CCFNB BANCORP INC
Form 10-K
March 28, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year-ended December 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____________to________________

Commission file Number: 0-19028

CCFNB BANCORP, INC.
(Name of small business issuer in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-2254643 (I.R.S. Employer Identification Number)
232 East Street, Bloomsburg, Pennsylvania (Address of principal executive offices)	17815 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $1.25 per share.

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 past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant based on the average of the bid and asked prices of $27.28 at February 28, 2005, was $34,484,184.

As of February 28, 2005, the Registrant had outstanding 1,264,083 shares of its common stock, par value $1.25 per share.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual report on Form 10-K, 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:

- possible changes in economic and business conditions that may affect the prevailing interest rates, the prevailing rates of inflation, or the amount of growth, stagnation, or recession in the global, U.S., and Northcentral Pennsylvania economies, the value of investments, collectibility of loans and the profitability of business entities;

- possible changes in monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and

similar organizations;

- the effects of easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, and changes evolving from the enactment of the Gramm-Leach-Bliley Act which became effective in 2000, and attendant changes in matters and effects of competition in the financial services industry;

- the cost and other effects of legal proceedings, claims, settlements and judgments; and

- our ability to achieve the expected operating results related to our operations which depends on a variety of factors, including the continued growth of the markets in which we operate consistent with recent historical experience, and our ability to expand into new markets and to maintain profit margins in the face of pricing pressures.

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.

ITEM 1. BUSINESS

GENERAL

We are a registered financial holding company, bank holding company, and Pennsylvania business corporation, and are headquartered in Bloomsburg, Pennsylvania. We have one wholly-owned subsidiary which is Columbia County Farmers National Bank or referred to as the Bank. A substantial part of our business consists of the management and supervision of the Bank. Our principal source of income is dividends paid by the Bank. At December 31, 2004, we had approximately:

- $235 million in total assets;

- $150 million in loans;

- $172 million in deposits; and

- $ 29 million in stockholders' equity.

The Bank is a national banking association and member of the Federal Reserve System whose deposits are insured by the Bank Insurance Fund of the FDIC. The Bank is a full-service commercial bank providing a range of services and products, including time and demand deposit accounts, consumer, commercial and mortgage loans to individuals and small to medium-sized business in its Northcentral Pennsylvania market area. The Bank also operates a full-service trust department. A third-party brokerage is also resident in the Bank's office in Lightstreet, Pennsylvania. At December 31, 2004, the Bank had 7 branch banking offices which are located in the Pennsylvania county of Columbia.

We consider our branch banking offices to be a single operating segment, because these branches have similar:

- economic characteristics,

- products and services,
- operating processes,
- delivery system,
- customer bases, and
- regulatory oversight.

We have not operated any other reportable operating segments in the 3-year period ended December 31, 2004. We have combined financial information for our third-party brokerage operation with our financial information, because this company does not meet the quantitative threshold for a reporting operating segment.

We hold a 50 percent interest in a local insurance agency. The name of this agency is Neighborhood Group, Inc. and trades under the fictitious name of Neighborhood Advisors (insurance agency). Through this joint venture, we sell insurance products and services. We account for this local insurance agency using the equity method of accounting.

As of December 31, 2004, we had 89 employees on a full-time equivalent basis. The Company and the Bank are not parties to any collective bargaining agreement and employee relations are considered to be good.

SUPERVISION AND REGULATION

The following discussion sets forth the material elements of the regulatory framework applicable to us and the Bank and provides certain specific information. This regulatory framework is primarily intended for the protection of investors in our common stock, depositors at the Bank and the Bank Insurance Fund that insures bank deposits. To the extent that the following information describes statutory and regulatory provisions, it is qualified by reference to those provisions. A change in the statutes, regulations or regulatory policies applicable to us or the Bank may have a material effect on our business.

INTERCOMPANY TRANSACTIONS

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and Regulation W of the Federal Reserve Board, limit borrowings by us from the Bank and also limit various other transactions between us and the Bank. For example, Section 23A of the Federal Reserve Act limits to no more than ten percent of its total capital the aggregate outstanding amount of the Bank's loans and other "covered transactions" with any particular non-bank affiliate (including a financial subsidiary) and limits to no more than 20 percent of its total capital the aggregate outstanding amount of the Bank's covered transactions with all of its affiliates (including financial subsidiaries). At December 31, 2004, approximately $5.7 million was available for loans to us from the Bank. Section 23A of the Federal Reserve Act also generally requires that the Bank's loans to its non-bank affiliates (including financial subsidiaries) be secured, and Section 23B of the Federal Reserve Act generally requires that the Bank's transactions with its non-bank affiliates (including financial subsidiaries) be on arm's-length terms. Also, we, the Bank, and any financial subsidiary are prohibited from engaging in certain "tie-in" arrangements in connection with extensions of credit or provision of property or services.

SUPERVISORY AGENCIES

As a national bank and member of the Federal Reserve System, the Bank is subject to primary supervision, regulation, and examination by the Office of the

Comptroller of the Currency and secondary regulation by the FDIC. The Bank is subject to extensive statutes and regulations that significantly affect its business and activities. The Bank must file reports with its regulators concerning its activities and financial condition and obtain regulatory approval to enter into certain transactions. The Bank is also subject to periodic examinations by its regulators to ascertain compliance with various regulatory requirements. Other applicable statutes and regulations relate to insurance of deposits, allowable investments, loans, leases, acceptance of deposits, trust activities, mergers, consolidations, payment of dividends, capital requirements, reserves against deposits, establishment of branches and certain other facilities, limitations on loans to one borrower and loans to affiliated persons, activities of subsidiaries and other aspects of the business of banks. Recent federal legislation has instructed federal agencies to adopt standards or guidelines governing banks' internal controls, information systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits, asset quality, earnings and stock valuation, and other matters. The federal banking agencies have great flexibility in implementing standards on asset quality, earnings, and stock valuation. Regulatory authorities have broad flexibility to initiate proceedings designed to prohibit banks from engaging in unsafe and unsound banking practices.

We and the Bank are also affected by various other governmental requirements and regulations, general economic conditions, and the fiscal and monetary policies of the federal government and the Federal Reserve Board. The monetary policies of the Federal Reserve Board influence to a significant extent the overall growth of loans, leases, investments, deposits, interest rates charged on loans, and interest rates paid on deposits. The nature and impact of future changes in monetary policies are often not predictable.

We are subject to the jurisdiction of the SEC for matters relating to the offering and sale of our securities. We are also subject to the SEC's rules and regulations relating to periodic reporting, insider trader reports and proxy solicitation materials. Our common stock is not listed for quotation of prices on The NASDAQ Stock Market or any other nationally-recognized stock exchange. However, daily bid and asked price quotations are maintained on the interdealer electronic bulletin board system.

SUPPORT OF THE BANK

Under current Federal Reserve Board policy, we are expected to act as a source of financial and managerial strength to the Bank by standing ready to use available resources to provide adequate capital funds to the Bank during periods of financial adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting the Bank. The support expected by the Federal Reserve Board may be required at times when we may not have the resources or inclination to provide it.

If a default occurred with respect to the Bank, any capital loans to the Bank from us would be subordinate in right of payment to payment of the Bank depositors and certain of its other obligations.

LIABILITY OF COMMONLY CONTROLLED BANKS

The Bank can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with:

- the default of a commonly controlled FDIC-insured depository institution or

- any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default.

"Default" generally is defined as the appointment of a conservator or receiver, and "in danger of default" generally is defined as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

DEPOSITOR PREFERENCE STATUTE

In the "liquidation or other resolution" of the Bank by any receiver, federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the Bank are afforded a priority over the general unsecured claims against the Bank, including federal funds and letters of credit.

ALLOWANCE FOR LOAN LOSSES

There are certain risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in our Northcentral Pennsylvania area economy, risks inherent in dealing with individual borrowers, and, in the case of a loan backed by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial loans and commercial real estate loans comprised 33.1 percent of our total consolidated loans as of December 31, 2004. Commercial loans are typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial loans and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a loss of earnings from these loans, an increase in the provision for loan losses and loan charge-offs.

We maintain an allowance for loan losses to absorb any loan losses based on, among other things, our historical experience, an evaluation of economic conditions, and regular reviews of any delinquencies and loan portfolio quality. We cannot assure you that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. Additions to the allowance for loan losses would result in a decrease in our net income and, possibly, our capital.

