

CCFNB BANCORP INC  
Form 10-Q  
November 12, 2010

**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, 2010.**

**Or**

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

**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 29, 2010, there were 2,222,005 shares of the Registrant's common stock outstanding, par value \$1.25.



**CCFNB Bancorp, Inc. and Subsidiary  
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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, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 9,306	\$ 10,751
Interest-bearing deposits in other banks	18,619	116
Federal funds sold	3,108	592
<b>Total cash and cash equivalents</b>	<b>31,033</b>	<b>11,459</b>
Investment securities, available for sale, at fair value	204,063	220,266
Restricted securities, at cost	3,168	2,984
Loans, net of unearned income	340,307	330,489
Less: Allowance for loan losses	4,574	4,210
<b>Loans, net</b>	<b>335,733</b>	<b>326,279</b>
Premises and equipment, net	12,280	12,583
Accrued interest receivable	1,891	2,006
Cash surrender value of bank-owned life insurance	11,822	11,440
Investment in limited partnerships	1,648	687
Intangible Assets:		
Core deposit	2,326	2,768
Goodwill	7,937	7,937
Prepaid FDIC assessment	1,628	2,037
Other assets	2,259	2,043
<b>TOTAL ASSETS</b>	<b>\$ 615,788</b>	<b>\$ 602,489</b>
<b>LIABILITIES</b>		
Interest-bearing deposits	\$ 408,790	\$ 406,554
Noninterest-bearing deposits	62,133	55,734
<b>Total deposits</b>	<b>470,923</b>	<b>462,288</b>
Short-term borrowings	62,517	51,997
Long-term borrowings	6,124	15,128
Junior subordinate debentures	4,640	4,640
Accrued interest payable	674	859
Other liabilities	3,159	2,491
<b>TOTAL LIABILITIES</b>	<b>548,037</b>	<b>537,403</b>

**STOCKHOLDERS EQUITY**

Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued 2,283,005 shares in 2010 and 2,270,850 shares in 2009	2,854	2,838
Surplus	27,854	27,539
Retained earnings	35,646	32,723
Accumulated other comprehensive income	2,840	2,523
Treasury stock, at cost; 56,000 shares in 2010 and 22,500 shares in 2009	(1,443)	(537)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>67,751</b>	<b>65,086</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 615,788</b>	<b>\$ 602,489</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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and fees on loans:				
Taxable	\$ 4,648	\$ 4,682	\$ 14,081	\$ 14,086
Tax-exempt	251	215	694	622
Interest and dividends on investment securities:				
Taxable	1,604	1,968	5,142	6,195
Tax-exempt	97	123	302	315
Dividend and other interest income	10	11	31	48
Federal funds sold		5	1	11
Deposits in other banks	14		27	1
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>6,624</b>	<b>7,004</b>	<b>20,278</b>	<b>21,278</b>
<b>INTEREST EXPENSE</b>				
Deposits	1,421	1,842	4,457	5,775
Short-term borrowings	105	95	310	254
Long-term borrowings	84	175	310	462
Junior subordinate debentures	27	28	74	104
<b>TOTAL INTEREST EXPENSE</b>	<b>1,637</b>	<b>2,140</b>	<b>5,151</b>	<b>6,595</b>
<b>NET INTEREST INCOME</b>	<b>4,987</b>	<b>4,864</b>	<b>15,127</b>	<b>14,683</b>
PROVISION FOR LOAN LOSSES	400	310	870	530
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,587</b>	<b>4,554</b>	<b>14,257</b>	<b>14,153</b>
<b>NON-INTEREST INCOME</b>				
Service charges and fees	455	427	1,328	1,251
Gain on sale of loans	454	134	758	409
Earnings on bank-owned life insurance	102	107	325	324
Brokerage	84	83	246	190
Trust	168	150	507	462
Investment security losses		(10)		(71)
Interchange fees	216	193	624	541
Other	304	202	686	707
<b>TOTAL NON-INTEREST INCOME</b>	<b>1,783</b>	<b>1,286</b>	<b>4,474</b>	<b>3,813</b>

**NON -INTEREST EXPENSE**

Salaries	1,627	1,632	4,791	4,776
Employee benefits	526	424	1,424	1,322
Occupancy	267	249	836	810
Furniture and equipment	356	319	1,002	944
State shares tax	142	128	418	400
Professional fees	173	172	467	447
Director s fees	71	74	203	215
FDIC assessments	163	105	460	543
Telecommunications	98	84	275	263
Amortization of core deposit intangible	140	156	442	492
Automated teller machine and interchange	144	135	412	377
Other	420	438	1,378	1,399
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>4,127</b>	<b>3,916</b>	<b>12,108</b>	<b>11,988</b>

**INCOME BEFORE IN COME TAX**

<b>PROVISION</b>	<b>2,243</b>	<b>1,924</b>	<b>6,623</b>	<b>5,978</b>
<b>INCOME TAX PROVISION</b>	<b>557</b>	<b>463</b>	<b>1,736</b>	<b>1,423</b>

<b>NET INCOME</b>	<b>\$ 1,686</b>	<b>\$ 1,461</b>	<b>\$ 4,887</b>	<b>\$ 4,555</b>
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<b>EARNINGS PER SHARE</b>	<b>\$ 0.76</b>	<b>\$ 0.65</b>	<b>\$ 2.19</b>	<b>\$ 2.02</b>
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<b>CASH DIVIDENDS PER SHARE</b>	<b>\$ 0.30</b>	<b>\$ 0.27</b>	<b>\$ 0.88</b>	<b>\$ 0.75</b>
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**WEIGHTED AVERAGE SHARES**

