Roberts Brigette
Form 4
January 06, 2006

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Roberts Brigette

(Last) (First) (Middle)

THIRD POINT LLC, 390 PARK AVENUE

(Street)

NEW YORK, NY 10022

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LIGAND PHARMACEUTICALS INC [LGND]

3. Date of Earliest Transaction (Month/Day/Year)
01/04/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/04/2006		A		2,378	A	$ 11.56	2,378	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Roberts Brigette THIRD POINT LLC 390 PARK AVENUE NEW YORK, NY 10022	X			

Signatures

/s/ Brigette Roberts	01/06/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, end of period

$2,517

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A roll-forward of the other-than-temporary impairment amount related to credit losses for the six months ended June 30, 2010 is as follows:

Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, beginning of period	$ 1,415
Additional credit loss for which other-than-temporary impairment was not previously recognized	1,102
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in other comprehensive income, end of period	$ 2,517

At June 30, 2011, approximately 14% of the total unrealized losses relate to structured pooled trust preferred securities, primarily from issuers in the financial services industry, which are not currently trading in an active, open market with readily observable prices. As a result, these securities were classified within Level 3 of the valuation hierarchy. The fair values of these securities have been calculated using a discounted cash flow model and market liquidity premium. With the current market conditions, the assumptions used to determine the fair value of Level 3 securities has greater subjectivity due to the lack of observable market transactions. The fair values of these securities have declined due to the fact that subsequent offerings of similar securities pay a higher market rate of return. This higher rate of return reflects the increased credit and liquidity risks in the marketplace. Except as described above, based on management s evaluation of the structured pooled trust preferred securities, the present value of the projected cash flows is sufficient for full repayment of the amortized cost of the securities and, therefore, it is believed that the decline in fair value is temporary due to current market conditions. However, without recovery of these securities, other-than-temporary impairments may occur in future periods.

For all of the securities that comprise corporate notes and bonds and states and political subdivisions, management monitors publicly available financial information such as filings with the Securities and Exchange Commission in order to evaluate the securities for other-than-temporary impairment. For financial institution issuers, management also monitors information from quarterly call report filings that are used to generate Uniform Bank Performance Reports. When reviewing this information, management considers the financial condition and near term prospects of the issuer and whether downgrades by bond rating agencies have occurred. Management also considers the length of time and extent to which fair value has been less than cost and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of June 30, 2011 and December 31, 2010, management concluded that the previously mentioned securities were not other-than-temporarily impaired for the following reasons:

There is no indication of any significant deterioration of the creditworthiness of the institutions that issued the securities.

The unrealized losses are predominantly attributable to liquidity disruptions within the credit markets and the generally stressed condition of the financial services industry.

All contractual interest payments on the securities have been received as scheduled, and no information has come to management s attention through the processes previously described which would lead to a conclusion that future contractual payments will not be received timely.

The Corporation does not intend to sell and it is not more likely than not that it will be required to sell the securities in an unrealized loss position before recovery of its amortized cost basis.

Information pertaining to security sales is as follows:

	Proceeds	Gross Gains	Gross Losses
Three months ended June 30, 2011	$	$	$

Six months ended June 30, 2011	23,610	146	(72)
Three months ended June 30, 2010	11,095	141	(-)
Six months ended June 30, 2010	38,065	587	(14)

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 year or less	$ 18,580	$ 18,665	$ 30,210	$ 30,184
1 year 5 years	61,681	63,109	54,476	55,030
5 years 10 years	96,905	100,146	105,057	105,145
After 10 years	92,715	92,129	90,977	86,203
	269,881	274,049	280,720	276,562
Residential mortgage & asset backed securities	264,114	270,330	221,304	222,419
Commercial mortgage & asset backed securities	2,082	2,071		
Total debt securities	$ 536,077	$ 546,450	$ 502,024	$ 498,981

Mortgage and asset backed securities are not due at a single date; periodic payments are received based on the payment patterns of the underlying collateral.

On June 30, 2011 and December 31, 2010, securities carried at $170,202 and $127,364, respectively, were pledged to secure public deposits and for other purposes as provided by law.

LOANS

Total net loans at June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011	December 31, 2010
Commercial, industrial, and agricultural	$ 251,530	$ 257,491
Commercial mortgages	235,409	212,878
Residential real estate	280,029	266,604
Consumer	53,894	53,202
Credit cards	2,976	2,870
Overdrafts	617	3,964
Less: unearned discount	(2,668)	(2,447)
allowance for loan losses	(11,715)	(10,820)
Loans, net	$ 810,072	$ 783,742

At June 30, 2011 and December 31, 2010, net unamortized loan costs and fees of ($89) and ($167), respectively, have been included in the carrying value of loans.

The Corporation s outstanding loans and related unfunded commitments are primarily concentrated within Central and Western Pennsylvania. The Bank attempts to limit concentrations within specific industries by utilizing dollar limitations to single industries or customers, and by entering into participation agreements with third parties. Collateral requirements are established based on management s assessment of the customer.