In evaluating our allowance for loan losses, we divide our loans into the following categories:

- commercial,
- real estate mortgages,
- consumer, and
- unallocated.

We evaluate some loans as a group and some individually. We use the following criteria in choosing loans to be evaluated individually:

- by risk profile, and
- by past due status.

After our evaluation of these loans, we allocate portions of our allowance for loan losses to categories of loans based upon the following considerations:

- historical trends,
- economic conditions, and
- any known deterioration.

We use a self-correcting mechanism to reduce differences between estimated and actual losses. We will, on an annual basis, weigh our loss experience among the various categories and reallocate the allowance for loan losses.

For a more in-depth presentation of our allowance for loan losses and the components of this allowance, please refer to Item 7 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "Non-Performing Assets," "Allowance for Loan Losses and Related Provision," and "Summary of Loan Loss Experience," as well as Note 4, Item 8 to this report.

SOURCES OF FUNDS

GENERAL. Our primary source of funds is the cash flow provided by our investing activities, including principal and interest payments on loans and mortgage-backed and other securities. Our other sources of funds are provided by operating activities (primarily net income) and financing activities, including borrowings and deposits.

DEPOSITS. We offer a variety of deposit accounts with a range of interest rates and terms. We currently offer passbook and statement savings accounts, NOW accounts, money market accounts, demand deposit accounts and certificates of deposit. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, pricing of deposits and competition. Our deposits are primarily obtained from areas surrounding our banking offices. We rely primarily on marketing, new products, service and long-standing relationships with customers to attract and retain these deposits. At December 31, 2004, our deposits totaled $172.5 million. Of the total deposit balance, $9.8 million or 5.7 percent, represent Individual Retirement Accounts and $24.5 million or 14.2 percent represent certificates of deposit in amounts of $100,000 or more.

When we determine the levels of our deposit rates, consideration is given to local competition, yields of U.S. Treasury securities and the rates charged for other sources of funds. We have maintained a high level of core deposits, which has contributed to our low cost of funds. Core deposits include savings, money market, NOW and demand deposit accounts, which, in the aggregate, represented 50.5 percent of total deposits at December 31, 2004 and 48 percent of total deposits at December 31, 2003.

For a further discussion of our deposits, please refer to Item 8 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "Deposits and Borrowed Funds," as well as Note 7, Item 8 to this report.

CAPITAL REQUIREMENTS

We are subject to risk-based capital requirements and guidelines imposed by the Federal Reserve Board, which are substantially similar to the capital requirements and guidelines imposed by the Comptroller of the Currency on the Bank. For this purpose, a bank's or bank holding company's assets and certain specified off-balance sheet commitments are assigned to four risk categories,

each weighted differently based on the level of credit risk that is ascribed to those assets or commitments. In addition, risk-weighted assets are adjusted for low-level recourse and market-risk equivalent assets. A bank's or bank holding company's capital, in turn, includes the following tiers:

- core ("Tier 1") capital, which includes common equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill, certain identifiable intangible assets, and certain other assets; and

- supplementary ("Tier 2") capital, which includes, among other items, perpetual preferred stock not meeting the Tier 1 definition, mandatory convertible securities, subordinated debt and allowances for loan and lease losses, subject to certain limitations, less certain required deductions.

We, like other bank holding companies, are required to maintain Tier 1 and "Total Capital" (the sum of Tier 1 and Tier 2 capital, less certain deductions) equal to at least four percent and eight percent of our total risk-weighted assets (including certain off-balance sheet items, such as unused lending commitments and standby letters of credit), respectively. At December 31, 2004, we met both requirements, with Tier 1 and Total Capital equal to 19.3 percent and 20.3 percent of total risk-weighted assets.

The Federal Reserve Board has adopted rules to incorporate market and interest rate risk components into their risk-based capital standards. Under these market-risk requirements, capital will be allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

The Federal Reserve Board also requires bank holding companies to maintain a minimum "Leverage Ratio" (Tier 1 capital to adjusted total assets) of three percent if the bank holding company has the highest regulatory rating and meets certain other requirements, or of three percent plus an additional cushion of at least one to two percentage points if the bank holding company does not meet these requirements. At December 31, 2004, our leverage ratio was 12.2 percent.

The Federal Reserve Board may set capital requirements higher than the minimums noted above for holding companies whose circumstances warrant it. For example, bank holding companies experiencing or anticipating significant growth may be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve Board has indicated that it will consider a "Tangible Tier 1 Leverage Ratio" (deducting all intangibles) and other indications of capital strength in evaluating proposals for expansion or new activities, or when a bank holding company faces unusual or abnormal risk. The Federal Reserve Board has not advised us of any specific minimum leverage ratio applicable to us.

The Bank is subject to similar risk-based capital and leverage requirements adopted by the Comptroller of the Currency. The Bank was in compliance with the applicable minimum capital requirements as of December 31, 2004. The Comptroller of the Currency has not advised the Bank of any specific minimum leverage ratio applicable to the Bank.

Failure to meet capital requirements could subject the Bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. The Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), among other things, identifies

five capital categories for insured banks - well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized - and requires federal bank regulatory agencies to implement systems for "prompt corrective action" for insured banks that do not meet minimum capital requirements based on these categories. The FDICIA imposed progressively more restrictive constraints on operations, management, and capital distributions, depending on the category in which an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits, on "pass-through" insurance coverage for certain of its accounts, and on certain other aspects of its operations. FDICIA generally prohibits a bank from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized. An undercapitalized bank is subject to regulatory monitoring and may be required to divest itself of or liquidate subsidiaries. Holding companies of such institutions may be required to divest themselves of such institutions or divest themselves of or liquidate other affiliates. An undercapitalized bank must develop a capital restoration plan, and its parent bank holding company must guarantee the bank's compliance with the plan up to the lesser of five percent of the bank's assets at the time it became undercapitalized or the amount needed to comply with the plan. Critically undercapitalized institutions are prohibited from making payments of principal and interest on subordinated debt and are generally subject to the mandatory appointment of a conservator or receiver.

Rules adopted by the Comptroller of the Currency under FDICIA provide that a national bank is deemed to be well capitalized if the bank has a total risk-based capital ratio of ten percent or greater, a Tier 1 risk-based capital ratio of six percent or greater, and a leverage ratio of five percent or greater and the institution is not subject to a written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific level of any capital measure. As of December 31, 2004, the Bank was well-capitalized, based on the prompt corrective action ratios and guidelines described above. It should be noted, however, that a bank's capital category is determined solely for the purpose of applying the Comptroller of the Currency's prompt corrective action regulations, and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects.

BROKERED DEPOSITS

Under FDIC regulations, no FDIC-insured bank can accept brokered deposits unless it (1) is well capitalized, or (2) is adequately capitalized and receives a waiver from the FDIC. In addition, these regulations prohibit any bank that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates. As of December 31, 2004, the Bank held no brokered deposits.

DIVIDEND RESTRICTIONS

We are a legal entity separate and distinct from the Bank. In general, under Pennsylvania law, we cannot pay a cash dividend if such payment would render us insolvent. Our revenues consist primarily of dividends paid by the Bank. The National Bank Act limits the amount of dividends the Bank can pay to us without regulatory approval. The Bank may declare and pay dividends to us to the lesser of:

- the level of undivided profits, and

- absent regulatory approval, an amount not in excess of net income

combined with retained net income for the preceding two years.

At December 31, 2004, approximately $1,143,000 was available for payment of dividends to us.

In addition, federal bank regulatory authorities have authority to prohibit the Bank from engaging in an unsafe or unsound practice in conducting its business. Depending upon the financial condition of the bank in question, the payment of dividends could be deemed to constitute an unsafe or unsound practice. The ability of the Bank to pay dividends in the future is currently influenced, and could be further influenced, by bank regulatory policies and capital guidelines.

DEPOSIT INSURANCE ASSESSMENTS

The deposits of the Bank are insured up to regulatory limits by the FDIC and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund ("BIF") administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on the bank's capitalization and supervisory evaluations provided to the FDIC by the institution's primary federal regulator. An insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC.

