CNB FINANCIAL CORP/PA
Form 10-K
March 09, 2012

**Table of Contents**

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**F O R M 1 0 K**

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011 Commission File Number 0-13396

**CNB FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive office)

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, no par value per share | The NASDAQ Stock Market LLC<br>(NASDAQ Global Select Market) |

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

None

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

¨ Yes x 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 x 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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. x

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 x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes x No

Aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011:

$160,097,654

The number of shares outstanding of the registrant s common stock as of March 5, 2012:

12,419,245 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the annual shareholders meeting to be held on April 17, 2012 are incorporated by reference into Part III.

Table of Contents

# TABLE OF CONTENTS

Table of Contents

# PART I.

## ITEM 1. BUSINESS

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

In addition to the Bank, the Corporation has four other subsidiaries. CNB Securities Corporation, is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company is an Arizona corporation, and provides credit life and disability insurance for customers of CNB Bank. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. Holiday Financial Services Corporation, incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

## CNB Bank

The Bank was incorporated in 1934 and is chartered in the Commonwealth of Pennsylvania. The Bank has 27 full service branch offices and one loan production office located in various communities in its market area. The Bank s primary market area consists of the Pennsylvania counties of Cambria, Cameron, Clearfield, Elk, Indiana, McKean and Warren. 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 and provides financial services to individuals and businesses located within its market areas, which include the northwestern Pennsylvania county of Erie and the city of Meadville located in Crawford County. ERIEBANK currently has four full service branch offices in the city of Erie, Pennsylvania, and one full service branch office in the city of Meadville, Pennsylvania. In the first quarter of 2012, a CNB Bank branch office in Warren, Pennsylvania will be rebranded as ERIEBANK as a result of its geographic proximity to Erie.

The Bank is a full service bank engaging in a full range of banking activities and services for individual, business, governmental and institutional customers. These activities and services principally include checking, savings, and time deposit accounts; real estate, commercial, industrial, residential and consumer loans; and a variety of other specialized financial services. The Bank s Wealth & Asset Management Services division offers a full range of client services.

## Holiday Financial Services Corporation

In 2005, the Corporation entered the consumer discount loan and finance business, which is conducted through a wholly owned subsidiary, Holiday Financial Services Corporation. Holiday currently has eight offices within the Corporation s footprint. Management believes that it has made the necessary investments in experienced personnel and technology which has helped facilitate the growth of Holiday into a successful and profitable subsidiary.

## Competition

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

## Supervision and Regulation

The Corporation is a financial holding company and the Bank is a Pennsylvania state-chartered bank that is not a member of the Federal Reserve System. Accordingly, the Corporation is subject to the oversight of the Federal Reserve Board and the Pennsylvania Department of Banking, and the Bank is subject to the oversight of applicable federal and state banking agencies, including the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation ( FDIC ). The Corporation and Bank are also subject to various requirements and restrictions under federal and state law, such as requirements to maintain reserves against deposits, restrictions on the types, amounts and terms and conditions of loans that may be granted, and limitation on the types of investments that may be made and the types of services that may be offered. Various consumer protection laws and regulations also affect the operation of the Bank and, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the Bureau of Consumer Financial Protection is authorized to write rules on consumer financial products which could affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board, including actions taken with respect to interest rates, as the Federal Reserve Board attempts to control the money supply and credit availability in the U.S. in order to influence the economy.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information about us and our subsidiaries. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business.

*Bank Holding Company Regulation*

As a bank holding company, the Corporation is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. We are required to file with the

**Table of Contents**

Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the BHC Act ), and applicable regulations. For instance, the BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits Pennsylvania bank holding companies to control an unlimited number of banks.

Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Corporation may only engage in, or own companies that engage in, activities deemed by the Federal Reserve Board to be permissible for bank holding companies or financial holding companies. Activities permissible for bank holding companies are those that are so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. Permissible activities for financial holding companies include those so closely related to banking as well as certain additional activities deemed financial in nature. The Corporation must obtain permission from the Federal Reserve Board prior to engaging in most new business activities.

