net	24,661	24,135
Bank owned life insurance	25,203	19,742
Mortgage servicing rights	912	908
Goodwill	10,821	10,821
Accrued interest receivable and other assets	14,394	20,020
<b>TOTAL</b>	<b>\$ 1,491,194</b>	<b>\$ 1,413,511</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Non-interest bearing deposits	\$ 148,022	\$ 140,836
Interest bearing deposits	1,101,050	1,022,032
Total deposits	1,249,072	1,162,868
Treasury, tax and loan borrowings	1,080	1,248
FHLB and other borrowings	82,008	105,259
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	16,184	13,871
Total liabilities	1,368,964	1,303,866
Common stock, \$0 par value; authorized 50,000,000 shares; issued 12,599,603 shares	0	0
Additional paid in capital	44,437	44,676
Retained earnings	76,175	73,059
Treasury stock, at cost (293,964 shares at June 30, 2011 and 362,342 shares at December 31, 2010)	(4,364)	(5,417)
Accumulated other comprehensive income (loss)	5,982	(2,673)

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

Total shareholders' equity	122,230	109,645
<b>TOTAL</b>	<b>\$ 1,491,194</b>	<b>\$ 1,413,511</b>

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Three months ended June 30,	
	2011	2010
<b>INTEREST AND DIVIDEND INCOME:</b>		
Loans including fees	\$ 11,962	\$ 11,815
Deposits with banks	40	31
Securities:		
Taxable	3,693	2,929
Tax-exempt	714	547
Dividends	8	6
 Total interest and dividend income	 16,417	 15,328
<b>INTEREST EXPENSE:</b>		
Deposits	3,501	3,368
Borrowed funds	808	1,079
Subordinated debentures	196	196
 Total interest expense	 4,505	 4,643
 NET INTEREST INCOME	 11,912	 10,685
PROVISION FOR LOAN LOSSES	992	1,161
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	 10,920	 9,524
<b>NON-INTEREST INCOME:</b>		
Wealth and asset management fees	395	429
Service charges on deposit accounts	1,069	1,052
Other service charges and fees	416	373
Net realized and unrealized losses on securities for which fair value was elected	(16)	(210)
Mortgage banking	155	48
Bank owned life insurance	212	200
Other	385	293
	2,616	2,185
 Total other-than-temporary impairment losses on available-for-sale securities	 0	 (318)
Less portion of loss recognized in other comprehensive income	0	0
Net impairment losses recognized in earnings	0	(318)
Net realized gains on available-for-sale securities	0	141
 Net impairment losses recognized in earnings and realized gains on available-for-sale securities	 0	 (177)
 Total non-interest income	 2,616	 2,008
<b>NON-INTEREST EXPENSES:</b>		
Salaries and benefits	4,197	3,714
Net occupancy expense of premises	1,103	1,016
FDIC insurance premiums	280	386

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

Amortization of intangibles	0	25
Other	2,561	2,190
Total non-interest expenses	8,141	7,331
<b>INCOME BEFORE INCOME TAXES</b>	<b>5,395</b>	<b>4,201</b>
INCOME TAX EXPENSE	1,504	1,077
<b>NET INCOME</b>	<b>\$ 3,891</b>	<b>\$ 3,124</b>
<b>EARNINGS PER SHARE:</b>		
Basic	\$ 0.32	\$ 0.34
Diluted	\$ 0.32	\$ 0.34
<b>DIVIDENDS PER SHARE:</b>		
Cash dividends per share	\$ 0.165	\$ 0.165

See Notes to Consolidated Financial Statements



**Table of Contents**

## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Six months ended	
	June 30,	
	2011	2010
<b>INTEREST AND DIVIDEND INCOME:</b>		
Loans including fees	\$ 23,667	\$ 23,127
Deposits with banks	82	63
Securities:		
Taxable	6,951	5,269
Tax-exempt	1,396	1,023
Dividends	15	14
 Total interest and dividend income	 32,111	 29,496
<b>INTEREST EXPENSE:</b>		
Deposits	6,936	6,808
Borrowed funds	1,577	2,177
Subordinated debentures	387	385
 Total interest expense	 8,900	 9,370
 NET INTEREST INCOME	 23,211	 20,126
PROVISION FOR LOAN LOSSES	1,769	1,746
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	 21,442	 18,380
<b>NON-INTEREST INCOME:</b>		
Wealth and asset management fees	810	824
Service charges on deposit accounts	2,032	1,997
Other service charges and fees	768	674
Net realized and unrealized gains (losses) on securities for which fair value was elected	97	(90)
Mortgage banking	334	249
Bank owned life insurance	461	402
Other	625	553
	5,127	4,609
 Total other-than-temporary impairment losses on available-for-sale securities	 (398)	 (1,102)
Less portion of loss recognized in other comprehensive income	0	0
 Net impairment losses recognized in earnings	 (398)	 (1,102)
Net realized gains on available-for-sale securities	74	573
 Net impairment losses recognized in earnings and realized gains on available-for-sale securities	 (324)	 (529)
 Total non-interest income	 4,803	 4,080
<b>NON-INTEREST EXPENSES:</b>		
Salaries and benefits	8,440	7,691

