CNB FINANCIAL CORP/PA
Form 10-Q
November 09, 2007
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 September 30, 2007

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 0-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive 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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant 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 x Non-accelerated filer ¨

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

The number of shares outstanding of the issuer s common stock as of November 6, 2007

COMMON STOCK: $0 PAR VALUE, 8,544,399 SHARES

Table of Contents

INDEX

Sequential

Page Number

PART I.

FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

PAGE 3. Consolidated Balance Sheets September 30, 2007 and December 31, 2006

PAGE 4. Consolidated Statements of Income Quarters ending September 30, 2007 and 2006

PAGE 5. Consolidated Statements of Income Nine months ending September 30, 2007 and 2006

PAGE 6. Consolidated Statements of Comprehensive Income for the three and six month periods ending September 30, 2007 and 2006

PAGE 7. Consolidated Statements of Cash Flows Nine months ending September 30, 2007 and 2006

PAGE 8. Notes to Consolidated Financial Statements

ITEM 2 Management s Discussion and Analysis

PAGE 11. Management s Discussion and Analysis of Financial Condition and Results of Operations

ITEM 3 Quantitative and Qualitative Disclosures

PAGE 20. Quantitative and Qualitative Disclosures about Market Risk

ITEM 4 Controls and Procedures

PAGE 21. Controls and Procedures

PART II.
OTHER INFORMATION

PAGE 21. ITEM 1 Legal Proceedings

PAGE 21. ITEM 1A. Risk Factors

PAGE 21. ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

PAGE 22. ITEM 3 Defaults Upon Senior Securities

PAGE 22. ITEM 4 Submission of Matters for Security Holders Vote

PAGE 22. ITEM 5 Other Information

PAGE 22. ITEM 6 Exhibits

PAGE 23. Signatures

Table of Contents

CONSOLIDATED BALANCE SHEETS

CNB FINANCIAL CORPORATION

(Dollars in thousands)

	(unaudited) September 30, 2007	December 31 2006
ASSETS		
Cash and due from banks	$ 14,585	$ 18,530
Interest bearing deposits with other banks	7,150	7,014
Federal funds sold	6,742	7
TOTAL CASH AND CASH EQUIVALENTS	28,477	25,551
Securities available for sale	162,215	156,696
Loans held for sale	1,923	2,420
Loans and leases	589,030	547,946
Less: unearned discount	2,626	926
Less: allowance for loan losses	6,452	6,086
NET LOANS	579,952	540,934
FHLB, and other equity interests	5,468	5,321
Premises and equipment, net	18,054	16,237
Bank owned life insurance	14,960	14,484
Accrued interest receivable and other assets	9,164	7,555
Mortgage servicing rights	450	446
Goodwill	10,821	10,821
Other intangible assets, net	311	385
TOTAL ASSETS	$ 831,795	$ 780,850
LIABILITIES		
Deposits:		
Non-interest bearing deposits	$ 91,450	$ 82,574
Interest bearing deposits	557,954	548,748
TOTAL DEPOSITS	649,404	631,322
Treasury, tax and loan borrowings	2,000	2,000
FHLB and other borrowings	83,000	57,885
Accrued interest and other liabilities	7,280	7,054
Subordinated debentures	20,620	10,310
TOTAL LIABILITIES	762,304	708,571
SHAREHOLDERS EQUITY		
Common stock $0 par value Authorized 50,000,000 shares Issued 9,233,750 shares		
Additional paid in capital	13,057	13,250
Retained earnings	65,642	62,957
Treasury stock, at cost (662,238 shares for September 2007, and 369,546 shares for Dec 2006)	(9,720)	(5,271)
Accumulated other comprehensive income	512	1,343
TOTAL SHAREHOLDERS EQUITY	69,491	72,279

TOTAL LIABILITIES & SHAREHOLDERS EQUITY	$ 831,795	$ 780,850

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

CNB FINANCIAL CORPORATION

(Dollars in thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2007	**2006**
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 11,583	$ 10,174
Deposits with banks	116	112
Federal funds sold	90	49
Securities:		
Taxable	1,706	1,459
Tax-exempt	345	412
Dividends	105	149
TOTAL INTEREST AND DIVIDEND INCOME	13,945	12,355
INTEREST EXPENSE		
Deposits	4,592	4,473
Borrowed funds	969	717
Subordinated debentures	356	228
TOTAL INTEREST EXPENSE	5,917	5,418
Net interest income	8,028	6,937
Provision for loan losses	335	324
NET INTEREST INCOME AFTER PROVISION	7,693	6,613
OTHER INCOME		
Trust & asset management fees	312	245
Service charges on deposit accounts	1,117	1,114
Other service charges and fees	216	172
Net security gains	52	2
Mortgage banking income	83	92
Bank owned life insurance earnings	137	187
Wealth management	133	115
Other	33	162
TOTAL OTHER INCOME	2,083	2,089
OTHER EXPENSES		
Salaries & benefits	3,462	2,825
Net occupancy expense of premises	779	705
Amortization of intangibles	25	103
Other	2,177	1,882
TOTAL OTHER EXPENSES	6,443	5,515

Income before income taxes		3,333		3,187
Applicable income taxes		923		844
NET INCOME	$	2,410	$	2,343
EARNINGS PER SHARE				
Basic	$	0.28	$	0.26
Diluted	$	0.28	$	0.26
DIVIDENDS PER SHARE				
Cash dividends per share	$	0.16	$	0.14

