

CCFNB BANCORP INC  
Form 10-Q  
November 12, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2009.**

**Or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**No. 0-19028**

**(Commission file number)**

**CCFNB BANCORP, INC.**

**(Exact name of registrant as specified in its charter)**

**PENNSYLVANIA**

**(State or other jurisdiction of  
incorporation or organization)**

**23-2254643**

**(I.R.S. Employer  
Identification Number)**

**232 East Street, Bloomsburg, PA**

**(Address of principal executive offices)**

**17815**

**(Zip Code)**

Registrant's telephone number, including area code: **(570) 784-4400**

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

Indicate by check mark 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(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 the definitions of larger accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

**(Do not check if a smaller  
reporting company)**

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

Yes  No

On October 31, 2009, there were 2,254,480 shares of the Registrant's common stock outstanding, par value \$1.25.



**CCFNB Bancorp, Inc. and Subsidiary  
Index to Quarterly Report on Form 10-Q**

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**PART I Financial Information****Item 1. Financial Statements****CCFNB Bancorp, Inc.  
Consolidated Balance Sheets**

<b>(In Thousands)</b>	<b>(Unaudited) September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 6,817	\$ 10,173
Interest-bearing deposits in other banks	92	149
Federal funds sold	742	5,163
Total cash and cash equivalents	7,651	15,485
Investment securities, available for sale, at fair value	218,583	196,580
Loans, net of unearned income	331,099	320,068
Less: Allowance for loan losses	3,934	3,758
Loans, net	327,165	316,310
Premises and equipment, net	12,063	12,609
Accrued interest receivable	2,089	2,388
Cash surrender value of bank-owned life insurance	11,319	10,943
Investment in limited partnerships	727	845
Intangible Assets:		
Core deposit	2,919	3,411
Goodwill	7,937	7,937
Other assets	2,445	1,811
<b>TOTAL ASSETS</b>	<b>\$ 592,898</b>	<b>\$ 568,319</b>
<b>LIABILITIES</b>		
Interest-bearing deposits	\$ 393,096	\$ 381,849
Non interest-bearing deposits	49,562	52,460
Total deposits	442,658	434,309
Short-term borrowings	61,995	55,462
Long-term borrowings	15,129	9,133
Junior subordinate debentures	4,640	4,640
Accrued interest payable	907	1,075
Other liabilities	2,771	2,925
<b>TOTAL LIABILITIES</b>	<b>528,100</b>	<b>507,544</b>
<b>STOCKHOLDERS EQUITY</b>		

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Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued 2,266,980 shares in 2009 and 2,253,080 shares in 2008	2,834	2,816
Surplus	27,443	27,173
Retained earnings	32,030	29,164
Accumulated other comprehensive income	2,764	1,622
Treasury stock , at cost; 12,500 shares in 2009 and 0 shares in 2008	(273)	
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>64,798</b>	<b>60,775</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 592,898</b>	<b>\$ 568,319</b>

See accompanying notes to unaudited consolidated financial statements.

**CCFNB Bancorp, Inc.**  
**Consolidated Statements of Income**  
**(Unaudited)**

<b>(In Thousands, Except Per Share Data)</b>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and fees on loans:				
Taxable	\$ 4,682	\$ 4,535	\$ 14,086	\$ 9,614
Tax-exempt	215	197	622	495
Interest and dividends on investment securities:				
Taxable	1,968	1,967	6,195	3,220
Tax-exempt	123	80	315	164
Dividend and other interest income	11	39	48	88
Federal funds sold	5	45	11	153
Deposits in other banks		3	1	23
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>7,004</b>	<b>6,866</b>	<b>21,278</b>	<b>13,757</b>
<b>INTEREST EXPENSE</b>				
Deposits	1,842	1,979	5,775	4,005
Short-term borrowings	95	222	254	580
Long-term borrowings	175	140	462	432
Junior subordinate debentures	28	44	104	44
<b>TOTAL INTEREST EXPENSE</b>	<b>2,140</b>	<b>2,385</b>	<b>6,595</b>	<b>5,061</b>
<b>NET INTEREST INCOME</b>	<b>4,864</b>	<b>4,481</b>	<b>14,683</b>	<b>8,696</b>
PROVISION FOR LOAN LOSSES	310		530	
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,554</b>	<b>4,481</b>	<b>14,153</b>	<b>8,696</b>
<b>NON-INTEREST INCOME</b>				
Service charges and fees	427	317	1,251	797
Gain on sale of loans	201	74	547	194
Earnings on bank-owned life insurance	107	111	324	244
Brokerage	83	82	190	174
Trust	150	143	462	217
Investment security losses	(10)	(283)	(71)	(283)
Other	328	427	1,110	565
<b>TOTAL NON-INTEREST INCOME</b>	<b>1,286</b>	<b>871</b>	<b>3,813</b>	<b>1,908</b>

**NON-INTEREST EXPENSE**

Salaries	1,632	1,637	4,776	3,056
Employee benefits	398	1,125	1,232	1,595
Occupancy	249	240	810	496
Furniture and equipment	319	361	944	583
State shares tax	128	114	400	277
Professional fees	172	250	447	382
Director's fees	74	55	215	152
FDIC assessments	105	19	543	29
Other	839	496	2,621	1,111

<b>TOTAL NON-INTEREST EXPENSE</b>	<b>3,916</b>	<b>4,297</b>	<b>11,988</b>	<b>7,681</b>
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**INCOME BEFORE INCOME TAX**

<b>PROVISION</b>	<b>1,924</b>	<b>1,055</b>	<b>5,978</b>	<b>2,923</b>
<b>INCOME TAX PROVISION</b>	<b>463</b>	<b>183</b>	<b>1,423</b>	<b>653</b>

<b>NET INCOME</b>	<b>\$ 1,461</b>	<b>\$ 872</b>	<b>\$ 4,555</b>	<b>\$ 2,270</b>
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<b>EARNINGS PER SHARE</b>	<b>\$ 0.65</b>	<b>\$ 0.43</b>	<b>\$ 2.02</b>	<b>\$ 1.51</b>
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<b>CASH DIVIDENDS PER SHARE</b>	<b>\$ 0.27</b>	<b>\$ 0.24</b>	<b>\$ 0.75</b>	<b>\$ 0.66</b>
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**WEIGHTED AVERAGE SHARES**

<b>OUTSTANDING</b>	<b>2,252,039</b>	<b>2,056,686</b>	<b>2,253,872</b>	<b>1,503,955</b>
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See accompanying notes to the unaudited consolidated financial statements.

**CCFNB Bancorp, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**(Unaudited)**

(In Thousands Except Per Share Data)	Common Stock		Surplus	Accumulated Other Comprehensive Income			Total Stockholders' Equity
	Shares	Amount		Earnings	(Loss)	Treasury Stock	
Balance, December 31, 2007	1,226,536	\$ 1,533	\$ 2,271	\$ 27,679	\$ 144	\$	\$ 31,627
Comprehensive Income:							
Net income				2,270			2,270
Change in net unrealized gain (loss) on investment securities available-for-sale, net of reclassification adjustment and tax effects.					(2)		(2)
Total comprehensive income							2,268
Par value of new shares issued to acquire Columbia Financial	1,030,286	1,288	25,026				26,314
Common stock issuance under dividend reinvestment and stock purchase plans	8,188	10	181				191
Recognition of employee stock purchase plan expense			2				2
Purchase of treasury stock (16,000 shares)	0					(398)	(398)
Retirement of treasury stock	(16,000)	(20)	(378)			398	(1,053)
Cash dividends, (\$0.66 per share)				(1,053)			(1,053)
Balance, September 30, 2008	2,249,010	\$ 2,811	\$ 27,102	\$ 28,896	\$ 142	\$	\$ 58,951
Balance, December 31, 2008	2,253,080	\$ 2,816	\$ 27,173	\$ 29,164	\$ 1,622	\$	\$ 60,775
Comprehensive Income:							
Net income				4,555			4,555
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					1,142		1,142
Total comprehensive income							5,697
Common stock issuance under dividend reinvestment and stock purchase plans	13,900	18	265				283
Recognition of employee stock purchase plan expense			5				5
Purchase of treasury stock (12,500 shares)						(273)	(273)
Cash dividends, (\$0.75 per share)				(1,689)			(1,689)



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Balance, September 30, 2009	2,266,980	\$ 2,834	\$ 27,443	\$ 32,030	\$ 2,764	\$ (273)	\$ 64,798
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See accompanying notes to the unaudited consolidated financial statements.