In the light of the recent favorable financial situation of the federal deposit insurance funds and the recent low number of depository institution failures, the annual insurance premiums on bank deposits insured by the BIF vary between $0.00 per $100 of deposits for banks classified in the highest capital and supervisory evaluation categories to $0.27 per $100 of deposits for banks classified in the lowest capital and supervisory evaluation categories. BIF assessment rates are subject to semi-annual adjustment by the FDIC within a range of up to five basis points without public comment. The FDIC also possesses authority to impose special assessments from time to time.

The Deposit Insurance Funds Act provides for assessments to be imposed on insured depository institutions with respect to deposits insured by the BIF (in addition to assessments currently imposed on depository institutions with respect to BIF-insured deposits) to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted periodically to reflect changes in the assessment bases of the FDIC insurance funds and do not vary depending upon a depository institution's capitalization or supervisory evaluations. In 2004, the Bank paid FICO assessments of $25,300.

INTERSTATE BANKING AND BRANCHING

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act ("Riegle-Neal"), subject to certain concentration limits and other requirements:

- bank holding companies, such as we, are permitted to acquire banks and bank holding companies located in any state;

- any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans, and receive loan payments as an agent for any other depository institution subsidiary of that bank holding company; and

- banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, and establishing de novo branch offices in other states.

The ability of banks to acquire branch offices through purchase or opening of

other branches is contingent, however, on the host state having adopted legislation "opting in" to those provisions of Riegle-Neal. In addition, the ability of a bank to merge with a bank located in another state is contingent on the host state not having adopted legislation "opting out" of that provision of Riegle-Neal. Pennsylvania has opted in to all of these provisions upon the condition that another host state has similar or reciprocal requirements as in Pennsylvania.

As of the date of this report, we are not contemplating any interstate acquisitions of a bank or a branch office.

CONTROL ACQUISITIONS

The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company, unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of ten percent or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as we, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company.

In addition, a company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25 percent (five percent in the case of an acquirer that is a bank holding company) or more of any class of outstanding common stock of a bank holding company, such as we, or otherwise obtaining control or a "controlling influence" over that bank holding company.

PERMITTED NON-BANKING ACTIVITIES

The Federal Reserve Board permits us or our subsidiaries to engage in nonbanking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. For a discussion of other activities that are financial in nature in which we can engage, see the caption that follows entitled "Financial Services Modernization."

The Federal Reserve Board requires us to serve as a source of financial and managerial strength to the Bank and not to conduct our operations in an unsafe and unsound manner. Whenever the Federal Reserve Board believes an activity that we are doing or our control of a nonbank subsidiary (other than a nonbank subsidiary of the Bank) constitutes a serious risk to the financial safety, soundness, or stability of the Bank and is inconsistent with sound banking principles or the purposes of the federal banking laws, the Federal Reserve Board may require us to terminate that activity or to terminate control of that subsidiary. While the types of permissible activities are subject to change by the Federal Reserve Board, the principal nonbanking activities that presently may be conducted by a bank holding company or its subsidiary without prior approval of the Federal Reserve Board are:

- Servicing Activities. Furnishing services for, or establish or acquire a company that engages solely in servicing activities for:

  - us or the Bank in connection with activities authorized by law, such as commitments entered into by any subsidiary with third parties as long as we or our servicing company comply with published guidelines and do not act as a principal in dealing with third parties;

- the internal operations of the Bank, such as:
  - accounting, auditing and appraising;
  - advertising and public relations;
  - data processing and transmission services, data bases or facilities;
  - personnel services;
  - courier services;
  - holding or operating property used by our subsidiaries or for their future use;
  - liquidating property acquired from the Bank; and
  - selling, purchasing or underwriting insurance, such as blanket bond insurance, group insurance for employees and property and casualty insurance.

- Safe deposit business. Conduct a safe deposit business or acquire voting securities of a company that conducts such business.

- Securities or property representing five percent or less of any company. Acquiring five percent or less of the outstanding voting securities of any company regardless of that company's activities.

- Extending credit and servicing loans. Making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit and accepting drafts) for the company's account or for the account of others.

- Activities related to extending credit. Any activity usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit, as determined by the Federal Reserve Board. The Federal Reserve Board has determined that the following activities are usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit:

- Real estate and personal property appraising. Performing appraisals of real estate and tangible and intangible personal property, including securities.

- Arranging commercial real estate equity financing. Acting as intermediary for the financing of commercial or industrial income-producing real estate by arranging for the transfer of the title, control, and risk of such a real estate project to one or more investors, if the bank holding company and its affiliates do not have an interest in, or participate in managing or developing, a real estate project for which it arranges equity financing, and do not promote or sponsor the development of the property.

- Check-guaranty services. Authorizing a subscribing merchant to accept personal checks tendered by the merchant's customers in payment for goods and services, and purchasing from the merchant validly authorized checks that are subsequently dishonored.

  - Collection agency services. Collecting overdue accounts receivable, either retail or commercial.

  - Credit bureau services. Maintaining information related to the credit history of consumers and providing the information to a credit grantor who is considering a borrower's application for credit or who has extended credit to the borrower.

  - Asset management, servicing, and collection activities. Engaging under contract with a third party in asset management, servicing, and collection of assets of a type that an insured depository institution may originate and own, if the company does not engage in real property management or real estate brokerage services as part of these services.

  - Acquiring debt in default. Acquiring debt that is in default at the time of acquisition under certain conditions.

  - Real estate settlement servicing. Providing real estate settlement services.

- Leasing personal or real property. Leasing personal or real property or acting as agent, broker, or adviser in leasing such property under certain conditions.

- Operating nonbank depository institutions:

  - Industrial banking. Owning, controlling, or operating an industrial bank, Morris Plan bank, or industrial loan company, so long as the institution is not a bank.

  - Operating savings association. Owning, controlling or operating a savings association, if the savings association engages only in deposit-taking activities, lending, and other activities that are permissible for bank holding companies.

- Trust company functions. Performing functions or activities that may be performed by a trust company (including activities of a fiduciary, agency, or custodial nature), in the manner authorized by federal or state law, so long as the company is not a bank for purposes of the Bank Holding Company Act.

- Financial and investment advisory activities. Acting as investment or financial advisor to any person, including (without, in any way, limiting the foregoing):

  - Serving as investment advisor (as defined in section 2(a)(20) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(a)(20)), to an investment company registered under that act, including sponsoring, organizing, and managing a closed-end investment company;

  - Furnishing general economic information and advice, general economic statistical forecasting services, and industry studies;

  - Providing advice in connection with mergers, acquisitions, divestitures, investments, joint ventures, leveraged buyouts, recapitalizations, capital structurings, financing transactions and similar transactions, and conducting financial feasibility studies;

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  - Providing information, statistical forecasting, and advice with

respect to any transaction in foreign exchange, swaps, and similar transactions, commodities, and any forward contract, option, future, option on a future, and similar instruments;

- Providing educational courses, and instructional materials to consumers on individual financial management matters; and

- Providing tax-planning and tax-preparation services to any person.

- Agency transactional services for customer investments:

  - Securities brokerage. Providing securities brokerage services (including securities clearing and/or securities execution services on an exchange), whether alone or in combination with investment advisory services, and incidental activities (including related securities credit activities and custodial services), if the securities brokerage services are restricted to buying and selling securities solely as agent for the account of customers and do not include securities underwriting or dealing.

  - Riskless principal transactions. Buying and selling in the secondary market all types of securities on the order of customers as a "riskless principal" to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer. This does not include:

    (A) Selling bank-ineligible securities at the order of a customer that is the issuer of the securities, or selling bank-ineligible securities in any transaction where the company has a contractual agreement to place the securities as agent of the issuer; or

    (B) Acting as a riskless principal in any transaction involving a bank-ineligible security for which the company or any of its affiliates acts as underwriter (during the period of the underwriting or for 30 days thereafter) or dealer.

  - Private placement services. Acting as agent for the private placement of securities in accordance with the requirements of the Securities Act of 1933 ("1933 Act") and the rules of the Securities and Exchange Commission, if the company engaged in the activity does not purchase or repurchase for its own account the securities being placed, or hold in inventory unsold portions of issues of these securities.

  - Futures commission merchant. Acting as a futures commission merchant ("FCM") for unaffiliated persons in the execution, clearance, or execution and clearance of any futures contract and option on a futures contract traded on an exchange in the United States or abroad under certain conditions.