<b>OUTSTANDING</b>	<b>2,228,836</b>	<b>2,252,039</b>	<b>2,235,114</b>	<b>2,253,872</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		Treasury Stock	Total Stockholders' Equity
	Shares	Amount		Earnings	Retained		
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)
Balance, September 30, 2009	2,266,980	\$ 2,834	\$ 27,443	\$ 32,030	\$ 2,764	\$ (273)	\$ 64,798
Balance, December 31, 2009	2,270,850	\$ 2,838	\$ 27,539	\$ 32,723	\$ 2,523	\$ (537)	\$ 65,086
Comprehensive Income:							
Net income				4,887			4,887
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					317		317
Total comprehensive income							5,204
Common stock issuance under dividend reinvestment and stock purchase plans	12,155	16	312				328
Recognition of employee stock purchase plan expense			3				3
Purchase of treasury stock (33,500 shares)						(906)	(906)
Cash dividends, (\$0.88 per share)				(1,964)			(1,964)
Balance, September 30, 2010	2,283,005	\$ 2,854	\$ 27,854	\$ 35,646	\$ 2,840	\$ (1,443)	\$ 67,751

See accompanying notes to the unaudited consolidated financial statements.





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

<b>(In Thousands)</b>	<b>For The Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 4,887	\$ 4,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	870	530
Depreciation and amortization of premises and equipment	709	766
Amortization and accretion on investment securities	663	404
Impairment loss on securities		71
Gain on sale of premises and equipment		(185)
Deferred income taxes (benefit) provision	(260)	119
Gain on sale of loans	(758)	(547)
Proceeds from sale of mortgage loans	31,058	22,638
Originations of mortgage loans held for resale	(31,482)	(22,891)
Loss on sale of other real estate	11	81
Amortization of intangibles and investment in limited partnerships	565	610
Decrease in accrued interest receivable	115	299
Increases in cash surrender value of bank-owned life insurance	(382)	(376)
Decrease in accrued interest payable	(185)	(168)
Other, net	604	(1,482)
Net cash provided by operating activities	6,415	4,424
<b>INVESTING ACTIVITIES</b>		
Investment securities available for sale:		
Purchases	(74,870)	(91,271)
Proceeds from sales, maturities and redemptions	91,218	71,340
Proceeds from redemption of restricted securities		
Purchase of restricted securities	(184)	(817)
Net increase in loans	(9,442)	(11,017)
Proceeds from sale of premises and equipment		1,294
Proceeds from sale of other real estate owned	318	343
Purchase of investment in limited partnership	(1,084)	
Acquisition of premises and equipment	(406)	(1,329)
Net cash provided by (used for) investing activities	5,550	(31,457)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	8,635	8,349
Net decrease in short-term borrowings	10,520	6,533
Proceeds from long-term borrowings		6,000
Repayment of long-term borrowings	(9,004)	(4)
Acquisition of treasury stock	(906)	(273)

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Proceeds from issuance of common stock	328	283
Cash dividends paid	(1,964)	(1,689)
Net cash provided by financing activities	7,609	19,199
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	19,574	(7,834)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	11,459	15,485
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 31,033	\$ 7,651

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Interest paid	\$ 5,336	\$ 6,763
Income taxes paid	1,816	1,419
Loans transferred to other real estate owned	300	432

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. (the 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 fourteen 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, small businesses, and public funds and include various types of checking accounts, savings accounts, 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, tax-exempt, 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, remote capture, 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 offers 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.

### **RESTRICTED SECURITIES**

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh ( FHLB Pittsburgh ), and Atlantic Central Bankers Bank ( ACBB ) and do not have a readily determinable fair value because their ownership is restricted, and they can be sold back only to the FHLB-Pittsburgh, ACBB or to another member institution. Therefore, these securities are classified as restricted equity investment securities, carried at cost, and evaluated for impairment. At September 30, 2010, the Corporation held \$3,133,000 in stock of the FHLB-Pittsburgh and \$35,000 in stock of ACBB. At December 31, 2009, the Corporation held \$2,949,000 in stock of FHLB-Pittsburgh and \$35,000 in stock of ACBB.

The Corporation evaluated its holding of restricted stock for impairment and deemed the stock to not be impaired due to the expected recoverability of par value, which equals the value reflected within the Corporation's financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within FHLB's mortgage portfolio to the FHLB's liquidity position and credit rating. The Corporation utilizes the impairment framework outlined in GAAP to evaluate stock for impairment. The following factors were evaluated to determine the ultimate recoverability of the par value of the Corporation's restricted stock holdings; (i) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (ii) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB; (iv) the liquidity position of the FHLB; and (v) whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the materiality of the carrying amount to the member institution and (b) whether an assessment of the institution's operational needs for the foreseeable future allow management to dispose of the stock. Based on the analysis of these factors, the Corporation determined that its holding of restricted stock was not impaired at September 30, 2010 and December 31, 2009.

### **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 collection efforts will continue on loans past due beyond 60 days which have not been satisfied. 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 collectibility of principal or interest, even if the loan may be currently 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 collectibility 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 some 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 2.04% at September 30, 2010. 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 of 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, 2010 and December 31, 2009 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. Management performs an annual evaluation 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. Based upon these reviews, management determined there was no impairment of goodwill during 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 year's digits method over 10 years and has a carrying value of \$2,326,000 as of September 30, 2010. At December 31, 2009, the intangible asset had a carrying value of \$2,768,000. 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 \$442,000 and \$336,000 for the nine months ended September 30, 2010 and 2009, respectively.

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

For the Year Ended:



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Remainder of 2010	\$ 134,000
2011	509,000
2012	442,000
2013	374,000
2014	308,000
Thereafter	559,000
Total	\$ 2,326,000

### **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 \$0 and \$29,000 as of September 30, 2010 and December 31, 2009, 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 four partnerships at September 30, 2010 that provide low income 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 tax credits allocated to the Corporation were \$140,000 and the amortization of the investments in limited partnerships was \$123,000 and \$119,000 for the nine months ended September 30, 2010 and 2009, respectively. The carrying value of the Corporation's investments in limited partnerships was \$1,648,000 and \$687,000 at September 30, 2010 and December 31, 2009, respectively. During 2010, the Corporation purchased an interest in a low income housing partnership in the amount of \$1,084,000.