A bank holding company and its subsidiaries are subject to certain restrictions imposed by the BHC Act on any extensions of credit to the Bank, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Under Federal Reserve Board regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board s policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations or both. This doctrine is commonly known as the source of strength doctrine.

The federal banking regulators have adopted risk-based capital guidelines for bank holding companies. Currently, the required minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the federal banking regulators have established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%.

*Regulation of CNB Bank*

CNB Bank is a Pennsylvania-chartered bank and is subject to regulation, supervision and regular examination by the Pennsylvania Department of Banking and the FDIC. Federal and state banking laws and regulations govern, among other things, the scope of a bank s business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations, the establishment of branches, management practices, and numerous other aspects of banking operations.

*Recent Legislation*

The Dodd-Frank Act, enacted into law on July 21, 2010, includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency, and significantly changed the bank regulatory structure and affected and will continue to affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act also created a Consumer Financial Protection Bureau ( CFPB ), which is authorized to write rules on all consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations and is charged with reviewing, and when appropriate, submitting comments to the Securities and Exchange Commission and Financial Accounting Standards Board with respect to existing or proposed accounting principles, standards or procedures.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.

It is difficult to predict at this time what specific impact certain provisions of the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Corporation, including any regulations promulgated by the CFPB. The legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation s ability to conduct business. The Corporation will have to apply resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings.

*Dividend Restrictions*

The Corporation is a legal entity separate and distinct from the Bank. Declaration and payment of cash dividends depends upon cash dividend payments to the Corporation by the Bank, which is our primary source of revenue and cash flow. Accordingly, the right of the Corporation, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Corporation in its capacity as a creditor may be recognized.

As a Pennsylvania state-chartered bank, the Bank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements.

**Table of Contents**

The payment of dividends by the Bank and the Corporation may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice.

*Capital Adequacy and Operations*

Under applicable prompt corrective action ( PCA ) provisions, depository institutions are placed into one of five capital categories, ranging from well capitalized to critically undercapitalized. An institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market; in addition, pass through insurance coverage may not be available for certain employee benefit accounts. An undercapitalized depository institution must submit an acceptable capital restoration plan to the appropriate federal bank regulatory agency. One requisite element of such a plan is that the institution s parent holding company must guarantee compliance by the institution with the plan, subject to certain limitations. In the event of the parent holding company s bankruptcy, the guarantee, and any other commitments that the parent holding company has made to federal bank regulators to maintain the capital of its depository institution subsidiaries, would be assumed by the bankruptcy trustee and entitled to priority in payment.

At December 31, 2011, the Bank qualified as well capitalized under applicable regulatory capital standards.

*Community Reinvestment Act*

Under the Community Reinvestment Act of 1977 ( CRA ), the FDIC is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community (including low and moderate income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank received a CRA rating of Satisfactory at its most current CRA exam.

*Restrictions on Transactions with Affiliates and Insiders*

The Bank and Corporation also are subject to the restrictions of Sections 23A and 23B of the Federal Reserve Act, and their implementing Regulation W, issued by the Federal Reserve Board. Section 23A requires that loans or extensions of credit to an affiliate, purchases of securities issued by an affiliate, purchases of assets from an affiliate (except as may be exempted by order or regulation), the acceptance of securities issued by an affiliate as collateral and the issuance of a guarantee, acceptance of letters of credit on behalf of an affiliate (collectively, Covered Transactions ) be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets to an affiliate and the payment of money or the furnishing of services to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

The Bank and Corporation are also subject to Sections 22(g) and 22(h) of the Federal Reserve Act, and their implementing Regulation O issued by the Federal Reserve Board. These provisions impose limitations on loans and extensions of credit from the bank to its executive officers, directors and principal shareholders and their related interests. The limitations restrict the terms and aggregate amount of such transactions. Regulation O also imposes certain recordkeeping and reporting requirements.

