COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-Q
August 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-18676

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-1623213
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
900 LIGONIER STREET LATROBE, PA	15650
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (724) 539-3501

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files).
Yes[ ] No [ ]

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

Large Accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller Reporting Company [X]

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

[ ]YES [X] NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

CLASS	OUTSTANDING AT August 1, 2011
Common Stock, $2 Par Value	2,860,953 Shares

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PART I - FINANCIAL INFORMATION

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share amounts)

	June 30, 2011 (unaudited)	December 31, 2010 (unaudited)
ASSETS		
Cash and due from banks	$6,949	$5,578
Interest bearing deposits with banks	11	16
Total cash and cash equivalents	6,960	5,594
Investment securities available for sale	159,026	131,159
Restricted investments in bank stock	3,916	4,339
Loans receivable	190,858	191,906
Allowance for loan losses	(1,683)	(1,686)
Net loans	189,175	190,220
Premises and equipment, net	3,192	3,323
Accrued interest receivable	2,052	1,519
Investment in life insurance	15,715	15,471
Other assets	2,101	3,852
Total assets	$382,137	$355,477
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (all domestic):		
Non-interest bearing	$87,711	$77,209
Interest bearing	202,724	199,285
Total deposits	290,435	276,494
Short-term borrowings	30,125	17,700
Long-term borrowings	10,000	10,000
Other liabilities	3,563	5,271
Total liabilities	334,123	309,465
Shareholders' equity:		
Common stock, par value $2 per share; 10,000,000 shares authorized; 3,600,000 issued; 2,860,953 shares outstanding in 2011 and 2010	7,200	7,200
Retained earnings	48,795	47,207
Accumulated other comprehensive income	4,563	4,149
Treasury stock, at cost, 739,047 shares in 2011 and 2010	(12,544)	(12,544)

Total shareholders' equity	48,014	46,012
Total liabilities and shareholders' equity	$382,137	$355,477

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	Three Months Ended June 30 (unaudited)		Six Months Ended June 30 (unaudited)	
	2011	2010	2011	2010
INTEREST INCOME:				
Interest and fees on loans	$ 2,666	$ 2,854	$ 5,383	$ 5,774
Interest and dividends on investments:				
Taxable	887	1,165	1,810	2,488
Exempt from federal income taxes	910	590	1,638	1,038
Other	1	1	1	2
Total interest income	4,464	4,610	8,832	9,302
INTEREST EXPENSE:				
Interest on deposits	475	633	960	1,283
Interest on short-term borrowings	11	36	29	77
Interest on long-term borrowings	59	59	118	118
Total interest expense	545	728	1,107	1,478
NET INTEREST INCOME	3,919	3,882	7,725	7,824
PROVISION FOR LOAN LOSSES	0	0	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,919	3,882	7,725	7,824
OTHER INCOME:				
Trust department income	254	217	506	429
Service charges on deposit accounts	270	298	526	570
Income from investment in life insurance	121	122	244	243
Other income	80	62	143	170
Total other operating income	725	699	1,419	1,412
OTHER EXPENSES:				
Salaries and employee benefits	1,516	1,490	3,101	3,009
Net occupancy	200	199	414	426
Furniture and equipment expense	104	135	213	277
Pennsylvania shares tax	127	126	253	252
Legal and professional	129	115	222	239
FDIC insurance	83	85	170	167

Other expenses	738	720	1,413	1,427
Total other operating expenses	2,897	2,870	5,786	5,797
INCOME BEFORE INCOME TAXES	1,747	1,711	3,358	3,439
Income tax expense	260	330	511	708
NET INCOME	$ 1,487	$ 1,381	$ 2,847	$ 2,731
Average Shares Outstanding	2,860,953	2,860,953	2,860,953	2,860,953
EARNINGS PER SHARE, BASIC	$ 0.52	$ 0.48	$ 1.00	$ 0.95
Dividends Paid Per Share	$ 0.22	$ 0.22	$ 0.44	$ 0.44

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands, except per share data)
(unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2010	$7,200	$47,207	$(12,544)	$ 4,149	$ 46,012
Comprehensive Income					
Net income	0	2,847	0	0	2,847
Other comprehensive income, net of tax:					
Unrealized net gains on securities	0	0	0	414	414
Total Comprehensive income					3,261
Cash dividends paid					
$0.44 per share	0	(1,259)	0	0	(1,259)
Balance at June 30, 2011	$7,200	$48,795	$(12,544)	$ 4,563	$ 48,014
Balance at December 31, 2009	$7,200	$44,223	$(12,544)	$ 4,613	$ 43,492
Comprehensive Income					
Net income	0	2,731	0	0	2,731
Other comprehensive income, net of tax:					
Unrealized net gains on securities	0	0	0	512	512
Total Comprehensive income					3,243
Cash dividends paid					
$0.44 per share	0	(1,259)	0	0	(1,259)
Balance at June 30, 2010	$7,200	$45,695	$(12,544)	$ 5,125	$ 45,476

The accompanying notes are an integral part of these consolidated financial statements.