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**CCFNB Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

<b>(In Thousands)</b>	<b>For The Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 4,555	\$ 2,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	530	
Depreciation and amortization of premises and equipment	766	422
Impairment loss on securities	71	283
Amortization and accretion on investment securities	404	181
Gain on sale of premises and equipment	(185)	
Loss on sale of other real estate owned	81	
Deferred income taxes benefit (provision)	119	(165)
Gain on sale of loans	(547)	(194)
Proceeds from sale of mortgage loans	87,380	11,194
Originations of mortgage loans held for resale	(87,633)	(11,775)
Amortization of intangibles and investment in limited partnerships	610	140
Decrease in accrued interest receivable	299	(186)
Increases in cash surrender value of bank-owned life insurance	(376)	(275)
Decrease in accrued interest payable	(168)	(127)
Other, net	(1,482)	(339)
Net cash provided by operating activities	4,424	1,429
<b>INVESTING ACTIVITIES</b>		
Investment securities available for sale:		
Purchases	(91,271)	(48,283)
Proceeds from sales, maturities and redemptions	71,340	34,380
Proceeds from redemption of regulatory stock		1,387
Purchase of regulatory stock	(817)	(1,825)
Net (increase) decrease in loans	(11,017)	(412)
Acquisition of bank cash		5,803
Proceeds from sale of premises and equipment	1,294	
Proceeds from sale of other real estate owned	343	
Acquisition of premises and equipment	(1,329)	(515)
Net cash used for investing activities	(31,457)	(9,465)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	8,349	2,622
Net decrease in short-term borrowings	6,533	7,444
Proceeds from long-term borrowings	6,000	
Repayment of long-term borrowings	(4)	(2,003)
Acquisition of treasury stock	(273)	(398)

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Proceeds from issuance of common stock	283	191
Cash dividends paid	(1,689)	(1,053)
Net cash (used for) provided by financing activities	19,199	6,803
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(7,834)</b>	<b>(1,233)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>15,485</b>	<b>13,401</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 7,651</b>	<b>\$ 12,168</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Interest paid	\$ 6,763	\$ 4,424
Income taxes paid	1,419	735
Loans transferred to other real estate owned	432	242

See accompanying notes to the unaudited consolidated financial statements.

**CCFNB BANCORP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of CCFNB Bancorp, Inc. (the Corporation ) are in accordance with the accounting principles generally accepted in the United States of America and conform to common practices within the banking industry. The more significant policies follow:

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of CCFNB Bancorp, Inc. and its wholly-owned subsidiary, First Columbia Bank & Trust Co. ( Bank ). Columbia Financial Corporation ( CFC ), the former parent company of the Bank was acquired by CCFNB Bancorp, Inc. on July 18, 2008 and Columbia County Farmers National Bank ( CCFNB ) merged with and into the Bank on July 18, 2008. All significant inter-company balances and transactions have been eliminated in consolidation.

**NATURE OF OPERATIONS**

The Corporation is a financial holding company that provides full-banking services, including trust services, through the Bank, to individuals and corporate customers. The Bank has thirteen offices covering an area of approximately 752 square miles in Northcentral Pennsylvania. The Corporation and Bank are subject to the regulation of the Pennsylvania Department of Banking, the Federal Deposit Insurance Corporation, and the Federal Reserve Bank of Philadelphia.

Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and include various types of checking accounts, passbook and statement savings, money market accounts, interest checking accounts, individual retirement accounts, and certificates of deposit. The Bank also offers non-insured Repo sweep accounts. Lending products include commercial, consumer, and mortgage loans. The trust services, trading under the name of B.B.C.T.,Co. include administration of various estates, pension plans, self-directed IRA s and other services. A third-party brokerage arrangement is also resident in the Lightstreet branch. This investment center offers a full line of stocks, bonds and other non-insured financial services.

**SEGMENT REPORTING**

The Bank acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch, internet banking, telephone and automated teller machine network, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. The Bank also performs personal, corporate, pension and fiduciary services through its B.B.C.T., Co. as well as offering diverse investment products through its investment center.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and investment center operations of the Corporation. As such, discrete financial information is not available and segment reporting would not be meaningful.

**USE OF ESTIMATES**

The preparation of these consolidated financial statements in conformity with accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

**INVESTMENT SECURITIES**

The Corporation classifies its investment securities as either held-to-maturity or available-for-sale at the time of purchase. Debt securities are classified as held-to-maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities held-to-maturity are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity.

Debt securities not classified as held-to-maturity and equity securities included in the available-for-sale category, are carried at fair value, and the amount of any unrealized gain or loss net of the effect of deferred income

taxes is reported as other comprehensive income in the Consolidated Statement of Changes in Stockholders' Equity. Management's decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

The cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, as well as interest and dividends, is included in interest income

from investments. Realized gains and losses are included in net investment securities gains. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

## **LOANS**

Loans are stated at their outstanding principal balances, net of deferred fees or costs, unearned income, and the allowance for loan losses. Interest on loans is accrued on the principal amount outstanding, primarily on an actual day basis. Non-refundable loan fees and certain direct costs are deferred and amortized over the life of the loans using the interest method. The amortization is reflected as an interest yield adjustment, and the deferred portion of the net fees and costs is reflected as a part of the loan balance. Real estate mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. A portion of these loans are sold with limited recourse by the Corporation.

**Past Due Loans** Generally, a loan is considered past due when a payment is in arrears for a period of 10 or 15 days, depending on the type of loan. Delinquent notices are issued at this point and related collection efforts will commence and continue until final resolution. Past due loans are continually evaluated with determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

**Non-Accrual Loans** Generally, a loan is classified as non-accrual, with the accrual of interest on such a loan discontinued when the contractual payment of principal or interest has become 90-days past due or management has serious doubts about further collectability of principal or interest, even though the loan currently may be performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Certain non-accrual loans may continue to perform wherein payments are still being received with those payments generally applied to principal. Non-accrual loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

**Impaired Loans** A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate or the fair value of the collateral for certain collateral dependent loans. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

**Allowance for Loan Losses** The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level established by management to be adequate to absorb estimated potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

In addition, an allowance is provided for possible credit losses on off-balance sheet credit exposures. The allowance is estimated by management and is classified in other liabilities.

## **PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost less accumulated depreciation computed principally on the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

## **MORTGAGE SERVICING RIGHTS**

The Bank originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Bank retains the right to service a portion of these loans. When originated mortgage loans are sold and servicing is

retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The unamortized cost is included in other assets in the accompanying consolidated balance sheets. The servicing rights are periodically evaluated for impairment based on their relative fair value.

**JUNIOR SUBORDINATE DEBENTURES**

During 2006, CFC issued \$4,640,000 in junior debentures due December 15, 2036 to Columbia Financial Statutory Trust I (Trust). On July 18, 2008, the Corporation became the successor to CFC and to this Trust, respectively. The Corporation owns all of the \$140,000 in common equity of the Trust and the debentures are the sole asset of the Trust. The Trust, a wholly-owned unconsolidated subsidiary of the Corporation, issued \$4,500,000 of floating-rate trust capital securities in a non-public offering in reliance on Section 4 (2) of the Securities Act of 1933. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on the 3-month LIBOR plus 1.75%. The coupon rate was 2.05% at September 30,

2009 and 3.75% at December 31, 2008. The securities are callable by the Corporation, subject to any required regulatory approval, at par, after five years. The Corporation unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the Trust.