*Deposit Insurance and Premiums*

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. The Dodd-Frank Act has permanently increased the standard maximum deposit insurance amount to $250,000 per depositor per insured depository institution, retroactive to January 1, 2008, and qualifying non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

*Other Federal Laws and Regulations*

State usury and other credit laws limit the amount of interest and various other charges collected or contracted by a bank on loans. The Bank is also subject to lending limits on loans to one borrower and regulatory guidance on concentrations of credit. The Bank s loans and other products and services are also subject to numerous federal and state laws, including, but not limited to, the following:

- Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;

- Truth-in-Savings Act, which governs disclosures of the terms of deposit accounts to consumers;

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to regulators to enable determinations as to whether financial institutions are fulfilling their obligations to meet the home lending needs of the communities they serve and not discriminating in their lending practices;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, gender or other prohibited factors in extending credit;

- Real Estate Settlement Procedures Act, which imposes requirements relating to real estate settlements, including requiring lenders to disclose certain information regarding the nature and cost of real estate settlement services;

- Fair Credit Reporting Act, covering numerous areas relating to certain types of consumer information and identity theft;

- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require that financial institutions provide privacy policies to consumers, to allow customers to opt out of certain sharing of their nonpublic personal information, and to safeguard sensitive and confidential customer information.

Table of Contents

Electronic Fund Transfer Act, which is a consumer protection law regarding electronic fund transfers;

The Bank Secrecy Act and USA Patriot Act, which require financial institutions to take certain actions to help prevent, detect and prosecute international money laundering and the financing of terrorism; and

Numerous other federal and state laws and regulations, including those related to consumer protection and bank operations.

*Sarbanes-Oxley Act of 2002*

The Sarbanes-Oxley Act of 2002 was enacted on July 30, 2002 and represented a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, as amended, including publicly-held financial holding companies such as the Corporation. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws. Many of the provisions were effective immediately while other provisions became effective over a period of time and are subject to rulemaking by the SEC.

*Governmental Policies*

Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

*Other Legislative Initiatives*

Proposals may be introduced in the United States Congress, in the Pennsylvania Legislature, and/or by various bank regulatory authorities that could alter the powers of, and restrictions on, different types of banking organizations and which could restructure part or all of the existing regulatory framework for banks, bank and financial holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the regulatory framework. It is not possible to predict whether these or any other proposals will be enacted into law or, even if enacted, the effect which they may have on our business and earnings.

Table of Contents

## Employees

As of December 31, 2011, the Corporation had a total of 314 employees of which 272 were full time and 42 were part time.

## Executive Officers

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

| Name | Age | Principal Occupation |
|---|---|---|
| Joseph B. Bower, Jr. | 48 | President and Chief Executive Officer, CNB Bank and CNB Financial Corporation, since January 1, 2010; and previously, Secretary, CNB Financial Corporation and Executive Vice President and Chief Operating Officer, CNB Bank. |
| Mark D. Breakey | 53 | Executive Vice President and Credit Risk Manager, CNB Bank. |
| Richard L. Greslick, Jr. | 35 | Senior Vice President/Administration and Secretary, CNB Financial Corporation, since July 2010; previously, Vice President/Operations since 2007; and previously Controller, CNB Bank and CNB Financial Corporation. |
| Richard L. Sloppy | 61 | Executive Vice President and Senior Loan Officer, CNB Bank. |
| Vincent C. Turiano | 61 | Senior Vice President/Operations, CNB Bank, since November 25, 2009; previously Financial Consultant for RBC Wealth Management (formerly Ferris, Baker Watts, Inc.) since 2006; and previously Executive Vice President of Omega Bank and Omega Financial Corporation. |
| Brian W. Wingard | 37 | Interim Treasurer, Principal Financial Officer and Principal Accounting Officer, CNB Financial Corporation, since November 2011; Interim Chief Financial Officer, CNB Bank, since November 2011; previously Controller, CNB Bank and CNB Financial Corporation, since 2007; and previously a Certified Public Accountant in public practice. |

Officers are elected annually at the reorganization meeting of the Board of Directors. There are no arrangements or understandings between any officer and any other persons pursuant to which he was selected as an officer.