Transactions in the allowance for loan losses for the three months ended June 30, 2011 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, April 1, 2011	$ 3,732	$ 3,879	$ 1,879	$ 1,507	$ 96	$ 131	$ 11,224
Charge-offs	(173)	(41)	(63)	(202)	(7)	(62)	(548)
Recoveries	3			21	3	20	47
Provision (benefit) for loan losses	208	561	84	74	12	53	992
Allowance for loan losses, June 30, 2011	$ 3,770	$ 4,399	$ 1,900	$ 1,400	$ 104	$ 142	$ 11,715

Transactions in the allowance for loan losses for the six months ended June 30, 2011 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2011	$ 3,517	$ 3,511	$ 1,916	$ 1,561	$ 96	$ 219	$ 10,820
Charge-offs	(215)	(88)	(77)	(462)	(25)	(115)	(982)
Recoveries	4			45	5	54	108
Provision (benefit) for loan losses	464	976	61	256	28	(16)	1,769
Allowance for loan losses, June 30, 2011	$ 3,770	$ 4,399	$ 1,900	$ 1,400	$ 104	$ 142	$ 11,715

Transactions in the allowance for loan losses for the three months ended June 30, 2010 were as follows:

Allowance for loan losses, April 1, 2010	$ 9,914
Charge-off	(715)
Recoveries	55
Provision for loan losses	1,161
Allowance for loan losses, June 30, 2010	$ 10,415

Transactions in the allowance for loan losses for the six months ended June 30, 2010 were as follows:

Allowance for loan losses, January 1, 2010	$ 9,795
Charge-off	(1,256)
Recoveries	130
Provision for loan losses	1,746
Allowance for loan losses, June 30, 2010	$ 10,415

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation s impairment method as of June 30, 2011:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 130	$ 698	$ 59	$	$	$	$ 887
Collectively evaluated for impairment	3,640	3,467	1,841	1,400	104	142	10,594
Modified in a troubled debt restructuring		234					234
Acquired with deteriorated credit quality							
Total ending allowance balance	$ 3,770	$ 4,399	$ 1,900	$ 1,400	$ 104	$ 142	$ 11,715
Loans:							
Loans individually evaluated for impairment	$ 1,429	$ 15,066	$ 184	$	$	$	$ 16,679
Loans collectively evaluated for impairment	250,101	215,592	279,845	53,894	2,976	617	803,025
Loans modified in a troubled debt restructuring		4,751					4,751
Loans acquired with deteriorated credit quality							
Total ending loans balance	$ 251,530	$ 235,409	$ 280,029	$ 53,894	$ 2,976	$ 617	$ 824,455

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation s impairment method as of December 31, 2010:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 142	$ 509	$ 69	$	$	$	$ 720
Collectively evaluated for impairment	3,375	2,759	1,847	1,561	96	219	9,857
Modified in a troubled debt restructuring		243					243
Acquired with deteriorated credit quality							
Total ending allowance balance	$ 3,517	$ 3,511	$ 1,916	$ 1,561	$ 96	$ 219	$ 10,820
Loans:							
Loans individually evaluated for impairment	$ 2,616	$ 8,759	$ 235	$	$	$	$ 11,610
Loans collectively evaluated for impairment	254,875	202,405	266,369	53,202	2,870	3,964	783,685
Loans modified in a troubled debt restructuring		1,714					1,714
Loans acquired with deteriorated credit quality							
Total ending loans balance	$ 257,491	$ 212,878	$ 266,604	$ 53,202	$ 2,870	$ 3,964	$ 797,009

The following tables present information related to loans individually evaluated for impairment by portfolio segment as of and for the three and six months ended June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 600	$ 509	$ 130
Commercial mortgage	8,185	7,336	932
Residential real estate	267	184	59
With no related allowance recorded:			
Commercial, industrial, and agricultural	1,390	920	
Commercial mortgage	9,490	7,730	
Residential real estate			
Total	$ 19,932	$ 16,679	$ 1,121

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial, industrial, and agricultural	$ 1,183	$	$	$ 1,660	$	$
Commercial mortgage	8,835	14	14	8,810	16	16
Residential real estate	185			202		
With no related allowance recorded:						

Commercial, industrial, and agricultural	2,411			1,607		
Commercial mortgage	4,584			3,506		
Residential real estate						
Total	$ 17,198	$ 14	$ 14	$ 15,785	$ 16	$ 16

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The following table presents information related to loans individually evaluated for impairment by portfolio segment as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,041	$ 2,616	$ 142
Commercial mortgage	13,070	10,473	752
Residential real estate	339	235	69
With no related allowance recorded:			
Commercial, industrial, and agricultural			
Commercial mortgage			
Residential real estate			
Total	$ 16,450	$ 13,324	$ 963

The unpaid principal balance of impaired loans includes the Corporation s recorded investment in the loan and amounts that have been charged off.

The following table presents information for loans individually evaluated for impairment during the three months ended June 30, 2010:

Average of individually impaired loans during period	$ 14,718
Interest income recognized during impairment	241
Cash basis interest income recognized during impairment	241

The following table presents information for loans individually evaluated for impairment during the six months ended June 30, 2010:

Average of individually impaired loans during period	$ 15,046
Interest income recognized during impairment	340
Cash basis interest income recognized during impairment	340

The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by portfolio segment as of June 30, 2011 and December 31, 2010:

	Nonaccrual	Past Due Over 90 Days Still on Accrual
June 30, 2011		
Commercial, industrial, and agricultural	$ 7,195	$ 1,499
Commercial mortgages	7,539	125
Residential real estate	1,339	135
Consumer	25	116
Credit cards		34
Total	$ 16,098	$ 1,909

Nonaccrual

		Past Due Over 90 Days Still on Accrual
December 31, 2010		
Commercial, industrial, and agricultural	$ 2,344	$ 23
Commercial mortgages	8,276	321
Residential real estate	1,306	386
Consumer		154
Credit cards		5
Total	$ 11,926	$ 889

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Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the aging of the recorded investment in past due loans as of June 30, 2011 and December 31, 2010 by class of loans:

			Greater Than			
	30-59 Days	60-89 Days	90 Days	Total Past	Loans Not	
June 30, 2011	Past Due	Past Due	Past Due	Due	Past Due	Total
Commercial, industrial, and agricultural	$ 111	$ 344	$ 8,694	$ 9,149	$ 242,381	$ 251,530
Commercial mortgages	2,527	1,927	7,664	12,118	223,291	235,409
Residential real estate	1,249	342	1,474	3,065	276,964	280,029
Consumer	420	212	141	773	53,121	53,894
Credit cards	13	15	34	62	2,914	2,976
Overdrafts					617	617
Total	$ 4,320	$ 2,840	$ 18,007	$ 25,167	$ 799,288	$ 824,455

			Greater Than			
	30-59 Days	60-89 Days	90 Days	Total Past	Loans Not	
December 31, 2010	Past Due	Past Due	Past Due	Due	Past Due	Total
Commercial, industrial, and agricultural	$ 225	$ 2,512	$ 2,367	$ 5,104	$ 252,387	$ 257,491
Commercial mortgages	129	1,184	8,597	9,910	202,968	212,878
Residential real estate	1,629	262	1,692	3,583	263,021	266,604
Consumer	455	145	154	754	52,448	53,202
Credit cards	20	10	5	35	2,835	2,870
Overdrafts					3,964	3,964
Total	$ 2,458	$ 4,113	$ 12,815	$ 19,386	$ 777,623	$ 797,009

Troubled Debt Restructurings

The Corporation has allocated $234 and $243 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and December 31, 2010, respectively. The Corporation has no further loan commitments to customers whose loans are classified as a troubled debt restructuring.

Credit Quality Indicators

The Corporation classifies commercial, industrial, and agricultural loans and commercial mortgage loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $1 million bi-annually and loans with an outstanding balance of less than $1 million at least annually.

The Corporation uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

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Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not rated as special mention, substandard, or doubtful are considered to be pass rated loans. All loans included in the following tables have been assigned a risk rating within 12 months of the balance sheet date.

June 30, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 217,377	$ 15,147	$ 19,006	$	$ 251,530
Commercial mortgages	213,103	4,635	17,550	121	235,409
Total	$ 430,480	$ 19,782	$ 36,556	$ 121	$ 486,939

December 31, 2010	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 223,196	$ 4,830	$ 29,450	$ 15	$ 257,491
Commercial mortgages	188,846	7,673	16,249	110	212,878
Total	$ 412,042	$ 12,503	$ 45,699	$ 125	$ 470,369

The Corporation s portfolio of residential real estate and consumer loans maintained within Holiday Financial Services Corporation (Holiday), our subsidiary that offers small balance unsecured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics, are considered to be subprime loans. Holiday originates small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher credit risk characteristics than are typical in the consumer loan portfolio held by the Bank. Holiday s loan portfolio is summarized as follows at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Consumer	$ 17,040	$ 16,532
Residential real estate	1,059	1,149
Less: unearned discount	(2,668)	(2,447)
Total	$ 15,431	$ 15,234

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Residential Real Estate	Consumer	Residential Real Estate	Consumer
Performing	$ 278,555	$ 53,753	$ 264,912	$ 53,048
Non-performing	1,474	141	1,692	154
Total	$ 280,029	$ 53,894	$ 266,604	$ 53,202

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FEDERAL HOME LOAN BANK (FHLB) STOCK

As a member of the Federal Home Loan Bank of Pittsburgh (FHLB), the Corporation is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants.

As of June 30, 2011, the Corporation holds $5,418 of stock in FHLB. In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity, and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB s long-term performance, which includes factors such as the following:

its operating performance;

the severity and duration of declines in the fair value of its net assets related to its capital stock amount;

its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and

its liquidity and funding position

After evaluating all of these considerations, the Corporation concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

DEPOSITS

Total deposits at June 30, 2011 and December 31, 2010 are summarized as follows (in thousands):

	Percentage Change	June 30, 2011	December 31, 2010
Checking, non-interest bearing	5.1%	$ 148,022	$ 140,836
Checking, interest bearing	5.6%	300,610	284,538
Savings accounts	32.3%	487,118	368,055
Certificates of deposit	(15.2%)	313,322	369,439
	7.4%	$ 1,249,072	$ 1,162,868

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. 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 certain stock compensation plans. For the three and six months ended June 30, 2011, 84,250 shares issuable pursuant to outstanding stock options were excluded from the diluted earnings per share calculations since they were anti-dilutive. For the three and six months ended June 30, 2010, 86,750 shares issuable pursuant to outstanding stock options were excluded from the diluted earnings per share calculations since they were anti-dilutive.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Corporation has determined that its outstanding non-vested stock awards are participating securities.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Basic earnings per common share computation:				
Distributed earnings allocated to common stock	$ 2,021	$ 1,447	$ 4,038	$ 2,892
Undistributed earnings allocated to common stock	1,558	1,665	3,107	2,371
Net earnings allocated to common stock	$ 3,879	$ 3,112	$ 7,145	$ 5,263
Weighted average common shares outstanding, including shares considered participating securities	12,291	9,253	12,277	9,019
Less: Average participating securities	(36)	(31)	(37)	(32)
Weighted average shares	12,255	9,222	12,240	8,987
Basic earnings per common share	$ 0.32	$ 0.34	$ 0.58	$ 0.59
Diluted earnings per common share computation:				
Net earnings allocated to common stock	$ 3,879	$ 3,112	$ 7,145	$ 5,263
Weighted average common shares outstanding for basic earnings per common share	12,255	9,222	12,240	8,987
Add: Dilutive effects of assumed exercises of stock options	6	9	7	11
Weighted average shares and dilutive potential common shares	12,261	9,231	12,247	8,998
Diluted earnings per common share	$ 0.32	$ 0.34	$ 0.58	$ 0.58