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COMMERCIAL NATIONAL FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For Six Months Ended June 30 2011	For Six Months Ended June 30 2010
OPERATING ACTIVITIES		
Net income	$2,847	$2,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	164	209
Loss on sale of securities	0	5
Amortization of intangibles	49	49
Net accretion of loans and securities	(33)	(86)
Income from investment in life insurance	(244)	(243)
Decrease (increase) in other assets	1,190	(71)
Decrease in other liabilities	(1,921)	(278)
Net cash provided by operating activities	2,052	2,316
INVESTING ACTIVITIES		
Purchase of securities	(36,022)	(21,754)
Maturities and calls of securities	8,815	22,766
Redemption of restricted investments in bank stock	423	0
Net decrease in loans	1,023	6,982
Proceeds from sale of foreclosed real estate	1	2
Purchase of premises and equipment	(33)	(109)
Net cash provided by (used in) investing activities	(25,793)	7,887
FINANCING ACTIVITIES		
Net increase in deposits	13,941	4,649
Increase (decrease) in other short-term borrowings	12,425	(14,200)
Dividends paid	(1,259)	(1,259)
Net cash provided by (used in) financing activities	25,107	(10,810)
Increase (decrease) in cash and cash equivalents	1,366	(607)
Cash and cash equivalents at beginning of year	5,594	6,741
Cash and cash equivalents at end of quarter	$6,960	$6,134
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,144	$1,533
Income Taxes	$625	$800

The accompanying notes are an integral part of these consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011

Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation (the Corporation) and its wholly owned subsidiaries, Commercial Bank & Trust of PA (the "Bank") and Ridge Properties, Inc. All material intercompany transactions have been eliminated.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. However, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2010, including the notes thereto. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of financial position as of June 30, 2011 and the results of operations for the three and six-month periods ended June 30, 2011 and 2010. The results of operations for the three and six- months ended June 30, 2011 are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain comparative amounts for the prior year have been reclassified to conform to current year classifications. Such classifications had no effect on net income or changes in shareholders' equity.

Note 2 Credit Quality Indicators

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable is charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 90 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The following discusses key risk within each portfolio segment:

Commercial, industrial and other financing – these loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

Commercial real estate – These loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as strip malls and apartment buildings. Individual projects as well as global cash flows are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

Residential mortgages – These are loans secured by 1-4 family residences, including purchase money mortgages. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Loans to individuals – Loans made to individuals may be secured by junior lien positions on a borrower's primary residence or other assets of the borrower, as well as unsecured loans. This segment includes home equity loans, auto loans, and secured or unsecured lines. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are not collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for twelve consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance for loan loss calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets which do not currently expose the insured institution to sufficient risk, warrant classification as pass. Assets that are not classified as pass and possess weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of June 30, 2011:

(Dollars in Thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial,					
Industrial & Other	$40,295	$83	$ 298	$0	$40,676
Commercial real estate	51,854	4,999	7,488	0	64,341
Residential mortgages	63,309	0	143	0	63,452
Loans to Individuals	22,346	43	0	0	22,389
Total	$177,804	$5,125	$ 7,929	$0	$190,858

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2010:

(Dollars in Thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial,					
Industrial & Other	$35,802	$90	$ 353	$0	$36,245
Commercial real estate	50,554	5,362	7,613	0	63,529
Residential mortgages	68,498	105	152	0	68,755
Loans to Individuals	23,331	46	0	0	23,377
Total	$178,185	$5,603	$ 8,118	$0	$191,906

Past due loans are reviewed on a monthly basis to identify loans for non-accrual status. The Corporation generally places a loan on non-accrual status and discontinues interest accruals when principal or interest is due and has remained unpaid for 90 days. When a loan is placed on non-accrual status, all unpaid interest recognized in the current year is reversed and interest accrued in prior years is charged to the allowance for loan losses. Non-accrual loans may not be restored to accrual status until all delinquent principal and interest have been paid and the ultimate collectability of the remaining principal and interest is reasonably assured.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2011:

(Dollars in Thousands)

	30-89 Days Past Due	>90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Commercial						
Commercial,						
Industrial & Other	$0	$0	$ 0	$0	$40,676	$40,676
Commercial real estate	0	793	16	809	63,532	64,341
Residential mortgages	50	0	103	153	63,299	63,452
Loans to individuals	68	0	31	99	22,290	22,389
Total	$118	$793	$ 150	$1,061	$189,797	$190,858

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2010:

(Dollars in Thousands)

	30-89 Days Past Due	>90 Days Past Due and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Commercial						
Commercial,						
Industrial & Other	$0	$0	$ 0	$0	$36,245	$36,245
Commercial real estate	0	0	16	16	63,513	63,529
Residential mortgages	6	0	99	105	68,650	68,755
Loans to individuals	29	0	34	63	23,314	23,377
Total	$35	$0	$ 149	$184	$191,722	$191,906

Loans on which the accrual of interest has been discontinued amounted to $150,000 and $149,000 at June 30, 2011 and December 31, 2010, respectively. There were $793,000 in loan balances past due 90 days or more and still accruing interest at June 30, 2011 and no loan balances past due 90 days or more and still accruing interest at December 31, 2010.

The following table summarizes information in regards to impaired loans by loan portfolio class as of June 30, 2011.

(Dollars in Thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial			
Commercial,			
Industrial & Other	$79	$79	$0
Commercial real estate	1,048	1,048	0
Residential mortgages	35	35	0
Loans to Individuals	0	0	0
Subtotal	1,162	1,162	0
With an allowance recorded:			
Commercial			
Commercial,			
Industrial & Other	171	171	17
Commercial real estate	471	471	47
Residential mortgages	0	0	0
Loans to Individuals	0	0	0
Subtotal	642	642	64
Total	$1,804	$1,804	$64

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2010.