### **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, 2010 and December 31, 2009 was \$232,000, 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 are 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 are 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.

### **TREASURY STOCK**

The purchase of the Corporation's common stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a last-in first-out basis.

**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, 2010 and 2009, was \$163,000 and \$135,000, respectively.

#### **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 became effective for the Corporation on January 1, 2010. The adoption of this standard did not have a material impact on the Corporation's consolidated financial position or results of operations.

**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 became effective for the Corporation on January 1, 2010. The implementation of this new guidance did not have a material impact on the Corporation's 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 became effective for the Corporation on December 31, 2009. The implementation of this new guidance did not have a material impact on the Corporation's consolidated financial statements.

**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 and it did not have a material impact on the Corporation's consolidated financial position or results of operations.

**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 and restrictions on the ability to redeem an investment on the measurement date. This update became effective for the Corporation for interim and annual reporting periods ending after December 15, 2009. The implementation of this standard did not have a material impact on the Corporation's consolidated financial statements.

**FASB ASC 505-20** In January 2010, the FASB issued an update (ASC No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash) impacting FASB ASC 505-20, Equity - Stock Dividends and Stock Splits. The amendments in this update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share and is not a stock dividend. This update became effective for the Corporation for interim and annual periods ending after December 15, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 810-10** In January 2010, the FASB issued an update (ASC No. 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification) impacting FASB ASC 810-10, Consolidation. The amendments in this update address implementation issues related to the changes of ownership provisions originally issued as FASB Statement 160. It also improves the disclosures related to retained investments in a deconsolidated subsidiary or a preexisting interest held by an acquirer in a business combination. This update became effective for the Corporation for interim and annual periods ending after December 15, 2009 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

**FASB ASC 820-10-** In January 2010, the FASB issued an update (ASC No. 2010-06, Improving Disclosures about Fair Value Measurements) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the Level of disaggregation and disclosures about inputs and valuation techniques. This update becomes effective for the Corporation for interim and annual reporting periods beginning after December 15, 2009. This new guidance became effective for the Corporation on January 1, 2010 and did not have a material impact on the Corporation's consolidated financial position or results of operations.

## RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior periods have been reclassified to conform to presentations used in the 2010 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

## 2. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities were as follows at September 30, 2010 and December 31, 2009:

(In Thousands)	Amortized Cost	September 30, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 128,725	\$ 3,981	\$ (99)	\$ 132,607
Other	58,524	463		58,987
Obligations of state and political subdivisions	10,339	297		10,636
Total debt securities	197,588	4,741	(99)	202,230
Marketable equity securities	2,172	48	(387)	1,833
Total investment securities AFS	\$ 199,760	\$ 4,789	\$ (486)	\$ 204,063

(In Thousands)	Amortized Cost	December 31, 2009		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 134,762	\$ 4,212	\$ (118)	\$ 138,856
Other	68,323	421	(405)	68,339

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Obligations of state and political subdivisions	11,265	116	(7)	11,374
Total debt securities	214,350	4,749	(530)	218,569
Marketable equity securities	2,093	41	(437)	1,697
Total investment securities AFS	\$ 216,443	\$ 4,790	\$ (967)	\$ 220,266

The amortized cost and estimated fair value of investment securities, by expected maturity, are shown below at September 30, 2010. Expected maturities on debt securities will differ from contractual maturities, because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Other securities and marketable equity securities are not considered to have defined maturities and are included in the Due after ten years category:

(In Thousands)	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Due in one year or less	\$ 2,113	\$ 2,146	3.68%
Due after one year to five years	47,159	47,455	2.00%
Due after five years to ten years	27,631	28,361	3.78%
Due after ten years	122,857	126,101	3.99%
 Total	 \$ 199,760	 \$ 204,063	

Management evaluates securities for other-than-temporary impairment ( OTTI ) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 (SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities). In determining OTTI under the FASB ASC 320 (SFAS No. 115) model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary-impairment occurs, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary-impairment related to the other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

The following summary shows the gross unrealized losses and fair value, aggregated by investment category of those individual securities that have been in a continuous unrealized loss position for less than or more than 12 months as of September 30, 2010 and December 31, 2009:

(In Thousands)	Less than Twelve Months		September 30, 2010 Twelve Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	Obligations of U.S. Government Corporations and Agencies: Mortgage-backed	\$ 11,656	\$ 99	\$	\$	\$ 11,656

Other  
Obligations of state and  
political subdivisions

Total debt securities	11,656	99			11,656	99
Equity securities	548	36	782	351	1,330	387
Total	\$ 12,204	\$ 135	\$ 782	\$ 351	\$ 12,986	\$ 486

(In Thousands) Obligations of U.S. Government Corporations and Agencies:	Less than Twelve Months		December 31, 2009 Twelve Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	Mortgage-backed	\$ 8,105	\$ 117	\$ 51	\$ 1	\$ 8,156
Other	28,876	405			28,876	405
Obligations of state and political subdivisions	1,856	7			1,856	7
Total debt securities	38,837	529	51	1	38,888	530
Equity securities	366	159	806	278	1,172	437
Total	\$ 39,203	\$ 688	\$ 857	\$ 279	\$ 40,060	\$ 967

At September 30, 2010, the Corporation had a total of 262 individual debt securities and 45 individual equity security positions. At September 30, 2010, there were a total of 9 individual debt securities and 21 individual equity securities that were in a continuous unrealized loss position for less than twelve months. At September 30, 2010, there were no debt securities and a total of 13 individual equity securities in a continuous loss position for greater than twelve months.