#### **INTANGIBLE ASSETS    GOODWILL**

Goodwill represents the excess for the purchase price over the fair market value of net assets acquired. The Corporation has recorded net goodwill of \$7,937,000 at September 30, 2009 and December 31, 2008 related to the 2008 acquisition of Columbia Financial Corporation and its subsidiary, First Columbia Bank & Trust Co. In accordance with current accounting standards, goodwill is not amortized, but evaluated at least annually for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company employs general industry practices in evaluating the impairment of its goodwill and other intangible assets. The Company calculates the value of goodwill using a combination of the following valuation methods: dividend discount analysis under the income approach, which calculates the present value of all excess cash flows plus the present value of a terminal value, the price/earnings multiple under the market approach and the change in control premium to market price approach. Management performed its annual review of goodwill at July 31, 2009. Based upon these reviews, management determined there was no impairment of goodwill at July 31, 2009. No assurance can be given that future impairment tests will not result in a charge to earnings.

#### **INTANGIBLE ASSETS    CORE DEPOSIT**

The Corporation has an amortizable intangible asset related to the deposit premium paid for the acquisition of Columbia Financial Corporation's subsidiary, First Columbia Bank & Trust Co. This intangible asset is being amortized on a sum of the years digits method over 10 years and has a carrying value of \$2,919,000 and \$3,411,000, net of accumulated amortization of \$771,000 and \$279,000, as of September 30, 2009 and December 31, 2008, respectively. The recoverability of the carrying value is evaluated on an ongoing basis, and permanent declines in value, if any, are charged to expense. Amortization of the core deposit intangible amounted to \$492,000 and \$112,000 for the nine months ended September 30, 2009 and 2008, respectively.

The estimated amortization expense of the core deposit intangible over its remaining life is as follows:

For the Year Ended:

Remainder of 2009	\$ 151,000
2010	576,000
2011	509,000
2012	442,000
2013	374,000
Thereafter	867,000
<b>Total</b>	<b>\$ 2,919,000</b>

#### **OTHER REAL ESTATE OWNED**

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense. The amount of other real estate owned was \$380,000 and \$373,000 as of September 30, 2009 and December 31, 2008, respectively and is included in other assets in the accompanying consolidated balance sheets.

#### **BANK OWNED LIFE INSURANCE**



The Corporation invests in Bank Owned Life Insurance (BOLI). Purchase of BOLI provides life insurance coverage on certain present and retired employees and directors with the Corporation being owner and primary beneficiary of the policies.

**INVESTMENTS IN LIMITED PARTNERSHIPS**

The Corporation is a limited partner in three partnerships at September 30, 2009 that provide low income elderly housing in the Corporation's geographic market area. The investments are accounted for under the effective yield method. Under the effective yield method, the Corporation recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that the tax credits are allocated to the Corporation. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the consolidated statements of income as a component of income tax expense. The amount of 2009 tax credits allocated to the Corporation were \$140,000 and the amortization of the investments in limited partnerships was \$119,000 and \$28,000 for the nine months ended September 30, 2009 and

2008, respectively. The carrying value of the Corporation's investments in limited partnerships was \$727,000 and \$845,000 as of September 30, 2009 and December 31, 2008, respectively.

#### **INVESTMENT IN INSURANCE AGENCY**

The Corporation owns a 50 percent interest in a local insurance agency, a corporation organized under the laws of the Commonwealth of Pennsylvania. The income or loss from this investment is accounted for under the equity method of accounting. The carrying value of this investment as of September 30, 2009 and December 31, 2008 was \$230,000 and \$218,000, respectively, and is included in other assets in the accompanying consolidated balance sheets.

#### **INCOME TAXES**

The provision for income taxes is based on the results of operations, adjusted primarily for tax-exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and income tax basis of assets and liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

#### **PER SHARE DATA**

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share is calculated by increasing the denominator for the assumed conversion of all potentially dilutive securities. The Corporation does not have any securities which have or will have a dilutive effect, so accordingly, basic and diluted per share data are the same.

#### **CASH FLOW INFORMATION**

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and due from banks, interest-bearing deposits in other banks and federal funds sold. The Corporation considers cash classified as interest-bearing deposits with other banks as a cash equivalent because they are represented by cash accounts essentially on a demand basis. Federal funds are also included as a cash equivalent because they are generally purchased and sold for one-day periods.

#### **TRUST ASSETS AND INCOME**

Property held by the Corporation in a fiduciary or agency capacity for its customers is not included in the accompanying consolidated financial statements because such items are not assets of the Corporation and the Bank. Trust Department income is generally recognized on a cash basis and is not materially different than if it was reported on an accrual basis.

#### **ACCUMULATED OTHER COMPREHENSIVE INCOME**

The Corporation is required to present accumulated other comprehensive income in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income is comprised of unrealized holding gains on the available for sale investment securities portfolio. The Corporation has elected to report the effects of other comprehensive income as part of the Consolidated Statement of Changes in Stockholders' Equity.

#### **ADVERTISING COSTS**

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the nine months ended September 30, 2009 and 2008 was approximately \$135,000 and \$77,000, respectively.

#### **SUBSEQUENT EVENTS**

Management has evaluated subsequent events for reporting and disclosure in these financial statements through November 10, 2009, the date the financial statements were issued.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB ASC 105-10** In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FASB ASC 105-10, Generally Accepted Accounting Principles). SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities

and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB Accounting Standards Codification ( ASC ) will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB Accounting Standards Codification is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or accounting issue. Technical references to generally accepted accounting principles included in the Notes to Consolidated Financial Statements are provided under the new FASB ASC structure with the prior terminology included parenthetically.

**FASB ASC 805** In December 2007, the FASB issued new guidance impacting FASB ASC 805, *Business Combinations* (SFAS No. 141(R) Business Combinations). The new guidance establishes principles and requirements for how an acquiring corporation (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

The Corporation was required to prospectively apply FASB ASC 805 to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of FASB ASC 805 will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. The Corporation adopted FASB ASC 805 for any business combinations occurring at or subsequent to January 1, 2009. The adoption of this standard did not have a material impact on the Corporation's consolidated financial condition, results of operations or liquidity.

**FASB ASC 810-10** In December 2007, the FASB issued FASB ASC 810-10, Consolidation (Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51*). FASB ASC 810-10 establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The new standard will require entities to classify noncontrolling interests as a component of stockholders' equity and will require subsequent changes in ownership interest in a subsidiary to be accounted for as an equity transaction. Additionally, the new standard will require entities to recognize a gain or loss upon the loss of control of a subsidiary and to remeasure any ownership interest retained at fair value on that date. This statement also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The new standard is effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. The adoption of this standard did not have a material impact on the Corporation's consolidated financial condition, results of operations or liquidity.

**FASB ASC 815-10** In March 2008 the FASB issued FASB ASC 815-10, Derivatives and Hedging (Statement No. 161-*Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*). FASB ASC 815-10 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The new standard became effective for the Corporation on January 1, 2009. The adoption of this standard did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 855** In May 2009, the FASB issued FASB ASC 855, Subsequent Events (Statement No. 164 *Subsequent Events*). FASB ASC 855 established the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity shall recognize events or transactions that occur after the balance sheet date. FASB ASC 855 also requires disclosure of the date through which subsequent events have been evaluated. The Corporation adopted this standard for the interim reporting period ending June 30, 2009. The adoption of this standard did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 860** In June 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and servicing (Statement No. 166 *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140*). The new guidance removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard will become effective for the Corporation on January 1, 2010. The Corporation is currently evaluating the impact of adopting the new standard on the consolidated financial statements.

**FASB ASC 810-10** In June 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (Statement No. 167 *Amendments to FASB Interpretation No. 46 (R)*). The new guidance amends tests for variable interest entities to determine whether a variable interest entity must be consolidated. FASB ASC 810-10 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of the variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new guidance will become effective for the Corporation on January 1, 2010 and the Corporation is currently evaluating the impact of adopting the standard on the consolidated financial statements.