(Dollars in Thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial			
Commercial,			
Industrial & Other	$44	$44	$0
Commercial real estate	317	317	0
Residential mortgages	40	40	0
Loans to Individuals	0	0	0
Subtotal	401	401	0

With an allowance recorded:			
Commercial			
Commercial,			
Industrial & Other	236	236	26
Commercial real estate	741	741	87
Residential mortgages	0	0	0
Loans to Individuals	0	0	0
Subtotal	977	977	113
Total	$1,378	$1,378	$113

At June 30, 2011 and December 31, 2010, the total recorded investment in loans considered to be impaired was $1,804,000 and $1,378,000, respectively. Impaired loans with balances of $642,000 and $977,000 at June 30, 2011 and December 31, 2010 had related allowance for loan losses of $64,000 and $113,000, respectively.

The following table summarizes the average balance and interest income of loans individually evaluated for impairment by loan portfolio class as of June 30, 2011.

	Three-months ended June 30, 2011		Six-months ended June 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)			
With no related allowance recorded:				
Commercial				
Commercial,				
Industrial & Other	$81	$1	$83	$3
Commercial real estate	1,052	18	1,057	37
Residential mortgages	35	0	37	1
Loans to Individuals	0	0	0	0
Subtotal	1,168	19	1,177	41
With an allowance recorded:				
Commercial				
Commercial,				
Industrial & Other	174	2	180	5
Commercial real estate	472	8	474	14
Residential mortgages	0	0	0	0
Loans to Individuals	0	0	0	0
Subtotal	646	10	654	19
Total	$1,814	$29	$1,831	$60

The average recorded investment in impaired loans for the three and six-months ended June 30, 2011 was $1,814,000 and $1,831,000, respectively. Interest income on impaired loans of $29,000 and $60,000 was recognized for the three and six-months ended June 30, 2011, respectively.

The following table provides detail related to the allowance for loan losses:

Three-months ended
June 30, 2011
(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for credit losses:						
Beginning Balance	$186	$1,161	$105	$29	$205	$1,686
Charge-offs	0	0	(3)	0	0	(3)
Recoveries	0	0	0	0	0	0

Provision	13	(22)	0	9	0	0
Ending Balance	$199	$1,139	$102	$38	$205	$1,683

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Six-months ended
June 30, 2011
(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for credit losses:						
Beginning Balance	$107	$1,378	$110	$31	$60	$1,686
Charge-offs	0	0	(3)	0	0	(3)
Recoveries	0	0	0	0	0	0
Provision	92	(239)	(5)	7	145	0
Ending Balance	$199	$1,139	$102	$38	$205	$1,683

The following table provides detail related to the allowance for loan losses and recorded investment in financing receivables as of June 30, 2011:

(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for credit losses:						
Ending balance: individually evaluated for impairment	$ 17	$ 47	$ 0	$ 0	$ 0	$ 64
Ending balance: collectively evaluated for impairment	$ 182	$ 1,092	$ 102	$ 38	$ 205	$ 1,619
Ending balance: loans acquired with deteriorated credit quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans receivable:						
Ending Balance	$ 40,676	$ 64,341	$ 63,452	$22,389	$ 0	$190,858
Ending balance: individually evaluated for impairment	$ 250	$ 1,519	$ 35	$ 0	$ 0	$ 1,804
Ending balance: collectively evaluated for	$ 40,426	$ 62,822	$ 63,417	$22,389	$ 0	$189,054

impairment												
Ending balance: loans acquired with deteriorated credit quality	$	0	$	0	$	0	$	0	$	0	$	0

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The following table provides detail related to the allowance for loan losses and recorded investment in financing receivables as of December 31, 2010:

(Dollars in Thousands)

	Commercial, Industrial & Other	Commercial Real Estate	Residential Mortgages	Loans to Individuals	Unallocated	Total
Allowance for credit losses:						
Ending balance: individually evaluated for impairment	$ 26	$ 87	$ 0	$ 0	$ 0	$ 113
Ending balance: collectively evaluated for impairment	$ 81	$ 1,291	$ 110	$ 31	$ 60	$ 1,573
Ending balance: loans acquired with deteriorated credit quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans receivable:						
Ending Balance	$ 36,245	$ 63,529	$ 68,755	$ 23,377	$ 0	$191,906
Ending balance: individually evaluated for impairment	$ 280	$ 1,058	$ 40	$ 0	$ 0	$ 1,378
Ending balance: collectively evaluated for impairment	$ 35,965	$ 62,471	$ 68,715	$ 23,377	$ 0	$190,528
Ending balance: loans acquired with deteriorated credit quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Note 3 - Securities

The amortized cost and fair values of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
June 30, 2011:				
Obligations of states and political subdivisions	$100,716	$1,929	$(476)	$102,169
Mortgage-backed securities	51,396	5,461	0	56,857
	$152,112	$7,390	$(476)	$159,026
December 31, 2010:				
Obligations of states and political subdivisions	$64,691	$937	$(180)	$65,448
Mortgage-backed securities	60,181	5,530	0	65,711
	$124,872	$6,467	$(180)	$131,159

The amortized cost and fair value of securities at June 30, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$0	$0
Due after one year through five years	0	0
Due after five years through ten years	380	383
Due after ten years	100,336	101,786
Mortgage Backed Securities	51,396	56,857
	$152,112	$159,026

The following tables show the Corporation’s gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	June 30, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Obligations of states and political subdivisions	$ 25,440	$ (462)	$ 1,246	$ (14)	$ 26,686	$ (476)

	December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Obligations of states and political subdivisions	$11,183	$ (180)	$ 0	$ 0	$11,183	$ (180)

The Corporation reviews its position quarterly to determine if there is Other-Than-Temporary Impairment (OTTI) on any of its securities. All of the Corporation's securities are debt securities and we assess whether OTTI is present when the fair value of a security is less than its amortized cost basis. The Corporation monitors the credit ratings of all securities for downgrades as well as any other indication of OTTI condition. As of June 30, 2011 there were eighteen (18) municipal bonds in an unrealized loss position. These unrealized losses are considered to be temporary impairments. The decline in the value of these debt securities is due only to interest rate fluctuations and not any deterioration in credit quality. As a result, the Corporation currently expects full payment of contractual cash flows, including principal from these securities.

