

CNB FINANCIAL CORP/PA  
Form DEF 14A  
March 18, 2004

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

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 167;240.14a-12

**CNB FINANCIAL CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

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(4) Date Filed:

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P.O. Box 42

Clearfield, PA 16830

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of CNB FINANCIAL CORPORATION will be held at the County National Bank, One South Second Street, Clearfield, Pennsylvania 16830 on Tuesday, April 20, 2004, at 2:00 P.M. for the following purposes:

1. **ELECTION OF DIRECTORS:** The election of three Class 2 directors to serve until the Annual Meeting in the year 2007 or until their respective successors are elected and qualified.
2. **TRANSACTION OF OTHER BUSINESS:** To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed March 10, 2004, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

The annual report to shareholders for the year ended December 31, 2003, the Proxy Statement and form of proxy for the meeting are enclosed.

YOU ARE URGED TO SIGN, DATE, AND RETURN THE ENCLOSED PROXY WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. PLEASE RETURN THE PROXY AS PROMPTLY AS POSSIBLE. YOU MAY WITHDRAW YOUR PROXY AT ANY TIME BEFORE IT IS VOTED BY SO NOTIFYING THE SECRETARY AND VOTE YOUR SHARES IN PERSON.

By Order of the Board of Directors,

/s/ Joseph B. Bower, Jr.

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Joseph B. Bower, Jr.

*Secretary and Treasurer*

Clearfield, Pennsylvania

March 17, 2004

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS TO BE HELD**

**TUESDAY, APRIL 20, 2004**

CNB Financial Corporation (the Corporation) is a Pennsylvania business corporation and a bank holding company registered with the Federal Reserve Board having its principal offices at County National Bank, Clearfield, Pennsylvania 16830. The subsidiaries of the Corporation are County National Bank (the Bank), CNB Investment Corporation, County Reinsurance Company and CNB Insurance Agency.

The enclosed proxy is being solicited by the Board of Directors of the Corporation for use at the Annual Meeting of Shareholders to be held April 20, 2004. The cost of preparing, assembling and mailing the notice of annual meeting, proxy statement and form of proxy is to be borne by the Corporation. In addition to the solicitation of proxies by use of the mails, directors, officers or other employees of the Corporation may solicit proxies personally or by telephone and the Corporation may request certain persons holding stock in their names or in the names of their nominees to obtain proxies from and send proxy material to the principals and will reimburse such persons for their expenses in so doing. The date on which this proxy statement and the accompanying form of proxy was mailed to shareholders was March 15, 2004.

A quorum for the transaction of business at the annual meeting will require the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the total number of votes entitled to be cast on a particular matter to be acted upon at the meeting. Abstentions and broker non-votes are counted as shares present for determination of a quorum but are not counted as affirmative or negative votes and are not counted in determining the number of votes cast on any matter.

The enclosed proxy is revocable at any time prior to the actual voting of such proxy by the filing of an instrument revoking it, or a duly executed proxy bearing a later date, with the Secretary of the Corporation. In the event your proxy is mailed and you attend the meeting, you have the right to revoke your proxy and cast your vote personally. All properly executed proxies delivered to us pursuant to this solicitation will be voted at the meeting in accordance with your instructions, if any. Unless otherwise directed, proxies will be voted FOR the election as directors of the three nominees named under the caption Election of Directors herein. The Board of Directors is not aware of any other matters which will be presented for action at the meeting, but the persons named in the proxies intend to vote or act according to their discretion with respect to any other proposal which may be presented for action.

The Board of Directors has fixed the close of business on March 10, 2004, as the record date (the Record Date) for determining shareholders entitled to notice of, and to vote at, the meeting. The only securities of the Corporation entitled to vote at the meeting consist of 3,658,809 shares of common stock outstanding on the Record Date.

In the election of directors, each shareholder or a duly authorized proxy will have the right to vote the number of shares owned for each of the three directors to be elected. The three nominees with the highest number of votes will be elected. There is no cumulative voting in the election of directors.

The affirmative vote of a majority of the shares voted on the matter is required for the approval of all other matters, and the shareholders will have one vote for each share held.