DERIVATIVE INSTRUMENTS

The Corporation records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of the changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Corporation assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

On August 1, 2008, the Corporation executed an interest rate swap agreement with a 5 year term and an effective date of September 15, 2008 in order to hedge $10 million of a subordinated note that was entered into by the Corporation during 2007 and elected cash flow hedge accounting for the agreement. The Corporation s objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments from August 1, 2008 to September 15, 2013 without exchange of the underlying notional amount. At June 30, 2011, the variable rate on the subordinated debt was 1.80% (LIBOR plus 155 basis points) and the Corporation was paying 5.84% (4.29% fixed rate plus 155 basis points).

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In anticipation of the expiration of the 5 year interest rate swap agreement discussed immediately above, on May 3, 2011, the Corporation executed an interest rate swap agreement with a 5 year term and an effective date of September 15, 2013 which as of that effective date, will hedge $10 million of the subordinated note discussed immediately above. As with the prior interest rate swap agreement, the Corporation s objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2013 to September 15, 2018 without exchange of the underlying notional amount. On the effective date, the variable rate on the subordinated debt will be LIBOR plus 155 basis points and the Corporation will be paying 5.57% (4.02% fixed rate plus 155 basis points).

As of June 30, 2011, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Corporation does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following tables provide information about the amounts and locations of activity related to the interest rate swaps designated as cash flow hedges within the Corporation s consolidated balance sheet and statement of income as of and for the three and six months ended June 30, 2011 (in thousands):

As of June 30, 2011	Liability Derivative	
	Balance Sheet Location	Fair Value
Interest rate contract	Accrued interest payable and other liabilities	$ (987)

For the Three Months **Ended June 30, 2011**	(a)	(b)	(c)	(d)	(e)
Interest rate contract	$(145)	Interest expense subordinated debentures	$(101)	Other income	$
For the Six Months **Ended June 30, 2011**	(a)	(b)	(c)	(d)	(e)
Interest rate contract	$(78)	Interest expense subordinated debentures	$(201)	Other income	$

(a) Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivative (Effective Portion), net of tax
(b) Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(c) Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(d) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
(e) Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)

Amounts reported in accumulated other comprehensive loss related to the interest rate swap will be reclassified to interest expense as interest payments are made on the subordinated debentures. Such amounts reclassified from accumulated other comprehensive loss to interest expense in the next 12 months are expected to approximate $404.

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RECENT ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. This update addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in the update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The effect of adopting this new guidance did not have a material effect on the Corporation s financial statements.

In January 2011, the FASB issued Accounting Standards Update No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. The provisions of Update No. 2010-20 required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan losses effective for the Corporation s reporting period ended March 31, 2011. The amendments in Update No. 2011-01 defer the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completes their project clarifying the guidance for determining what constitutes a troubled debt restructuring. As the provisions of this update only defer the effective date of disclosure requirements related to troubled debt restructurings, the adoption of this update will have no impact on the Corporation s financial statements.

In April 2011, the FASB issued Accounting Standards Update No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update clarifies guidance on a creditor s evaluation of whether it has granted a concession to a borrower and a creditor s evaluation of whether a borrower is experiencing financial difficulties. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, an entity should disclose the information required by Accounting Standards Codification paragraphs 310-10-50-33 through 50-34, which was deferred by Accounting Standards Update No. 2011-01, for interim and annual periods beginning on or after June 15, 2011. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-4, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. Some amendments in this update clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this update are effective during interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-5, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This update amends the FASB Accounting Standards Codification (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and retrospective application is required. The effect of adopting this new guidance is not expected to have a material effect on the Corporation s financial statements.

ITEM 2

MANAGEMENT S DISCUSSIONAND 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 principal subsidiary, CNB Bank (the Bank), provides financial services to individuals and businesses primarily within the west central Pennsylvania counties of Cambria, Cameron, Clearfield, Elk, 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, provides financial services to individuals and businesses in the northwestern Pennsylvania counties of Erie and Crawford.

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 of the Corporation and its consolidated subsidiaries are not necessarily 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 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. When we use the terms we , us and our , we mean CNB Financial Corporation and its subsidiaries. Management s discussion and analysis should be read in conjunction with the Corporation s consolidated financial statements and related notes.

GENERAL OVERVIEW

The Corporation expanded its ERIEBANK division by opening a full service office in Meadville, Pennsylvania in the second quarter of 2010. In addition, a CNB Bank branch was opened in Kylertown, Pennsylvania in the third quarter of 2010. Management believes that our ERIEBANK division, along with our traditional CNB Bank market areas, should provide the Bank with sustained loan growth during 2011. Deposit growth was significant in 2010 and the first six months of 2011.