## Available Information

The Corporation makes available free of charge on its website (www.bankcnb.com) its Annual Report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on the Corporation s website is not incorporated by reference into this report.

Shareholders may obtain a copy of the Corporation s Annual Report on Form 10-K free of charge by writing to: CNB Financial Corporation, 1 South Second Street, PO Box 42, Clearfield, PA 16830, Attn: Shareholder Relations.

## Statistical Disclosure

The following tables set forth statistical information relating to the Corporation and its wholly owned subsidiaries. The tables should be read in conjunction with the consolidated financial statements of the Corporation.

**Table of Contents**

## Average Balances and Net Interest Margin

## (Dollars in thousands)

| | December 31, 2011 | | | December 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 11,475 | 0.96% | $ 110 | $ 8,680 | 1.44% | $ 125 | $ 9,088 | 2.37% | $ 215 |
| Federal funds sold and securities purchased under agreements to resell | - | | - | - | | - | 2 | 0.00% | 0 |
| Securities: | | | | | | | | | |
| Taxable (1) | 487,746 | 2.97% | 14,285 | 383,373 | 3.02% | 11,603 | 223,814 | 3.29% | 7,687 |
| Tax-Exempt (1, 2) | 86,851 | 5.14% | 4,366 | 69,033 | 5.28% | 3,572 | 55,642 | 5.60% | 3,057 |
| Equity Securities (1, 2) | 1,906 | 2.49% | 47 | 1,607 | 2.30% | 37 | 1,502 | 2.89% | 44 |
| Total Securities | 576,503 | 3.29% | 18,698 | 454,013 | 3.35% | 15,212 | 280,958 | 3.86% | 10,788 |
| **Loans** | | | | | | | | | |
| Commercial (2) | 275,442 | 5.20% | 14,329 | 258,550 | 5.62% | 14,542 | 242,719 | 5.82% | 14,129 |
| Mortgage (2) | 492,922 | 5.68% | 28,015 | 431,599 | 6.14% | 26,514 | 396,017 | 6.41% | 25,387 |
| Consumer | 51,402 | 12.72% | 6,536 | 51,565 | 12.81% | 6,605 | 47,702 | 14.57% | 6,952 |
| Total Loans (3) | 819,766 | 5.96% | 48,880 | 741,714 | 6.43% | 47,661 | 686,438 | 6.77% | 46,468 |
| Total earning assets | 1,407,744 | 4.84% | $ 67,688 | 1,204,407 | 5.23% | $ 62,998 | 976,486 | 5.89% | $ 57,471 |
| **Non Interest Earning Assets** | | | | | | | | | |
| Cash & Due From Banks | 33,846 | | | 33,885 | | | 33,237 | | |
| Premises & Equipment | 24,323 | | | 23,969 | | | 23,004 | | |