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To the knowledge of the Corporation, no single shareholder beneficially owned on the Record Date more than five percent (5%) of the outstanding common stock of the Corporation. At the Record Date, all officers and directors of the Corporation as a group beneficially owned 219,256 shares or 6.0%, and no officer or director beneficially owned more than 1%.

**1. ELECTION OF DIRECTORS**

The Articles of Incorporation of the Corporation provide that the Board of Directors shall consist of not less than nine nor more than twenty-four persons. The Board of Directors has acted to fix the number of directors for the ensuing year at eleven and the number of Class 2 directors at three.

The Articles further provide that the Board shall be classified into three classes with each class consisting of no less than three nor more than eight directors. One class of directors is to be elected annually. The three nominees named below, all of whom are members of the present Board of Directors, are nominated to serve as Class 2 directors to hold office for a three year term expiring at the third succeeding annual meeting (in the year 2007). The persons named in the enclosed proxy will vote FOR the election of the nominees named below unless authority is withheld. Each nominee has consented to be named as a nominee and has agreed to serve if elected. If, for any reason, any of the nominees named below should become unavailable to serve, the enclosed proxy will be voted for the remaining nominees and such other person or persons as the Board of Directors may designate.

**NOMINEES: Three Class 2 directors for a three year term expiring at annual shareholders meeting in the year 2007.**

| <u>Name</u>          | <u>Age</u> | <u>Business Experience<br/>(Past Five Years)</u>   | <u>Director<br/>Since</u> | <u>Shares<br/>Beneficially<br/>Owned <sup>(1) (2)</sup></u> | <u>Acquirable<br/>Within 60<br/>Days <sup>(1)</sup></u> |
|----------------------|------------|--|---------------------------|---|---|
| Dennis L. Merrey     | 55         | Retired. Formerly President<br>Clearfield Powdered Metals, Inc.<br>(Manufacturer)  | 6/4/91                    | 21,364 <sup>(4)</sup>                                       | 1,000   |
| William R. Owens     | 66         | Chairman of the Board<br>Formerly Vice President,<br>Secretary and Treasurer<br>CNB Financial Corporation<br>Formerly President and<br>Chief Executive Officer<br>County National Bank | 2/15/83                   | 20,000  | 500   |
| Deborah Dick Pontzer | 44         | Director of Outreach Services<br>University of Pittsburgh<br>Bradford Campus   | 6/10/03                   | 355   |   |

**The following Class 1 directors terms expire at the time of the annual meeting in 2005.**

|                     |    |   |          |  |        |
|---------------------|----|---|----------|--|--------|
| William F. Falger   | 56 | President and Chief Executive Officer<br>CNB Financial Corporation<br>President and Chief Executive Officer<br>County National Bank | 4/16/96  | 3,691 <sup>(3)(5)</sup><br>26,350 <sup>(6)</sup> | 13,500 |
| James J. Leitzinger | 65 | President Leitzinger Land Company, Inc.<br>(Real Estate Investments)  | 10/4/83  | 10,299 <sup>(3)</sup>                            | 1,000  |
| Jeffrey S. Powell   | 39 | President J. J. Powell, Inc.<br>(Petroleum Distributor)   | 12/27/94 | 14,820 <sup>(3)</sup>                            | 1,000  |
| Peter F. Smith      | 49 | Attorney at Law   | 9/12/89  | 11,610   | 1,000  |

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|               |    |   |        |       |       |
|---------------|----|---|--------|-------|-------|
| James B. Ryan | 56 | Retired, Formerly Vice President of<br>Sales & Marketing<br>Windfall Products, Inc.<br>(Manufacturer) | 2/9/99 | 9,850 | 1,000 |
|---------------|----|---|--------|-------|-------|