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

Net occupancy expense of premises	2,302	2,151
FDIC insurance premiums	729	775
Amortization of intangibles	0	50
Other	4,961	4,791
Total non-interest expenses	16,432	15,458
<b>INCOME BEFORE INCOME TAXES</b>	<b>9,813</b>	<b>7,002</b>
INCOME TAX EXPENSE	2,645	1,718
<b>NET INCOME</b>	<b>\$ 7,168</b>	<b>\$ 5,284</b>
<b>EARNINGS PER SHARE:</b>		
Basic	\$ 0.58	\$ 0.59
Diluted	\$ 0.58	\$ 0.58
<b>DIVIDENDS PER SHARE:</b>		
Cash dividends per share	\$ 0.33	\$ 0.33

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<b>NET INCOME</b>	<b>\$ 3,891</b>	<b>\$ 3,124</b>	<b>\$ 7,168</b>	<b>\$ 5,284</b>
Other comprehensive income, net of tax:				
Change in fair value of interest rate swap agreements designated as cash flow hedges, net of tax of \$78 and \$50 for the three months ended June 30, 2011 and 2010, and \$42 and \$82 for the six months ended June 30, 2011 and 2010	(145)	(93)	(78)	(152)
Net change in unrealized gains (losses) on securities available for sale:				
Unrealized gains (losses) on other-than-temporarily impaired securities available for sale:				
Unrealized losses arising during the period, net of tax of \$129 for the three months ended June 30, 2010, and (\$32) and \$135 for the six months ended June 30, 2011 and 2010	0	(240)	60	(251)
Reclassification adjustment for losses included in net income, net of tax of (\$111) for the three months ended June 30, 2010, and (\$139) and (\$386) for the six months ended June 30, 2011 and 2010	0	207	259	716
	0	(33)	319	465
Unrealized gains (losses) on other securities available for sale:				
Unrealized gains arising during the period, net of tax of (\$3,881) and (\$2,151) for the three months ended June 30, 2011 and 2010, and (\$4,556) and (\$2,777) for the six months ended June 30, 2011 and 2010	7,208	3,994	8,462	5,158
Reclassification adjustment for accumulated gains included in net income, net of tax of \$50 for the three months ended June 30, 2010, and \$26 and \$200 for the six months ended June 30, 2011 and 2010	0	(92)	(48)	(372)
	7,208	3,902	8,414	4,786
Other comprehensive income	7,063	3,776	8,655	5,099
<b>COMPREHENSIVE INCOME</b>	<b>\$ 10,954</b>	<b>\$ 6,900</b>	<b>\$ 15,823</b>	<b>\$ 10,383</b>

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Six months ended	
	June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,168	\$ 5,284
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	1,769	1,746
Depreciation and amortization	1,016	1,017
Amortization, accretion and deferred loan fees and costs	1,337	1,054
Net impairment losses realized in earnings and gains on sales of available-for-sale securities	324	529
Net realized and unrealized gains on securities for which fair value was elected	(97)	90
Proceeds from sale of securities for which fair value was elected	170	0
Purchase of securities for which fair value was elected	(197)	0
Gain on sale of loans	(280)	(183)
Net gains on dispositions of premises and equipment and foreclosed assets	(79)	(88)
Proceeds from sale of loans	10,953	3,695
Origination of loans held for sale	(9,053)	(5,750)
Increase in bank owned life insurance	(461)	(402)
Stock-based compensation expense	102	122
Contribution of treasury stock	60	0
Changes in:		
Accrued interest receivable and other assets	931	(1,172)
Accrued interest payable and other liabilities	2,193	2
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>15,856</b>	<b>5,944</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net decrease in interest bearing time deposits with other banks	1,195	2,721
Proceeds from maturities, prepayments and calls of securities	49,626	52,476
Proceeds from sales of securities	23,610	38,065
Purchase of securities	(108,992)	(201,759)
Loan origination and payments, net	(28,091)	(24,210)
Purchase of bank owned life insurance	(5,000)	(2,500)
Redemption (purchase) of FHLB and other equity interests	(166)	124
Purchase of premises and equipment	(1,434)	(1,307)
Proceeds from the sale of premises and equipment and foreclosed assets	196	263
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(69,056)</b>	<b>(136,127)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in:		
Checking, money market and savings accounts	142,321	119,787
Certificates of deposit	(56,117)	18,316
Proceeds from sale of treasury stock	652	608
Proceeds from exercise of stock options	0	42
Proceeds from stock offering, net of issuance costs	0	32,414
Cash dividends paid	(4,052)	(2,902)
Proceeds from long-term borrowings	350	0
Repayment of long-term borrowings	(61)	(16,057)
Net change in short-term borrowings	(23,708)	(97)