Management concentrates on return on average equity and earnings per share evaluations, plus other methods to measure and direct the performance of the Corporation. The interest rate environment will continue to play an important role in the future earnings of the Corporation. We experienced some compression of our net interest margin in the first six months of 2011 and some additional compression is expected throughout the remainder of 2011 as a result of the current interest rate environment. During the past several years, we have taken measures such as instituting rate floors on our commercial lines of credit and home equity lines as a result of the historic lows on various key interest rates such as the Prime Rate and 3-month LIBOR. In addition, we decreased interest rates on certain deposit products during 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street and Consumer Protection Act (the Dodd-Frank Act) that could impact the performance of the Corporation in future periods. The Dodd-Frank Act includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency. Some of these provisions include changes to FDIC insurance coverage, which includes a permanent increase in the coverage to $250,000. Additional provisions create a Consumer Financial Protection Bureau, 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. Although the aforementioned provisions are only a few of the numerous ones included in the Dodd-Frank Act, the full impact of the entire Dodd-Frank Act will not be known until the full implementation is completed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled $43.6 million at June 30, 2011 compared to $37.4 million at December 31, 2010. Cash and cash equivalents will fluctuate based on the timing and amount of liquidity events that occur in the normal course of business.

We believe 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 available for sale and trading securities have combined to increase $47.5 million or 9.5% since December 31, 2010. The increase is primarily the result of purchases of residential mortgage and asset backed securities issued by government sponsored entities and resulted from deposit growth not reinvested in loans.

The Corporation s structured pooled trust preferred securities currently do not trade in an active, open market with readily observable prices and are therefore classified within Level 3 of the valuation hierarchy. The fair value of these securities has been calculated using a discounted cash flow model and market liquidity premium. With the current market conditions, the assumptions used to determine the fair value of Level 3 securities has greater subjectivity due to the lack of observable market transactions. The fair values of these securities have declined due to the fact that the subsequent offerings of similar securities pay a higher market rate of return. The higher rate of return reflects the increased credit and liquidity risks in the market.

When the structured pooled trust preferred securities were purchased, they were considered to be investment grade based on ratings assigned by Moody s. As a result of liquidity disruptions within the credit markets and the generally stressed conditions within the financial services industry, Moody s has downgraded the rating of these securities since they were purchased by the Corporation. As of June 30, 2011, the Corporation held one structured pooled trust preferred security rated Ca by Moody s having an amortized cost of $800 thousand and fair value of $380 thousand. The present value of the projected cash flows for this security was sufficient for full repayment of the amortized cost; therefore, it is believed the decline in fair value is temporary due to current market conditions. However, without recovery, other-than-temporary impairments may occur in future periods.

In addition, the Corporation holds two structured pooled trust preferred securities for which an impairment charge of $398 thousand was recorded during the six months ended June 30, 2011 since the present value of the projected cash flows was not sufficient for repayment of any of the amortized cost of the 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. We monitor the earnings performance and the effectiveness of the liquidity of the securities portfolio on a regular basis through meetings of the Asset/Liability Committee of the Corporation s Board of Directors (ALCO). The ALCO also reviews and manages interest rate risk for the Corporation. Through active balance sheet management and analysis of the securities portfolio, we maintain a sufficient level of liquidity to satisfy depositor requirements and various credit needs of our customers.

LOANS

The Corporation experienced an increase in loans, net of unearned discount, of $27.2 million, or 3.4%, during the first six months of 2011. Our lending is focused in the west, central and northwest Pennsylvania markets and consists principally of commercial and retail lending, which includes single family residential mortgages and other consumer loans. 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. The Corporation expects improved loan demand throughout the remainder of 2011.

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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 for the specified periods (in thousands):

	Six months ending June 30, 2011	Year ending December 31, 2010	Six months ending June 30, 2010
Balance at beginning of period	$ 10,820	$ 9,795	$ 9,795
Charge-offs:			
Commercial, industrial, and agricultural	215	543	226
Commercial mortgages	88	2,061	91
Residential real estate	77	211	175
Consumer	462	1,223	625
Credit cards	25	94	31
Overdrafts	115	239	108
	982	4,371	1,256
Recoveries:			
Commercial, industrial, and agricultural	4	11	3
Commercial mortgages		3	3
Residential real estate		2	3
Consumer	45	100	51
Credit cards	5	10	4
Overdraft deposit accounts	54	112	66
	108	238	130
Net charge-offs	(874)	(4,133)	(1,126)
Provision for loan losses	1,769	5,158	1,746
Balance at end of period	$ 11,715	$ 10,820	$ 10,415
Loans, net of unearned	$ 821,787	$ 794,562	$ 741,210
Allowance to net loans	1.43%	1.36%	1.41%
Net charge-offs to average loans	0.22%	0.56%	0.31%
Nonperforming assets	$ 18,368	$ 13,211	$ 12,004
Nonperforming % of total assets	1.23%	0.93%	1.62%

The adequacy of the allowance for loan losses is subject to a formal analysis by the credit administrator of the Corporation. 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 classified loans that is given a specific reserve.

The remaining loans are pooled, by category, into these segments:

Reviewed

Commercial, industrial, and agricultural

Commercial mortgages

Homogeneous

Residential real estate

Consumer

Credit cards

Overdrafts

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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, non-accrual loans, and classified loans
- 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 third party loan review provider, and discussions with our peers. The resulting factors are applied to the pool balances in order to estimate the probable risk of loss within each pool. 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 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 probable 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.

During the six months ended June 30, 2011, the Corporation recorded a provision for loan losses of $1.8 million, as compared to a provision for loan losses of $1.7 million for the six months ended June 30, 2010. One relationship comprising three commercial loans became impaired in the first quarter of 2011, resulting in an increase in nonperforming assets of $4.4 million. As of June 30, 2011, one of these loans in the amount of $1.4 million remains nonperforming. Based on CNB s evaluation of the underlying collateral, no losses associated with this relationship are expected.