**The following Class 3 directors terms expire at the time of the annual meeting in 2006 (or at age 70 as noted).**

|                                       |    |   |         |                             |       |
|---------------------------------------|----|---|---------|-----------------------------|-------|
| Robert E. Brown                       | 62 | Vice President<br>E. M. Brown, Inc.<br>(Coal Producer)  | 2/15/83 | 18,096 <sup>(3)</sup>       | 1,000 |
| James P. Moore<br>(December 8, 2005)  | 68 | Retired, Formerly President and<br>Chief Executive Officer<br>CNB Financial Corporation<br>Formerly Chairman of the Board<br>County National Bank | 4/13/82 | 10,416 <sup>(3)(5)</sup>    | 500   |
| Robert C. Penoyer<br>(August 7, 2004) | 69 | Retired, Formerly President<br>Penoyer Contracting Co., Inc.<br>(Contractor)  | 2/15/83 | 10,914 <sup>(3)(4)(5)</sup> | 1,000 |

**Beneficial Ownership of Other Named Executive Officers:**

|                      |    |  |  |                         |       |
|----------------------|----|--|--|-------------------------|-------|
| Joseph B. Bower, Jr. | 40 | Secretary and Treasurer<br>CNB Financial Corporation<br>Executive Vice President<br>Chief Operating Officer and<br>Chief Financial Officer<br>County National Bank |  | 1,996 <sup>(3)(4)</sup> | 5,625 |
| Mark D. Breakey      | 45 | Senior Vice President and<br>Credit Risk Manager<br>County National Bank   |  | 647                     | 5,000 |
| Donald E. Shawley    | 48 | Senior Vice President and<br>Senior Trust Officer<br>County National Bank  |  | 56,226 <sup>(7)</sup>   | 2,625 |
| Richard L. Sloppy    | 53 | Senior Vice President and<br>Senior Loan Officer<br>County National Bank   |  | 2,622 <sup>(3)(5)</sup> | 1,207 |

All Officers and Directors of the Corporation as a group (15 persons) beneficially owned 255,213 or 6.9%, including shares acquirable within 60 days of Record Date.

(1) Information furnished by directors and executive officers.

(2) The shares beneficially owned by an individual are determined in accordance with the definition of beneficial ownership set forth in the regulations of the Securities and Exchange Commission and include shares as to which the individual has or shares voting or investment power on the Record Date.

(3) This figure includes joint ownership with relatives as to which the director or officer has joint voting or investment powers.

(4) This figure includes indirect ownership of shares as to which the director or officer has voting or investment powers.

- (5) This figure includes shares through a trust or pension plan agreement.
- (6) This figure includes shared voting rights for shares indirectly held in trust for the Bank's 401(k) employees' savings plan.
- (7) This figure includes shared voting rights for shares indirectly held in County National Bank's Trust Department.

## 2. OTHER MATTERS

The Board of Directors does not intend to bring any other matters before the annual meeting and does not know of any matter which anyone proposes to present for action at the meeting. However, if any other matters properly come before the meeting, the persons named in the accompanying proxy, or their duly constituted substitutes acting at the meeting, will be authorized to vote or otherwise act thereon in accordance with their judgment.

### MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held eighteen meetings during 2003. Eleven of the twelve Directors attended the 2003 annual meeting of shareholders.

The Board of Directors of the Corporation and the Board of Directors of the Bank have a number of joint committees that serve both the Corporation and the Bank. These include an Audit Committee, a Personnel Committee, an Executive Compensation Committee and a Nominating Committee.

#### Audit Committee

The Audit Committee met four times in 2003. The Audit Committee appoints the Corporation's independent accountants, reviews and approves the audit plan and fee estimate of the independent public accountants, appraises the effectiveness of the internal and external audit efforts, evaluates the adequacy

and effectiveness of accounting policies and financial and accounting management, supervises the internal auditor, pre-approves all audit and any non-audit services, and reviews and approves the annual financial statements. Members of the Audit Committee are Jeffrey S. Powell, Chairman, Dennis L. Merrey, Robert C. Penoyer, Deborah Dick Pontzer, and James B. Ryan. The Corporation's board adopted a written charter for the Audit Committee on May 3, 2001. It was subsequently reassessed and readopted by the board on August 7, 2003. The current charter is appended to this Proxy Statement as Appendix A.