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

CNB FINANCIAL CORPORATION

(Dollars in thousands, except per share data)

	NINE MONTHS ENDED SEPTEMBER 30, 2007	2006
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 32,870	$ 29,580
Deposits with banks	342	322
Federal funds sold	288	266
Securities:		
Taxable	4,837	4,171
Tax-exempt	1,121	1,288
Dividends	312	393
TOTAL INTEREST AND DIVIDEND INCOME	39,770	36,020
INTEREST EXPENSE		
Deposits	13,909	12,433
Borrowed funds	2,404	2,149
Subordinated debentures	959	641
TOTAL INTEREST EXPENSE	17,272	15,223
Net interest income	22,498	20,797
Provision for loan losses	903	1,079
NET INTEREST INCOME AFTER PROVISION	21,595	19,718
OTHER INCOME		
Trust & asset management fees	851	749
Service charges on deposit accounts	3,087	3,108
Other service charges and fees	617	462
Net security gains	87	343
Mortgage banking income	265	327
Bank owned life insurance earnings	476	525
Wealth management	440	388
Other	465	421
TOTAL OTHER INCOME	6,288	6,323
OTHER EXPENSES		
Salaries & benefits	9,606	8,168
Net occupancy expense of premises	2,391	2,107
Amortization of intangibles	75	311
Other	6,658	5,886
TOTAL OTHER EXPENSES	18,730	16,472

Income before income taxes		9,153		9,569
Applicable income taxes		2,439		2,460
NET INCOME	$	6,714	$	7,109
EARNINGS PER SHARE, BASED ON WEIGHTED AVERAGE SHARES OUTSTANDING				
Net income, basic	$	0.77	$	0.79
Net income, diluted	$	0.77	$	0.79
DIVIDENDS PER SHARE				
Cash dividends per share	$	0.46	$	0.42

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CNB FINANCIAL CORPORATION

Consolidated Statements of Comprehensive Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net Income	$ 2,410	$ 2,343	$ 6,714	$ 7,109
Other comprehensive income, net of tax				
Unrealized gains/(losses) on securities:				
Unrealized gains/(losses) arising during the period, net of tax of $92 and $(422) for the three months ending September 30, 2007 and 2006 and $416 and $23 for the nine months ending September 30, 2007 and 2006.	(171)	784	(774)	(43)
Reclassification adjustment for accumulated (gains) losses included in net income, net of tax of $18 and $1 for the three months ending September 30, 2007 and 2006 and $30 and $120 for the nine months ending September 30, 2007 and 2006.	(34)	(1)	(57)	(223)
Other comprehensive income (loss)	(205)	783	(831)	(266)
Comprehensive income	$ 2,205	$ 3,126	$ 5,883	$ 6,843

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

CNB FINANCIAL CORPORATION

Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	9 Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net Income	$ 6,714	$ 7,109
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	903	1,079
Depreciation and amortization	1,263	1,391
Amortization, accretion and deferred loan fees	(406)	(343)
Deferred taxes	(62)	(106)
Security gains	(87)	(343)
Gain on sale of loans	(188)	(46)
Net (gains) losses on dispositions of acquired property	(59)	
Proceeds from sale of loans	8,546	9,507
Origination of loans held for sale	(8,001)	(10,398)
Increase in bank owned life insurance	(476)	(525)
Stock-based compensation expense	69	46
Changes in:		
Interest receivable and other assets	(1,199)	(281)
Interest payable and other liabilities	741	654
Net cash provided by operating activities	7,758	7,744
Cash flows from investing activities:		
Proceeds from maturities, prepayments and calls of:		
Securities available for sale	33,001	30,766
Proceeds from sales of securities available for sale	3,229	82
Purchase of securities available for sale	(42,955)	(31,574)
Loan origination and payments, net	(40,077)	(27,837)
Redemption (Purchase) of FHLB, FRB & Other Equity Interests	(147)	(203)
Net, purchase of premises and equipment	(2,870)	(1,567)
Proceeds from the sale of premises and equipment and foreclosed assets	220	
Net cash used in investing activities	(49,599)	(30,333)
Cash flows from financing activities:		
Net change in:		
Checking, money market and savings accounts	24,486	(11,297)
Certificates of deposit	(6,404)	17,254
Proceeds from issuance of subordinated debenture	20,620	
Repayments of subordinated debenture	(10,310)	
Treasury stock purchased	(5,616)	(2,016)
Proceeds from sale of treasury stock	817	716
Proceeds from the exercise of stock options	73	
Excess tax benefit from exercise of stock options	15	
Cash dividends paid	(4,029)	(3,768)
Advances from long-term borrowings	40,000	10,000
Repayments of long-term borrowings	(14,885)	(11,250)
Net change in short-term borrowings		2,865

Net cash provided by financing activities	44,767	2,504
Net increase (decrease) in cash and cash equivalents	2,926	(20,085)
Cash and cash equivalents at beginning of year	25,551	43,017
Cash and cash equivalents at end of period	$ 28,477	$ 22,932
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 17,299	$ 15,002
Income Taxes	$ 2,420	$ 2,385
Supplemental non cash disclosures:		
Transfers to other real estate owned	$ 571	$ 142
Grant of restricted stock awards from treasury stock	$ 172	$ 202

Table of Contents

CNB FINANCIAL CORPORATION AND SUBSIDIARIES

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 U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted.

