

CNB FINANCIAL CORP/PA

Form 10-K

March 15, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

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

For the fiscal year ended December 31, 2006

Commission File Number 0-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of

incorporation or organization)

25-1450605
(I.R.S. Employer

Identification No.)

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive office)

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

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

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

Common Stock, No Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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PART I.

ITEM 1. BUSINESS
CNB FINANCIAL CORPORATION

CNB Financial Corporation (the Corporation) is a Financial Holding Company registered under the Bank Holding Company Act of 1956, as amended. It was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 for the purpose of engaging in the business of a Financial Holding Company. On April 26, 1984, the Corporation acquired all of the outstanding capital stock of County National Bank, a national banking chartered institution. In December of 2006, County National Bank changed its name to CNB Bank and became a state bank chartered in Pennsylvania and subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation.

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

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

CNB BANK

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

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

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

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

The Bank is a full-service bank engaging in a full range of banking activities and services for individual, business, governmental and institutional customers. These activities and services principally include checking, savings, and time deposit accounts; real estate, commercial, industrial, residential and consumer loans; and a variety of other specialized financial services such as wealth management. Its trust division offers a full range of client services.

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

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

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

HOLIDAY FINANCIAL SERVICES CORPORATION

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

COMPETITION

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

SUPERVISION AND REGULATION

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

EXECUTIVE OFFICERS

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

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

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

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

EMPLOYEES

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

MONETARY POLICIES

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

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

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

The following tables set forth statistical information relating to the Corporation and its wholly-owned subsidiaries. The tables should be read in conjunction with the consolidated financial statements of the Corporation which are incorporated by reference hereinafter.

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(Dollars in thousands)

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