*Audit Committee Independence.* In the opinion of the Corporation's board, the members of the Audit Committee do not have a relationship with the Corporation or any of its affiliates that would interfere with the exercise of independent judgment in carrying out their responsibilities as directors. None of them is or has for the past three years been an employee of the Corporation or any of its affiliates; no immediate family members of any of them is or has for the past three years been an executive officer of the Corporation or any of its affiliates; and they otherwise meet the standards for independence required by NASDAQ.

*Audit Committee Financial Expert.* The Corporation's board of directors has determined that the audit committee does not have a financial expert serving on the committee, as defined by applicable law. While there are attributes present regarding an understanding of financial statements as well as the ability to assess the proper application of accounting estimates, accruals and reserves, there is no indepth knowledge of generally accepted accounting principles. The committee has the authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities, at the Corporation's expense.

*Non-Audit Services.* The Audit Committee must pre-approve all permitted non-audit services performed by the Corporation's external audit firm. The Audit Committee may delegate such authority to a subcommittee, provided any decisions of the subcommittee are presented to the full Audit Committee at its next scheduled meeting.

*Audit Committee Report.* The Audit Committee has submitted the following report for inclusion in this proxy statement:

The Audit Committee has reviewed the audited financial statements for the year ended December 31, 2003 and has discussed the audited financial statements with management. The Audit Committee has also discussed with Crowe, Chizek and Company LLP, independent accountants, the matters required to be discussed by Statement on Auditing Standards No. 61. The Audit Committee has received the written disclosures and the letter from Crowe, Chizek and Company LLP required by Independence Standards Board Standard No. 1 (having to do with matters that could affect the auditor's independence), and has discussed with Crowe, Chizek and Company LLP the independent accountants independence. Based on this, the Audit Committee recommended to the board that the audited financial statements be included in CNB Financial Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee:

Jeffrey S. Powell, Chairman Dennis L. Merrey Robert C. Penoyer Deborah Dick Pontzer, James B. Ryan

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Exchange Act of 1934 and shall not be deemed filed under that act.

**Executive Compensation Committee**

The Executive Compensation Committee consists of Dennis L. Merrey, Chairman; Robert E. Brown; Jeffrey S. Powell and James B. Ryan. The Committee met nine times during 2003. See EXECUTIVE COMPENSATION Report of the Executive Compensation Committee.

**Nominating Committee**

The Nominating Committee met four times during 2003. The Committee consists of William R. Owens, Chairman; Robert E. Brown; Dennis L. Merrey; James B. Ryan; and Jeffrey S. Powell. The Nominating Committee was established by resolution at the Board of Directors. Its function is to recommend candidates for nomination for election to the Board of Directors. Any shareholder who wishes to have the Committee consider a candidate should submit the name of the candidate, along with any biographical or other relevant information that the shareholder wishes the Committee to consider and the consent of such candidate evidencing his or her willingness to serve as a director, to the President of the Corporation at the address appearing on the first page of this Proxy Statement. All recommendations are subject to the process described below.

Description of Nominating Committee Selection Process

The Committee has the responsibility of reviewing and evaluating candidates for election or appointment to the Board of Directors. The process utilized by the Committee to recommend a candidate consists of first reviewing formal expressions of interest by interested individuals which have been communicated to the Committee. In addition, the Committee obtains input from shareholders, other directors and management regarding other potential candidates who have not indicated interest in a board position.

Utilizing the selection criteria set forth below, the Committee selects a candidate and then conducts an interview in order to further evaluate the individual. Subsequent to the interview the Committee meets to take formal action on the candidate which consists of a recommendation to the Board of Directors for election or appointment. The Board of Directors, exclusive of non-independent directors, either accepts or rejects the Committee recommendation.

#### Nominating Committee Candidate Selection Criteria

The Nominating Committee utilizes various selection criteria to evaluate a candidate for election or appointment to the Board of Directors. The criteria include but are not limited to the following minimum criteria:

1. Residency within the primary market area of County National Bank.
2. Ability and willingness to commit time necessary to fulfill board duties.
3. Strong interest in or familiarity with the financial services industry.
4. Successful background in a business or profession representing a constituency within the Bank's market area.
5. Character and reputation.
6. Under the By-Laws: (i) no shareholder is eligible to serve as a director who does not own at least 350 unencumbered shares of the Corporation's common stock; (ii) no incumbent director may be proposed for nomination to the Board of Directors without approval of 25% of the Board; and (iii) no shareholder, not an incumbent director, may be proposed for nomination to the Board of Directors without approval of two-thirds of the Board.