**FASB ASC 715-20-50** In December 2008, the FASB issued new guidance impacting FASB ASC 715-20-50, Compensation Retirement Benefits - Defined Benefit Plans - General (FASB Staff Position No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*). This provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance requires disclosure of the fair value of each major category of plan assets

for pension plans and other postretirement benefit plans. This standard becomes effective for the Corporation on January 1, 2010. The Corporation is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**FASB ASC 825-10-50** In April 2009, the FASB issued new guidance impacting FASB ASC 825-10-50, Financial Instruments (FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). This guidance amends existing GAAP to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The guidance also amends existing GAAP to require those disclosures in summarized financial information at interim reporting periods. The Corporation adopted this standard for the interim reporting period ending March 31, 2009.

**FASB ASC 320-10** In April 2009, the FASB issued new guidance impacting FASB ASC 320-10, Investments Debt and Equity Securities (FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). This guidance amends the other-than-temporary impairment guidance in U. S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. FASB ASC 320-10 expands disclosures about other-than-temporary impairment and requires that the annual disclosures in existing generally accepted accounting principles be made for interim reporting periods. The Corporation adopted this guidance for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 820** In April 2009, the FASB issued new guidance impacting FASB ASC 820, Fair Value Measurements and Disclosures (FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). This provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity of the asset or liability. A significant decrease in the volume or level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. The Corporation adopted this guidance for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Corporation's consolidated financial position or results of operations.

**SAB 111** In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends Topic 5.M. in the Staff Accounting Bulletin series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. On April 9, 2009, the FASB issued new guidance impacting FASB ASC 320-10, Investments Debt and Equity Securities (FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). SAB 111 maintains the previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. SAB 111 was effective for the Corporation as of March 31, 2009. There was no material impact to CCFNB Bancorp, Inc.'s consolidated financial position or results of operations upon adoption.

**SAB 112** In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the Staff Accounting Bulletin series in order to make the interpretive guidance consistent with recent pronouncements by the FASB, specifically FASB ASC 805 and FASB ASC 810-10 (SFAS No. 141 (R) and SAFAS No. 160). SAB 112 was effective for the Corporation as of June 30, 2009. There was no material impact to CCFNB Bancorp, Inc.'s consolidated financial position or results of operations upon adoption.

**FASB ASC 323** In November 2008, the FASB Emerging Issues Task Force reached a consensus on FASB ASC 323, Investments Equity Method and Joint Ventures (Issue No. 08-6, *Equity Method Investment Accounting Considerations*). The new guidance clarifies the accounting for certain transactions and impairment considerations involving equity method investments. An equity investor shall not separately test an investee's underlying assets for impairment but will recognize its share of any impairment charge recorded by an investee in earnings and consider the

effect of the impairment on its investment. An equity investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment, with any gain or loss recognized in earnings. The new guidance became effective for the Corporation on January 1, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 350** In November 2008, the FASB Emerging Issues Task Force reached a consensus on FASB ASC 350, Intangibles—Goodwill and Other (Issue No. 08-7, *Accounting for Defensive Intangible Assets*). The new guidance clarifies how to account for defensive intangible assets subsequent to initial measurement. The guidance applies to acquired intangible assets in situations in which an entity does not intend to actively use an asset but intends to hold the asset to prevent others from obtaining access to the asset. A defensive intangible asset should be accounted for as a separate unit of accounting with an expected life that reflects the consumption of the expected benefits related to that asset. The benefit from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from using the asset. The new guidance was effective for

intangible assets acquired on or after January 1, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 260-10** In June 2008, the FASB issued new guidance impacting FASB ASC 260-10, Earnings Per Share (FSP No. EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*). This new guidance concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and therefore are considered participating securities for purposes of computing earnings per share. Entities that have participating securities that are not convertible into common stock are required to use the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. This new guidance was effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This new guidance became effective for the Corporation on January 1, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 820-10** In August 2009, the FASB issued an update (ASC No. 1009-05, *Measuring Liabilities at Fair Value*) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The update provides clarification about measuring liabilities at fair value in circumstances where a quoted price in an active market for an identical liability is not available and the valuation techniques that should be used. The update also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update became effective for the Corporation for the reporting period ending September 30, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 820-10** In September 2009, the FASB issued an update (ASC No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment (or its equivalent) if the net asset value of the investment is calculated in a manner consistent with the measurement principles of Topic 946, Financial Services-Investment Companies. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this update, such as the nature of an restrictions on the ability to redeem an investment on the measurement date. This update becomes effective for the Corporation for interim annual reporting periods ending after December 15, 2009. The Corporation is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

## RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentations used in the 2009 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

## 2. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the nine months ended September 30, 2009 and 2008 were as follows:

(In Thousands)	2009	2008
Balance, beginning of year	\$ 3,758	\$ 1,437
Provision charged to operations	530	
Allowance acquired		1,683
Loans charged off	(375)	(94)
Recoveries	21	29
Balance, September 30,	\$ 3,934	\$ 3,055



As of September 30, 2009, the total recorded investment in loans that are considered to be impaired was \$5,903,000. These impaired loans had a related allowance for loan losses of \$503,000. No additional charge to operations was required to provide for the impaired loans since the total allowance for loan losses is estimated by management to be adequate to provide for the estimated loan loss as of September 30, 2009.

**3. SHORT-TERM BORROWINGS**

Securities sold under agreements to repurchase and Federal Home Loan Bank advances generally represented overnight or less than 30-day borrowings. U.S. Treasury tax and loan notes for collections made by the Bank were payable on demand.

**4. LONG-TERM BORROWINGS**

Long-term borrowings consist of advances due to the FHLB Pittsburgh.

**5. DEFERRED COMPENSATION PLANS**

The Bank has entered into certain non-qualified deferred compensation agreements with certain present and retired executive officers and directors. Expenses related to these non-qualified deferred compensation plans amounted to \$131,000 and \$116,000 for the nine month periods ended September 30, 2009 and 2008, respectively.

On May 26, 2009, the Bank entered into a Supplemental Executive Retirement Benefit Agreement with the Chief Lending Officer. A copy of the agreement is attached to Form 8-K filed by the Corporation on May 28, 2009. There were no other substantial changes in other plans as disclosed in the 2008 Annual Report.

**6. ACQUISITION**

On July 18, 2008, the Corporation completed its acquisition of Columbia Financial Corporation( CFC ). Under the terms of the Agreement and Plan of Reorganization dated as of November 29, 2007, CFC merged with and into the Corporation; and the Corporation's wholly-owned subsidiary, Columbia County Farmers National Bank merged with and into the Bank. The Corporation acquired 100% of the outstanding shares of CFC for a total purchase price of \$26,316,000. The transaction was accounted for in accordance with FASB ASC 805, Business Combinations (SFAS No. 141- Business Combinations). In connection therewith, the Corporation issued approximately 1,030,286 shares of its common stock and paid cash of approximately \$3,000 in lieu of the issuance of fractional shares in exchange for all of the issued and outstanding shares of CFC common stock. Assets and liabilities of CFC are recorded at estimated fair values as of the acquisition date and the results of the acquired entity operations are included in income from that date. The fair values of acquired assets and liabilities, including identified intangible assets, were finalized as quickly as possible following the acquisition. The CFC purchase price allocation is complete.

The following table shows the excess purchase price of the carrying value of net assets acquired, purchase price allocation and resulting goodwill recorded for this acquisition. Changes to the carrying amount of goodwill, premises and equipment and junior subordinate debentures, since the merger date, reflect additional information obtained about the fair value of the assets acquired and liabilities assumed.