| Other Assets | 56,616 | | | 53,867 | | | 49,640 | | |
| Allowance for Loan Losses | (11,750) | | | (10,443) | | | (9,320) | | |
| Total Non Interest Earning Assets | 103,035 | | | 101,278 | | | 96,561 | | |
| Total Assets | $ 1,510,779 | | | $ 1,305,685 | | | $ 1,073,047 | | |
| **Liabilities and Shareholders Equity** | | | | | | | | | |
| **Interest-Bearing Deposits** | | | | | | | | | |
| Demand interest-bearing | $ 296,440 | 0.77% | $ 2,287 | $ 258,826 | 0.75% | $ 1,954 | $ 241,505 | 0.79% | $ 1,904 |
| Savings | 501,475 | 1.09% | 5,489 | 346,346 | 1.29% | 4,464 | 201,827 | 1.70% | 3,434 |
| Time | 320,704 | 1.82% | 5,849 | 349,401 | 2.04% | 7,140 | 320,477 | 2.42% | 7,753 |
| Total interest-bearing deposits | 1,118,619 | 1.22% | 13,625 | 954,573 | 1.42% | 13,558 | 763,809 | 1.71% | 13,091 |
| Short-term borrowings | 9,728 | 0.28% | 27 | 5,282 | 0.15% | 8 | 1,961 | 0.20% | 4 |
| Long-term borrowings | 74,141 | 4.25% | 3,149 | 87,336 | 5.39% | 4,708 | 104,107 | 4.34% | 4,523 |
| Subordinated Debentures | 20,620 | 3.77% | 778 | 20,620 | 3.79% | 782 | 20,620 | 4.12% | 850 |
| Total interest-bearing liabilities | 1,223,108 | 1.44% | $ 17,579 | 1,067,811 | 1.78% | $ 19,056 | 890,497 | 2.07% | $ 18,468 |
| Demand non-interest-bearing | 148,287 | | | 127,287 | | | 104,773 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Other liabilities | 17,173 | | | 13,203 | | | 11,568 | | |
| Total Liabilities | 1,388,568 | | | 1,208,301 | | | 1,006,838 | | |
| Shareholders Equity | 122,211 | | | 97,384 | | | 66,209 | | |
| **Total Liabilities and Shareholders Equity** | $ 1,510,779 | | | $ 1,305,685 | | | $ 1,073,047 | | |
| Interest Income/Earning Assets | | 4.84% | $ 67,688 | | 5.23% | $ 62,998 | | 5.89% | $ 57,471 |
| Interest Expense/Interest Bearing Liabilities | | 1.44% | 17,579 | | 1.78% | 19,056 | | 2.07% | 18,468 |
| **Net Interest Spread** | | 3.40% | $ 50,109 | | 3.45% | $ 43,942 | | 3.82% | $ 39,003 |
| Interest Income/Earning Assets | | 4.84% | $ 67,688 | | 5.23% | $ 62,998 | | 5.89% | $ 57,471 |
| Interest Expense/Earning Assets | | 1.25% | 17,579 | | 1.58% | 19,056 | | 1.89% | 18,468 |
| **Net Interest Margin** | | 3.59% | $ 50,109 | | 3.65% | $ 43,942 | | 4.00% | $ 39,003 |