  - Other transactional services. Providing to customers as agent transactional services with respect to swaps and similar transactions.

- Investment transactions as principal:

  - Underwriting and dealing in government obligations and money market instruments. Underwriting and dealing in obligations of the United States, general obligations of states and their political subdivisions, and other obligations that state member banks of the

Federal Reserve System may be authorized to underwrite and deal in under 12 U.S.C. 24 and 335, including banker's acceptances and certificates of deposit, under the same limitations as would be applicable if the activity were performed by the bank holding company's subsidiary member banks or its subsidiary nonmember banks as if they were member banks.

- Investing and trading activities. Engaging as principal in:

(A) Foreign exchange;

(B) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on any rate, price, financial asset (including gold, silver, platinum, palladium, copper, or any other metal approved by the Federal Reserve Board), nonfinancial asset, or group of assets, other than a bank-ineligible security under certain conditions.

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(C) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on an index of a rate, a price, or the value of any financial asset, nonfinancial asset, or group of assets, if the contract requires such settlement.

- Buying and selling bullion, and related activities. Buying, selling and storing bars, rounds, bullion, and coins of gold, silver, platinum, palladium, copper, and any other metal approved by the Federal Reserve Board, for the company's own account and the account of others, and providing incidental services such as arranging for storage, safe custody, assaying, and shipment.

- Management consulting and counseling activities:

  - Management consulting. Providing management consulting advice under certain conditions.

  - Employee benefits consulting services. Providing consulting services to employee benefit, compensation and insurance plans, including designing plans, assisting in the implementation of plans, providing administrative services to plans, and developing employee communication programs for plans.

  - Career counseling services. Providing career counseling services to:

(A) A financial organization and individuals currently employed by, or recently displaced from, a financial organization;

(B) Individuals who are seeking employment at a financial organization; and

(C) Individuals who are currently employed in or who seek positions in the finance, accounting, and audit departments of any company.

- Support services:

  - Courier services. Providing courier services for:

(A) Checks, commercial papers, documents, and written

instruments (excluding currency or bearer-type negotiable instruments) that are exchanged among banks and financial institutions; and

(B) Audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.

(ii) Printing and selling MICR-encoded items. Printing and selling checks and related documents, including corporate image checks, cash tickets, voucher checks, deposit slips, savings withdrawal packages, and other forms that require Magnetic Ink Character Recognition ("MICR") encoding.

- Insurance agency and underwriting:

  - Credit insurance. Acting as principal, agent, or broker for insurance (including home mortgage redemption insurance) that is:

    (A) Directly related to an extension of credit by the bank holding company or any of its subsidiaries; and

    (B) Limited to ensuring the repayment of the outstanding balance due on the extension of credit in the event of the death, disability, or involuntary unemployment of the debtor.

  - Finance company subsidiary. Acting as agent or broker for insurance directly related to an extension of credit by a finance company that is a subsidiary of a bank holding company under certain conditions.

  - Engaging in any general insurance agency activities.

  - Supervision of retail insurance agents. Supervising on behalf of insurance underwriters the activities of retail insurance agents who sell fidelity, property and casualty and group insurances for the operations and employees of the bank holding company or its subsidiaries.

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- Community development activities:

  - Financing and investment activities. Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents.

  - Advisory activities. Providing advisory and related services for programs designed primarily to promote community welfare.

- Money orders, savings bonds, and traveler's checks. The issuance and sale at retail of money orders and similar consumer-type payment instruments; the sale of U.S. savings bonds; and the issuance and sale of traveler's checks.

- Data processing. Providing data processing data transmission services, facilities (including data processing and data transmission hardware, software, documentation, or operating personnel), data bases, advice, and access to such services, facilities, or data bases by any technological means under certain

conditions.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act of 1977, as amended (the "CRA"), and the regulations promulgated to implement the CRA are designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. CRA regulations establish tests for evaluating both small and large depository institutions' investment in the community. A "small bank" is defined as a bank which has total assets of less than $250 million and is independent or is an affiliate of a holding company with less than $1 billion in assets. There are streamlined procedures for evaluating small banks and the frequency of CRA examinations will occur less often based upon a bank's CRA rating. A large retail institution is one which does not meet the "small bank" definition. A large retail institution can be evaluated under one of two tests: (1) a three-part test evaluating the institution's lending, service and investment performance; or (2) a "strategic plan" designed by the institution with community involvement and approved by the appropriate federal bank regulator. A large institution must choose one of these options under which to be examined. In addition, the CRA regulations include separate rules regarding the manner in which "wholesale banks" and "limited purpose banks" will be evaluated for compliance.

For the purposes of the CRA regulations, the Bank is deemed to be a "small bank," based upon financial information as of December 31, 2004. The Bank will be examined under the streamlined procedures. The Bank received a "satisfactory" CRA rating in its last CRA examination which was held in 2003.

CONCENTRATION

We are not dependent for deposits nor exposed by loan concentrations to a single customer or to a small group of customers the loss of any one or more of which would have a materially adverse effect on our financial condition.

FINANCIAL SERVICES MODERNIZATION

The Gramm-Leach-Bliley Act (the "GLB Act") took effect in 2000. The GLB Act contains some of the most far-reaching changes governing the operations of companies doing business in the financial services industry. The GLB Act eliminates the restrictions placed on the activities of banks and bank holding companies. By creating two new structures - financial holding companies and financial subsidiaries - we and the Bank will be allowed to provide a wider array of financial services and products that were reserved only for insurance companies and securities firms. In addition, we can now affiliate with an insurance company and a securities firm.

We are currently deemed to be a financial holding company. A financial holding company has authority to engage in activities referred to as "financial activities" that are not permitted to bank holding companies. A financial holding company may also affiliate with companies that are engaged in financial activities. A "financial activity" is an activity that does not pose a safety and soundness risk and is:

- financial in nature,
- incidental to an activity that is financial in nature, or
- complimentary to a financial activity.

The GLB Act lists certain activities as financial in nature:

- Lending, investing or safeguarding money or securities;

- Underwriting insurance or annuities, or acting as an insurance or annuity principal, agent or broker;

- Providing financial or investment advice;
- Issuing or selling interests in pools of assets that a bank could hold;
- Underwriting, dealing in or making markets in securities;
- Engaging in any activity that the Federal Reserve Board found before the GLB Act to be related closely to banking (See the section in this report entitled "Permitted Non-banking Activities");
- Engaging within the United States in any activity that a bank holding company could engage in outside of the country, if the Federal Reserve Board determined before the GLB Act that the activity was usual in connection with banking or other financial operations internationally;
- Merchant banking - acquiring or controlling ownership interests in an entity engaged in impermissible activities, if: the interests are not held by a depository institution; the interests are held by a securities affiliate or an investment advisory affiliate of an insurance company as part of underwriting, merchant or investment banking activity; the interests are held long enough to enable their sale in a manner consistent with the financial viability of such an activity; and we do not control the entity except to the extent necessary to obtain a reasonable return on the investment; or
- Insurance portfolio investing - acquiring or controlling ownership interests in an entity engaged in impermissible activities, if: the interests are not held by a depository institution; the interests are held by an insurance or annuity company; the interests represent investments made in the ordinary course of business in accordance with state law; and we do not control the entity except to the extent necessary to obtain a reasonable return on the investment.

The GLB Act instructs the Federal Reserve Board to adopt a regulation or order defining certain additional activities as financial in nature, to the extent they are consistent with the purposes of the GLB Act. These are:

- Lending, exchanging, transferring, investing for others or safeguarding financial assets other than money or securities;
- Providing any method of transferring financial assets; and
- Arranging, effecting or facilitating financial transactions for third parties.

Other activities also may be decided by the Federal Reserve Board to be financial in nature or incidental to a financial activity if they meet specified criteria. The Federal Reserve Board is instructed to consider the purposes of the GLB Act and the Bank Holding Company Act; changes in the market in which financial holding companies compete; changes in the technology used to deliver financial services; and whether the proposed activity is necessary or appropriate to allow a financial holding company and its affiliates to compete effectively, deliver services efficiently and offer services through the most

advanced technological means available.