In the opinion of Management of the registrant, the accompanying consolidated financial statements as of September 30, 2007 and for the quarters and nine months ended September 30, 2007 and 2006 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 periods presented. The financial performance reported for CNB Financial Corporation (the Corporation) for the three and nine month periods ended September 30, 2007 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 Annual Report to shareholders and Form 10-K for the period ended December 31, 2006.

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 625,000 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.

Stock Options

A summary of the activity for stock options is as follows:

	Nine months ended September 30, 2007	
	Total options outstanding	Weighted Average Exercise
	Shares	Price
Options outstanding, beginning of period	267,418	$ 13.15
Forfeited		
Exercised	8,125	9.05
Granted		
Options outstanding, end of period	259,293	$ 13.27
Options exercisable, end of period	259,293	$ 13.27

No stock options were granted during the three or nine month periods ended September 30, 2007 or 2006.

The aggregate intrinsic value of all options outstanding at September 30, 2007 was $527,896. The aggregate intrinsic value of all options that were exercisable at September 30, 2007 was $527,896.

There was no compensation expense related to stock options for the three or nine months ended September 30, 2007. Compensation expense related to stock options for the nine months ended September 30, 2006 resulted in a reduction of income before taxes of $18,000 and a reduction in net income of $12,000. Due to the insignificance of the amount, there was no measurable effect on basic and diluted earnings per share. There is no remaining unrecognized compensation cost related to unvested stock options granted as of September 30, 2007.

Restricted Stock Awards

Periodically the Executive Compensation and Personnel Committee of the Board of Directors grants restricted stock awards to certain key employees and independent directors of the Corporation. 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 approximately $25,000 and $69,000 for the three and nine months ended September 30, 2007 and $12,000 and $29,000 for the three and nine months ended September 30, 2006. As of September 30, 2007, there was $262,700 of total unrecognized compensation cost related to unvested restricted stock awards. At September 30, 2007, there are 22,690 unvested shares at a weighted average grant date fair value of $14.11.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Restricted stock awards are considered outstanding as they become earned. Diluted earnings per share is computed using the weighted average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under stock compensation plans. For the three and nine month periods ended September 30, 2007 and 2006, 110,500 shares under option were excluded from the diluted earnings per share calculations as they were anti-dilutive.

The computation of basic and diluted EPS is shown below (in thousands except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Basic earnings per share computation:				
Net Income	$ 2,410	$ 2,343	$ 6,714	$ 7,109
Gross weighted average shares outstanding	8,562	8,952	8,742	8,975
Less: Average unearned restricted stock	19	12	19	9
Net weighted average shares outstanding	8,543	8,940	8,723	8,966
Basic earnings per share:	$ 0.28	$ 0.26	$ 0.77	$ 0.79
Diluted earnings per share computation:				
Net Income	$ 2,410	$ 2,343	$ 6,714	$ 7,109
Weighted average shares outstanding for basic earnings per share	8,543	8,940	8,723	8,966
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	21	24	24	24
Weighted average shares and potentially dilutive shares	8,564	8,964	8,747	8,990
Diluted earnings per share	$ 0.28	$ 0.26	$ 0.77	$ 0.79

Table of Contents

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material effect on the consolidated financial statements.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation is no longer subject to examination by taxing authorities for years before 2002. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense. The Corporation did not have any amounts accrued for interest and penalties at January 1, 2007.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Corporation has not completed its evaluation of the impact of the adoption of this standard.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of FAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. FAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of FAS No. 157, *Fair Value Measurements*. The Corporation has not completed its evaluation of the impact of the adoption of this standard.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified for comparative purposes.

ITEM 2

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial statements of CNB Financial Corporation (the Corporation) is presented to provide insight into management s assessment of financial results. The Corporation s subsidiary CNB Bank (the Bank) provides financial services to individuals and businesses within the Bank s market area which is primarily made up of the west central Pennsylvania counties of Cambria, Clearfield, Centre, Elk, Jefferson, McKean and Warren. During 2005 the Bank entered the northwestern Pennsylvania county of Erie and began doing business as ERIEBANK. The Bank is subject to regulation, supervision and examination by the Pennsylvania State Department of Banking as well as the Federal Deposit Insurance Corporation. The financial condition and results of operations are not intended to be indicative of future performance. One of the Corporation s subsidiaries, CNB Securities Corporation, is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company, also a subsidiary, is a Corporation of Arizona, and provides credit life and disability for customers of CNB Bank. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. Finally, Holiday Financial Services Corporation was formed in the fourth quarter of 2005 to facilitate the Corporation s entry into the consumer discount loan and finance business. Management s discussion and analysis should be read in conjunction with the consolidated financial statements and related notes.

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

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

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

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

GENERAL OVERVIEW

During 2005, the Bank established a loan production office in Erie, Pennsylvania in order to begin offering commercial loan service to businesses located within Erie and Erie County. Management operated from temporary store locations in 2005 and 2006 and on September 13, 2007 opened its first new full service financial services store in Erie s west side. Two additional stores are currently under construction with expected completion dates in the first and second quarters of 2008. Management believes that our ERIEBANK division, along with our traditional CNB Bank market areas, should provide the Bank with sustained loan growth during the remainder of 2007.