(In Thousands)

Purchase price	\$ 26,316
Carrying value of net assets acquired	(17,855)
Excess of purchase price over carrying value of net assets acquired	8,461
Purchase accounting adjustments:	
Loans	30
Premises and equipment	853
Deposits	1,235
Severance and related costs	840
Deferred taxes	208
Subtotal	11,627
Core deposit intangibles	(3,690)
Goodwill	\$ 7,937

The following table summarized the estimated fair value of net assets acquired:

(In Thousands)

Assets	
Cash and cash equivalents	\$ 5,157
Interest-bearing deposits in other banks	129
Federal funds sold	517
Investment securities	138,257
Loans, net of allowance for loan losses	160,724
Premises and equipment	6,492
Accrued interest receivable	1,534
Bank-owned life insurance	3,462
Investment in limited partnerships	919
Goodwill and other intangibles	11,627
Other assets	564
<b>Total assets</b>	<b>\$ 329,382</b>
Liabilities	
Deposits	\$ 264,692
Borrowings	31,883
Junior subordinate debentures	4,640
Accrued interest payable	764
Other liabilities	1,087
<b>Total liabilities</b>	<b>\$ 303,066</b>
Fair value of net assets acquired	\$ 26,316

## 7. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at September 30, 2009 and December 31, 2008 were as follows:

(In Thousands)	2009	2008
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 82,474	\$ 68,412
Standby letters of credit	2,938	3,064
Dealer floor plans	1,389	1,129
Loans held for sale	1,420	72

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. Because 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 creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations, as it does for on-balance sheet instruments.

The Corporation granted commercial, consumer and residential loans to customers primarily within Pennsylvania. Of the total loan portfolio at September 30, 2009, 82.2% was for real estate loans. It was the opinion of management that this high concentration did not pose an adverse credit risk. Further, it is management's opinion that the remainder of the loan portfolio was balanced and diversified to the extent necessary to avoid any significant concentration of credit.

## 8. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Corporation adopted FASB ASC 820-10 (SFAS No. 157), which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FASB ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observables as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments of which can be directly observed.

Level III: Assets and liabilities that have little or no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into determination of fair value require significant management judgment or estimation.

The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of September 30, 2009 by level within the fair value hierarchy. As required by FASB ASC 820-10, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	September 30, 2009			Total
	Level I	Level II	Level III	
Assets:				
Investment Securities, available-for-sale	\$ 1,903	\$ 216,680	\$	\$ 218,583

At September 30, 2009, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

(In Thousands)	Level			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$	\$ 141,578	\$	\$ 141,578
Other		59,062		59,062
Obligations of state and political subdivisions		13,056		13,056
Equity securities	1,903			1,903
Restricted equity securities		2,984		2,984
	\$ 1,903	\$ 216,680	\$	\$ 218,583

The estimated fair values of equity securities classified as Level I are derived from quoted market prices in active markets; these assets consists mainly of stocks held in other banks. The estimated fair values of all debt securities classified as Level II are obtained from nationally-recognized third-party pricing agencies. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Corporation (observable inputs), and are therefore classified as Level II within the fair value hierarchy.

**NOTE 9 MANAGEMENT S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10Q FILING**

In management s opinion, the consolidated interim financial statements reflect fair presentation of the consolidated financial position of the Corporation, and the results of their operations and their cash flows for the interim periods presented. Further, the consolidated interim financial statements are unaudited, however they reflect all adjustments, which are in the opinion of management, necessary to present fairly the consolidated financial condition and consolidated results of operations and cash flows for the interim periods presented and that all such adjustments to the consolidated financial statements are of a normal recurring nature.

These consolidated interim financial statements have been prepared in accordance with requirements of Form 10Q and therefore do not include all disclosures normally required by accounting principles generally accepted in the United States of America applicable to financial institutions as included with consolidated financial statements included in the Corporation s annual Form 10K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation s annual report or Form 10K for the period ended December 31, 2008 filed with the Securities and Exchange Commission.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders of CCFNB Bancorp, Inc.:

We have reviewed the accompanying consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of September 30, 2009, the related consolidated statements of income for the three and nine month periods ended September 30, 2009 and 2008 and changes in stockholders equity and cash flows for the nine-month periods ended September 30, 2009 and 2008. These consolidated interim financial statements are the responsibility of the management of CCFNB Bancorp, Inc. and Subsidiary.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2008, and the related consolidated statements of income, changes in stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 10, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J. H. Williams & Co., LLP  
J.H. Williams & Co., LLP  
Kingston, Pennsylvania  
November 10, 2009

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**CAUTIONARY STATEMENT**

Certain statements in this section and elsewhere in this Quarterly Report on Form 10-Q, other periodic reports filed by us under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of us may include forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which reflect our current views with respect to future events and financial performance. Such forward looking statements are based on general assumptions and are subject to various risks, uncertainties, and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to:

Our business and financial results are affected by business and economic conditions, both generally and specifically in the Northcentral Pennsylvania market in which we operate. In particular, our business and financial results may be impacted by:

Changes in interest rates and valuations in the debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the market for real estate and other assets commonly securing financial products.

Actions by the Federal Reserve Board and other government agencies, including those that impact money supply and market interest rates.

Changes in our customers' and suppliers' performance in general and their creditworthiness in particular.

Changes in customer preferences and behavior, whether as a result of changing business and economic conditions or other factors.

Changes resulting from the newly enacted Emergency Economic Stabilization Act of 2008.

A continuation of recent turbulence in significant segments of the United States and global financial markets, particularly if it worsens, could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting our customers and suppliers and the economy generally.

Our business and financial performance could be impacted as the financial industry restructures in the current environment by changes in the competitive landscape.

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low through 2009 with continued wide market credit spreads and our view that national economic trends currently point to a continuation of severe recessionary conditions through 2009 followed by a subdued recovery.

Legal and regulatory developments could have an impact on our ability to operate our business or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity and funding. These legal and regulatory developments could include: (a) the unfavorable resolution of legal proceedings or regulatory and other governmental inquiries; (b) increased litigation risk from recent regulatory and other governmental developments; (c) the results of the regulatory examination process, and regulators' future use of supervisory and enforcement tools; (d) legislative and



regulatory reforms, including changes to laws and regulations involving tax, pension, education and mortgage lending, the protection of confidential customer information, and other aspects of the financial institution industry; and (e) changes in accounting policies and principles.

Our business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through the effective use of third-party insurance and capital management techniques.

Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands.

Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.

Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.

Our business and operating results can also be affected by widespread natural disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers and suppliers.

The words believe, expect, anticipate, project and similar expressions signify forward looking statements. Readers are cautioned not to place undue reliance on any forward looking statements made by or on behalf of us. Any such statement speaks only as of the date the statement was made. We undertake no obligation to update or revise any forward looking statements.

The following discussion and analysis should be read in conjunction with the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this Form 10Q. Our consolidated financial condition and results of operations are essentially those of our subsidiary, the Bank. Therefore, the analysis that follows is directed to the performance of the Bank.

## **RESULTS OF OPERATIONS**

### **NET INTEREST INCOME**

#### **2009 vs. 2008**

Tax-equivalent net interest income increased \$6.0 million to \$15.0 million for the nine months ended September 30, 2009. Reported tax-equivalent interest income increased \$7.5 million to \$21.6 million for the nine months ended September 30, 2009. The increase primarily resulted from the acquisition of Columbia Financial Corporation ( CFC ) as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. The acquisition of CFC contributed to an increase in net loans in the amount of \$160.7 million, an increase in investment securities in the amount of \$138.3 million, an increase in federal funds sold in the amount of \$517,000, and an increase in interest-bearing deposits in other banks of \$129,000. Reported interest expense increased \$1.5 million or 30.3 percent to \$6.6 million. The acquisition of CFC contributed an increase in deposits in the amount of \$264.7 million, an increase in other borrowings of \$31.9 million, and an increase of \$4.6 million in junior subordinate debentures.