The GLB Act gives national banks authority to use "financial subsidiaries" to engage in financial activities. This authority has some limitations. A financial subsidiary of the Bank may not, as a principal:

- underwrite insurance or annuities;
- engage in real estate development or investment;
- engage in merchant banking; or
- engage in insurance portfolio investment activities.

A bank's investment in a financial subsidiary will affect the way it calculates its capital. The bank must deduct from its assets and stockholders' equity the total of its investments in financial subsidiaries. Moreover, a bank must present its financial information in two ways: in accordance with generally accepted accounting principles, and, separately, in a manner that reflects the segregation of the bank's investments in financial subsidiaries.

PRIVACY

Title V of the GLB Act creates a minimum federal standard of privacy by limiting the instances which we and the Bank may disclose nonpublic personal information about a consumer of our products or services to nonaffiliated third parties. A state, such as Pennsylvania, can impose a greater or more restrictive standard of privacy than the GLB Act. The GLB Act distinguishes "consumers" from "customers" for purposes of the notice requirements imposed by this Act. We are required to give a "consumer" a privacy notice only if we intend to disclose nonpublic personal information about the consumer to a nonaffiliated third party. However, by contrast, we are required to give a "customer" a notice of our privacy policy at the time of the establishment of a customer relationship and then annually, thereafter during the continuation of the customer relationship.

The term consumer is different from the term customer. A consumer means an individual who obtains or has obtained a financial product or service from the Bank that is to be used primarily for personal, family or household purposes or that individual's representative. A customer of the Bank is an individual with a continuous relationship with the Bank. The Office of the Comptroller of the Currency has regulations which give several examples of a consumer and customer relationship:

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- An individual who applies to the Bank for credit for personal, family or household purposes is a consumer of a financial service, regardless of whether the credit is extended.
- An individual who provides nonpublic personal information to the Bank in order to obtain a determination about whether he or she may qualify for a loan to be used primarily for personal, family, or household purposes is a consumer of a financial service, regardless of whether the loan is extended by the Bank or another financial institution.
- An individual who provides nonpublic personal information to the Bank in connection with obtaining or seeking to obtain financial, investment or economic advisory services is a consumer regardless of whether the Bank establishes an ongoing advisory relationship.

- An individual who negotiates a workout with the Bank for a loan that the Bank owns is a consumer regardless of whether the Bank originally extended the loan to the individual.

- An individual who has a loan from the Bank is the Bank's consumer even if the Bank:

  - Hires an agent to collect on the loan;

  - Sells the rights to service the loan; or

  - Bought the loan from the financial institution that originated the loan.

- An individual is not the Bank's consumer solely because the Bank processes information about the individual on behalf of a financial institution that extended the loan to the individual.

On the other hand, several examples of a customer follow:

- A customer has a continuing relationship with the Bank if the customer:

  - Has a deposit, loan, credit, trust or investment account with the Bank;

  - Purchases an insurance product from the Bank;

  - Holds an investment product through the Bank;

  - Enters into an agreement or understanding with the Bank whereby the Bank undertakes to arrange or broker a home mortgage loan for the customer;

  - Has a loan that the Bank services where the Bank owns the servicing rights;

  - Enters into a lease of personal property with the Bank; or

  - Obtains financial, investment, or economic advisory services from the Bank for a fee.

- A person does not, however, have a continuing relationship with the Bank and therefore is not a customer, if:

  - The person only obtains a financial product or service in an isolated transaction, such as withdrawing cash from the Bank's ATM or purchasing a cashier's check or money order;

  - The Bank sells the person's loan and does not retain the rights to service the loan; or

  - The Bank sells the person airline tickets, travel insurance or traveler's checks in an isolated transaction.

In general, the Bank cannot disclose to a nonaffiliated third party any nonpublic personal information of its customers and consumers unless the Bank provides its customer or consumer with a notice that includes:

- the policies and practices of the Bank with regard to:

  - disclosing nonpublic personal information to nonaffiliated third parties;

  - the categories of persons to whom the information is or may be disclosed; and

  - the policy for disclosure to former customers;

- categories of nonpublic personal information that are collected by the Bank;

- the policies that the Bank maintains to protect the confidentiality and security of nonpublic personal information;

- the disclosure, if required, under the Fair Credit Reporting Act; and

- in addition, the Bank must provide an opt out notice to each of its consumers and customers that explains accurately the right to opt out of any disclosure by the Bank of the customer's or consumer's nonpublic personal information and the means by which the customer or consumer may exercise the opt out right.

The GLB Act sets forth a new requirement that this notice to a consumer or customer must be in clear and conspicuous or "plain English" language and presentation. The regulations give several examples of the rules to follow in drafting these notices:

- The Bank makes its notice reasonably understandable if, the Bank:

  - Presents the information contained in the notice in clear, concise sentences, paragraphs and sections;

  - Uses short explanatory sentences and bullet lists, whenever possible;

  - Uses definite, concrete, everyday words and active voice, whenever possible;

  - Avoids multiple negatives;

  - Avoids legal and highly technical business terminology; and

  - Avoids boilerplate explanations that are imprecise and readily subject to different interpretations.

- The Bank designs its notice to call attention to the nature and significance of the information contained in the notice if, to the extent applicable, the Bank:

  - Uses a plain-language heading to call attention to the notice;

  - Uses a typeface and type size that are easy to read; and

  - Provides wide margins and ample line spacing.

- If the Bank provides a notice on the same form as another notice or other documents, the Bank designs its notice to call attention to the nature and significance of the information contained in the notice if the Bank uses:

- Larger type size(s), boldface or italics in the text;
- Wider margins and line spacing in the notice; or
- Shading or sidebars to highlight the notice, whenever possible.

The GLB Act creates certain exceptions to the prohibition on disclosure of nonpublic personal information of customers and consumers. Some of these exceptions are:

- with the consent of the customer or consumer;
- to effect, administer or enforce a transaction requested or authorized by the customer or consumer;
- the servicing or processing of a financial product or service requested or authorized by the customer or consumer;
- the maintaining or servicing of the customer's or consumer's account with the Bank or with another entity as part of a private label credit card program;
- disclosure to persons holding a legal or beneficial interest relating to the customer or consumer or to persons acting in a fiduciary or representative capacity on behalf of the customer or consumer;
- providing information to insurance rate advisory organizations, guaranty funds or agencies, rating agencies, persons assessing the Bank's compliance with industry standards and the Bank's attorneys, accountants and auditors; and
- disclosure permitted under other laws, such as the Right to Financial Privacy Act, to law enforcement agencies or under local and state laws.

The Bank cannot disclose an account number or similar form of access code for a credit card account, deposit account or transaction account of a customer or consumer to any non-affiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to the customer or consumer.

TERRORIST ACTIVITIES

The Office of Foreign Assets Control or OFAC of the Department of the Treasury has (and will) send our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds any name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications.

THE USA PATRIOT ACT

In the wake of the tragic events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2002 was enacted. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial

institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transactions;

- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

- to ascertain for any foreign bank, the shares of which are not publicly traded, the identify of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and

- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, the Bank established anti-money laundering programs including a customer identification program. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;

- the designation of a compliance officer;

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- an ongoing employee training program; and

- and independent audit function, in order to test these programs.

In addition, the USA PATRIOT Act authorized the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institutions complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

SUBPRIME AND PREDATORY LENDING PRACTICES

Our federal banking regulatory agencies have jointly issued expanded examination and supervision guidance relating to subprime lending activities. In the guidance, "subprime" lending generally refers to programs that target borrowers with weakened credit histories or lower repayment capacity. The guidance principally applies to institutions with subprime lending programs with an aggregate credit exposure equal to or greater than 25 percent of an institution's Tier 1 capital. Such institutions would be subject to more stringent risk management standards and, in many cases, additional capital requirements. As a starting point, the guidance generally expects that such an institution would hold capital against subprime portfolios in an amount that is one and one-half to three times greater than the amount appropriate for similar types of non-subprime assets. The Bank does not engage in any subprime lending programs.

The Federal Reserve Board has issued regulations which would implement the Home Ownership and Equity Protection Act or HOEPA. This Act imposes additional disclosure requirements and certain substantive limitations on certain mortgage loans with rates or fees above specified levels. The proposed regulations would lower the rate levels that trigger the application of HOEPA and would include

additional fees in the calculation of the fee amount that triggers HOEPA. The loans that the Bank currently makes are generally below the rate and fee levels that trigger HOEPA.