In the fourth quarter of 2005, the Corporation formed a new subsidiary and entered the consumer discount loan and finance business as Holiday Financial Services Corporation. In 2006, we opened three new offices in the communities of Hollidaysburg, Northern Cambria and Clearfield, Pennsylvania. Three additional offices in the communities of Bellefonte, Ridgway and Bradford, Pennsylvania have been opened in 2007 bringing our total to seven. Although the consumer discount loan business is relatively new to the Corporation, management is making the necessary investments in experienced personnel and technology which we believe will facilitate the growth of Holiday Financial Services into a successful and profitable subsidiary of the Corporation in future years.

Table of Contents

While non-interest costs are expected to increase with the growth of the Corporation s banking and consumer discount loan franchises, these new ventures should provide growth in earning assets as well as enhanced non-interest income to more than offset these costs in 2008 and beyond. As such, the Corporation is making the necessary investments in 2007 knowing that earnings will be reduced in the near term due to costs increasing faster than related revenues.

The interest rate environment will continue to play an important rule in the future earnings of the Corporation. Our net interest margin remained strong in the nine months of 2007 even with the period of yield curve inversion which negatively affected the earnings of many financial institutions. Recent actions of the Federal Reserve have resulted in decreases in short term interest rates and the shift to a more normalized yield curve which is expected to benefit the Corporation in the future primarily by reducing its cost of funds. Management will closely monitor our net interest margin throughout the remainder of 2007, as well as continue to apply a disciplined approach to managing our balance sheet, as the majority of the earnings of the Corporation continue to be derived from interest income. Non-interest income should be enhanced in several areas including improved service charge and fee income as we enter new markets and grow transaction accounts.

Management concentrates on return on average equity and earnings per share evaluations, plus other methods to measure and direct the performance of the Corporation. While past results are not an indication of future earnings, we feel the Corporation is well positioned to enhance earnings through the remainder of 2007.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled $28.5 million at September 30, 2007 compared to $25.5 million at December 31, 2006. Management believes the liquidity needs of the Corporation are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, and the portion of the investment and loan portfolios that mature within one year. These sources of funds will enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due.

SECURITIES

Securities increased $5.5 million or 3.5% since December 31, 2006. The increase is primarily the result of purchases of structured collateralized mortgage obligations and U.S. Government Agency Securities.

The Corporation generally buys into the market over time and does not attempt to time its transactions. In doing this, the highs and lows of the market are averaged into the portfolio and minimize the overall effect of different rate environments. Management monitors the earnings performance and the effectiveness of the liquidity of the securities portfolio on a regular basis through Asset / Liability Committee (ALCO) meetings. The ALCO also reviews and manages interest rate risk for the Corporation. Through active balance sheet management and analysis of the securities portfolio, the Corporation maintains sufficient liquidity to satisfy depositor requirements and various credit needs of its customers.

LOANS

The Corporation s lending is primarily focused on the west central Pennsylvania market and consists principally of commercial lending primarily to locally owned small businesses and retail lending which includes single-family residential mortgages and other consumer lending. At September 30, 2007, the Corporation had $586.4 million in loans outstanding, net of unearned discount, an increase of $ 39.4 million (or 7.2%) since December 31, 2006. The increase was primarily the result of three factors. First was increasing demand for our commercial and residential mortgage products. The Corporation views commercial lending as its competitive advantage and continues to focus on this area by hiring and retaining experienced loan officers and supporting them with quality credit analysis. In addition, the Corporation ran two successful home equity loan promotions during the first nine months of 2007 which were the primary reason for the growth in residential mortgages of $15.7 million or 9.8%. Finally, the growth of our consumer discount loan and finance company, Holiday Financial Services Corporation, was the primary reason for the growth in installment loans of $8.3 million or 29.2% since December 31, 2006.

The Corporation expects increasing loan demand throughout the remainder of 2007 with the growth of our ERIEBANK division and Holiday Financial Services Corporation as well as improved demand in our traditional markets.

Table of Contents

Total loans, net of unearned discount, at September 30, 2007 and December 31, 2006 are summarized as follows:

($ in thousands)

	9/30/2007	12/31/2006
Commercial, Financial and Agricultural	$ 218,395	$ 214,804
Residential Mortgage	175,841	160,159
Commercial Mortgage	155,369	143,453
Installment	36,799	28,488
Lease Receivables		116
	$ 586,404	$ 547,020

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established by provisions for losses in the loan portfolio as well as overdrafts in deposit accounts. These provisions are charged against current income. Loans and overdrafts deemed not collectible are charged-off against the allowance while any subsequent collections are recorded as recoveries and increase the allowance.

The table below shows activity within the allowance account:

		Periods ending	
($ s in thousands)	**September 30, 2007**	**December 31, 2006**	**September 30, 2006**
Balance at beginning of Period	$ 6,086	$ 5,603	$ 5,603
Charge-offs:			
Commercial and financial	26		
Commercial mortgages	27	144	104
Residential mortgages	157	203	118
Installment	273	451	315
Lease receivables	2	21	20
Overdrafts	197	272	187
	682	1,091	744
Recoveries:			
Commercial and financial		3	6
Commercial mortgages		3	
Residential mortgages	12	4	4
Installment	72	89	71
Lease receivables		11	3
Overdrafts	61	93	69
	145	203	153
Net charge-off s:	(537)	(888)	(591)
Provision for loan losses	903	1,371	1,079
Balance at end-of-period	$ 6,452	$ 6,086	$ 6,091
Loans, net of unearned	$ 586,404	$ 547,020	$ 538,077
Allowance to net loans	1.10%	1.11%	1.13%