Net interest margin decreased to 3.77 percent at September 30, 2009 from 3.85 percent at September 30, 2008. The net decrease in margin resulted primarily from the yield on interest-bearing deposits decreasing 46 basis points to 1.95 percent at September 30, 2009 while the yield on total borrowings decreased 130 basis points to 1.75 percent at September 30, 2009. A decrease of 144 basis points on the short-term borrowings for the nine months ended September 30, 2009 was the primary reason for the yield decrease in the total borrowings as the long-term borrowing yield decreased 75 basis points over the same period. The short-term borrowing had an average balance of \$46.5 million and \$35.7 million as of September 30, 2009 and 2008, respectively. The yield decreases were driven by the rate decreases enacted throughout 2008 by the Federal Open Market Committee (FOMC) as well as local market competition. The yield on interest-earning assets decreased 58 basis points to 5.42 percent for the nine months ended September 30, 2009. The yield on total loans decreased 62 basis points to 6.12 percent for the nine months ended September 30, 2009.

The following Average Balance Sheet and Rate Analysis table presents the average assets, actual income or expense and the average yield on assets, liabilities and stockholders' equity for the nine months ended September 30,

2009 and 2008.

**AVERAGE BALANCE SHEET AND RATE ANALYSIS  
NINE MONTHS ENDED SEPTEMBER 30,**

(In Thousands)	<b>2009</b>			<b>2008</b>		
	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
<b>ASSETS:</b>						
Tax-exempt loans	\$ 19,684	\$ 834	5.66%	\$ 14,994	\$ 750	6.69%
All other loans	306,078	14,086	6.15%	190,492	9,614	6.75%
Total loans (2)(3)(4)	325,762	14,920	6.12%	205,486	10,364	6.74%
Taxable securities	184,914	6,243	4.50%	93,239	3,309	4.73%
Tax-exempt securities (3)	10,745	422	5.24%	5,205	248	6.35%
Total securities	195,659	6,665	4.54%	98,444	3,557	4.82%
Federal funds sold	9,883	11	0.15%			0.00%
Interest-bearing deposits	551	1	0.24%	9,870	176	2.38%
Total interest-earning assets	531,855	21,597	5.42%	313,800	14,097	6.00%
Other assets	44,599			25,220		
<b>TOTAL ASSETS</b>	<b>\$ 576,454</b>			<b>\$ 339,020</b>		
<b>LIABILITIES:</b>						
Savings	\$ 56,307	168	0.40%	\$ 33,760	101	0.40%
Now deposits	68,789	75	0.15%	41,056	86	0.28%
Money market deposits	44,278	353	1.07%	16,570	190	1.53%
Time deposits	226,875	5,179	3.05%	130,352	3,628	3.72%
Total deposits	396,249	5,775	1.95%	221,738	4,005	2.41%
Short-term borrowings	46,535	254	0.73%	35,684	580	2.17%
Long-term borrowings	11,603	462	5.32%	9,508	432	6.07%
Junior subordinate debentures	4,640	104	3.00%	1,087	44	5.41%
Total borrowings	62,778	820	1.75%	46,279	1,056	3.05%

Total interest-bearing liabilities	459,027	6,595	1.92%	268,017	5,061	2.52%
Demand deposits	51,004			29,061		
Other liabilities	3,656			2,340		
Stockholders equity	62,767			39,602		
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 576,454</b>			<b>\$ 339,020</b>		
<b>Interest rate spread (6)</b>			<b>3.50%</b>			<b>3.48%</b>
<b>Net interest income/margin (5)</b>		<b>\$ 15,002</b>	<b>3.77%</b>		<b>\$ 9,036</b>	<b>3.85%</b>

(1) Average volume information was compared using daily (or monthly) averages for interest-earning and bearing accounts. Certain balance sheet items utilized quarter-end balances for averages.

(2) Interest on loans includes fee income.

(3) Tax exempt interest revenue is shown on a tax-equivalent basis using a statutory federal income tax rate of 34 percent for 2009 and 2008.

(4) Nonaccrual loans have been

included with loans for the purpose of analyzing net interest earnings.

- (5) Net interest margin is computed by dividing annualized net interest income by total interest earning assets.
- (6) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

**Reconciliation of Taxable Equivalent Net Interest Income  
For the Nine Months Ended September 30,**

(In Thousands)	2009	2008
Total interest income	\$ 21,278	\$ 13,757
Total interest expense	6,595	5,061
Net interest income	14,683	8,696
Tax equivalent adjustment	319	340
Net interest income (fully taxable equivalent)	\$ 15,002	\$ 9,036

**Rate/Volume Analysis**

To enhance the understanding of the effects of volumes (the average balance of earning assets and costing liabilities) and average interest rate fluctuations on the balance sheet as it pertains to net interest income, the table below reflects these changes for 2009 versus 2008:

(In Thousands)	Nine Months Ended September 30, 2009 vs 2008		
	Increase (Decrease)		
	Volume	Rate	Net
Interest income:			
Loans, tax-exempt	\$ 199	\$ (115)	\$ 84
Loans	5,319	(847)	4,472
Taxable investment securities	3,095	(161)	2,934
Tax-exempt investment securities	218	(44)	174
Federal funds sold	11		11
Interest bearing deposits	(17)	(158)	(175)
Total interest-earning assets	8,825	(1,325)	7,500
Interest expense:			
Savings	67		67
NOW deposits	30	(41)	(11)
Money market deposits	221	(58)	163
Time deposits	2,203	(652)	1,551
Short-term borrowings	59	(385)	(326)
Long-term borrowings, FHLB	83	(53)	30
Junior subordinate debentures	80	(20)	60
Total interest-bearing liabilities	2,743	(1,209)	1,534
Change in net interest income	\$ 6,082	\$ (116)	\$ 5,966

**PROVISION FOR LOAN LOSSES****2009 vs. 2008**

The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, evaluate potential charge-offs and recoveries, and assess the general conditions in the markets served. Management remains committed to an aggressive and thorough program of problem loan identification and resolution. Periodically, an independent loan review is performed for the Bank. The allowance for loan losses is evaluated quarterly and is calculated by applying historic loss factors to the various outstanding loans types while excluding loans for which a specific allowance has already been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, historical loan loss experience, industry standards and trends with respect to nonperforming loans, and its core knowledge and experience with specific loan segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at September 30, 2009, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Also, as part of the examination process, bank regulatory agencies periodically review the Bank's loan loss allowance. The bank regulators could require the recognition of additions or reductions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

The provision for loan losses amounted to \$530,000 and \$0 for the nine months ended September 30, 2009 and 2008, respectively. Management concluded the increase of the provision was appropriate considering the gross loan growth experience of \$11,031,000, increases in nonperforming assets, and the general downturn in the national economy. Utilizing the resources noted above, management concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

**NON-INTEREST INCOME****2009 vs. 2008**

Total non-interest income increased \$1.9 million or 99.8 percent to \$3.8 million for the nine months ended September 30, 2009. The increase primarily resulted from the acquisition of CFC as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. The service charges and fees increased \$454,000 or 57.0 percent to \$1.3 million for the nine months ended September 30, 2009. Gain on sale of loans increased \$353,000 or 182.0 percent from \$194,000 in 2008 to \$547,000 in 2009. Brokerage income increased \$16,000 or 9.2 percent from \$174,000 in 2008 to \$190,000 in 2009. Trust income increased \$245,000 or 112.9 percent from \$217,000 in 2008 to \$462,000 in 2009. Other income increased \$545,000 from \$565,000 in 2008 to \$1.1 million in 2009 primarily as a result of \$183,000 in gains recorded on the sale of property and equipment as well as increased ATM transaction revenue and related surcharges.