Directors William R. Owens and William F. Falger are ex officio members of all committees if not otherwise named, except the Audit, Nominating and Executive Compensation Committees as to Mr. Falger.

#### Communications With Directors

Any shareholder who wishes to communicate with the directors (or with any individual director) should send a letter to the directors as follows: ATTN: Corporate Secretary - Communication to Directors, CNB Financial Corp., PO Box 42, Clearfield, PA 16830. The Corporate Secretary will regularly forward all such correspondence to the directors.

## EXECUTIVE COMPENSATION

### Report of the Executive Compensation Committee

The Executive Compensation Committee is composed of four non-employee, independent directors selected from the Board of Directors of the Corporation.

The Committee has the overall responsibility for reviewing, establishing, and administering policies which govern executive compensation programs. It determines the compensation of the chief executive officer and recommends to the Board the compensation of all other officers. In discharging these responsibilities, the Committee seeks to maintain a position of equity with respect to the balancing of interests of the shareholders with those of the executive officers.

At the request of the Committee, executive officers of the Corporation or Bank may be present at Committee meetings for discussion purposes. However, they have no involvement in the decisions made by the Committee, nor do they have a vote on any matters brought before the group. Independent, outside advisors and consultants may also be used from time to time by the Committee in a similar manner.

#### Executive Compensation Philosophy & Policy

The written executive compensation philosophy is an integral part of the Executive Compensation Program since it reflects the attitudes of the Board(s) of Directors toward program participation; peer group comparisons, plan design, etc. Within the overall objectives of equity and regulatory compliance, the philosophy serves to guide the deliberations of the Committee and acts as a standard against which plan performance may be measured.

Executive compensation programs are designed to encourage executive decisions and actions that have a positive impact on the Corporation's overall performance. For that reason, program participation is limited to those individuals who have the greatest opportunity to influence the achievement of strategic corporate objectives.

The pay philosophy defines what the organization will pay for, e.g., performance, job worth, etc. The Committee has established the following parameters for the pay philosophy under the current program:

1. Base compensation levels for the Corporation's executive officers that are competitively set relative to companies in the banking industry of comparable size within a multi-state region including Pennsylvania. The Committee also takes into account individual experience and performance of executive officers relative to the specific needs of the Corporation.
2. Compensation adjustments that are subjective and discretionary on the part of the Committee and the Board(s) of Directors. However, these discretionary adjustments will be made taking into account the overall performance of the Corporation and the individual performance appraisals of the executive officers.

3. Incentive compensation that is based on overall bank and individual performance. This form of compensation is in addition to base salary and is intended to focus management on the achievement of certain financial goals on a yearly basis. It is also designed to have a portion of the executive officers' total compensation at risk relative to the performance of the Corporation.
4. The utilization of non-qualified programs, as defined by the Internal Revenue Code, where these programs are appropriate in meeting shareholder, Corporation, and executive officer interests.
5. Stock incentive plan designed to provide long term incentives with awards that are discretionary by the Board of Directors of the Corporation.

This executive compensation philosophy and policy has been developed to help the Executive Compensation Committee meet the objective of the executive compensation program. To the extent necessary, it will be regularly evaluated and revised in order to meet this objective on an ongoing basis.

#### Executive Compensation Programs

The primary components of the executive compensation program are base salaries and base benefits. Base salaries are defined by taking into account the job responsibilities of the positions, characteristics of the organization, and comparative salary information compiled and reviewed on an annual basis. The Committee regularly reviews the job assignments of the executive officers and analyzes a variety of annually-developed compensation salary survey information in order to maintain executive officer salaries that are equitable and competitive.

Executive officers participate in the normal benefits programs available to employees of the Bank, e.g., pension plan, savings plan, group life, disability, hospitalization, major medical plans, etc. which do not discriminate in favor of officers and are available to all employees.