The Corporation invests in various forms of agency debt including mortgage-backed securities and callable agency debt. The fair market value of these securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid to offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporation's carrying value at any measurement date. The Corporation does not consider the debt securities contained in the previous table to be other-than-temporarily impaired since it has both the intent and ability to hold the securities until a recovery of fair value, which may be maturity.

The Corporation's marketable equity securities consist of common stock positions in various Commercial Banks, Savings and Loans/Thriffs, and Diversified Financial Service Corporations varying in asset size and geographic region. The Corporation's equity securities represent less than 1 percent of the total available for sale investments as of September 30, 2010. The following tables display the Corporation's holdings of these securities by asset size and geographic region as of September 30, 2010:

(In Thousands)	September 30, 2010			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Asset size(\$)				
Under \$1 Billion	\$ 493	\$ 20	\$ (73)	\$ 440
\$1 to \$5 Billion	213	2	(31)	184
\$6 to \$100 billion	780	22	(199)	603
Over \$100 Billion	686	4	(84)	606
	\$2,172	\$ 48	\$(387)	\$1,833

(In Thousands)	September 30, 2010			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Geographic Region				
Eastern U.S.	\$1,082	\$ 33	\$(200)	\$ 915
Southeastern U.S.	110		(14)	96
Western U.S.	53		(7)	46
National	927	15	(166)	776
	\$2,172	\$ 48	\$(387)	\$1,833

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to the financial industry. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non performing

assets and loan loss reserves, and whether or not the issuer is participating in the TARP Capital Purchase Program. The starting point for the equity analysis is the length and severity of market value decline. The Corporation and an independent consultant monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. The Corporation evaluated the near-term prospects of the issuer in relation to the severity and duration of the market value decline as well as the other attributes listed above. Based on that evaluation and the Corporation's ability and intent to hold these equity securities for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider these equity securities to be other-than-temporarily impaired at September 30, 2010.

**3. ALLOWANCE FOR LOAN LOSSES**

Changes in the allowance for loan losses for the nine months ended September 30, 2010 and 2009 were as follows:

(In Thousands)	2010	2009
Balance, beginning of year	\$ 4,210	\$ 3,758
Provision charged to operations	870	530
Loans charged off	(569)	(375)
Recoveries	63	21
Balance, September 30,	\$ 4,574	\$ 3,934

As of September 30, 2010, the total recorded investment in loans that are considered to be impaired was \$4,562,000. These impaired loans had a related allowance for loan losses of \$618,000. 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, 2010.

#### 4. 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.

#### 5. LONG-TERM BORROWINGS

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

#### 6. 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 \$103,000 and \$131,000 for the nine month periods ended September 30, 2010 and 2009, respectively.

#### 7. 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:

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(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
 Total assets	 \$ 329,382
 Liabilities	
Deposits	\$ 264,692
Borrowings	31,883
Junior subordinate debentures	4,640
Accrued interest payable	764
Other liabilities	1,087
 Total liabilities	 \$ 303,066
 Fair value of net assets acquired	 \$ 26,316

## 8. 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, 2010 and December 31, 2009 were as follows:

(In Thousands)	2010	2009
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$77,815	\$71,868
Standby letters of credit	3,435	3,393
Dealer floor plans	1,049	932
Loans held for sale	1,449	267

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 borrower. 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, 80.2% was for real estate loans. It is 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 is balanced and diversified to the extent necessary to avoid any significant concentration of credit.

## 9. 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 observable 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, 2010 and December 31, 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, 2010			Total
	Level I	Level II	Level III	
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	\$ 1,833	\$ 202,230	\$	\$ 204,063

(In Thousands)	December 31, 2009			Total
	Level I	Level II	Level III	
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	\$ 1,697	\$ 218,569	\$	\$ 220,266

At September 30, 2010 and December 31, 2009, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

(In Thousands)	September 30, 2010			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$	\$ 58,987	\$	\$ 58,987

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Other		132,607		132,607
Obligations of state and political subdivisions		10,636		10,636
Equity securities	1,833			1,833
	\$ 1,833	\$ 202,230	\$	\$ 204,063

(In Thousands)	December 31, 2009			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$	\$ 138,856	\$	\$ 138,856
Other		68,339		68,339
Obligations of state and political subdivisions		11,374		11,374
Equity securities	1,697			1,697
	\$ 1,697	\$ 218,569	\$	\$ 220,266

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.

The following table presents the assets reported on the consolidated statements of financial condition at their fair value on a non-recurring basis as of September 30, 2010 and December 31, 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, 2010			Total
	Level I	Level II	Level III	
Assets Measured on a Non-recurring Basis:				
Impaired Loans	\$	\$ 4,562	\$	\$ 4,562
Loans Held for Sale		1,449		1,449
Mortgage Servicing Rights		494		494
Other Real Estate Owned				-
	\$	\$ 6,505	\$	\$ 6,505

(In Thousands)	December 31, 2009			Total
	Level I	Level II	Level III	
Assets Measured on a Non-recurring Basis:				
Impaired Loans	\$	\$ 4,839	\$	\$ 4,839
Loans Held for Sale		267		267
Mortgage Servicing Rights		344		344
Other Real Estate Owned		29		29
	\$	\$ 5,479	\$	\$ 5,479

**10. ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Corporation is required to disclose estimated fair values for its financial instruments. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Fair value estimates derived through these techniques cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FASB ASC 825-10 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

At September 30, 2010 and December 31, 2009, the carrying values and estimated fair values of financial instruments are presented in the table below:

(In Thousands)	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets:</b>				
Cash and short-term instruments	\$ 31,033	\$ 31,033	\$ 11,459	\$ 11,459
Investment securities	204,063	204,063	220,266	220,266
Restricted securities	3,168	3,168	2,984	2,984
Loans, net	335,733	344,286	326,279	329,726
Cash surrender value of bank owned life insurance	11,822	11,822	11,440	11,440
Accrued interest receivable	1,891	1,891	2,006	2,006
<b>Financial Liabilities:</b>				
Interest-bearing deposits	408,790	412,214	406,554	410,168
Noninterest-bearing deposits	62,133	62,133	55,734	55,734
Short-term borrowings	62,517	62,517	51,997	51,997
Long-term borrowings	6,124	6,374	15,128	15,375
Junior subordinate debentures	4,640	4,640	4,640	4,640
Accrued interest payable	674	674	859	859
<b>Off-Balance Sheet Assets (Liabilities):</b>				
Commitments to extend credit		\$ 77,815		\$ 71,868
Standby letters of credit		3,435		3,393
Dealer floor plans		1,049		932

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

#### CASH AND OTHER SHORT-TERM INSTRUMENTS

Cash and due from banks, interest bearing deposits with other banks, and Federal Funds sold had carrying values which were a reasonable estimate of fair value. Accordingly, fair values regarding these instruments were provided by reference to carrying values reflected on the consolidated balance sheets.

#### INVESTMENT SECURITIES

The fair value of investment securities which included mortgage backed securities were estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers.

#### RESTRICTED SECURITIES

The carrying value of regulatory stock approximates fair value based on applicable redemption provisions.

#### LOANS

Fair values were estimated for categories of loans with similar financial characteristics. Loans were segregated by type such as commercial, tax-exempt, real estate mortgages and consumer. For estimation purposes, each loan category was further segmented into fixed and adjustable rate interest terms and also into performing and non-performing classifications.

The fair value of each category of performing loans was calculated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Fair value for non-performing loans was based on management's estimate of future cash flows discounted using a rate commensurate with the risk associated with the estimated future cash flows. The assumptions used by



management were judgmentally determined using specific borrower information.

**CASH SURRENDER VALUE OF BANK OWNED LIFE INSURANCE**

The fair values are equal to the current carrying value.

**ACCRUED INTEREST RECEIVABLE AND PAYABLE**

The fair values are equal to the current carrying value.

**DEPOSITS**

The fair value of deposits with no stated maturity, such as Demand Deposits, Savings Accounts, and Money Market Accounts, was equal to the amount payable on demand at September 30, 2010 and December 31, 2009.

Fair values for fixed rate Certificates of Deposit were estimated using a discounted cash flow calculation that applied interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

**SHORT-TERM BORROWINGS**

The carrying amounts of federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings approximated their fair values.

#### LONG-TERM BORROWINGS

The fair values of long-term borrowings, other than capitalized leases, are estimated using discounted cash flow analyses based on the Corporation's incremental borrowing rate for similar instruments. The carrying amounts of capitalized leases approximated their fair values, because the incremental borrowing rate used in the carrying amount calculation was at the market rate.

#### COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

Management estimated that there were no material differences between the notional amount and the estimated fair value of those off-balance sheet items, because they were primarily composed of unfunded loan commitments which were generally priced at market value at the time of funding.

### **11. MANAGEMENT'S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10-Q 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 its 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 10-Q 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 10-K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation's annual report or Form 10-K for the period ended December 31, 2009 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, 2010, the related consolidated statements of income for the three and nine month periods ended September 30, 2010 and 2009 and changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2010 and 2009. 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, 2009, 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 9, 2010, 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, 2009, 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 12, 2010

**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 Dodd-Frank Wall Street Reform and Consumer Protection Act and regulation rulemaking yet to occur.

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 2010 with continued wide market credit spreads and our view that national economic trends currently point to a subdued recovery through the end of 2010.

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 10-Q. 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**

#### **2010 vs. 2009**

Tax-equivalent net interest income, as reflected in the following tables, increased \$637 thousand to \$15.6 million for the nine months ended September 30, 2010. Reported tax-equivalent interest income decreased \$807 thousand to \$20.8 million for the nine months ended September 30, 2009. The decrease to interest income was primarily rate driven as maturing and called investment securities re-priced throughout the past year. Tax-equivalent interest income from investment securities decreased \$1.0 million for the nine months ended September 30, 2010 as compared to 2009 results. Reported interest expense decreased \$1.4 million to \$5.2 million for the nine months ended September 30, 2010. The decrease was primarily rate driven as the average rate paid on interest-bearing liabilities decreased to 1.44 percent for the nine months ended September 30, 2010 from 1.92 percent during the same period of 2009.

Net interest margin decreased to 3.72 percent at September 30, 2010 from 3.77 percent at September 30, 2009. The overall net decrease in margin resulted primarily from the yield on investment securities decreasing 90 basis points to 3.64 percent at September 30, 2010. Over the same time period interest-bearing deposits decreased 50 basis points to 1.45 percent while the yield on total borrowings decreased 36 basis points to 1.39 percent at September 30, 2010. A decrease of 130 basis points on the long-term borrowings for the nine months ended September 30, 2010 was the primary reason for the yield decrease in the total borrowings as the short-term borrowing yield increased 7 basis points over the same period. The yield decrease on long-term borrowings reflects the maturity and repayment of several FHLB borrowings totaling \$9.0 million during the nine months ended September 30, 2010. The FHLB borrowings carried 6.0 annual percentage rates. The yield on interest-earning assets decreased 48 basis points to 4.94 percent for the nine months ended September 30, 2010. The yield on total investments decreased 90 basis points to 3.64 percent for the nine months ended September 30, 2010.

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, 2010 and 2009.