Note 4 Comprehensive Income

The components of other comprehensive income and related tax effects for the three and six-month periods ended June 30, 2011 and 2010 are as follows: (dollars in thousands)

	For three-months ended June 30		For six-months ended June 30	
	2011	2010	2011	2010
Unrealized gains on securities available for sale	$195	$354	$627	$771
Reclassification adjustment for loss realized in income	0	5	0	5
Net Unrealized Gains	195	359	627	776
Tax effect	(67)	(122)	(213)	(264)
Net of Tax Amount	$128	$237	$414	$512

Note 5 Legal Proceedings

Other than proceedings which occur in the normal course of business, there are no legal proceedings to which either the Corporation or its subsidiaries is a party, which, in the opinion of management, will have any material effect on the financial position or results of operations of the Corporation and its subsidiaries.

Note 6 Guarantees

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Bank to secure the performance of a customer to a third party. Of these letters of credit, $243,000 automatically renews within the next twelve months. The Bank, generally, holds collateral and/or personal guarantees supporting these commitments. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The current amount of the liability as of June 30, 2011 for guarantees under standby letters of credit issued is not material.

Note 7 Earnings per share

The Corporation has a simple capital structure. Basic earnings per share equals net income divided by the weighted average common shares outstanding during each period presented. The weighted average common shares outstanding for the three and six-months ended June 30, 2011 and 2010 was 2,860,953.

Note 8 New Accounting Standards

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements, which clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The ASU also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The ASU also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Corporation has determined that the adoption of this ASU will not have a material impact on its statement of financial condition and statement of income.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2011-05, Presentation of Comprehensive Income, which prohibits the presentation of the components of comprehensive income in the statement of stockholder's equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate, but consecutive, statements of net income and other comprehensive income. Under previous GAAP, all 3 presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for fiscal years and interim periods beginning after December 31, 2011. As the two remaining options for presentation existed prior to the issuance of this ASU, early adoption is permitted. The Corporation has determined that the adoption of this ASU will not have a material impact on its statement of financial condition and statement of income.

Note 9 Restricted Investment in Bank Stock

Federal law requires the Bank, a member institution of the Federal Home Loan Bank system, to hold stock of its district Federal Home Loan Bank (FHLB) according to a predetermined formula. This restricted stock is carried at cost and as of June 30, 2011, consists of the common stock of FHLB of Pittsburgh. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. The FHLB of Pittsburgh repurchased 5% or $228,000 of capital stock from the Corporation in 2010. The FHLB of Pittsburgh repurchased 5% or $217,000 of capital stock from the Corporation in February 2011, an additional 5% or $206,000 of capital stock from the Corporation in April 2011 and an additional 5% or $196,000 of capital stock from the Corporation in July 2011. The FHLB dividend suspension remains in effect.

The Corporation evaluates impairment in FHLB stock when certain conditions warrant further consideration. In December 2008, the FHLB voluntarily suspended dividend payments on its stock as well as the repurchase of excess stock from members. The FHLB stated that this was due to a reduction in core earnings and concern over the FHLB's capital position. After evaluating such factors as the capital adequacy of the FHLB, its overall operating performance and the FHLB's liquidity and funding position, the Corporation concluded that the par value was ultimately recoverable and no impairment charge was recognized at June 30, 2011.

Management believes no impairment charge is necessary related to the FHLB stock as of June 30, 2011. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 10 Fair Value Measurements and Fair Value of Financial Instruments

FASB ASC-820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC-820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical,unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, forsubstantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement andunobservable (ie., supported with little or no market activity).

For assets measured at fair value on a recurring basis, the fair value measurement by level within the fair value hierarchy are as follows:

	(Level 1) Quoted Prices In active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)			
June 30, 2011:			
Obligations of states and political subdivisions	$ 0	$ 102,169	$ 0
Mortgage-backed securities	0	56,857	0
	$ 0	$ 159,026	$ 0
December 31, 2010:			
Obligations of states and political subdivisions	$ 0	$ 65,448	$ 0
Mortgage-backed securities	0	65,711	0
	$ 0	$ 131,159	$ 0

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The Level 3 disclosures shown below represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination of fair value. There were no realized or unrealized gains or losses relating to Level 3 financial assets and liabilities measured on a nonrecurring basis for the quarter ended June 30, 2011 and December 31, 2010.

For assets measured at fair value on a nonrecurring basis, the fair value measurement by level within the fair value hierarchy used are as follows:

	(Level 1) Quoted Prices In active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)			
June 30, 2011:			
Impaired Loans	$ 0	$ 0	$ 578
December 31, 2010:			
Impaired Loans	$ 0	$ 0	$ 864

Impaired loans at June 30, 2011, which are measured using the fair value of the collateral less estimated costs to sell for collateral-dependent loans, had a carrying amount of $642,000 with a valuation allowance of $64,000.

Impaired loans at December 31, 2010, which are measured using the fair value of the collateral less estimated costs to sell for collateral-dependent loans, had a carrying amount of $977,000 with a valuation allowance of $113,000.

The impaired loans at June 30, 2011 have declined due to one borrower's improved cash flow position.