Beginning in 1995, the Committee established an Executive Incentive Compensation Plan for executive officers. The purpose of this plan is to provide a direct financial incentive in the form of an annual cash bonus to executives to achieve the Corporation's annual goals set at the beginning of the fiscal year. The primary measure utilized in the plan is return on average assets with additional measures for loan growth and quality and trust asset growth and profitability. The Plan is reviewed and updated annually.

Beyond the payment of dues to certain service and social organizations, executive officers do not receive any additional perquisites with the exception of a vehicle provided to Mr. Falger at the expense of the Corporation.

#### Chief Executive Officer Compensation

During 2003, William F. Falger served as President and Chief Executive Officer of CNB Financial Corporation and County National Bank. In determining Mr. Falger's base salary the Executive Compensation Committee reviewed Mr. Falger's performance relative to attainment of corporate goals and objectives such as earnings per share, return on assets and return on equity. Also in determining Mr. Falger's base salary, the Committee took into consideration a comparison of base salaries of chief executive officers of a peer group of financial institutions.

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In addition to base salary, Mr. Falger received a cash bonus for 2003 performance equal to 30% of base salary. This bonus was paid based upon the level of earnings of the Corporation in excess of the median level of earnings achieved by all bank holding companies in the United States with assets in excess of \$500 million but less than \$1.0 billion in accordance with the 2003 Executive Incentive Plan approved in December, 2002.

Mr. Falger was granted an option to purchase 5,000 shares of the Corporation's common stock under the 1999 Stock Incentive Plan. The option price of these shares is \$43.84 per share and the option agreement expires in ten years from the date of the option grant.

The Corporation also provides to Mr. Falger the use of a vehicle as well as the payment of club dues.

### 2003 Executive Compensation Actions

The Committee reviewed the performance of the Chief Executive Officer and other executive officers and established their base salaries for the ensuing year. The Committee also set the performance targets utilized in the Executive Incentive Compensation Plan. In addition, the Committee reviews the non-qualified benefit plans of the executives. The executive officers of the Corporation and/or the Bank are Joseph B. Bower, Jr. Executive Vice President, Chief Operating Officer and Chief Financial Officer, Mark D. Breakey, Senior Vice President and Credit Risk Manager, Donald E. Shawley, Senior Vice President and Senior Trust Officer and Richard L. Sloppy, Senior Vice President and Senior Loan Officer.

When evaluating the salaries, incentive compensation and benefits of the executive officers for 2003, the Committee utilized a comprehensive survey of financial institutions with total assets between \$500 million and \$1.0 billion in a multi-state region including Pennsylvania. The Committee used the Bank Holding Company Performance Report prepared by the Federal Reserve Board in establishing performance targets under the 2003 Executive Incentive Compensation Plan. Incentive awards under the Plan were determined using year end 2003 data for the Corporation and data as of September 30, 2003 for the peer group. Incentives were paid in the first quarter of 2004. In addition, the Committee measures and evaluates the



total cost of executive compensation as a percentage of the Corporation's net income. The Committee reviewed the following comparison for the years shown:

|  |              |
|--|--------------|
| Executive Salaries and bonuses<br>as a % of Net Income | 2003 - 11.6% |
|  | 2002 - 12.2% |
|  | 2001 - 12.8% |
|  | 2000 - 13.5% |

#### Employment Contracts

The Corporation has entered into Executive Employment Contracts with Messrs. Falger and Bower that extend to December 31, 2005. Each contract provides for a base salary to be established annually and for increases, stock options and bonuses as may be awarded from time to time by the Board of Directors. Each contract contains a covenant not to compete with the Corporation for three years following termination of employment and a covenant to protect the Corporation's confidential information. The contracts provide for severance pay in the event of termination without cause, whether or not a change in control has occurred or for voluntary termination under certain specified circumstances following a change in control. The executive officer will be entitled to receive a lump sum cash payment equal to 2.99 times his base salary for the year in which employment ends. An additional 1.5 times the average incentive bonus paid over the last three years would be paid to Messrs. Falger.