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 and interest income are stated on a fully taxable equivalent basis using the Corporation s marginal federal income tax rate of 35%. Interest income has been increased by $1,976, $1,851, and $1,601 for the years ended December 31, 2011, 2010, and 2009, respectively, as a result of the effect of tax-exempt interest and dividends earned by the Corporation.
3. Average outstanding includes the average balance outstanding of all non-accrual loans. Loans consist of the average of total loans less average unearned income. Included in loan interest income is loan fees of $1,567, $1,835, and $1,774 for the years ended December 31, 2011, 2010, and 2009, respectively.

Table of Contents

| **Net Interest Income Rate-Volume Variance (Dollars in thousands)** | **For Twelve Months Ended December 31, 2011 over (under) 2010 Due to Change In (1)** | | | **For Twelve Months Ended December 31, 2010 over (under) 2009 Due to Change In (1)** | | |
|---|---|---|---|---|---|---|
| | **Volume** | **Rate** | **Net** | **Volume** | **Rate** | **Net** |
| **Assets** | | | | | | |
| Interest-Bearing Deposits with Banks | $ 40 | $ (55) | $ (15) | $ (10) | $ (80) | $ (90) |
| Securities: | | | | | | |
| Taxable | 2,926 | (244) | 2,682 | 4,951 | (1,035) | 3,916 |
| Tax-Exempt (2) | 916 | (122) | 794 | 736 | (221) | 515 |
| Equity Securities (2) | 6 | 4 | 10 | 2 | (9) | (7) |
| Total Securities | 3,848 | (362) | 3,486 | 5,689 | (1,265) | 4,424 |
| **Loans** | | | | | | |
| Commercial (2) | 950 | (1,163) | (213) | 922 | (509) | 413 |
| Mortgage (2) | 3,767 | (2,266) | 1,501 | 2,281 | (1,154) | 1,127 |
| Consumer | (21) | (48) | (69) | 563 | (910) | (347) |
| Total Loans (3) | 4,696 | (3,477) | 1,219 | 3,766 | (2,573) | 1,193 |
| **Total Earning Assets** | $ 8,584 | $ (3,894) | $ 4,690 | $ 9,445 | $ (3,918) | $ 5,527 |
| **Liabilities and Shareholders Equity** | | | | | | |
| **Interest-Bearing Deposits** | | | | | | |
| Demand Interest-Bearing | $ 284 | $ 49 | $ 333 | $ 137 | $ (87) | $ 50 |
| Savings | 1,999 | (974) | 1,025 | 2,459 | (1,429) | 1,030 |
| Time | (586) | (705) | (1,291) | 700 | (1,313) | (613) |
| Total Interest-Bearing Deposits | 1,697 | (1,630) | 67 | 3,296 | (2,829) | 467 |
| Short-Term Borrowings | 7 | 12 | 19 | 7 | (3) | 4 |
| Long-Term Borrowings | (711) | (848) | (1,559) | (729) | 914 | 185 |
| Subordinated debentures | - | (4) | (4) | - | (68) | (68) |
| **Total Interest-Bearing Liabilities** | $ 993 | $ (2,470) | $ (1,477) | $ 2,574 | $ (1,986) | $ 588 |
| **Change in Net Interest Income** | $ 7,591 | $ (1,424) | $ 6,167 | $ 6,871 | $ (1,932) | $ 4,939 |

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

11

**Table of Contents**

**Securities**

| (Dollars In Thousands) | December 31, 2011 | | | | December 31, 2010 | | | | December 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized | Unrealized | | Market | Amortized | Unrealized | | Market | Amortized | Unrealized | | Market |
| | Cost | Gains | Losses | Value | Cost | Gains | Losses | Value | Cost | Gains | Losses | Value |
| **Securities Available for Sale** | | | | | | | | | | | | |
| U.S. Treasury | $8,064 | $66 | $ - | $8,130 | $8,139 | $66 | $ - | $8,205 | $10,288 | $5 | $ (24) | $10,269 |
| U.S. Government Sponsored Entities | 102,258 | 5,249 | (15) | 107,492 | 104,328 | 2,016 | (403) | 105,941 | 107,615 | 94 | (748) | 106,961 |
| State and Political Subdivisions | 149,685 | 8,844 | (92) | 158,437 | 117,928 | 1,011 | (2,528) | 116,411 | 55,710 | 991 | (140) | 56,561 |
| Residential mortgage and asset backed | 292,297 | 8,043 | (214) | 300,126 | 221,304 | 2,364 | (1,249) | 222,419 | 144,878 | 1,188 | (666) | 145,400 |
| Commercial mortgage and asset backed | 2,077 | 45 | - | 2,122 | - | - | - | - | - | - | - | - |
| Corporate notes and bonds | 17,358 | 50 | (3,548) | 13,860 | 14,347 | - | (3,596) | 10,751 | 18,713 | - | (5,082) | 13,631 |
| Pooled trust preferred | 800 | - | (460) | 340 | 2,190 | 12 | (910) | 1,292 | 4,594 | - | (2,685) | 1,909 |
| Pooled SBA | 44,851 | 1,282 | (77) | 46,056 | 33,788 | 266 | (92) | 33,962 | 8,894 | 102 | (7) | 8,989 |
| Other securities | 1,521 | 23 | - | 1,544 | 1,670 | 26 | - | 1,696 | 1,670 | 28 | (3) | 1,695 |
| | $618,911 | $23,602 | $(4,406) | $638,107 | $503,694 | $5,761 | $(8,778) | $500,677 | $352,362 | $2,408 | $(9,355) | $345,415 |

## Maturity Distribution of Investment Securities

(Dollars In Thousands)