ASC 825-10-65, Transition Related to FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are as discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

The carrying amounts and fair values of the Corporation's financial instruments as of June 30, 2011 and December 31, 2010 are presented in the following table:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and equivalents	$ 6,960	$ 6,960	$ 5,594	$ 5,594
Securities available for sale	159,026	159,026	131,159	131,159
Restricted investments in bank stock	3,916	3,916	4,339	4,339
Net loans receivable	189,175	187,761	190,220	191,109
Accrued interest receivable	2,052	2,052	1,519	1,519
Financial liabilities:				
Deposits	$290,435	$284,767	$276,494	$272,035
Short-term borrowings	30,125	30,125	17,700	17,700
Long-term borrowings	10,000	10,155	10,000	10,172
Accrued interest payable	294	294	331	331
Off-balance sheet financial instruments	0	0	0	0

The following methods and assumptions were used by the Corporation in estimating the fair value disclosures for financial instruments:

Cash and Short-Term Investments

The carrying amounts for cash and short-term investments approximate the estimated fair values of such assets.

Securities

The Corporation utilizes a third party in determining the fair values for securities held as available for sale. For the Corporation's agency mortgage backed securities, the third party utilizes market data, pricing models that vary based on asset class and include available trade, bid and other market information. Methodology includes broker quotes and proprietary models. The third party uses their own proprietary valuation Matrices in determining fair values for municipal bonds. These Matrices utilize comprehensive municipal bond interest rate tables daily to determine market price, movement and yield relationships.

Restricted Investment in Bank Stock

The carrying amounts of restricted investments in bank stock approximate the estimated fair value of such assets.

Loans Receivable

Fair values of variable rate loans subject to frequent repricing and which entail no significant credit risk are based on the carrying values. The estimated fair values of other loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Deposits

For deposits which are payable on demand at the reporting date, representing all deposits other than time deposits, management estimated that the carrying value of such deposits is a reasonable estimate of fair value. Fair values of time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregate expected maturities.

Short-Term Borrowings

The carrying amounts for short-term borrowings approximate the estimated fair value of such liabilities.

Long-Term Borrowings

Fair values of long-term borrowings are estimated by discounting the future cash flows using interest rates currently available for borrowings with similar terms and maturity.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable is considered a reasonable estimate of fair value.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and for outstanding letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

Note 11 Subsequent Events

The Corporation has evaluated subsequent events through the date these consolidated financial statements were filed with the Securities and Exchange Commission. We have incorporated into these consolidated financial statements the effect of all material known events determined by ASC Topic 855, “Subsequent Events,” to be recognizable events.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT

Forward-looking statements (statements which are not historical facts) in this Quarterly Report on Form 10-Q are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as “may,” “will,” “to,” “expect,” “believe,” “anticip “intend,” “could,” “would,” “estimate,” or “continue” or the negative or other variations thereof or comparable terminology intended to identify forward-looking statements. These statements are based on information currently available to the Corporation, and the Corporation assumes no obligation to update these statements as circumstances change. Investors are cautioned that all forward-looking statements involve risk and uncertainties, including changes in general economic and financial market conditions, unforeseen credit problems, and the Corporation’s ability to execute its business plans. The actual results of future events could differ materially from those stated in any forward-looking statements herein.

CRITICAL ACCOUNTING ESTIMATES

Disclosure of the Corporation’s significant accounting policies is included in Note 1 to the Corporation’s Consolidated Financial Statements contained in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Annual Report). Some of these policies are particularly sensitive, requiring that significant judgments, estimates and assumptions be made by management. Additional information is contained in the Management’s Discussion and Analysis section of the 2010 Annual Report for the most sensitive of these issues, including the provision and allowance for loan losses.

Significant estimates are made by management in determining the allowance for loan losses. Management considers a variety of factors in establishing these estimates, including current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, financial and managerial strengths of borrowers, adequacy of collateral (if collateral dependent) and other relevant factors. Estimates related to the value of collateral also have a significant impact on whether or not the Corporation continues to accrue income on delinquent loans and on the amounts at which foreclosed real estate is recorded in the Consolidated Statements of Financial Condition. Management discussed the development and selection of critical accounting estimates and related Management and Discussion and Analysis disclosure with the Corporation’s Audit Committee. There were no material changes made to the critical accounting estimates during the periods presented within.

OVERVIEW

The Corporation had net income of $2.8 million or $1.00 per share, for the six months ended June 30, 2011 compared to $2.7 million or $0.95 per share for the six months ended June 30, 2010. The Corporation's return on average assets for the first half of 2011 and 2010 was 1.56% and 1.47%, respectively. Return on average equity for the same two periods was 12.11% and 12.33%, respectively.

The Corporation's largest segment of operating results is dependent upon net interest income. Net interest income is interest earned on interest-earning assets less interest paid on interest-bearing liabilities. For the six months ended June 30, 2011 and 2010, net interest income was $7.7 million and $7.8 million, respectively.

FINANCIAL CONDITION

The Corporation's total assets increased by $26.7 million, or 7.50% from December 31, 2010 to June 30, 2011. Total cash and cash equivalents increased by $1.4 million and investment securities available for sale increased by $27.9 million. The increase in investments was mainly due to the purchase of $36.0 million in municipal bonds, $8.8 million in principal pay-downs on mortgage-backed securities and a $627,000 increase in fair value of securities. Net loans outstanding decreased by $1.0 million. The Corporation experienced loan declines in residential mortgages, these declines were partially offset by an increase in commercial loans.

The Corporation's total deposits increased $13.9 million or 5.00% from December 31, 2010 to June 30, 2011. The non-interest bearing deposits increased by $10.5 million and the interest bearing deposits increased by $3.4 million. The increase in non-interest bearing deposits is a result of customers maintaining higher average balances in their checking accounts. The increase in the interest bearing deposits was due to increases in checking with interest accounts and savings accounts partially offset by decreases in certificate of deposits and money market accounts.