#### Code of Ethics

The Board of Directors of the Corporation has approved a Code of Ethics for Officers and the Directors. The Code of Ethics can be found at the Bank's website, [www.bankcnb.com](http://www.bankcnb.com), under the "About Us" heading.

Submitted by the Executive Compensation Committee:

Dennis L. Merrey, Chairman

Robert E. Brown

Jeffrey S. Powell

James B. Ryan

#### Summary Compensation Table

The following table shows, for the fiscal years ended December 31, 2001, 2002, and 2003, the cash compensation paid by the Corporation and its subsidiaries, as well as certain other compensation paid or accrued for those years, to each executive officer of the Corporation whose total annual salary and bonus exceeded \$100,000 for any of these years.

| Name<br>and Principal<br>Position | Annual Compensation |        | Other Annual<br>Compensation | Long-Term<br>Compensation | All Other<br>Compensation |
|-----------------------------------|---------------------|--------|------------------------------|---------------------------|---------------------------|
|                                   | Year                | Salary | Bonus                        | Stock Options             | (\$) <sup>(2)</sup>       |
|                                   |                     | (\$)   | (\$) <sup>(1)</sup>          | (#)                       |                           |

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|  |      |         |        |       |        |
|--|------|---------|--------|-------|--------|
| William F. Falger,                                       | 2003 | 233,000 | 69,900 | 5,000 | 26,441 |
| President and CEO of                                     | 2002 | 226,000 | 90,400 | 5,000 | 50,400 |
|  | 2001 | 220,000 | 77,416 | 5,000 | 46,055 |
| CNB Financial Corp.                                      |      |         |        |       |        |
| President and CEO of County National Bank <sup>(3)</sup> |      |         |        |       |        |
| Joseph B. Bower, Jr.,                                    | 2003 | 125,000 | 37,500 | 2,500 | 19,663 |
| Treasurer of   | 2002 | 108,000 | 43,200 | 2,500 | 16,835 |
|  | 2001 | 100,000 | 35,233 | 2,500 | 15,934 |
| CNB Financial Corp.                                      |      |         |        |       |        |
| Executive Vice President                                 |      |         |        |       |        |
| and CFO of   |      |         |        |       |        |
| County National Bank <sup>(3)</sup>                      |      |         |        |       |        |
| Mark D. Breakey,   | 2003 | 108,000 | 24,975 | 2,000 | 12,610 |
| Senior Vice President                                    | 2002 | 98,000  | 27,563 | 2,000 | 15,206 |
|  | 2001 | 94,000  | 23,568 | 2,000 | 14,749 |
| and Credit Risk Manager                                  |      |         |        |       |        |
| Donald E. Shawley  | 2003 | 98,500  | 14,775 | 1,500 | 16,086 |
| Senior Vice President                                    | 2002 | 94,000  | 18,800 | 1,500 | 14,913 |
|  | 2001 | 90,000  | 18,089 | 1,500 | 14,542 |
| and Senior Trust Officer                                 |      |         |        |       |        |
| Richard L. Sloppy  | 2003 | 96,822  | 19,158 | 2,000 | 14,411 |
| Senior Vice President                                    |      |         |        |       |        |
| and Senior Loan Officer                                  |      |         |        |       |        |

(1) It is the policy of the Corporation to pay dues to certain service and social organizations for the executive officers. The incremental costs of these items were minimal and did not exceed the lesser of 10% of total salary and bonus or \$50,000 for any named executive officer.

(2) Figures stated in this column include contributions to the County National Bank Money Purchase Pension Plan, 401(K) Savings Plan, term life insurance premiums.

(3) The Corporation has employment contracts with Messrs. Falger and Bower. See EXECUTIVE COMPENSATION -Employment Contracts.

**Pension Plan**

The Corporation does not have a retirement plan. The Bank maintains a non-contributory pension plan called The County National Bank Money Purchase Pension Plan. All active officers and full-time employees, 21 years of age or over, employed by the Bank for one year, are participants in the Plan. The salary contribution per participant is 6% of total salary plus 5.7% of salary in excess of \$87,000, but subject to a \$200,000 salary limit. The total annual contribution to the retirement plan for the year 2003 was \$325,000. Employees become vested after five years service with the Bank. Directors other than active officers are not covered by any retirement plan. Retirement funds are held in trust for each employee. Benefits are determined by the employer's contribution over the years and the plan earnings. At the time of retirement, the total value is distributed in one lump sum.