December 31, 2012

| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | | Collaterialized Mortgage Obligations and Other Asset Backed Securities | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ Amt. | Yield | $ Amt. | Yield | $ Amt. | Yield | $ Amt. | Yield | $ Amt. | Yield |
| **Securities Available for Sale** | | | | | | | | | | |
| U.S. Treasury | $4,054 | 1.29% | $4,076 | 1.29% | | | | | | |
| U.S. Government Sponsored Entities | 17,076 | 1.49% | 49,810 | 2.36% | $39,081 | 3.67% | $1,523 | 4.40% | | |
| State and Political Subdivisions | 2,045 | 6.17% | 27,754 | 4.52% | 84,561 | 5.04% | 44,077 | 5.47% | | |
| Corporate notes and bonds | | | 1,863 | 2.27% | 1,943 | 4.00% | 10,054 | 3.11% | | |
| Pooled trust preferred | | | | | | | 340 | 0.00% | | |
| Pooled SBA | | | | | 1,341 | 2.46% | 44,715 | 2.41% | | |
| Residential mortgage and asset backed | | | | | | | | | $300,126 | 3.64% |
| Commercial mortgage and asset backed | | | | | | | | | 2,122 | 4.70% |
| TOTAL | $23,175 | 1.87% | $83,503 | 2.82% | $126,926 | 4.50% | $100,709 | 3.84% | $302,248 | 2.65% |

The weighted average yields are based on market value and effective yields weighted for the scheduled maturity with tax-exempt securities adjusted to a taxable-equivalent basis using a tax rate of 35%.

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

Table of Contents

**LOAN PORTFOLIO**

(Dollars in thousands)

**A. TYPE OF LOAN**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Commercial, industrial and agricultural | $ 253,324 | $ 257,491 | $ 239,966 | $ 227,141 | $ 217,651 |
| Commercial mortgages | 242,511 | 212,878 | 193,632 | 210,080 | 176,470 |
| Residential real estate | 298,628 | 266,604 | 226,931 | 179,420 | 160,585 |
| Consumer | 54,677 | 53,202 | 54,854 | 57,241 | 46,112 |
| Credit cards | 3,206 | 2,870 | 2,248 | 1,411 | 1,535 |
| Overdrafts | 423 | 3,964 | 391 | 859 | 1,188 |
| Gross loans | 852,769 | 797,009 | 718,022 | 676,152 | 603,541 |
| Less: unearned income | 2,886 | 2,447 | 2,880 | 4,596 | 3,853 |
| Total loans net of unearned | $ 849,883 | $ 794,562 | $ 715,142 | $ 671,556 | $ 599,688 |

**B. LOAN MATURITIES AND INTEREST SENSITIVITY**

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | One Year or Less | One Through Five Years | Over Five Years | Total Gross Loans |
| *Commercial, industrial and agricultural* | | | | |
| Loans With Fixed Interest Rate | $ 99,436 | $ 74,510 | $ 15,257 | $ 189,203 |
| Loans With Floating Interest Rate | 14,947 | 24,764 | 24,410 | 64,121 |
| | $ 114,383 | $ 99,274 | $ 39,667 | $ 253,324 |

**C. RISK ELEMENTS**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Loans on non-accrual basis | $ 16,567 | $ 11,926 | $ 12,757 | $ 3,046 | $ 1,979 |
| Accruing loans which are contractually past due 90 days or more as to interest or principal payment | 441 | 889 | 584 | 533 | 395 |
| Troubled debt restructurings | 7,688 | 1,714 | - | - | - |
| | $ 24,696 | $ 14,529 | $ 13,341 | $ 3,579 | $ 2,374 |

Interest income recorded on the non-accrual loans for the year ended December 31, 2011 was $26. Additional interest income which would have been recorded on non-accrual loans had they been on accrual status was $685 for the year ended December 31, 2011.

Loans are placed in non-accrual status when the interest or principal is 90 days past due, unless the loan is in collection, well secured and it is believed that there will be no loss of interest or principal.

At December 31, 2011, there were $7,348 in special mention loans, $33,261 in substandard loans, and $0 in doubtful loans which are considered problem loans. These loans are not included in the table above. In the opinion of management, these loans are adequately secured and losses are believed to be minimal.