(In Thousands)	September 30, 2009		For The Nine Months Ended September 30, 2008		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	\$1,251	32.8%	\$ 797	41.8%	\$ 454	57.0%
Gain on sale of loans	547	14.3	194	10.2	353	182.0
Earnings on bank-owned life insurance	324	8.5	244	12.8	80	32.8
Brokerage and insurance	190	5.0	174	9.1	16	9.2
Trust	462	12.1	217	11.4	245	112.9
Investment security losses	(71)	(1.9)	(283)	(14.8)	212	(74.9)
Other	1,110	29.2	565	29.5	545	96.5
<b>Total non-interest income</b>	<b>\$3,813</b>	<b>100.0%</b>	<b>\$1,908</b>	<b>100.0%</b>	<b>\$1,905</b>	<b>99.8%</b>



**NON-INTEREST EXPENSE**

**2009 vs. 2008**

Total non-interest expense increased \$4.3 million or 56.1 percent from \$7.7 million in 2008 to \$12.0 million in 2009. The increases primarily resulted from the acquisition of CFC as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. Salaries and employee benefits increased \$1.4 million or 33.5 percent for the nine months ended September 30, 2009. Professional fees increased \$65,000 or 17.0 percent from \$382,000 in 2008 to \$447,000 in 2009. FDIC assessments increased \$514,000 due to the imposition of a 5 basis point special assessment and an increase in the regular quarterly

assessment rate. Other expenses, Occupancy, Furniture and Equipment, and Directors fees all experienced net increases as a result of the CFC acquisition.

One standard to measure non-interest expense is to express annualized non-interest expense as a percentage of average total assets. As of September 30, 2009 this percentage was 2.77 percent compared to 3.02 percent in 2008.

(In Thousands)	September 30, 2009		For The Nine Months Ended September 30, 2008		Change	
	Amount	% Total	Amount	% Total	Amount	%
Salaries	\$ 4,776	39.8%	\$3,056	39.8%	\$1,720	56.3%
Employee benefits	1,232	10.3	1,595	20.8	(363)	(22.8)
Occupancy	810	6.8	496	6.5	314	63.3
Furniture and equipment	944	7.9	583	7.6	361	61.9
State shares tax	400	3.3	277	3.6	123	44.4
Professional fees	447	3.7	382	5.0	65	17.0
Directors fees	215	1.8	152	2.0	63	41.4
FDIC assessments	543	4.5	29	0.4	514	1,772.4
Other	2,621	21.9	1,111	14.3	1,510	135.9
Total non-interest expense	\$ 11,988	100.0%	\$ 7,681	100.0%	\$ 4,307	56.1%

## FINANCIAL CONDITION

Our consolidated assets at September 30, 2009 were \$592.9 million which represented an increase of \$24.6 million from \$568.3 million at December 31, 2008.

Gross loans increased 3.4 percent from \$320.1 million at December 31, 2008 to \$331.1 million at September 30, 2009.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio increased during 2009 to 74.8 percent compared to 73.7 percent at December 31, 2008.

## INVESTMENTS

All of our securities are available-for-sale and are carried at estimated fair value. Available-for-sale securities are reported on the consolidated balance sheet at fair value with an offsetting adjustment to deferred taxes. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the bank of restructuring the portfolio for gap positioning at any time through the securities classified as available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on September 30, 2009 of \$2,764,000 compared to an unrealized gain, net of tax, on December 31, 2008 of \$1,622,000, which represents an unrealized gain, net of tax, of \$1,142,000 for the nine months ended September 30, 2009. The following table shows the amortized cost and estimated fair value of the investment securities as of the dates shown:

(In Thousands)	September 30, 2009	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 137,500	\$ 141,578
Other	58,521	59,062
Obligations of state and political subdivisions	12,839	13,056
Total debt securities	208,860	213,696
Marketable equity securities	2,551	1,903

Restricted equity securities	2,984	2,984
Total investment securities AFS	\$ 214,395	\$ 218,583

(In Thousands)	December 31, 2008	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 116,357	\$ 118,046
Other	63,031	64,080
Obligations of state and political subdivisions	9,944	9,994
Total debt securities	189,332	192,120
Marketable equity securities	2,623	2,293
Restricted equity securities	2,167	2,167
Total investment securities AFS	\$ 194,122	\$ 196,580

## LOANS

The loan portfolio increased 3.4 percent from \$320.1 million at December 31, 2008 to \$331.1 million at September 30, 2009. The percentage distribution in the loan portfolio was 82.2 percent in real estate loans at \$272.3 million; 9.5 percent in commercial loans at \$31.3 million; 2.4 percent in consumer loans at \$7.9 million; and 5.9 percent in tax exempt loans at \$19.6 million.

The following table presents the breakdown of loans by type as of the date indicated:

(In Thousands)	September 30, 2009	December 31, 2008	Change	
			Amount	%
Commercial, financial and agricultural	\$ 31,305	\$ 27,165	\$ 4,140	15.2%
Tax-exempt	19,558	16,762	2,796	16.7
Real estate	267,172	262,539	4,633	1.8
Real estate construction	5,087	5,307	(220)	(4.1)
Installment loans to individuals	7,893	8,202	(309)	(3.8)
Add (deduct): Unearned discount	(18)	(24)	6	(25.0)
Unamortized loan costs, net of fees	102	117	(15)	(12.8)
Gross loans	\$ 331,099	\$ 320,068	\$ 11,031	3.4%

The following table presents the percentage distribution of loans by category as of the date indicated:

	September 30, 2009	December 31, 2008
Commercial, financial and agricultural	9.5%	8.5%
Tax-exempt	5.9	5.2
Real estate	80.7	82.1
Real estate construction	1.5	1.7
Installment loans to individuals	2.4	2.5
Gross loans	100.0%	100.0%

**ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses was \$3.9 million at September 30, 2009, compared to \$3.1 million at September 30, 2008. This allowance equaled 1.19 percent and .94 percent of total loans, net of unearned income, as of September 30, 2009 and 2008, respectively. The loan loss reserve is analyzed quarterly and reviewed by the Bank's Board of Directors. No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Semi-monthly loan meetings with the Bank's Director Loan Committee reviewed new loans. Delinquent loans, loan exceptions and certain large loans are addressed by the full Board no less than monthly to determine compliance with policies. Allowance for loan losses was considered adequate based on delinquency trends and actual loans written as it relates to the loan portfolio.

The following table presents a summary of the Bank's loan loss experience as of the dates indicated:

(In Thousands)	For the Nine Months Ended September 30,	
	2009	2008
Average Loans Outstanding during the period	\$ 325,762	\$ 205,486
Balance, beginning of year	\$ 3,758	\$ 1,437
Provision charged to operations	530	
Allowance acquired		1,683
Loans charged off:		
Commercial, financial, and agricultural	(114)	
Real estate mortgages	(233)	
Installment loans to individuals	(28)	(94)
Recoveries:		
Commercial, financial, and agricultural	1	
Real estate mortgages	9	2
Installment loans to individuals	11	27
Balance, end of period	\$ 3,934	\$ 3,055
Net charge-offs to Average loans outstanding during the period	-0.11%	-0.03%

**NON-PERFORMING LOANS**

As of September 30, 2009, loans 30-89 days past due totaled \$1.8 million compared to \$1.6 million at December 31, 2008. Non-accrual loans totaled \$5.8 million at September 30, 2009 and \$4.5 million at December 31, 2008. Overall, past due and non-accrual loans increased \$1.7 million to \$7.8 million at September 30, 2009 from \$6.1 million at December 31, 2008.

The following table presents past due and non-accrual loans by loan type and in summary as of the dates indicated:

(In Thousands)	September 30, 2009	December 31, 2008
Commercial, financial and agricultural		
Days 30-89	\$ 410	\$ 61
Days 90 plus	126	
Non-accrual	414	581
Real estate		
Days 30-89	1,330	1,528
Days 90 plus		
Non-accrual	5,358	3,780
Installment loans to individuals		
Days 30-89	50	9
Days 90 plus		

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Non-accrual	63		92
	\$ 7,751	\$	6,051
Days 30-89	\$ 1,790	\$	1,598
Days 90 plus	126		
Non-accrual	5,835		4,453
	\$ 7,751	\$	6,051
Restructured loans still accruing	\$ 380	\$	58
Other real estate owned	\$ 380	\$	373

**DEPOSITS**

Total deposits increased by 1.9 percent from \$434.3 million at December 31, 2008 to \$442.7 million at September 30, 2009. Savings deposits increased 1.3 percent to \$55.4 million at September 30, 2009 from \$54.7 million at December 31, 2008. Money market deposits increased 12.5 percent to \$41.7 million as of September 30, 2009 from \$37.1 million as of December 31, 2008. Interest bearing NOW accounts increased 1.7 percent from \$63.8 million at December 31, 2008 to \$64.8 million at September 30, 2009.