One relationship comprising two commercial loans became impaired in the second quarter of 2011, resulting in an increase in non-accrual loans of $4.2 million and an increase in the provision and allowance for loan losses of $433 thousand. This increase in the provision and allowance for loan losses was offset by a decrease in the provision for loan losses resulting from a decrease in net loan chargeoffs from $1.1 million for the six months ended June 30, 2010 to $882 thousand for the six months ended June 30, 2011.

Management believes that both its 2011 provision and allowance for loan losses are reasonable and adequate to absorb probable incurred losses in its portfolio at June 30, 2011.

BANK OWNED LIFE INSURANCE

The Corporation has periodically purchased Bank Owned Life Insurance (BOLI). The policies cover executive officers and a select group of other employees with the Bank being named as beneficiary. Earnings from the BOLI assist the Corporation in offsetting its benefit costs. During the first quarter of 2011, additional BOLI of $5.0 million was purchased.

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 $86.2 million from $1,162.9 million at December 31, 2010 to $1,249.1 million at June 30, 2011. The growth in deposits was primarily due to increases in savings accounts of $119.1 million over this period as a result of the Corporation s marketing of a new savings product which carries a highly competitive annual percentage yield in the current interest rate environment. This increase in savings accounts was offset by an expected decrease in time deposits of $56.1 million as customers who previously held certificates of deposit migrate to the new savings product.

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding needs. Management plans to maintain access to short- and long-term borrowings as an available funding source when deemed appropriate.

SHAREHOLDERS EQUITY AND CAPITAL RATIOS AND METRICS

The Corporation s capital continued to provide a base for profitable growth through June 30, 2011. Total shareholders equity was $122.2 million at June 30, 2011 and $109.6 million at December 31, 2010. In the first six months of 2011, the Corporation earned $7.2 million and declared dividends of $4.1 million, a dividend payout ratio of 56.5% 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 capital ratios, book value per share and tangible book value per share as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Total risk-based capital ratio	15.28%	15.38%
Tier 1 capital ratio	14.02%	14.13%
Leverage ratio	8.47%	8.81%
Tangible common equity/tangible assets (1)	7.53%	7.05%
Book value per share	$ 9.93	$ 8.96
Tangible book value per share (1)	$ 9.05	$ 8.08

(1) Tangible common equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity is calculated by excluding the balance of goodwill from the calculation of stockholders equity. Tangible assets is calculated by excluding the balance of goodwill from the calculation of total assets. Tangible book value per share is calculated by dividing tangible common equity by the number of shares outstanding. The Corporation believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition because they are additional measures used to assess capital adequacy. Because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. A reconciliation of these non-GAAP financial measures is provided below (dollars in thousands, except per share data).

	June 30, 2011	December 31, 2010
Shareholders equity	$ 122,230	$ 109,645
Less goodwill	10,821	10,821
Tangible common equity	$ 111,409	$ 98,824
Total assets	$ 1,491,194	$ 1,413,511
Less goodwill	10,821	10,821
Tangible assets	$ 1,480,373	$ 1,402,690
Ending shares outstanding	12,305,639	12,237,261
Tangible book value per share	$ 9.05	$ 8.08
Tangible common equity/tangible assets	7.53%	7.05%

LIQUIDITY

Liquidity measures an organization s ability to meet cash obligations as they come due. The consolidated statement of cash flows presented on page 8 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 both management and the ALCO, which establishes and monitors ranges of acceptable liquidity. Management believes the Corporation s current liquidity position is acceptable.

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 June 30, 2011 (in thousands):

Commitments to extend credit	$ 214,022
Standby letters of credit	23,135
	$ 237,157

CONSOLIDATED YIELD COMPARISONS

AVERAGE BALANCES AND NET INTEREST MARGIN FOR THE SIX MONTHS ENDED

Dollars in thousands

		June 30, 2011			June 30, 2010	
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
ASSETS:						
Interest-bearing deposits with other banks	$ 15,741	1.04%	$ 82	$ 7,089	1.78%	$ 63
Securities:						
Taxable (1)	462,710	3.00%	6,951	351,238	2.95%	5,269
Tax-Exempt (1,2)	79,828	5.17%	2,057	57,138	5.38%	1,506
Equity Securities (1,2)	1,666	2.43%	20	1,658	2.17%	18
Total securities	544,204	3.32%	9,028	410,034	3.28%	6,793
Loans:						
Commercial (2)	277,139	5.21%	7,214	254,637	5.75%	7,317
Mortgage (2)	474,594	5.72%	13,582	416,933	6.21%	12,940
Consumer	49,757	12.69%	3,157	49,448	13.15%	3,251
Total loans (3)	801,490	5.98%	23,953	721,018	6.52%	23,508
Total earning assets	1,361,435	4.86%	$ 33,063	1,138,141	5.32%	$ 30,364
Non interest-bearing assets:						
Cash and due from banks	33,408			39,067		
Premises and equipment	24,420			23,994		
Other assets	58,049			54,056		
Allowance for loan losses	(11,332)			(10,040)		
Total non interest-bearing assets	104,545			107,077		
TOTAL ASSETS	$ 1,465,980			$ 1,245,218		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Demand interest-bearing	$ 288,874	0.83%	1,202	$ 245,968	0.72%	889
Savings	434,867	1.15%	2,503	328,971	1.41%	2,315
Time	354,966	1.82%	3,231	340,838	2.11%	3,604
Total interest-bearing deposits	1,078,707	1.29%	6,936	915,777	1.49%	6,808
Short-term borrowings	16,975	0.31%	26	1,863	0.21%	2
Long-term borrowings	73,971	4.19%	1,551	95,760	4.54%	2,175
Subordinated debentures	20,620	3.75%	387	20,620	3.73%	385
Total interest-bearing liabilities	1,190,273	1.50%	$ 8,900	1,034,020	1.81%	$ 9,370
Demand non interest-bearing	145,661			119,077		
Other liabilities	14,804			12,811		
Total liabilities	1,350,738			1,165,908		