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

(In Thousands)	<b>2010</b>			<b>2009</b>		
	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
<b>ASSETS:</b>						
Tax-exempt loans	\$ 22,009	\$ 1,052	6.39%	\$ 19,684	\$ 834	5.66%
All other loans	316,411	14,080	5.95%	306,078	14,086	6.15%
Total loans (2)(3)(4)	338,420	15,132	5.98%	325,762	14,920	6.12%
Taxable securities	195,499	5,173	3.53%	184,914	6,243	4.50%
Tax-exempt securities (3)	10,628	457	5.73%	10,745	422	5.24%
Total securities	206,127	5,630	3.64%	195,659	6,665	4.54%
Federal funds sold	1,363	1	0.10%	9,883	11	0.15%
Interest-bearing deposits	16,268	27	0.22%	551	1	0.24%
Total interest-earning assets	562,178	20,790	4.94%	531,855	21,597	5.42%
Other assets	44,919			44,599		
<b>TOTAL ASSETS</b>	<b>\$ 607,097</b>			<b>\$ 576,454</b>		
<b>LIABILITIES:</b>						
Savings	\$ 62,354	180	0.39%	\$ 56,307	168	0.40%
Now deposits	70,850	74	0.14%	68,789	75	0.15%
Money market deposits	42,487	245	0.77%	44,278	353	1.07%
Time deposits	235,624	3,958	2.25%	226,875	5,179	3.05%
Total deposits	411,315	4,457	1.45%	396,249	5,775	1.95%
Short-term borrowings	51,847	310	0.80%	46,535	254	0.73%
Long-term borrowings	10,306	310	4.02%	11,603	462	5.32%
Junior subordinate debentures	4,640	74	2.13%	4,640	104	3.00%
Total borrowings	66,793	694	1.39%	62,778	820	1.75%

Total interest-bearing liabilities	478,108	5,151	1.44%	459,027	6,595	1.92%
Demand deposits	57,592			51,004		
Other liabilities	4,358			3,656		
Stockholders equity	67,039			62,767		
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 607,097</b>			<b>\$ 576,454</b>		
<b>Interest rate spread (6)</b>			<b>3.50%</b>			<b>3.50%</b>
<b>Net interest income/margin (5)</b>		<b>\$ 15,639</b>	<b>3.72%</b>		<b>\$ 15,002</b>	<b>3.77%</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 2010 and 2009.

(4) Non accrual 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)	2010	2009
Total interest income	\$ 20,278	\$ 21,278
Total interest expense	5,151	6,595
Net interest income	15,127	14,683
Tax equivalent adjustment	512	319
Net interest income (fully taxable equivalent)	\$ 15,639	\$ 15,002

**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 consolidated balance sheet as it pertains to net interest income, the table below reflects these changes for 2010 versus 2009:

(In Thousands)	Nine Months Ended September 30, 2010 vs 2009		
	Increase (Decrease)		
	Volume	Due to Rate	Net
Interest income:			
Loans, tax-exempt	\$ 111	\$ 107	\$ 218
Loans	460	(466)	(6)
Taxable investment securities	280	(1,350)	(1,070)
Tax-exempt investment securities	(5)	40	35
Federal funds sold	(6)	(4)	(10)
Interest bearing deposits	26		26
Total interest-earning assets	866	(1,673)	(807)
Interest expense:			
Savings	17	(5)	12
NOW deposits	2	(3)	(1)
Money market deposits	(10)	(98)	(108)
Time deposits	147	(1,368)	(1,221)
Short-term borrowings	32	24	56
Long-term borrowings, FHLB	(39)	(113)	(152)
Junior subordinate debentures		(30)	(30)
Total interest-bearing liabilities	149	(1,593)	(1,444)

Change in net interest income	\$ 717	\$ (80)	\$ 637
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**PROVISION FOR LOAN LOSSES****2010 vs. 2009**

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, 2010, 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 \$870,000 and \$530,000 for the nine months ended September 30, 2010 and 2009, respectively. Management concluded the increase of the provision was appropriate considering the gross loan growth experience of \$9.8 million, the level of nonperforming assets and the general condition of 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

### 2010 vs. 2009

Total non-interest income increased \$661,000 or 17.3 percent to \$4.5 million for the nine months ended September 30, 2010. The service charges and fees increased \$77,000 or 6.2 percent to \$1.3 million for the nine months ended September 30, 2010. Gain on sale of loans increased \$349,000 or 85.3 percent from \$409,000 in 2009 to \$758,000 in 2010. Brokerage income increased \$56,000 or 29.5 percent from \$190,000 in 2009 to \$246,000 in 2010. Trust income increased \$45,000 or 9.7 percent from \$462,000 in 2009 to \$507,000 in 2010. Interchange fees increased \$83,000 or 15.3 percent from \$541,000 in 2009 to \$624,000 in 2010. Other non-interest income decreased \$21,000 or 3.0 percent from \$707,000 in 2009. The decrease primarily resulted from the 2009 recognition of gains from the sale of property and equipment in the amount of \$183,000.

(In Thousands)	September 30, 2010		For The Nine Months Ended September 30, 2009		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	\$1,328	29.7%	\$1,251	32.8%	\$ 77	6.2%
Gain on sale of loans	758	16.9	409	10.7	349	85.3
Earnings on bank-owned life insurance	325	7.3	324	8.5	1	0.3
Brokerage	246	5.5	190	5.0	56	29.5
Trust	507	11.3	462	12.1	45	9.7
Investment security losses			(71)	(1.9)	71	(100.0)
Interchange fees	624	13.9	541	14.2	83	15.3
Other	686	15.4	707	18.6	(21)	(3.0)
Total non-interest income	\$4,474	100.0%	\$3,813	100.0%	\$661	17.3%

## NON-INTEREST EXPENSE

### 2010 vs. 2009

Total non-interest expense increased \$120,000 thousand or 1.0 percent from \$12.0 million in 2009. The net increase primarily resulted from higher employee benefits offset by lower FDIC assessment rates. FDIC assessments decreased \$83,000 due to the imposition of the 2009 five basis point special assessment. Employee benefits increased \$102,000 or 7.7 percent for the nine months ended September 30, 2010 as a result of higher premiums.