Net charge-offs to average loans	0.13%	0.17%	0.15%
Non performing assets	$ 2,608	$ 1,928	$ 2,244
Non performing % of total assets	0.31%	0.25%	0.29%

The adequacy of the allowance for loan and lease losses is subject to a formal analysis by the credit administrator of the Bank. As part of the formal analysis, delinquencies and losses are monitored monthly. The loan portfolio is divided into several categories in order to better analyze the entire pool. First is a selection of criticized loans that is given a specific reserve. The remaining loans are pooled, by category, into these segments:

Reviewed

Commercial and financial

Commercial mortgages

Table of Contents

Homogeneous

- Residential real estate
- Installment
- Lease receivables
- Credit cards
- Overdrafts

The reviewed loan pools are further segregated into four categories: special mention, substandard, doubtful and unclassified. Historical loss factors are calculated for each pool excluding overdrafts based on the previous eight quarters of experience. The homogeneous pools are evaluated by analyzing the historical loss factors from the most previous quarter end and the two most recent year ends. The historical loss factors for both the reviewed and homogeneous pools are adjusted based on these six qualitative factors:

- Levels of and trends in delinquencies and non-accruals
- Trends in volume and terms of loans
- Effects of any changes in lending policies and procedures
- Experience, ability and depth of management
- National and local economic trends and conditions
- Concentrations of credit

The methodology described above was created using the experience of our credit administrator, guidance from the regulatory agencies, expertise of our loan review partner, and discussions with our peers. The resulting factors are applied to the pool balances in order to estimate the inherent risk of loss within each pool.

The previously mentioned analysis considered numerous historical and other factors to analyze the adequacy of the allowance and current period charges against the provision for loan losses. Management paid special attention to a section of the analysis that compared and plotted the actual level of the allowance against the aggregate amount of loans adversely classified in order to compute the estimated potential losses associated with those loans. By noting the spread at the present time, as well as prior periods, management can determine the current adequacy of the allowance as well as evaluate trends that may be developing. The volume and composition of the Corporation s loan portfolio continue to reflect growth in commercial credits including commercial real estate loans. As mentioned in the Loans section of this analysis, management considers commercial lending a competitive advantage and continues to focus on this area as part of its strategic growth initiatives. However, management must also consider the fact that the inherent risk is more pronounced in these types of credits and is also driven by the economic environment of its market areas. As such, our analysis considered the effects on our customers of the rising cost of doing business as a result of general increases

in production costs including fuel prices. We also considered the fact that our consumer finance and discount loan subsidiary, Holiday Financial Services Corporation, has continued to grow its portfolio of consumer finance and discount loans with different risk characteristics than the consumer loan portfolio of our banking subsidiary. Although this loan portfolio is not currently significant in terms of the overall loan portfolio, it was nevertheless considered in our analysis.

Prudent business practices dictate that the level of the allowance, as well as corresponding charges to the provision for loan losses, should be commensurate with identified areas of risk within the loan portfolio and the attendant risks inherent therein. The quality of the credit risk management function and the overall administration of this vital segment of the Corporation s assets are critical to the ongoing success of the Corporation.

The Corporation has experienced a relatively low level of charge-offs over the past twelve months. Although our level of non performing assets has increased slightly, we believe we are well below industry standards for our peer group. Additional indicators are also showing improving trends in the Corporation s loan portfolio resulting in slight decreases in our provision for loan losses.

As of September 30, 2007, management believes the allowance for loan losses is adequate to cover proable incurred losses in the loan portfolio.

PREMISES AND EQUIPMENT

Premises and equipment increased $1.8 million (or 11.2%) since December 31, 2006. This increase is entirely the result of growth initiatives with the Corporation s ERIEBANK division. As mentioned in the General Overview section of the analysis, the Corporation built and opened its first new ERIEBANK store in the third quarter. Two additional stores are already under construction. As such, future increases to premises and equipment are forthcoming.

Table of Contents

Although the Corporation has opened three additional offices of Holiday Financial Services Corporation, these offices are typically rented thus requiring only a small investment in premises and equipment.

FUNDING SOURCES

The Corporation considers deposits, short-term borrowings, and term debt when evaluating funding sources. Traditional deposits continue to be the main source of funds in the Corporation increasing $18.1 million from $631.3 million at December 31, 2006 to $649.4 million at September 30, 2007. The increase in deposits was primarily the result of growth in our interest bearing and non interest bearing demand deposits.

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding needs not accommodated by deposit growth. In the first quarter the Corporation borrowed $10.0 million form the FHLB in a 5-year note at a fixed interest rate of 5.63%. During the second and third quarters, the Corporation accessed $30.0 million in funding from the FHLB in 10-year notes. The borrowings have interest rates ranging from 3.97% to 4.60% and conversion dates ranging from 6 months to 3 years after the issue date of the note. After the conversion date, the FHLB has the option to convert the borrowings to float based on the 3-month LIBOR plus .10% to .16%.

On April 5, 2007, CNB Capital Trust II, a trust formed by the Corporation, issued $10.0 million in trust-preferred securities in a pooled offering. The interest rate is determined quarterly and floats based on the 3-month LIBOR plus 1.55%. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering. These debentures represent the sole asset of the trust and must be redeemed no later than 2037. The Corporation used the proceeds to fund loan growth as well as repurchase shares of its own stock as discussed below in the Shareholders Equity section of this analysis. An additional $10.0 million in trust-preferred securities was issued on June 25, 2007 by CNB Capital Trust III. The terms and structure of the transaction were exactly the same as the April 5th issuance, however, the proceeds were used to liquidate similar trust-preferred securities issued in 2002 which floated on the 3-month LIBOR plus 3.45%.