Table of Contents

## SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in Thousands)

| Analysis of the Allowance for Loan Losses<br>Years Ended December 31, | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Balance at beginning of Period | $ 10,820 | $ 9,795 | $ 8,719 | $ 6,773 | $ 6,086 |
| Charge-Offs: | | | | | |
| Commercial, industrial and agricultural | 1,796 | 543 | 860 | 33 | 39 |
| Commercial mortgages | 175 | 2,061 | 381 | 178 | 28 |
| Residential real estate | 217 | 211 | 378 | 330 | 180 |
| Consumer | 907 | 1,223 | 1,622 | 1,123 | 322 |
| Credit cards | 39 | 94 | 101 | 46 | 95 |
| Overdrafts | 222 | 239 | 269 | 334 | 346 |
| | 3,356 | 4,371 | 3,611 | 2,044 | 1,010 |
| Recoveries: | | | | | |
| Commercial, industrial and agricultural | 9 | 11 | 2 | 2 | - |
| Commercial mortgages | - | 3 | - | - | - |
| Residential real estate | 13 | 2 | 1 | 6 | 12 |
| Consumer | 88 | 100 | 62 | 72 | 67 |
| Credit cards | 10 | 10 | 13 | 12 | 24 |
| Overdrafts | 94 | 112 | 144 | 111 | 82 |
| | 214 | 238 | 222 | 203 | 185 |
| Net charge-offs | (3,142) | (4,133) | (3,389) | (1,841) | (825) |
| Provision for loan losses | 4,937 | 5,158 | 4,465 | 3,787 | 1,512 |
| Balance at end of period | $ 12,615 | $ 10,820 | $ 9,795 | $ 8,719 | $ 6,773 |
| Percentage of net charge-offs during the period to average loans outstanding | 0.38% | 0.56% | 0.49% | 0.28% | 0.14% |

The provision for loan losses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the present and foreseeable risk characteristics of the present loan portfolio. Management s judgment is based on the evaluation of individual loans, the overall risk characteristics of various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

### ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(Dollars In Thousands)

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of Loans in each Category | Amount | % of Loans in each Category | Amount | % of Loans in each Category | Amount | % of Loans in each Category | Amount | % of Loans in each Category |
| Commercial, industrial, and agricultural | $ 4,511 | 29.71% | $ 3,517 | 32.31% | $ 2,790 | 33.42% | $ 2,660 | 33.59% | $ 2,253 | 36.06% |
| Commercial mortgages | 4,470 | 28.44% | 3,511 | 26.71% | 3,291 | 26.97% | 2,836 | 31.07% | 1,915 | 29.24% |
| | 1,991 | 35.02% | 1,916 | 33.45% | 1,583 | 31.61% | 1,273 | 26.54% | 1,012 | 26.61% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential real estate | | | | | | | | | | |
| Consumer | 1,404 | 6.41% | 1,561 | 6.68% | 1,751 | 7.64% | 1,589 | 8.47% | 1,196 | 7.64% |
| Credit Cards | 71 | 0.37% | 96 | 0.35% | 85 | 0.31% | 82 | 0.20% | 91 | 0.25% |
| Overdrafts | 168 | 0.05% | 219 | 0.50% | 295 | 0.05% | 279 | 0.13% | 306 | 0.20% |
| Total | $ 12,615 | 100.00% | $ 10,820 | 100.00% | $ 9,795 | 100.00% | $ 8,719 | 100.00% | $ 6,773 | 100.00% |

In determining the allocation of the allowance for loan losses, the Corporation considers economic trends, historical patterns and specific credit reviews.

14

Table of Contents

With regard to the credit reviews, a watchlist is evaluated on a monthly basis to determine potential commercial losses. Consumer loans and mortgage loans are allocated using historical loss experience.

**DEPOSITS**

(Dollars In Thousands)

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | 2009 |
| | Average Amount | Annual Rate | Average Amount | |