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

NET CASH PROVIDED BY FINANCING ACTIVITIES	59,385	152,111
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,185	21,928
CASH AND CASH EQUIVALENTS, Beginning	37,432	22,358
CASH AND CASH EQUIVALENTS, Ending	\$ 43,617	\$ 44,286
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 9,006	\$ 9,537
Income taxes	1,493	1,986
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers to other real estate owned	69	333
Loans transferred from held for sale to held for investment	0	3,321
Grant of restricted stock awards from treasury stock	266	233

See Notes to Consolidated Financial Statements

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

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

In the opinion of management of the registrant, the accompanying consolidated financial statements as of June 30, 2011 and for the three and six month periods ended June 30, 2011 and 2010 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the period. The financial performance reported for CNB Financial Corporation (the Corporation) for the three and six month periods ended June 30, 2011 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Corporation's Form 10-K for the period ended December 31, 2010. All amounts are stated in thousands, except share data.

**STOCK COMPENSATION**

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

At June 30, 2011, there was no unrecognized compensation cost related to nonvested stock options granted under this plan, and no stock options were granted during the three month period then ended.

Compensation expense for the restricted stock awards is recognized over the requisite service period noted above based on the fair value of the shares at the date of grant. Unearned restricted stock awards are recorded as a reduction of shareholders' equity until earned. Compensation expense resulting from these restricted stock awards was \$49 and \$102 for the three and six months ended June 30, 2011, and \$45 and \$122 for the three and six months ended June 30, 2010. As of June 30, 2011, there was \$509 of total unrecognized compensation cost related to unvested restricted stock awards.

A summary of changes in unvested restricted stock awards for the three months ended June 30, 2011 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	41,469	\$ 15.11
Granted		
Vested		
Forfeited	(1,188)	14.85
Nonvested at end of period	40,281	\$ 15.12



**Table of Contents**

A summary of changes in unvested restricted stock awards for the six months ended June 30, 2011 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	31,398	\$ 15.10
Granted	17,900	14.88
Vested	(7,829)	14.55
Forfeited	(1,188)	14.85
Nonvested at end of period	40,281	\$ 15.12

**FAIR VALUE****Fair Value Option**

Management elected to adopt the fair value option for its investment in certain equity securities in order to provide financial statement users with greater visibility into the Corporation's financial instruments that do not have a defined maturity date.

Fair value changes attributable to unrealized gains (losses) that were included in earnings for the three and six months ended June 30, 2011 were (\$16) and \$87, respectively. Fair value changes attributable to unrealized losses that were included in earnings for the three and six months ended June 30, 2010 were (\$139) and (\$57). Realized gains on the sale of securities for which the fair value option was elected were \$0 and \$10 during the three and six months ended June 30, 2011. There were no sales of securities for which the fair value option was elected during the three and six months ended June 30, 2010.

Dividend income is recorded based on cash dividends and comprises the Dividends line item in the accompanying consolidated statement of income. Dividend income was \$8 and \$15 for the three and six months ended June 30, 2011 and \$6 and \$14 for the three and six months ended June 30, 2010.

**Fair Value Measurement**

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

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

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

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

The fair values of most trading securities and securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair values of certain residential mortgage-backed securities, one corporate bond, and one bond issued by a government sponsored entity classified as available for sale have been determined by using Level 3 inputs. The Corporation has engaged a valuation expert to price these securities using a proprietary model, which incorporates assumptions that market participants would use in pricing the securities, including bid/ask spreads and liquidity and credit premiums.