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, 2010 this percentage was 2.66 percent compared to 2.77 percent in 2009.

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(In Thousands)	September 30, 2010		For The Nine Months Ended September 30, 2009		Change	
	Amount	% Total	Amount	% Total	Amount	%
Salaries	\$ 4,791	39.5%	\$ 4,776	39.8%	\$ 15	0.3%
Employee benefits	1,424	11.7	1,322	11.0	102	7.7
Occupancy	836	6.9	810	6.8	26	3.2
Furniture and equipment	1,002	8.3	944	7.9	58	6.1
State shares tax	418	3.5	400	3.3	18	4.5
Professional fees	467	3.9	447	3.7	20	4.5
Directors fees	203	1.7	215	1.8	(12)	(5.6)
FDIC assessments	460	3.8	543	4.5	(83)	(15.3)
Telecommunications	275	2.3	263	2.2	12	4.6
Amortization of core deposit intangible	442	3.7	492	4.1	(50)	(10.2)
Automated teller machine and interchange	412	3.4	377	3.1	35	9.3
Other	1,378	11.3	1,399	11.8	(21)	(1.5)
Total non-interest expense	\$12,108	100.0%	\$11,988	100.0%	\$120	1.0%

## FINANCIAL CONDITION

Consolidated assets at September 30, 2010 were \$615.8 million which represented an increase of \$13.3 million from \$602.5 million at December 31, 2009.

Gross loans increased 3.0 percent from \$330.5 million at December 31, 2009 to \$340.3 million at September 30, 2010.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio increased during 2010 to 72.3 percent compared to 71.5 percent at December 31, 2009.

## 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 Corporation of restructuring the portfolio for gap positioning at any time through the securities classified as available-for-sale. As reflected in the Consolidated Statements of Changes in Stockholders' Equity, the impact of the fair value accounting was an unrealized gain, net of tax, on September 30, 2010 of \$2,840,000 compared to an unrealized gain, net of tax, on December 31, 2009 of \$2,523,000, which represents an unrealized gain, net of tax, of \$317,000 for the nine months ended September 30, 2010. The following table shows the amortized cost and estimated fair value of the investment securities as of the dates shown:

(In Thousands)	September 30, 2010	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 128,725	\$ 132,607
Other	58,524	58,987
Obligations of state and political subdivisions	10,339	10,636
Total debt securities	197,588	202,230

Marketable equity securities	2,172	1,833
Total investment securities AFS	\$ 199,760	\$ 204,063

(In Thousands)	December 31, 2009	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 134,762	\$ 138,856
Other	68,323	68,339
Obligations of state and political subdivisions	11,265	11,374
Total debt securities	214,350	218,569
Marketable equity securities	2,093	1,697
Total investment securities AFS	\$ 216,443	\$ 220,266

### LOANS

The loan portfolio increased 3.0 percent from \$330.5 million at December 31, 2009 to \$340.3 million at September 30, 2010. The percentage distribution in the loan portfolio was 80.2 percent in real estate loans at \$272.9 million; 11.1 percent in commercial loans at \$37.9 million; 2.1 percent in consumer loans at \$7.1 million; and 6.6 percent in tax exempt loans at \$22.4 million.

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

(In Thousands)	September 30, 2010	December 31, 2009	Change	
			Amount	%
Commercial, financial and agricultural	\$ 37,871	\$ 37,642	\$ 229	0.6%
Tax-exempt	22,367	18,055	4,312	23.9
Real estate	257,326	253,463	3,863	1.5
Real estate construction	15,475	13,526	1,949	14.4
Installment loans to individuals	7,097	7,725	(628)	(8.1)
Add (deduct): Unearned discount	(8)	(15)	7	(46.7)
Unamortized loan costs, net of fees	179	93	86	92.5
Gross loans	\$ 340,307	\$ 330,489	\$ 9,818	3.0%

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

	September 30, 2010	December 31, 2009
Commercial, financial and agricultural	11.1%	11.4%
Tax-exempt	6.6	5.5
Real estate	75.7	76.7
Real estate construction	4.5	4.1
Installment loans to individuals	2.1	2.3
Gross loans	100.0%	100.0%

**ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses was \$4.6 million at September 30, 2010, compared to \$3.9 million at September 30, 2009. This allowance equaled 1.34 percent and 1.19 percent of total loans, net of unearned income, as of September 30, 2010 and 2009, 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. Regular 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.



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,	
	2010	2009
Average Loans Outstanding during the period	\$ 338,420	\$ 325,762
Balance, beginning of year	\$ 4,210	\$ 3,758
Provision charged to operations	870	530
Loans charged off:		
Commercial, financial, and agricultural	(4)	(114)
Real estate mortgages	(539)	(233)
Installment loans to individuals	(26)	(28)
Recoveries:		
Commercial, financial, and agricultural	33	1
Real estate mortgages	12	9
Installment loans to individuals	18	11
Balance, end of period	\$ 4,574	\$ 3,934
Ratio of net charge-offs to Average loans outstanding during the period	0.15%	0.11%

#### NON-PERFORMING LOANS

As of September 30, 2010, loans 30 to 89 days past due totaled \$2.0 million compared to \$1.7 million at December 31, 2009. Non-accrual loans totaled \$3.8 million at September 30, 2010 and \$4.4 million at December 31, 2009.