SHAREHOLDERS EQUITY

The Corporation s capital continues to provide a base for profitable growth. Total shareholders equity was $69.5 million at September 30, 2007 compared to $72.3 million at December 31, 2006, a decrease of $2.8 million. The reason for the decrease in equity was primarily the result of an increase in treasury stock of $4.4 million in the first nine months of 2007 as the Corporation continued to repurchase shares of its own stock under a publicly announced plan. The majority of the increase was the result of a private purchase of 304,220 shares from another financial institution which occurred in the second quarter.

In the first nine months of 2007, the Corporation earned $6.7 million and declared dividends of $4.0 million, a dividend payout ratio of 60.0% of net income.

The Corporation has also complied with the standards of capital adequacy mandated by the banking regulators. Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, or 100% (highest risk assets), is assigned to each asset on the balance sheet. The Corporation s total risk-based capital ratio of 13.31% at September 30, 2007 is above the well-capitalized standard of 10%. The Corporation s Tier 1 capital ratio of 12.25% is above the well-capitalized minimum of 6%. The leverage ratio at September 30, 2007 was 9.83%, also above the well-capitalized standard of 5%. The Corporation is well capitalized as measured by the federal regulatory agencies. The ratios provide quantitative data demonstrating the strength and future opportunities for use of the Corporation s capital base. Management continues to evaluate risk-based capital ratios and the capital position of the Corporation as part of its strategic decision making process.

LIQUIDITY AND INTEREST RATE SENSITIVITY

Liquidity measures an organizations ability to meet cash obligations as they come due. The Consolidated Statement of Cash Flows presented on page 7 of the accompanying unaudited financial statements provides analysis of the Corporation s cash and cash equivalents. Additionally, management considers that portion of the loan and investment portfolio that matures within one year as part of the Corporation s liquid assets. The Corporation s liquidity is monitored by the ALCO Committee, which establishes and monitors ranges of acceptable liquidity. Management feels the Corporation s current liquidity and interest rate position is acceptable.

Table of Contents

OFF BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. The contractual amount of financial instruments with off-balance sheet risk was as follows at September 30, 2007:

Commitments to extend credit	$ 167,172
Standby letters of credit	14,429
	$ 181,601

16

Table of Contents

CONSOLIDATED YIELD COMPARISONS

(In thousands)

CNB Financial Corporation

Average Balances and Net Interest Margin

(Dollars in thousands)

	Nine Months Ended					
	September 30, 2007			September 30, 2006		
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
Assets						
Interest-bearing deposits with banks	$ 7,689	5.93%	$ 342	$ 6,950	6.18%	$ 322
Federal funds sold and securities purchased under agreements to resell	6,730	5.71%	288	6,980	5.08%	266
Securities:						
Taxable (1)	123,162	5.22%	4,837	114,416	4.89%	4,171
Tax-Exempt (1,2)	32,342	6.38%	1,515	36,323	6.29%	1,761
Equity Securities (1,2)	10,889	4.64%	337	13,451	4.65%	490
Total Securities	180,812	5.92%	7,319	178,120	5.69%	7,010
Loans						
Commercial (2)	216,357	8.09%	13,125	204,039	7.81%	11,954
Mortgage (2)	313,447	7.30%	17,167	295,969	7.17%	15,925
Installment	32,525	11.97%	2,921	28,198	10.62%	2,247
Leasing	37	3.60%	1	338	5.92%	15
Total Loans (3)	562,366	7.87%	33,214	528,544	7.60%	30,141
Total earning assets	743,178	7.27%	40,533	706,664	7.01%	37,151
Non Interest Bearing Assets						
Cash & Due From Banks	16,959			16,994		
Premises & Equipment	16,822			14,209		
Other Assets	32,146			35,476		
Allowance for Loan Losses	(6,219)			(5,884)		
Total Non Interest Earning Assets	59,708			60,795		
Total Assets	$ 802,886			$ 767,459		
Liabilities and Shareholders Equity						
Interest-Bearing Deposits						
Demand interest-bearing	$ 145,899	1.72%	$ 1,884	$ 138,011	1.27%	$ 1,318
Savings	52,207	0.73%	285	60,838	0.57%	262
Time	357,473	4.38%	11,740	341,001	4.24%	10,853
Total interest-bearing deposits	555,579	3.34%	13,909	539,850	3.07%	12,433
Short-term borrowings	5,957	3.98%	178	2,469	3.73%	69
Long-term borrowings	59,697	4.97%	2,226	58,667	4.73%	2,080
Trust preferred securities	20,620	6.20%	959	10,310	8.29%	641
Total interest-bearing liabilities	641,853	3.59%	17,272	611,296	3.32%	15,223
Demand non-interest-bearing	85,797			79,384		

Other liabilities	3,611			5,969		
Total Liabilities	731,261		17,272	696,649		15,223
Shareholders Equity	71,625			70,810		
Total Liabilities and Shareholders Equity	$ 802,886		$ 17,272	$ 767,459		$ 15,223
Interest Income/Earning Assets		7.27%	$ 40,533		7.01%	$ 37,151
Interest Expense/Interest Bearing Liabilities		3.59%	17,272		3.32%	15,223
Net Interest Spread		3.68%	$ 23,261		3.69%	$ 21,928
Interest Income/Interest Earning Assets		7.27%	$ 40,533		7.01%	$ 37,151
Interest Expense/Interest Earning Assets		3.10%	17,272		2.87%	15,223
Net Interest Margin		4.17%	$ 23,261		4.14%	$ 21,928

(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 in not material.