The Comptroller of the Currency issued a regulation, that specifies the types of state and local laws that do not apply to the Bank's lending and deposit taking activities and the types of state and local laws that generally do apply to the Bank. This final rule was partly enacted in response to state and local laws prohibiting what is commonly called "predatory lending" activities.

The Comptroller of the Currency adopted its own anti-predatory lending standard that focuses on consumer loans and permits the Bank to use a variety of reasonable methods to determine a borrower's ability to repay, including, for example, the borrower's current and expected income, current and expected cash flows, net worth, other relevant financial obligations, employment status, credit history or other relevant factors. In addition, the Bank shall not engage in unfair or deceptive practices within the meaning of Section 5 of the Federal Trade Commission Act, 15 U.S.C. 45(a)(1), and regulations made under the authority of this act in connection with consumer loans.

This final rule also preempts state and local laws that obstruct, impair or condition the Bank's ability to fully exercise its deposit-taking powers under federal law and to fully exercise its powers to conduct other activities under federal law.

The Bank may exercise its deposit-taking powers without regard to state and local law limitations concerning:

- Abandoned and dormant accounts;
- Checking accounts;
- Disclosure requirements;
- Funds availability;
- Savings account orders of withdrawal;
- State licensing or registration requirements (except for purposes of service of process); and
- Special purpose savings services.

State and local laws on the following subjects are not inconsistent with the lending, deposit-taking and activities powers of the Bank and apply to the Bank to the extent that they only incidentally affect the exercise of the Bank's powers:

- Contracts;
- Torts;
- Criminal law;
- Rights to collect debts;
- Acquisition and transfer of property;
- Taxation;
- Zoning; and

- Any other law the effect of which the Comptroller of the Currency determines to be incidental to the operations of the Bank or otherwise consistent with the authority granted to the Bank to engage in lending, deposit-taking and other incidental activities.

SALES OF INSURANCE

Our federal banking regulatory agencies have issued their consumer protection rules with respect to the retail sale of insurance products by the Company, the Bank, or a subsidiary or joint venture of the Company or the Bank. These rules cover generally practices, solicitations, advertising or offers of any insurance product by a depository institution or any person that performs such activities at an office of, or on behalf of, the Company or the Bank. Moreover, these rules include specific provisions relating to sales practices, disclosures and advertising, the physical separation of banking and nonbanking activities, and domestic violence discrimination.

THE BANK

The Bank's legal headquarters are located at 232 East Street, Bloomsburg, Columbia County, Pennsylvania 17815. The Bank is a locally-owned and managed community bank that seeks to provide personal attention and professional financial assistance to its customers. The Bank serves the needs of individuals and small to medium-sized businesses. The Bank's business philosophy includes offering direct access to its President and other officers and providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures and consistently-applied credit policies.

The Bank solicits small and medium-sized businesses located primarily within the Bank's market area that typically borrow in the $25,000 to $1.0 million range. In the event that certain loan requests may exceed the Bank's lending limit to any one customer, the Bank seeks to arrange such loans on a participation basis with other financial institutions.

MARKETING AREA

The Bank's primary market area is Columbia County, a 484 square mile area located in Northcentral Pennsylvania with a population of approximately 64,157 based on 2000 census data. The Town of Bloomsburg is the County's largest municipality and its center of industry and commerce. Bloomsburg has a population of approximately 12,375 based on 2000 census data, and is the county seat. Berwick, located on the eastern boundary of the County, is the second largest municipality, with a 2000 population of approximately 10,774. The Bank currently serves its market area through seven branch offices located in Bloomsburg, Benton, Buckhorn, Lightstreet, Millville, Orangeville and South Centre, Columbia County.

The Bank competes with eight other depository institutions in Columbia County. The Bank's major competitors are: First National Bank of Berwick; PNC Bank, N.A., the largest commercial bank headquartered in Pennsylvania; and First Columbia Bank and Trust Company of Bloomsburg, Pennsylvania.

The Bank's extended market area includes the adjacent Pennsylvania counties of Luzerne, Montour, Northumberland, Schuylkill and Sullivan.

FUTURE LEGISLATION

Various legislation, including proposals to substantially change the financial

institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is from time to time introduced in the Congress. This legislation may change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We can not accurately predict whether any of this potential legislation will ultimately be enacted, and, if enacted, the ultimate effect that it, or implementing regulations, would have upon our financial condition or results of operations.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 232 East Street, Bloomsburg, Pennsylvania. We own this facility which has approximately 11,686 square feet. The Bank's legal or registered office is also at 232 East Street, Bloomsburg, Pennsylvania.

Our remaining banking centers are described as follows: We own all of the banking centers except Buckhorn, which we began leasing in late October, 2004. We have a five year lease with two 5 year options with Wal-Mart for this Buckhorn location.

Location	Approximate Square Footage	Use
Orangeville, PA	2,259	Banking Services
Benton, PA	4,672	Banking Services
South Centre, PA	3,868	Banking Services
Scott Township, PA	16,500	Banking Services, Corporate, Credit and Operations
Millville, PA	2,520	Banking Services
Buckhorn, PA	693	Banking Services (In Wal-Mart Supercenter)

We consider our facilities to be suitable and adequate for our current and immediate future purposes.

ITEM 3. LEGAL PROCEEDINGS

We and the Bank are not parties to any legal proceedings that could have any significant effect upon our financial condition or income. In addition, we and the Bank are not parties to any legal proceedings under federal and state environmental laws.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We had 778 stockholders of record including individual participants in security position listings and 1,264,083 shares of common stock, par value of $1.25 per share, the only authorized class of common stock, outstanding as of February 28, 2005. Our common stock trades under the symbol "CCFN." As of February 28, 2005, 3 firms were identified on the interdealer electronic bulletin board system as market makers in our common stock. The following information is reported by one of our market makers: Ferris, Baker Watts, Inc., Baltimore, MD. These quotations

represent prices between buyers and sellers and do not include retail makeup, markdown or commission. They may not necessarily represent actual transactions. The high and low closing sale prices and dividends per share of our common stock for the four quarters of 2004 and 2003 are summarized in the following table.

2004:	High ($)	Low ($)	Dividends Declared ($)
First quarter	29.50	28.00	.17
Second quarter	29.00	26.50	.17
Third quarter	31.25	27.50	.18
Fourth quarter	31.00	27.10	.18

2003:	High ($)	Low ($)	Dividends Declared ($)
First quarter	24.20	23.20	.16
Second quarter	25.00	23.50	.16
Third quarter	26.00	24.40	.17
Fourth quarter	28.25	26.45	.17

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We have paid cash dividends since 1983. It is our present intention to continue the dividend payment policy, although the payment of future dividends must necessarily depend upon earnings, financial position, appropriate restrictions under applicable law and other factors relevant at the time the Board of Directors considers any declaration of dividends.

The following table presents information on the shares of our common stock that we repurchased during the fourth quarter of 2004:

CCFNB BANCORP, INC.
ISSUER PURCHASES OF EQUITY SECURITIES

MONTH	NUMBER OF SHARES PURCHASED	PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM (1)	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
10/26/04 - 10/26/04	2,000	$29.75	2,000	86,000
11/04/04 - 11/04/04	2,000	$31.00	2,000	84,000
12/09/04 - 12/09/04	2,000	$28.75	2,000	82,000
TOTAL	6,000		6,000	

(1) This program was announced in 2003. Board of Directors approved purchase of 100,000 shares. There is no expiration date associated with this

program.