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, 2010	December 31, 2009
Commercial, financial and agricultural		
Days 30-89	\$ 659	\$ 14
Days 90 plus		
Non-accrual	41	145
Real estate		
Days 30-89	1,317	1,632
Days 90 plus		
Non-accrual	3,742	4,216
Installment loans to individuals		
Days 30-89	51	49

Days 90 plus Non-accrual	1		
	\$ 5,811	\$	6,056
Days 30-89	\$ 2,027	\$	1,695
Days 90 plus Non-accrual	3,784		4,361
	\$ 5,811	\$	6,056
Restructured loans still accruing	\$ 320	\$	323
Other real estate owned	\$	\$	29

**DEPOSITS**

Total average deposits increased by 4.4 percent from \$449.0 million at December 31, 2009 to \$469.1 million at September 30, 2010. Average savings deposits increased 10.4 percent to \$62.4 million at September 30, 2010 from \$56.5 million at December 31,

2009. Average money market deposits decreased 3.2 percent to \$42.5 million as of September 30, 2010 from \$43.9 million as of December 31, 2009. Average interest bearing NOW accounts increased 3.2 percent from \$68.7 million at December 31, 2009 to \$70.9 million at September 30, 2010.

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

(In Thousands)	September 30, 2010		December 31, 2009		Change	
	Balance	Average Rate	Balance	Average Rate	Amount	%
Non-interest bearing	\$ 57,592	%	\$ 51,908	%	\$ 5,684	11.0%
Savings	62,354	0.39	56,493	0.40	5,861	10.4
Now deposits	70,850	0.14	68,650	0.15	2,200	3.2
Money market deposits	42,487	0.77	43,906	1.03	(1,419)	(3.2)
Time deposits	235,624	2.25	228,005	2.94	7,619	3.3
Total deposits	\$468,907	1.27%	\$448,962	1.67%	\$19,945	4.4%

## BORROWED FUNDS

Average short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB Pittsburgh borrowings increased 6.2 percent from \$48.8 million at December 31, 2009 to \$51.8 million at September 30, 2010. Average long-term borrowings decreased \$2.2 million from \$12.5 million at December 31, 2009 to \$10.3 million at September 30, 2010.

The average balances are summarized as follows:

(In Thousands)	September 30, 2010		December 31, 2009		Change	
	Amount	% Total	Amount	% Total	Amount	%
Short-term borrowings:						
Securities sold under agreement to repurchase	\$50,212	75.2%	\$47,873	72.6%	\$ 2,339	4.9%
Short-term borrowings, FHLB	1,034	1.5	352	0.5	682	193.8
U.S. Treasury tax and loan notes	601	0.9	601	0.9		
Total short-term borrowings	51,847	77.6%	48,826	74.0%	3,021	6.2
Long-term borrowings, FHLB	10,306	15.4	12,492	19.0	(2,186)	(17.5)
Junior subordinate debentures	4,640	7.0	4,640	7.0		
Total borrowed funds	\$66,793	100.0%	\$65,958	100.0%	\$ 835	1.3%

## 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 time and 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, 2010, 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, 2010 and December 31, 2009 are in the following table:

(In Thousands)	2010		2009	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	\$63,431	18.2%	\$60,322	17.6%
For Capital Adequacy Purposes To Be Well-Capitalized	27,937 34,921	8.0 10.0	27,394 34,243	8.0 10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	\$59,064	16.9%	\$56,102	16.4%
For Capital Adequacy Purposes To Be Well-Capitalized	13,968 20,953	4.0 6.0	13,697 20,546	4.0 6.0
Tier I Capital (to Average Assets)				
Actual	\$59,064	9.9%	\$56,102	9.8%
For Capital Adequacy Purposes To Be Well-Capitalized	23,873 29,842	4.0 5.0	22,861 28,577	4.0 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, 2010, our cumulative gap positions and the potential earnings change resulting from a 300 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, 2009.

### **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, 2010, 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, 2009, which could materially affect our business, financial condition or future results. At September 30, 2010 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K, except as set forth below. 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act may affect our financial condition, results of operations, liquidity and stock price.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act includes provisions affecting large and small financial institutions, including several provisions that will profoundly affect how community banks and bank holding companies will be regulated in

the future. Among other things, these provisions relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank holding companies. In addition, there is significant uncertainty about the full impact of the Dodd-Frank Act because many of its provisions require subsequent regulatory rule making.

The Dodd-Frank Act establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given authority to promulgate consumer protection regulations applicable to all entities offering financial



services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the company's operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act is likely to affect our cost of doing business, it may limit or expand the activities in which the Company permissibly may engage, and it may affect the competitive balance within the company's industry and market areas.

The Dodd-Frank Act and the regulations to be adopted thereunder are expected to subject the company and other financial institutions to additional restrictions, oversight and costs that may have an adverse impact on its business, financial condition, results of operations or the price of the Company's common stock and the Company's ability to continue to conduct business consistent with historical practices.

## 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, 2010)				154,500
Month #2 (August 1 - August 31, 2010)	3,500	\$27.00	3,500	151,000
Month #3 (September 1 - September 30, 2010)	7,000	\$26.60	7,000	144,000

(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.

The Corporation did not sell any unregistered securities during the quarter ended September 30, 2010.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 5. Other Information

None

## Item 6. Exhibits

- 3.1.1 Amended and Restated Articles of Incorporation-incorporated by reference to Registrant's Current Report on Form 10-K, dated May 9, 2005, filed with the Commission on May 10, 2005.
- 3.2 Amended Bylaws-incorporated by reference to Registrant's Annual Report on Form 10-K, filed with the commission on March 26, 2010.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
- 32 Section 906 Certification of Principal Executive Officer and Principal 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, 2010, 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  
(Principal Executive Officer)  
Date: November 12, 2010

By /s/ Jeffrey T. Arnold  
Jeffrey T. Arnold, CPA, CIA  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)  
Date: November 12, 2010  
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