Table of Contents

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

The Corporation had net income of $2.4 million for the third quarter of 2007 compared to $2.3 million for the same period of 2006. The earnings per diluted share increased from $0.26 in the third quarter of 2006 to $0.28 for the third quarter of 2007.

INTEREST INCOME AND EXPENSE

Net interest income totaled $8.0 million in the third quarter, an increase of $1.1 million (or 15.7%) over the third quarter of 2006. Total interest and dividend income increased by $1.6 million (or 12.9%) as compared to the third quarter of 2006 while total interest expense increased $499,000 (or 9.2%) as compared to the third quarter of 2006. The primary reason for the growth in net interest income stems from an improved level of average earning assets and increasing yields as discussed more fully in the section of this analysis which covers the nine month periods.

PROVISION FOR LOAN LOSSES

The Corporation recorded a provision for loan losses of $335,000 in the third quarter of 2007 compared to $324,000 in the third quarter of 2006. As discussed in the allowance for loan loss section of this analysis, Management believes the charges to the provision are reasonable to provide allowance coverage that is adequate to absorb probable incurred losses in our portfolio as of September 30, 2007.

OTHER INCOME

Other income remained relatively flat decreasing only 0.3% in the third quarter of 2007 as compared to the same period in 2006. Slight improvements in most categories of other income were offset by reductions in mortgage banking income, and earnings from bank owned life insurance as well as miscellaneous insignificant items included in the other other line item.

NON-INTEREST EXPENSE

Non-interest expense increased by 16.8 % to $6.4 million in the third quarter of 2007 compared to $5.5 million in the third quarter of 2006. The majority (approximately 77%) of the increase was a result of the Corporation s increasing costs for salaries and wages, benefits and occupancy related costs. Like many growing entities, the Corporation is faced with increasing employee related costs in order to support its growth.

As mentioned in the future outlook section of this analysis, the Corporation is continuing the process of expanding its ERIEBANK division and will continue to grow its consumer finance venture, Holiday Financial Services Corporation. During 2007, we have built and opened one full service ERIEBANK financial services store and have started construction of two additional stores. We have also opened three new offices of Holiday Financial Services Corporation. The Corporation realizes that expenses related to these new ventures may outpace related revenues in the near term but believes the long-term growth potential is more than worth the near term cost.

FEDERAL INCOME TAX EXPENSE

Federal income tax expense was $923,000 in the third quarter of 2007 as compared to $844,000 in the third quarter of 2006 resulting in an effective tax rate of 27.7% and 26.5%, respectively. The effective tax rate for the periods differed from the federal statutory rate of 35.0% principally as a result of tax exempt income from securities and loans as well as earnings from bank owned life insurance.

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

The Corporation had net income of $6.7 million for the nine months of 2007 compared to $7.1 million for the same period of 2006. The earnings per diluted share decreased from $0.79 in the first nine months of 2006 to $0.77 for the first nine months of 2007. The return on assets and the return on equity for the nine months of 2007 are 1.12% and 12.54% as compared to 1.24% and 13.39% for the first nine months of 2006.

INTEREST INCOME AND EXPENSE

Net interest income totaled $22.5 million in the first nine months, an increase of $1.7 million (or 8.2%) over the first nine months of 2006. Total interest and dividend income increased by $3.7 million (or 10.4%) as compared to the first nine months of 2006 while total interest expense increased $2.0 million (or 13.5%) as compared to the first nine months of 2006. Although high rates on the short end of the yield curve have increased the Corporation s cost of funding, we have seen greater positive increases in interest income from loans and investments due to our increased level of average earning assets and improved overall yield as noted in the Consolidated Yield Comparison on page 16 of this analysis. As noted in the table on page 16, the Corporation s average earning assets have grown by $36.5 million since September 30, 2006 while the yield has increased by 26 basis points from 7.01% to 7.27%.

PROVISION FOR LOAN LOSSES

The Corporation recorded a provision for loan losses of $903,000 in the first nine months of 2007 compared to $1.1 million in the first nine months of 2006. As discussed in more detail in the Allowance for Loan Losses section of this analysis, management believes the charges to the provision in the current year are appropriate and the allowance for loan losses is adequate to cover probable incurred losses in the loan portfolio.

OTHER INCOME

Other income decreased $35,000 (or 0.5%) in the first nine months of 2007 as compared to the same period in 2006 as the prior year was more positively affected by net security gains. During the first nine months of 2006, the Corporation recorded a security gain when the issuer of a financial institution equity security held in the Corporation s available-for-sale portfolio was acquired by another financial institution. As a result of the acquisition, the Corporation received 1.994 shares of the acquiring entity s stock in exchange for each share of the equity security that it held. Following current accounting guidance in FAS No. 153, *Exchanges of Nonmonetary Assets*, the Corporation recorded a $341,000 realized gain as a result of the difference between its basis in the equity security it held and the fair market value of the shares it received at the date of the exchange. Net security gains in the current year only amounted to $87,000.

Excluding security gains, total other income increased by $221,000 (or 3.7%).