**Savings Plan**

The County National Bank Savings Plan is qualified under Section 401(k) of the Internal Revenue Code. Participants can elect to deposit up to 15% of their annual salary into the Plan. Under the Tax Reform Act, participants' contributions are limited to \$12,000, plus an additional \$1,000 for employees age 50 and over, and also subject to the \$200,000 compensation limit. All officers and employees of County National Bank, including those named in the Summary Compensation Table set forth herein, are eligible to participate in the Plan. The Bank makes matching contributions dollar-for-dollar of the participant's salary deferrals up to 3% of compensation and then a fifty-cents on the dollar matching contribution on salary deferrals from 3% to 5% of compensation in the form of corporation stock. The Bank's total contribution to the savings plan was \$171,000 for the year. All participant's contributions, at the participant's election, are invested among several mutual fund options maintained by the Bank as Trustee during 2003. The Bank's contributions to the Savings Plan in 2003 for the accounts of the officers named in the Summary Compensation Table set forth herein is included as All Other Compensation.

**Stock Incentive Plan**

In 1999, the Corporation's Board of Directors adopted and the stockholders approved the CNB Financial Corporation Stock Incentive Plan. The purpose of the Plan is to advance the development, growth and financial condition of the Corporation by providing incentives through participation in the appreciation of the capital stock in order to secure, retain and motivate personnel responsible for the operation and management of the Corporation and its subsidiaries. On December 9, 2003, the Board of Directors granted to key officers of the Bank qualified options to purchase shares of the Corporation Common Stock at a price of \$43.84 per share. The period of the options is ten (10) years, commencing from the date of the grant. The options are not exercisable until one year from the date of the grant. Shares optioned in 2003 totaled 22,500. The Stock Incentive Plan does not authorize the grant of stock appreciation rights.

**Option Grants**

The following table sets forth information concerning stock options granted in 2003 under the Stock Incentive Plan to the Chief Executive Officer and the other executives of the Corporation named in the Summary Compensation Table:

| Name | Number of<br>Shares<br>Underlying<br>Options<br>Granted | % of Total<br>Options<br>Granted<br>to<br>Employees | Exercise<br>Price<br>(\$/Share) | Expiration<br>Date | Grant<br>Date<br>Present<br>Value (\$) |
|------|---|---|---------------------------------|--------------------|--|
|------|---|---|---------------------------------|--------------------|--|

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|                      |       | in 2003 |       |           |         |
|----------------------|-------|---------|-------|-----------|---------|
| William F. Falger    | 5,000 | 22.2%   | 43.84 | 12/9/2013 | 219,200 |
| Joseph B. Bower, Jr. | 2,500 | 11.1%   | 43.84 | 12/9/2013 | 109,600 |
| Mark D. Breakey      | 2,000 | 8.9%    | 43.84 | 12/9/2013 | 87,680  |
| Donald E. Shawley    | 1,500 | 6.7%    | 43.84 | 12/9/2013 | 65,760  |
| Richard L. Sloppy    | 2,000 | 8.9%    | 43.84 | 12/9/2013 | 87,680  |

**Aggregated Stock Options Exercised During 2003 and Year-End Option Values**

The following table sets forth information concerning the exercise during 2003 of options granted under the Stock Incentive Plan by the five most highly compensated executives of the Corporation named in the Summary Compensation Table and options held by them at year end:

| Name              | Number of Shares Acquired On Exercise | Value Realized on Shares Acquired <sup>(1)</sup> | Number of Shares Underlying Unexercised Options at December 31, 2003 |               | Value of Unexercised In-the-Money Options on December 31, 2003 <sup>(2)</sup> |               |
|-------------------|---------------------------------------|--|--|---------------|---|---------------|
|                   |                                       |  | Exercisable  | Unexercisable | Exercisable   | Unexercisable |
| William F. Falger | 0                                     |  |  |               |   |               |