Shareholders equity	115,242			79,310		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,465,980			$ 1,245,218		
Interest income/Earning assets		4.86%	$ 33,063		5.32%	$ 30,364
Interest expense/Interest-bearing liabilities		1.50%	8,900		1.81%	9,370
Net interest spread		3.37%	$ 24,163		3.51%	$ 20,994
Interest income/Earning assets		4.86%	33,063		5.32%	30,364
Interest expense/Earning assets		1.31%	8,900		1.65%	9,370
Net interest margin		3.55%	$ 24,163		3.67%	$ 20,994

(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 is not material.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2011 and 2010

OVERVIEW OF THE INCOME STATEMENT

The Corporation had net income of $3.9 million for the second quarter of 2011 compared to $3.1 million for the same period of 2010. The earnings per diluted share was $0.32 in the second quarter of 2011 and $0.34 for the second quarter of 2010.

INTEREST INCOME AND EXPENSE

Net interest income totaled $11.9 million, an increase of $1.2 million, or 11.5%, over the second quarter of 2010. Total interest and dividend income increased by $1.1 million, or 7.1%, as compared to the second quarter of 2010. Although the Corporation s earning assets continue to grow, these increases have been offset by decreases in the yield on earning assets, primarily because the composition of earning assets has shifted to a greater percentage of investment securities as deposit growth has exceeded loan growth. Total interest expense decreased $138 thousand, or 3.0%, as compared to the second quarter of 2010 due to decreases in the cost of core deposits as well as the Corporation s repayment and refinancing of long-term debt in 2010.

PROVISION FOR LOAN LOSSES

The Corporation recorded a provision for loan losses of $992 thousand in the second quarter of 2011 compared to $1.2 million in the second quarter of 2010. Net loan chargeoffs were $501 thousand in the second quarter of 2011 compared to $660 thousand in the second quarter of 2010, and loan growth was consistent from the second quarter of 2010 to the second quarter of 2011. As a result, a lower provision for loan losses was required in the second quarter of 2011 than in the second quarter of 2010.

Management believes the provision for loan losses is appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of June 30, 2011.

NON-INTEREST INCOME

Non-interest income totaled $2.6 million, an increase of $608 thousand, or 30.3%, over the second quarter of 2010. The Corporation recorded other-than-temporary impairment charges in the second quarter of 2010 of $318 thousand, which was offset by realized gains on available-for-sale securities of $141 thousand. No other-than-temporary impairment charges or realized gains were recorded in the second quarter of 2011. In addition, the Corporation recorded realized and unrealized losses during the quarters ended June 30, 2011 and 2010 of $16 thousand and $210 thousand, respectively, for securities for which the fair value option was elected.

Excluding the effects of securities transactions, the Corporation s non-interest income increased $237 thousand, or 9.9%, in the second quarter of 2011 as compared to the same period in 2010. Mortgage banking income increased $107 thousand from the three months ended June 30, 2010 to the three months ended June 30, 2011, primarily as a result of the Corporation s decision not to sell loans in the secondary market in the second quarter of 2010.

NON-INTEREST EXPENSE

Non-interest expense totaled $8.1 million, an increase of $810 thousand, or 11.0%, over the second quarter of 2010. Salaries and benefits expenses increased $483 thousand, or 13.0%, during the quarter ended June 30, 2011 compared to the quarter ended June 30, 2010, primarily as a result of an increase in full-time equivalent employees from 287 at June 30, 2010 to 296 at June 30, 2011.

INCOME TAX EXPENSE

Income tax expense was $1.5 million in the second quarter of 2011 as compared to $1.1 million in the second quarter of 2010, resulting in an effective tax rate of 27.9% and 25.6%, respectively. The effective 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.

Six Months Ended June 30, 2011 and 2010

OVERVIEW OF THE INCOME STATEMENT

The Corporation had net income of $7.2 million for the six months ended June 30, 2011 compared to $5.3 million for the same period of 2010. The earnings per diluted share was $0.58 for both the six months ended June 30, 2011 and 2010. The return on assets and return on equity for the six months ended June 30, 2011 are 0.98% and 12.44%, respectively, compared to 0.85% and 13.32%, respectively, for the same period of 2010.

INTEREST INCOME AND EXPENSE

During the six months ended June 30, 2011, net interest income increased $3.1 million, or 15.3%, compared to the comparable period in 2010. The Corporation s net interest margin on a fully tax equivalent basis was 3.55% for the six months ended June 30, 2011, compared to 3.67% for the comparable period in 2010. Although the Corporation s earning assets continue to grow, these increases have been offset by decreases in the yield on earning assets, primarily because the composition of earning assets has shifted to a greater percentage of investment securities as deposit growth has exceeded loan growth. During the six months ended June 30, 2011, total interest expense decreased $470 thousand, or 5.0%, as compared to the comparable period in 2010 due to decreases in the cost of core deposits as well as the Corporation s repayment and refinancing of long-term debt in 2010.