The actual balances and average rate paid on deposits are summarized as follows:

(In Thousands)	September 30, 2009		December 31, 2008		Change	
	Balance	Average Rate	Balance	Average Rate	Amount	%
Non-interest bearing	\$ 49,562	%	\$ 52,460	%	\$ (2,898)	(5.5)%
Savings	55,431	0.40	54,717	0.40	714	1.3
Now deposits	64,846	0.15	63,776	0.27	1,070	1.7
Money market deposits	41,743	1.12	37,120	1.66	4,623	12.5
Time deposits	231,076	3.15	226,236	3.53	4,840	
Total deposits	\$ 442,658	1.82%	\$ 434,309	2.07%	\$ 8,349	1.9%

**BORROWED FUNDS**

Short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB Pittsburgh borrowings increased 11.8 percent from \$55.5 million at December 31, 2008 to \$62.0 million at September 30, 2009. Long-term borrowings increased \$6.0 million from \$9.1 million at December 31, 2008 to \$15.1 million at September 30, 2009.

(In Thousands)	September 30, 2009		December 31, 2008		Change	
	Amount	% Total	Amount	% Total	Amount	%
Short-term borrowings:						
FHLB repurchase agreements	\$	%	\$	%	\$	%
Short-term borrowings, FHLB Securities sold under agreement to repurchase	61,995	75.8	55,462	80.1	6,533	11.8
Total short-term borrowings	61,995	75.8%	55,462	80.1%	6,533	11.8
Junior subordinate debentures	4,640	5.7	4,640	6.7		
Long-term borrowings, FHLB	15,129	18.5	9,133	13.2	5,996	65.7
Total borrowed funds	\$ 81,764	100.0%	\$ 69,235	100.0%	\$ 12,529	18.1%

**LIQUIDITY**

Liquidity management is required to ensure that adequate funds will be available to meet anticipated and unanticipated deposit withdrawals, debt service payments, investment commitments, commercial and consumer loan demand, and ongoing operating expenses. Funding sources include principal repayments on loans, sale of assets, growth in core deposits, short and long-term borrowings, investment securities coming due, loan prepayments and repurchase agreements. Regular loan payments are a dependable source of funds, while the sale of investment



securities, deposit growth and loan prepayments are significantly influenced by general economic conditions and the level of interest rates.

We manage liquidity on a daily basis. We believe that our liquidity is sufficient to meet present and future financial obligations and commitments on a timely basis.

**CAPITAL RESOURCES**

Capital continues to be a strength for the Bank. Capital is critical as it must provide growth, payment to shareholders, and absorption of unforeseen losses. The federal regulators provide standards that must be met.

As of September 30, 2009, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios.

Our actual consolidated capital amounts and ratios as of September 30, 2009 and December 31, 2008 are in the following table:

(In Thousands)	2009		2008	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	\$58,896	17.8%	\$55,851	16.5%
For Capital Adequacy Purposes	26,404	8.0	27,112	8.0
To Be Well-Capitalized	33,005	10.0	33,890	10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	\$54,962	16.7%	\$52,083	15.4%
For Capital Adequacy Purposes	13,202	4.0	13,556	4.0
To Be Well-Capitalized	19,803	6.0	20,334	6.0
Tier I Capital (to Average Assets)				
Actual	\$54,962	9.7%	\$52,083	9.3%
For Capital Adequacy Purposes	22,624	4.0	22,476	4.0
To Be Well-Capitalized	28,280	5.0	28,095	5.0

Our capital ratios are not materially different from those of the Bank.

#### **INTEREST RATE RISK MANAGEMENT**

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. Interest rate sensitivity is the relationship between market interest rates and earnings volatility due to the repricing characteristics of assets and liabilities. The Bank's net interest income is affected by changes in the level of market interest rates. In order to maintain consistent earnings performance, the Bank seeks to manage, to the extent possible, the repricing characteristics of its assets and liabilities.

One major objective of the Bank when managing the rate sensitivity of its assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of the Bank's Asset/Liability Committee (ALCO), which is comprised of senior management and Board members. ALCO meets quarterly to monitor the ratio of interest sensitive assets to interest sensitive liabilities. The process to review interest rate risk management is a regular part of management of the Bank. Consistent policies and practices of measuring and reporting interest rate risk exposure, particularly regarding the treatment of noncontractual assets and liabilities, are in effect. In addition, there is an annual process to review the interest rate risk policy with the Board of Directors which includes limits on the impact to earnings from shifts in interest rates.

The ratio between assets and liabilities repricing in specific time intervals is referred to as an interest rate sensitivity gap. Interest rate sensitivity gaps can be managed to take advantage of the slope of the yield curve as well as forecasted changes in the level of interest rate changes.

To manage the interest sensitivity position, an asset/liability model called gap analysis is used to monitor the difference in the volume of the Bank's interest sensitive assets and liabilities that mature or reprice within given periods. A positive gap (asset sensitive) indicates that more assets reprice during a given period compared to liabilities, while a negative gap (liability sensitive) has the opposite effect. The Bank employs computerized net interest income simulation modeling to assist in quantifying interest rate risk exposure. This process measures and quantifies the impact on net interest income through varying interest rate changes and balance sheet compositions. The use of this model assists the ALCO to gauge the effects of the interest rate changes on interest sensitive assets and liabilities in order to determine what impact these rate changes will have upon our net interest spread.

At September 30, 2009, our cumulative gap positions and the potential earnings change resulting from a 200 basis point change in rates were both within the internal risk management guidelines.

In addition to gap analysis, the Bank uses earnings simulation to assist in measuring and controlling interest rate risk. The Bank also simulates the impact on net interest income of plus and minus 100, 200 and 300 basis point rate shocks. The results of these theoretical rate shocks provide an additional tool to help manage the Bank's interest rate risk.

It is our opinion that the asset/liability mix and the interest rate risk associated with the balance sheet is within manageable parameters. Additionally, the Bank's Asset/Liability Committee meets quarterly with an investment consultant.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of conducting business activities, the Corporation is exposed to market risk, principally interest rate risk, through the operations of its banking subsidiary. Interest rate risk arises from market driven fluctuations in interest rates that affect cash flows, income, expense and values of financial instruments and was discussed previously in this Form 10-Q.

No material changes in market risk occurred during the current period. A detailed discussion of market risk is provided in the Annual Report on Form 10-K for the period ended December 31, 2008.

### **Item 4. Controls and Procedures**

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Report, were effective as of such date at the reasonable assurance level as discussed below to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including the CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. In addition, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The CEO and CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended September 30, 2009, as required by paragraph (d) Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II Other Information**

### **Item 1. Legal Proceedings**

Management and the Corporation's legal counsel are not aware of any litigation that would have a material adverse effect on the consolidated financial position of the Corporation. There are no proceedings pending other than the ordinary routine litigation incident to the business of the Corporation and its subsidiary, First Columbia Bank & Trust Co.. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation and the Bank by government authorities.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1.A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. At September 30, 2009 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (July 1 - July 31, 2009)	3,500	\$ 21.75	3,500	189,500
Month #2 (August 1 - August 31, 2009)				189,500
Month #3 (September 1 - September 30, 2009)	2,000	22.50	2,000	187,500

(1) This program was announced in 2009 and represents the third buy-back program. The Board of Directors approved the purchase of 200,000 shares. There was no expiration date associated with this program.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended September 30, 2009, to be signed on its behalf by the undersigned thereunto duly authorized.

CCFNB BANCORP, INC.  
(Registrant)

By /s/ Lance O. Diehl  
Lance O. Diehl  
President and CEO

Date: November 10, 2009

By /s/ Jeffrey T. Arnold  
Jeffrey T. Arnold, CPA, CIA  
Chief Financial Officer

Date: November 10, 2009

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