The decrease in the certificates of deposits was due to the Corporation maintaining a conservative position when pricing certificate of deposits. The Corporation attributes the increase in the other interest bearing liability accounts to customers placing their funds in liquid, FDIC insured accounts that provide flexibility and safety.

Shareholders' equity was $48.0 million on June 30, 2011 compared to $46.0 million on December 31, 2010. Total shareholders' equity increased due to the following; the $2.8 million in net income, a $414,000 increase in other comprehensive income, due to increases in the fair value of securities available for sale and a $1.3 million decrease from cash dividends paid to shareholders. Book value per common share increased from $16.08 at December 31, 2010 to $16.78 at June 30, 2011.

RESULTS OF OPERATIONS

First Six Months of 2011 as compared to the First Six Months of 2010

Net income for the first six months of 2011 was $2.8 million compared to $2.7 million for the same period of 2010, representing a 3.70% increase.

Interest income for the six months ended June 30, 2011 was $8.8 million, compared with $9.3 million in 2010. Loan income for the six months ended June 30, 2011 was $5.4 million compared to $5.8 million in 2010. The decrease in loan income was due to lower average loan balances and lower yields in 2011 compared to 2010. Average loans outstanding in 2011 were $9.6 million lower than 2010; loan yields for the first six months of 2011 decreased twelve

(12) basis points to 5.62%. This decrease in the loan yield is due to lower market rates for new loans. The security portfolio of the Corporation is significantly different in composition for the first six months of 2011 compared with 2010. The Corporations' average balance for tax-free municipal bonds was $74.6 million in 2011 compared with $48.2 million in 2010. These bonds provided a significant benefit of decreasing the Corporation's effective tax rate in 2011. Investment income from securities decreased $78,000 or 2.20% for the six months ended June 30, 2011 compared with the same period in 2010. The average securities balances increased 2.32% in 2011 compared to 2010. The yield on total average earning assets for the first six months of 2011 and 2010 was 5.34% and 5.52%, respectively.

Total interest expense of $1.1 million for the first six months of 2011 decreased $371,000 or 25.10% compared with the first six months of 2010. The average interest bearing liabilities in 2011 were $231.5 million, a decrease of 7.59% from the 2010 average. The cost of interest bearing liabilities decreased from 1.18% in 2010 to 0.96% in 2011. This decrease in interest cost is due to lower market rates for deposits and lower Federal Home Loan Bank (FHLB) borrowing costs in 2011 compared with 2010.

As a result of the foregoing, net interest income for the first six months of 2011 was $7.7 million compared to $7.8 million for the first six months of 2010.

The Corporation did not record a loan loss provision expense for the six months ended June 30, 2011 or June 30, 2010.

Other non-interest income held steady at $1.4 million for the first six months of 2011, the same as 2010. The changes within other income were; trust income increased by $77,000 in 2011, mainly due an increase in market values on the assets held in the trust department, which resulted in higher asset revenue. Service charges on deposit accounts decreased by $44,000 compared to first six months of 2010 due to a $69,000 decrease in overdraft fees on checking accounts, offset by a $25,000 increase in debit card fees. The Corporation attributes the decline in overdraft fess to customers' being cautious and maintaining higher balances in their accounts. Other income decreased $27,000 in 2011, mainly due to a write-down in market value of $47,000 on other real estate owned.

Operating expenses held steady at $5.8 million for the first six months of 2011, with no increase compared with 2010. Within operating expenses, the following changes in expenses occurred. Salaries and employee benefit costs increased by $92,000, the majority of the $92,000 increases was an $11,000 increase in salaries, a $13,000 increased in retirement costs and a $49,000 increase in health insurance. Net occupancy decreased slightly by $12,000. Furniture and equipment expense decreased by $64,000 in 2011, mainly due a $20,000 decrease in equipment supplies, a $18,000 decrease in equipment depreciation and a $23,000 decrease in computer software amortization expense. Legal and professional fees decreased slightly by $17,000 and other expenses also decreased slightly by $14,000.

Federal income tax for the first six months of 2011 was $511,000 compared to $708,000 for the same period in 2010. The effective tax rates for the first six months of 2011 and 2010 were 15.21% and 20.59%, respectively. The effective tax rates are lower than the federal statutory rate of 34% due principally to income from tax-exempt securities, loans, and bank owned life insurance. The significant decrease in the effective tax rate is due to a major shift in the investment portfolio. In 2011, the average tax-free municipal bonds for the first six months were $74.6 million compared with an average of $48.2 million for the first six months of 2010.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2011 as Compared to the Three Months Ended June 30, 2010

The Corporation's net income for the three months ended June 30, 2011 was $1.5 million compared to $1.4 million for the same period of 2010, representing a 7.14% increase.

Interest income for the three months ended June 30, 2011 was $4.5 million, compared with $4.6 million for the three months ending June 30, 2010. Loan income decreased in 2011 due to average loan balances decreasing 4.18% in 2011 compared with 2010 and yields moved lower, from 5.73% in 2010 to 5.58% in 2011. The security portfolio of the Corporation is significantly different in composition for the three months ending June 30, 2011 compared with the same period in 2010. The Corporation increased its municipal bond holdings in 2011 compared with 2010. These bonds provided a significant benefit of decreasing the Corporation's effective tax rate in 2011. Security income for the three months ended June 30, 2011 was higher by $43,000 compared with same period 2010. The average securities balances increased 6.43% in 2011 compared to 2010. The yield on total average earning assets for the first three months of 2011 decreased eighteen (18) basis points to 5.31% compared to 2010.