PROVISION FOR LOAN LOSSES

The Corporation recorded a provision for loan losses of $1.8 million for the six months ended June 30, 2011 compared to $1.7 million for the comparable period in 2010. Net loan chargeoffs were $874 thousand in the first six months of 2011 compared to $1.1 million in the first six months of 2010, and loan growth was consistent from the first six months of 2010 to the first six months of 2011. However, as discussed in the Corporation s Form 10-Q for the quarter ended March 31, 2011, the Corporation recorded charge-offs in its commercial mortgage loan portfolio of $1.9 million during the quarter ended December 31, 2010, as compared to $381 thousand and $178 thousand during the years ended December 31, 2009 and 2008. As a result, the Corporation s homogeneous loss pool associated with its commercial mortgage loan portfolio increased $400 thousand during the three months ended March 31, 2011. In combination, all of these factors resulted in a slightly higher provision for loan losses in the first six months of 2011 than in the first six months of 2010.

Management believes the provision for loan losses is appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of June 30, 2011.

NON-INTEREST INCOME

Non-interest income totaled $4.8 million during the six months ended June 30, 2011, an increase of $723 thousand, or 17.7%, over the comparable period in 2010. During the six months ended June 30, 2011, the Corporation recorded other-than-temporary impairment charges of $398 thousand, which was offset by realized gains on available-for-sale securities of $74 thousand. The Corporation recorded other-than-temporary impairment charges during the six months ended June 30, 2010 of $1.1 million, which was offset by realized gains on available-for-sale securities of $573 thousand. In addition, the Corporation recorded realized and unrealized gains (losses) during the six months ended June 30, 2011 and 2010 of $97 and ($90), respectively, for securities for which the fair value option was elected.

Excluding the effects of securities transactions, the Corporation s non-interest income was $5.0 million for the six months ended June 30, 2011, compared to $4.7 million for the six months ended June 30, 2010. Mortgage banking income increased $85 thousand from the six months ended June 30, 2010 to the six months ended June 30, 2011, primarily as a result of the Corporation s decision not to sell loans in the secondary market in the second quarter of 2010.

NON-INTEREST EXPENSE

Non-interest expense increased $974 thousand, or 6.3%, during the six months ended June 30, 2011 compared to the comparable period in 2010. Salaries and benefits increased $749 thousand, or 9.7%, during the six months ended June 30, 2011 compared to the comparable period in 2010, primarily as a result of an increase in full-time equivalent employees from 287 at June 30, 2010 to 296 at June 30, 2011.

INCOME TAX EXPENSE

Income tax expense was $2.6 million for the six months ended June 30, 2011 as compared to $1.7 million for the same period of 2010, resulting in an effective tax rate of 27.0% and 24.5%, respectively. The effective 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.

CRITICAL ACCOUNTING POLICIES

The Corporation s accounting and reporting policies are in accordance with GAAP 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 4 (Loans), of the Corporation s 2010 Form 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, 2010.

ITEM 3

QUANTITATIVE AND 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 holding company, 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 ALCO is responsible for reviewing the Corporation s interest rate sensitivity position and establishing policies to control exposure to interest rate fluctuations. The primary goal established by these policies is to increase total income within acceptable risk limits.

The Corporation monitors interest rate risk through the use of two models: static gap and earnings simulation. Each model standing alone has limitations; however, taken together they represent in management s opinion a reasonable view of the Corporation s interest rate risk position.

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 June 30, 2011 was 7.18% of total earning assets compared to policy guidelines of plus or minus 15.0%. The ratio was 3.23% at December 31, 2010.

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.

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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 interest income resulting from an increase or decrease in the federal funds rate. 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 react at different speeds to various changes in interest rates as discussed under Static Gap. In addition, there are strategies available to management that may help mitigate a decline in income caused by a rapid change in interest rates.

The following table below summarizes the information from the interest rate risk measures reflecting rate sensitive assets to rate sensitive liabilities at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Static 1-Yr. Cumulative Gap	7.18%	3.23%
Earnings Simulation:		
-200 bps vs. Stable Rate	N/A	N/A
+200 bps vs. Stable Rate	8.52%	0.10%

The interest rate sensitivity position at both June 30, 2011 and December 31, 2010 was asset sensitive in the short term. As the federal funds rate was at 0.25% on June 30, 2011 and December 31, 2010, the -200 bps scenario has been excluded. Management 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 effects on net income and equity given an interest rate shock of an increase in the federal funds rate 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 Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) (Exchange Act). Based on their evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that the Corporation s disclosure controls and procedures were effective as of the end of the period covered by this quarterly report 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. There were no changes in the Corporation s internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS None

ITEM 1A. RISK FACTORS There have been no material changes to the risk factors disclosed in Part I, Item 1A. of our Form 10-K for the year ended December 31, 2010.

ITEM 6. EXHIBITS

EXHIBIT 3.1 Amended and Restated Articles of Incorporation of the Corporation, filed as Appendix B to the 2005 Proxy Statement, filed with the Securities and Exchange Commission (SEC) on March 24, 2006, and incorporated herein by reference.

EXHIBIT 3.2 By-Laws of the Corporation, as amended and restated, filed as Appendix C to the 2005 Proxy Statement, filed with the SEC on March 24, 2006, and incorporated herein by reference.

EXHIBIT 31.1 Rule 13a 14(a)/15d 14(a) Certification of the Principal Executive Officer

EXHIBIT 31.2 Rule 13a 14(a)/15d 14(a) Certification of the Principal Financial Officer

EXHIBIT 32 Section 1350 Certifications

EXHIBIT 101 The following financial information from the Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, furnished electronically herewith, and formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.*

* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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: August 5, 2011

/s/ Joseph B. Bower, Jr.
Joseph B. Bower, Jr.
President and Director
(Principal Executive Officer)

DATE: August 5, 2011

/s/ Charles R. Guarino
Charles R. Guarino
Treasurer
(Principal Financial Officer)