NON-INTEREST EXPENSE

Non-interest expense increased by 13.7% to $18.7 million in the first nine months of 2007 compared to $16.5 million in the first nine months of 2006. The majority (approximately 76%) of the increase was a result of the Corporation s increasing costs for salaries and benefits as well as occupancy related costs. Like many growing entities, the Corporation is faced with increasing employee and occupancy related costs to support its growth. As such, the Corporation will strive to manage expenses while recognizing some, such as increasing costs for salaries, occupancy, outside services and technology, are the result of continued growth. As mentioned in the General Overview section of this analysis, the Corporation is continuing the process of expanding its banking franchise into the Erie, Pennsylvania market and has opened three new offices of its consumer finance subsidiary, Holiday Financial Services Corporation, in the first nine months of 2007. The Corporation realizes that expenses related to these new ventures may outpace related revenues in the near term but believes the long-term growth potential is more than worth the near term cost.

FEDERAL INCOME TAX EXPENSE

Federal income tax expense was $2.4 million in the first nine months of 2007 as compared to $2.5 million in the first nine months of 2006 resulting in an effective tax rate of 26.6% and 25.7%, respectively. The effective tax rate for the periods differed from the federal statutory rate of 35.0% principally as a result of tax exempt income from securities and loans as well as earnings from bank owned life insurance.

Table of Contents

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of CNB Financial Corporation are in accordance with U.S. generally accepted accounting principles and conform to general practices within the financial services industry. Accounting and reporting practices for the allowance for loan losses and fair value of securities are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by management could result in material changes in CNB Financial Corporation s financial position or results of operations. Note 1 (Summary of Significant Accounting Policies), Note 3 (Securities), and Note 5 (Allowance for Loan and Lease Losses), of the 2006 Annual Report and 10-K, provide detail with regard to the Corporation s accounting for the allowance for loan losses and fair value of securities. There have been no significant changes in the application of accounting policies since December 31, 2006.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in the report that are not historical facts are forward looking statements that are subject to certain risks and uncertainties. When used herein, the terms anticipates, plans, expects, believes, estimate, projected, forecast, should, or gravitate t expressions as they relate to CNB Financial Corporation or its management are intended to identify such forward looking statements. CNB Financial Corporation s actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, and rapidly changing technology affecting financial services.

ITEM 3

QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The corporation monitors interest rate risk through the use of two models: earnings simulation and static gap. Each model standing alone has limitations, however taken together they represent a reasonable view of the Corporation s interest rate risk position. The following discussion provides a summary of our analysis at September 30, 2007.

STATIC GAP: Gap analysis is intended to provide an approximation of projected repricing of assets and liabilities at a point in time on the basis of stated maturities, prepayments, and scheduled interest rate adjustments within selected time intervals. A gap is defined as the difference between the principal amount of assets and liabilities which reprice within those time intervals. The cumulative one year gap at September 30, 2007 was 0.23% of total earning assets compared to policy guidelines of plus or minus 15.0%.

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

Certain shortcomings are inherent in the method of analysis presented in Static Gap. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate loans, have features, like annual and lifetime rate caps, which

restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in the table. Finally, the ability of certain borrowers to make scheduled payments on their adjustable-rate loans may decrease in the event of an interest rate increase.

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

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

The following table summarizes the information from the interest rate risk measures reflecting rate sensitive assets to rate sensitive liabilities at September 30, 2007 and December 31, 2006:

	September 30, 2007	**December 31, 2006**
Static 1-Yr. Cumulative Gap	**0.23%**	(2.59)%
Earnings Simulation		
-200 bps vs. Stable Rate	**5.26%**	5.16%
+200 bps vs. Stable Rate	**(2.34)%**	(2.77)%

The interest rate sensitivity position at September 30, 2007 was almost neutral in the short-term versus slightly liability sensitive at December 31, 2006. Management believes the Corporation s balance sheet is well positioned in the current interest rate environment and periodically measures the potential impact of significant changes in interest rates on both earnings and equity. By the use of computer generated models, the potential impact of these changes has been determined to be acceptable with modest affects on net income and equity given and interest rate shock of an increase or decrease in rates of 2.0%. We continue to monitor the interest rate sensitivity through the ALCO and use the data to make strategic decisions.

ITEM 4

CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Corporation s management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that the Corporation s disclosure controls and procedures are, to the best of their knowledge, effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that there were no significant changes in the Corporation s internal controls or in other factors that could significantly affect its internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS None

ITEM 1A. RISK FACTORS There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year-ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
7/1/07 to 7/31/07	1,793	$ 13.95	600	241,826
8/1/07 to 8/31/07	3,384	$ 13.05	3,384	238,442
9/1/07 to 9/30/07				238,442
Total	5,177	$ 13.36	3,984	

Purchases not made in conjunction with the Publicly Announced Plan were made to facilitate employee benefit plans in the form of a 401(k).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES None

ITEM 4. SUBMISSION OF MATTERS FOR SECURITY HOLDERS VOTE None

ITEM 5. OTHER INFORMATION None

ITEM 6. EXHIBITS

EXHIBIT 31.1 CEO Certification

EXHIBIT 31.2 Principal Financial Officer Certification

EXHIBIT 32 Certifications

Table of Contents

SIGNATURES

Pursuant to the requirements 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: November 9, 2007	/s/ William F. Falger William F. Falger President and Director (Principal Executive Officer)
DATE: November 9, 2007	/s/ Charles R. Guarino Charles R. Guarino Treasurer (Principal Financial Officer)