Total interest expense of $545,000 for second quarter of 2011 decreased by $183,000 or 25.14% from the second quarter of 2010. In the second quarter of 2011, the average interest-bearing liabilities balances decreased 5.31% compared with 2010 and the cost of these liabilities decreased to 0.93% in 2011 from 1.18% in 2010. The cost of interest-bearing liabilities declined in 2011 due to lower market rates for deposit accounts. The Corporation's FHLB borrowing costs also declined.

As a result of the foregoing, net interest income for the three months ending June 30, 2011 was $3.9 million, the same as June 30, 2010.

The Corporation recorded no provision for loan losses for the second quarter of 2011 and 2010, respectively.

Other non-interest income increased by $26,000 or 3.72% to $725,000 for the three months ended June 30, 2011 compared with the same period 2010. Trust income increased $37,000 due to an increase in market values on assets under management. Service charges on deposit accounts decreased by $28,000, mainly due to lower overdraft fees and other income increased by $18,000.

Other expenses were $2.9 million for the three months ended June 30, 2011, the same as 2010. Changes within other expenses were; salaries and employee benefits increased by $26,000, in large part, due to a $16,000 increase in health insurance cost for the second quarter 2011 compared with 2010. Furniture and equipment expense decreased $31,000, mainly due to lower equipment depreciation and lower software amortization expense. Legal and professional fees increased slightly by $14,000 and other expenses increased by $18,000.

Federal income tax for the three months ending June 30, 2011 was $260,000 compared to $330,000 for the same period in 2010. The effective tax rates during the second quarters of 2011 and 2010 were 14.88% and 19.29%, respectively. The reduction in the effective tax rate for the first quarter of 2011 is the result of a higher percentage of municipal bonds in the investment portfolio.

LIQUIDITY

Liquidity measurements evaluate the Corporation's ability to meet the cash flow requirements of its depositors and borrowers. The most desirable source of liquidity is deposit growth. Additional liquidity is provided by the maturity of investments in loans and securities and the principal and interest received from those earning assets. Another source of liquidity is represented by the Corporation's ability to sell both loans and securities. The Bank is a member of the Federal Home Loan Bank (FHLB) system. The FHLB provides an additional source for liquidity for long- and short-term funding. Additional sources of funding from financial institutions have been established for short-term funding needs.

The statement of cash flows for the first six months of 2011 indicates cash provided by the increase in deposits and short-term borrowings, along with cash provided by operations was used to purchase securities.

As of June 30, 2011, the Corporation had available funding of approximately $70.3 million at the FHLB, with an additional $16 million of short-term funding available through other lines of credit. The Corporation's maximum borrowing capacity with the Federal Home Loan Bank (FHLB) is currently as $107.3 million, with $37.0 million borrowed resulting in the $70.3 million as available.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation's financial statements do not reflect off balance sheet arrangements that consist of commitments to purchase securities or commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral, if any, which the Corporation obtains from the customer upon extension of credit, is based on management's credit evaluation of the customer or other obligor. The types of collateral obtained by the Corporation may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit, financial standby letters of credit and commercial letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following table identifies the Corporation's commitments to extend credit and obligations under letters of credit as of June 30, 2011 (dollars in thousands):

	TOTAL AMOUNT COMMITTED
Financial instruments whose contractual amounts represent credit risk:	
Commitments to extend credit	$28,848
Standby letters of credit	243

CREDIT QUALITY RISK

The following table presents a comparison of loan quality as of June 30, 2011 with that as of December 31, 2010. Cash payments received on non-accrual loans are recognized as interest income as long as the remaining balance of the loan is deemed to be fully collectible. When doubt exists as to the collectability of a loan in non-accrual status, any payments received are applied to principal until doubt of collectability is eliminated. Once a loan is placed on non-accrual status, any unpaid interest is charged against income.

	At or For the Six months ended June 30, 2011		At or For the Year ended December 31, 2010	
	(dollars in thousands)			
Non-performing loans:				
Loans on non-accrual basis	$150		$149	
Past due loans > 90 days	793		0	
Restructured loans	642		674	
Total non-performing loans	1,585		823	
Foreclosed real estate	685		716	
Total non-performing assets	$2,270		$1,539	
Loans outstanding at end of period	$190,858		$191,906	
Average loans outstanding (year-to-date)	$191,485		$198,537	
Non-performing loans as a percent of total loans	0.83	%	0.43	%
Provision for loan losses	$0		$0	
Net charge-offs	$3		$36	
Net charge-offs as a percent of average loans	0.00	%	0.02	%
Provision for loan losses as a percent of net charge-offs	0.00	%	0.00	%
Allowance for loan losses	$1,683		$1,686	
Allowance for loan losses as a percent of average loans outstanding	0.88	%	0.85	%

As of June 30, 2011, none of non-accrual loans were paying principal or principal and interest with payments recognized on a cash basis. The restructured loan total comprises one loan relationship involved in the retail segment. At present, the Corporation has no knowledge of other outstanding loans that present a serious doubt in regard to the borrower’s ability to comply with current loan repayment terms.

In 2011, the gross amount of interest that would have been recorded on non-accrual loans would have been $5,000. The actual interest reflected in income on these loans was $2,000.

MARKET RISK

The Corporation's net earnings depend in large part upon the difference between the amounts earned on its loans and investment securities and the interest paid on its deposits and borrowed funds (interest-bearing liabilities). The amounts the Corporation earns on its interest-earning assets and the amounts it pays on its interest-bearing liabilities are significantly affected by general economic conditions and by policies of regulatory authorities.