ITEM 6. SELECTED FINANCIAL DATA

CCFNB BANCORP, INC.
SELECTED CONSOLIDATED FINANCIAL SUMMARY
AS OF DECEMBER 31,

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)

	2004	2003	2002	2001
INCOME STATEMENT DATA:				
Total interest income	$ 10,843	$ 11,221	$ 12,780	$ 13,72
Total interest expense	3,669	4,366	5,741	6,92
Net interest income	7,174	6,855	7,039	6,79
Provision for possible loan losses	140	200	309	16
Other operating income	1,530	1,508	1,210	1,14
Other operating expenses	5,746	5,409	5,479	5,10
Federal income taxes	601	591	539	62
Net income	$ 2,217	$ 2,163	$ 1,922	$ 2,05
PER SHARE DATA:				
Earnings per share (1)	$ 1.74	$ 1.69	$ 1.47	$ 1.5
Cash dividends declared per share	0.70	0.66	0.63	0.5
Book value per share	22.49	21.63	20.76	19.6
Average shares outstanding	1,267,718	1,281,265	1,309,084	1,338,00
BALANCE SHEET DATA:				
Total assets	$ 235,377	$ 232,914	$ 229,032	$ 214,23
Total loans	149,900	147,631	151,338	142,99
Total securities	61,834	62,775	53,538	57,12
Total deposits	172,487	171,786	172,127	155,66
FHLB advances - long - term	11,323	11,335	11,347	11,35
Total stockholders' equity	28,506	27,603	26,840	26,04
PERFORMANCE RATIOS:				
Return of average assets	0.96%	0.94%	0.86%	0.9
Return on average stockholders' equity	7.88%	7.95%	7.22%	7.9
Net interest margin (2)	3.54%	3.39%	3.58%	3.6
Total non-interest expense as a percentage of average assets	2.45%	2.34%	2.45%	2.4
ASSET QUALITY RATIOS:				
Allowance for possible loan losses as a percentage of loans, net	0.93%	0.96%	0.87%	0.7
Allowance for possible loan losses as a percentage of non-performing loans (3)	110.37%	52.29%	57.95%	60.5
Non-performing loans as a percentage of total loans, net (3)	0.85%	1.85%	1.49%	1.1
Non-performing assets as a percentage of total assets (3)	0.54%	1.16%	0.98%	0.7
Net charge-offs as a percentage of average net loans (4)	0.11%	0.06%	0.03%	0.1

LIQUIDITY AND CAPITAL RATIOS:				
Equity to assets	12.11%	11.85%	11.72%	12.1
Tier 1 capital to risk-weighted assets (5)	19.27%	18.82%	20.36%	19.0
Leverage ratios (5)(6)	12.17%	11.79%	11.77%	12.4
Total capital to risk-weighted assets (5)	20.31%	19.88%	18.53%	19.8
Dividend payout ratio	40.19%	39.02%	42.86%	38.3

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(1) Based upon average shares and common share equivalents outstanding.

(2) Represents net interest income as a percentage of average total interest-earning assets, calculated on a tax-equivalent basis.

(3) Non-performing loans are comprised of (i) loans which are on a non-accrual basis, (ii) accruing loans that are 90 days or more past due, and (iii) restructured loans. Non-performing assets are comprised of non-performing loans and foreclosed real estate (assets acquired in foreclosure), if applicable.

(4) Based upon average balances for the respective periods.

(5) Based on the Federal Reserve Bank's risk-based capital guidelines, as applicable to the Corporation. The Bank is subject to similar requirements imposed by the Comptroller of the Currency.

(6) The leverage ratio is defined as the ratio of Tier 1 Capital to average total assets less intangible assets, if applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the detailed information and financial statements, including notes thereto, included elsewhere in this Annual Report. 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.

FACTORS THAT MAY AFFECT FUTURE RESULTS

General. Banking is affected, directly and indirectly, by local, domestic and international economic and political conditions, and by government monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors beyond our control may adversely affect the future results of operations. We do not expect any one particular factor to affect our results of operations. A downward trend in several areas, however, including real estate, construction and consumer spending, could have an adverse impact on our ability to maintain or increase profitability. Therefore, there is no assurance that we will be able to continue our current rates of income and growth.

Interest Rates. Our earnings depend, to a large extent, upon net interest income, which is primarily influenced by the relationship between the cost of funds (deposits and borrowings) and the yield on interest-earning assets (loans and investments). This relationship, known as the net interest spread, is subject to fluctuation and is affected by regulatory, economic and competitive

factors which influence interest rates, the volume, rate and mix of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. As part of our interest rate risk management strategy comprised of interest rate risk, mortgage risk, and deposit pricing risk components, we seek to control our exposure to interest rate changes by managing the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities.

As of December 31, 2004, total interest-earning assets maturing or repricing within one year were more than total interest-bearing liabilities maturing or repricing in the same period by $830,000 representing a cumulative one-year interest rate sensitivity gap as a positive percentage of .4 percent of Interest Earning Assets. This condition suggests that the yield on the interest-earning assets should adjust to changes in market interest rates at a slighty faster rate than the cost of the interest-bearing liabilities. Consequently, our net interest income could increase during periods of rising interest rates. See "Interest Rate Sensitivity".

Local Economic Conditions. Our success is dependent, to a certain extent, upon the general economic conditions in the geographic market in which we conduct our business. Although we expect that economic conditions will continue to be favorable in this market, no assurance can be given that these economic conditions will continue. Adverse changes in economic conditions in the geographic market that we serve would likely impair our ability to collect loans and could otherwise have a material adverse effect on our results of operations and financial condition.

Competition. The banking industry is highly competitive, with rapid changes in product delivery systems and in consolidation of service providers. Many of our competitors are bigger than us in terms of assets and have substantially greater technical, marketing and financial resources. Because of their size, many of these competitors can (and do) offer products and services that we do not offer. We are constantly striving to meet the convenience and needs of our customers and to enlarge our customer base. No assurance can be given that these efforts will be successful in maintaining and expanding our customer base.

RESULTS OF OPERATIONS

Our net income increased by 2.5 percent from $2,163,000 in 2003 to $2,217,000 in 2004. Earnings per share increased by 3.0 percent from $1.69 in 2003 to $1.74 in 2004. Our return on average assets (ROAA) increased to 0.96 percent in 2004, compared to 0.94 percent in 2003. Our return on average equity (ROAE) decreased to 7.88 percent in 2004, compared to 7.95 percent in 2003.

Loans increased by 1.5 percent in 2004 to $149,900,000 from $147,631,000 in 2003. This increase was in the real estate and municipal lending area.

We instituted, in 1995, a dividend reinvestment plan and an employees stock purchase plan. Moreover, in 1999, we commenced a strategy to purchase and cancel up to 10 percent of our outstanding shares of common stock through open market purchases. In 2003, we again filed with the SEC to purchase up to 100,000 shares of our outstanding shares. These repurchase programs resulted in the purchase and cancellation of the following numbers of shares of our common stock for the years indicated: 16,000 shares (2004); 23,988 shares (2003); and 41,500 shares (2002). The net effect of the stock plans and the repurchase program resulted in weighted average shares of common stock outstanding as follows: 1,274,034 (2004); 1,281,265 (2003); and 1,309,084 (2002).

Tax-equivalent net interest income increased 4.1 percent to $7.6 million in 2004 from $7.3 million in 2003. Average earning assets were $215.0 million in 2003 and $215.1 million in 2004. Net interest income increased 4.4 percent from

$6.9 million in 2003 to $7.2 million in 2004. This increase in net interest income is a result of the pricing and mix of our loans and deposits.

TABLE OF NON-INTEREST INCOME
(Dollars in Thousands)

	Years Ended December 31,		
	2004	2003	2002
Service charges and fees	$ 841	$ 692	$ 649
Gain on sale of loans	26	190	2
Bank-owned life insurance income	257	247	28
Trust department income	165	148	215
Investment securities gains - net	3	8	137
Other	238	223	180
Total non-interest income	$1,530	$1,508	$1,211

Total non-interest income increased during 2004 from $1,508,000 in 2003 to $1,530,000 in 2004. The increase in Trust income in the amount of $17,000 was primarily due to new accounts opened in 2004. Gain on sale of investment securities decreased from $8,000 in 2003 to $3,000 in 2004. Service fees and charges increased from $692,000 in 2003 to $841,000 in 2004 or 21.53 percent. The introduction of "Overdraft Privilege" was instrumental in this increase. Also introduced in 2004 were loans sold to Pennsylvania Housing Finance Agency which provided a fee for the acquisition and sale of loans to this state agency. The PHFA increase amounted to $9,600 and penalty on early withdrawal of Certificates of Deposit amounted to $9,600. Other income increased 6.7 percent from $223,000 in 2003 to $238,000 in 2004, partly attributable to late loan fees collected on non-accrual loans in 2004. Gain on sale of loans decreased from $190,000 in 2003 to $26,000 in 2004. Bank-owned life insurance income reflected an increase of $10,000 from $247,000 in 2003 to $257,000 in 2004. In December 2002, we purchased $3,000,000 of Bank-owned life insurance. During May 2003, we purchased an additional $2,000,000 in Bank-owned life insurance.