**Table of Contents**

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2011 and December 31, 2010:

Description	Total	Fair Value Measurements at June 30, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Securities Available For Sale:</b>				
U.S. Treasury	\$ 11,201	\$	\$ 11,201	\$
U.S. Government sponsored entities	91,849		91,849	
States and political subdivisions	121,934		121,934	
Residential mortgage and asset backed	270,330		266,342	3,988
Commercial mortgage and asset backed	2,071		2,071	
Corporate notes and bonds	12,312		10,452	1,860
Pooled trust preferred	1,362			1,362
Pooled SBA	35,391	33,448	1,943	
Other securities	1,714	1,714		
<b>Total Securities Available For Sale</b>	<b>\$ 548,164</b>	<b>\$ 35,162</b>	<b>\$ 505,792</b>	<b>\$ 7,210</b>
<b>Trading Securities:</b>				
Equity securities financial services	\$ 541	\$ 541	\$	\$
International mutual funds	346	346		
Equity securities health care	178	178		
U.S. Government sponsored entities	176		176	
Large cap growth mutual funds	166	166		
Certificates of deposit	156	156		
Money market mutual funds	151	151		
Equity securities energy	128	128		
Real estate investment trust mutual funds	127	127		
Large cap value mutual funds	113	113		
Equity securities industrials	111	111		
Corporate notes and bonds	99		99	

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

Equity securities - utilities	64	64		
Small cap mutual funds	43	43		
Mid cap mutual funds	42	42		
<b>Total Trading Securities</b>	<b>\$ 2,441</b>	<b>\$ 2,166</b>	<b>\$ 275</b>	<b>\$</b>
<b>Liabilities,</b>				
Interest rate swaps	\$ (987)	\$	\$ (987)	\$

**Table of Contents**

Description	Total	Fair Value Measurements at December 31, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Securities Available For Sale:</b>				
U.S. Treasury	\$ 8,205	\$	\$ 8,205	\$
U.S. Government sponsored entities	105,941	2,000	101,941	2,000
States and political subdivisions	116,411	4,750	111,661	
Residential mortgage and asset backed	222,419	20,405	199,745	2,269
Corporate notes and bonds	10,751		9,511	1,240
Pooled trust preferred	1,292			1,292
Pooled SBA	33,962	28,489	5,473	
Other securities	1,696	1,696		
<b>Total Securities Available For Sale</b>	<b>\$ 500,677</b>	<b>\$ 57,340</b>	<b>\$ 436,536</b>	<b>\$ 6,801</b>
<b>Trading Securities:</b>				
Equity securities financial services	\$ 523	\$ 523	\$	\$
International mutual funds	430	430		
Large cap value mutual funds	247	247		
Certificates of deposit	208	208		
Equity securities health care	151	151		
U.S. Government sponsored entities	147		147	
Large cap growth mutual funds	139	139		
Equity securities energy	119	119		
Equity securities industrials	98	98		
Corporate notes and bonds	96		96	
Money market mutual funds	75	75		
Equity securities - utilities	61	61		
Small cap mutual funds	29	29		
Mid cap mutual funds	28	28		
<b>Total Trading Securities</b>	<b>\$ 2,351</b>	<b>\$ 2,108</b>	<b>\$ 243</b>	<b>\$</b>
<b>Liabilities,</b>				
Interest rate swap	\$ (867)	\$	\$ (867)	\$

The table below presents a reconciliation and income statement classification of gains and losses for all securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2011:

	Residential mortgage and asset backed	Corporate notes and bonds	Pooled trust preferred
Balance, April 1, 2011	\$ 4,106	\$ 1,895	\$ 1,402
Transfers into Level 3			
Transfers out of Level 3			
Total gains or losses (realized/unrealized):			
Included in earnings			
Included in other comprehensive income		(35)	(40)
Purchases, issuances, sales, and settlements:			
Purchases			
Sales			

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

Settlements

(118)

Balance, June 30, 2011	\$ 3,988	\$ 1,860	\$ 1,362
------------------------	----------	----------	----------

**Table of Contents**

The table below presents a reconciliation and income statement classification of gains and losses for all securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2011:

	Residential mortgage and asset backed	Corporate notes and bonds	U.S. Gov t Sponsored Entities	Pooled trust preferred
Balance, January 1, 2011	\$ 2,269	\$ 1,240	\$ 2,000	\$ 1,292
Transfers into Level 3				
Transfers out of Level 3 (a)(b)			(2,000)	