Market risk is the risk of loss from adverse changes in market prices and rates. The Corporation's market risk arises primarily from interest rate risk inherent in its lending, security investments, and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure.

The Corporation's primary objective in managing interest rate risk is to minimize the adverse impact of interest rate changes on its net interest income and capital. However, a sudden and substantial shift in interest rates may adversely impact the Corporation's earnings to the extent that the interest earned on interest-earning assets and interest paid on interest-bearing liabilities do not change at the same frequency, to the same extent or on the same basis.

CAPITAL RESOURCES

The Federal Reserve Board's risk-based capital guidelines are designed principally as a measure of credit risk. These guidelines require that: (1) at least 50% of a banking organization's total capital be common and certain other "core" equity capital ("Tier I Capital"); (2) assets and off-balance sheet items be weighted according to risk; and (3) the total capital to risk-weighted assets ratio be at least 8.00%; and (4) a minimum 4.00% leverage ratio of Tier I capital to average total assets be maintained for financial institutions that meet certain specified criteria, including asset quality, high liquidity, low interest-rate exposure and the highest regulatory rating. As of June 30, 2011, Commercial Bank & Trust of PA, under these guidelines, had Tier I and total equity capital to risk weighted assets ratios of 19.87% and 20.64% respectively. The leverage ratio was 11.90%. The Corporation’s risk-based capital ratios are not materially different from the Bank’s.

The table below represents the Bank’s capital position at June 30, 2011 and December 31, 2010:
(Dollar amounts in thousands)

	June 30, 2011			December 31, 2010		
	Amount	Percent of Adjusted Assets		Amount	Percent of Adjusted Assets	
Tier I Capital	$43,265	19.87	%	$41,640	19.90	%
Tier I Capital Requirement	8,711	4.00		8,355	4.00	
Total Equity Capital	$44,948	20.64	%	$43,326	20.70	%
Total Equity Capital Requirement	17,422	8.00		16,710	8.00	
Leverage Capital	$43,265	11.90	%	$41,640	11.90	%
Leverage Requirement	14,544	4.00		14,000	4.00	

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide information required of this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Corporation maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Corporation in this Form 10-Q, and in other reports required to be filed under the Securities Exchange Act of 1934 (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Corporation, under the direction of the Corporation’s Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Corporation’s disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of June 30, 2011. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Corporation, have determined that the disclosure controls and procedures were and are effective as designed to ensure that material information relating to the Corporation and its consolidated subsidiaries required to be disclosed by the Corporation by the Exchange Act, was recorded, processed, summarized and reported within the applicable time periods.

Changes in Internal Controls

There have been no significant changes in Commercial National Financial Corporation's internal control over financial reporting during the quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect Commercial National Financial Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than proceedings that occur in the normal course of business, there are no legal proceedings to which either theCorporation or any of its subsidiaries is a party, which, in management's opinion, will have any material effect on the financialposition of the Corporation and its subsidiaries.

ITEM 1A. RISK FACTORS

A smaller reporting company is not required to provide information required of this item.

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

2 (a) None
2 (b) None
2 (c) In 2000, the Board of Directors authorized the repurchase of up to 360,000 shares of the Corporation's common stock from time to time when warranted by market conditions. There have been 245,174 shares purchased under this authorization through June 30, 2011. There were no shares purchased during the second quarter 2011, see table below.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans
April 1- April 30	0	0	0	114,826
May 1 – May 31	0	0	0	114,826
June 1- June 30	0	0	0	114,826
Total	0	0	0	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

Exhibit Number	Description	Page Number or Incorporated by Reference to
3.1	Articles of Incorporation	Exhibit C to Form S-4 Registration Statement Filed April 9, 1990
3.2	By-Laws of Registrant	Exhibit D to Form S-4 Registration Statement Filed April 9, 1990
3.3	Amendment to Articles of Incorporation	Exhibit A to definitive Proxy Statement filed for the special meeting of shareholders held September 18, 1990
3.4	Amendment to Articles of Incorporation	Exhibit A to definitive Proxy Statement filed for the meeting of shareholders held on April 15, 1997
3.6	Amendment to Articles of Incorporation	Exhibit A to definitive Proxy Statement filed for the meeting of shareholders held September 21, 2004
3.8	Amendment to the Bylaws of Registrant	Exhibit 3.8 to Form 10-Q for the quarter ended September 30, 2004
10.1	Amended and Restated Employment agreement between Gregg E. Hunter and Commercial Bank & Trust of PA	Exhibit 10.1 to Form 10-K for the year ended December 31, 2008
10.3	Mutual Release and Non-Disparagement Agreement between Commercial Bank of Pennsylvania and Louis T. Steiner	Exhibit 10.3 to Form 10-K for the year ended December 31, 2003
10.4	Stock Purchase Agreement between the Corporation and all of the Shareholders of Ridge Properties, Inc.	Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2008

10.5	Change in Certifying Accountant	Exhibit 10.5 to Form 10-K for the year ended December 31, 2009
31.1	Rule 13a-15(e) and 15d-15(e) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-15(e) and 15d-15(e) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of the Chief Executive Officer	Filed herewith
32.2	Section 1350 Certification of the Chief Financial Officer	Filed herewith

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.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Registrant)

Dated: August 12, 2011	/s/ Gregg E. Hunter Gregg E. Hunter, Vice Chairman President and Chief Executive Officer
Dated: August 12, 2011	/s/ Thomas D. Watters Thomas D. Watters, Executive Vice President and Chief Financial Officer