TABLE OF OTHER NON-INTEREST EXPENSE
(Dollars in Thousands)

	Years Ended December 31,		
	2004	2003	2002
Salaries and wages	$2,289	$2,199	$2,137
Employee benefits	773	746	729
Net occupancy expense	394	379	354
Furniture and equipment expense	475	476	587
State shares tax	274	275	254
Professional services	228	224	220
Director's fees	147	141	141
Stationery and supplies	136	116	129

Other expense	1,030	853	927
Total non-interest expense	$5,746	$5,409	$5,479

Total non-interest expense increased to $5,746,000 in 2004 from $5,409,000 in 2003 or an increase of 6.2 percent. A 4.0 percent increase in salaries and benefits was attributable to normal merit and cost of living increases as well as increased health insurance costs. Furniture and equipment expense remained near constant at $475,000 and $476,000 in 2004 and 2003. Net occupancy expense increased $15,000 from $379,000 in 2003 to $394,000 in 2004 or 4.0 percent. State shares tax decreased $1,000 for 2004 as compared to 2003 due to our participation in a 2-year program offered by the Commonwealth of Pennsylvania in which contributions to private education results in credits to this State tax. Other expenses increased 20.8 percent from $853,000 in 2003 to $1,030,000 in 2004. Components comprising some of the major changes were as follows:

	Years Ended December 31,		
	2004	2003	% of Inc/Dec
Officer Retirement Deferred Compensation Plan II	79,710	55,131	44.6%
Overdraft Privilege Program	24,178	0	100.0%
Data Processing Expense	71,118	53,301	25.0%
Donations	50,115	29,090	72.3%

One standard to measure non-interest expense is to express non-interest expense as a percentage of average total assets. In 2004, this percentage was 2.5 percent compared to 2.3 percent in 2003.

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Loan delinquencies decreased 37.5 percent from $2,806,000 in 2003 to $1,753,000 in 2004. The decrease in these delinquencies was attributed to the ongoing efforts of the loan department to work out problem loans and collect past due payments. Our management has been diligent in its efforts to reduce these delinquencies and has increased monitoring and review of current loans to foresee future delinquency occurrences and react to them quickly. The Bank has also implemented a centralized credit analysis department to better analyze new loan requests. The provision for loan losses for 2004 decreased from $200,000 in 2003 to $140,000 in 2004.

NET INTEREST INCOME

Tax-equivalent net interest income for 2004 equaled $7,605,000 compared to $7,282,000 in 2003, an increase of 4.4 percent. The increase in the overall net interest margin from 3.4 percent in 2003 to 3.5 percent in 2004 is a result of interest rate changes in the loan and deposit areas. These rates were diligently watched and adjusted which contributed to the overall increased performance of the bank. Income received on interest bearing deposits with other financial institution increased from an average of 1.0 percent for 2003 to an average of 1.1 percent for 2004. This 10 basis point increase reflects the increased short term rates by year end 2004. The cost of long-term debt averaged 6.0 percent for the year which will continue to have a negative impact on our net interest margin until rates would rise enough to allow us to pay off the debt. We will

continue to use the following strategies to mitigate this period of pressure on our net interest margin: pricing of deposits will continue to be monitored to meet current market conditions, large deposits over $100,000 will continue to be priced conservatively; and in this low interest rate environment, the majority of new investments will be kept short term in anticipation of rising rates.

TAX-EQUIVALENT NET INTEREST INCOME
(Dollars in Thousands)

	Years Ended December 31,		
	2004	2003	2002
Interest income	$10,843	$11,221	$12,780
Interest expense	3,669	4,366	5,741
Net interest income	7,174	6,855	7,039
Tax-equivalent adjustment	431	427	490
Net interest income (fully taxable equivalent)	$ 7,605	$ 7,282	$ 7,529

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 years 2004, 2003 and 2002.

AVERAGE BALANCE SHEET AND RATE ANALYSIS
THREE YEARS ENDED DECEMBER 31,
(Dollars in thousands)

	2004			2003		
	Average Balance (1)	Interest Inc./Exp (2)	Average Yd/Rate	Average Balance (1)	Interest Inc./Exp (2)	Averag Yd/Rat
ASSETS:						
Interest Bearing Deposits With Other Financial Institutions	$ 4,652	$ 51	1.10%	$ 4,865	$ 48	0.99
Investment Securities:						
Taxable	52,428	1,580	3.01%	44,833	1,314	2.93
State and Municipal Obligations (3)	9,571	450	7.12%	13,046	609	6.96
Total Investment Securities	$ 61,999	$ 2,030	3.63%	$ 57,879	$ 1,923	4.35
Federal Funds Sold	1,053	16	1.52%	3,911	43	1.10
Loans:						
Taxable	$139,086	8,360	6.01%	144,004	8,987	6.24

Tax Free (3)	8,262	386	7.08%	4,340	220	7.66
Total Loans	$147,348	$ 8,746	6.27%	$148,344	$ 9,207	6.28
Total Interest-Earning Assets	$215,052	$10,843	$5.24%	$214,999	$11,221	5.42
Reserve for Loan Losses	(1,405)			(1,390)		
Cash and Due from Banks	4,912			9,682		
Other Assets	12,888			7,628		
Total Assets	$231,477			$230,919		
LIABILITIES AND CAPITAL:						
Total Interest-Bearing Deposits	$154,840	$ 2,684	1.73%	$156,645	$ 3,401	2.17
U.S. Treasury Short-Term Borrowings	296	3	1.01%	351	3	0.85
Short-Term Borrowings - Other	0	0	0.00%	0	0	0.00
Long-Term Borrowings	11,343	681	6.00%	11,341	679	5.99
Repurchase Agreements	18,184	301	1.66%	16,767	283	1.69
Total Interest-Bearing Liabilities	$184,663	$ 3,669	1.99%	$185,104	$ 4,366	2.36
Demand Deposits	17,188			15,977		
Other Liabilities	1,460			2,625		
Stockholders' Equity	28,136			27,213		
Total Liabilities and Capital	$231,477			$230,919		
NET INTEREST INCOME/NET INTEREST MARGIN (4)		$ 7,174	3.34%		$ 6,855	3.19
TAX-EQUIVALENT NET INTEREST INCOME/NET INTEREST MARGIN (5)		$ 7,605	3.54%		$ 7,282	3.39

(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. Due to the availability of certain daily and monthly average balance information, certain reclassifications were made to prior period amounts.

(2) Interest on loans includes fee income.

(3) Yield on tax-exempt obligations and tax-exempt loans have been computed on a tax-equivalent basis.

(4) Net interest margin is computed by dividing net interest income by total interest-earning assets.

(5) Interest and yield are presented on a tax-equivalent basis using 34 percent for 2004, 2003 & 2002.

COMPONENTS OF NET INTEREST INCOME

To enhance the understanding of the effects of volumes (the average balance of earning assets and costing liabilities) and average interest rate fluctuations on the balance sheet as it pertains to net interest income, the table below reflects these changes for 2004 versus 2003, 2003 versus 2002, and 2002 versus 2001:

TABLE OF NET INTEREST INCOME COMPONENTS ON A TAX-EQUIVALENT BASIS
For the twelve months ended December 31, 2004
(Dollars in thousands)

	2004 Versus 2003 Increase (Decrease) Due to Changes In			2003 Versus 2002 Increase (Decreas Due to Changes I		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest Income:						
Interest-Bearing Deposits with Other Financial Institutions	$ (2)	$ 5	$ 3	$ 7	$ (22)	$ (15)
Taxable Securities	223	36	259	308	(649)	(341)
State and Municipal Obligations	(242)	21	(221)	(280)	(31)	(311)
Federal Funds Sold	(95)	(71)	(166)	14	52	66
Taxable Loans	(307)	(331)	(638)	(47)	(940)	(987)
Tax Free Loans	300	(25)	275	120	(13)	107
Total Earning Assets	$(123)	$(365)	$(488)	$ 122	$(1,603)	$(1,481)
Interest Expense:						
Total Interest-Bearing Deposits	$ (39)	$(689)	$(728)	$ 239	$(1,491)	$(1,252)
U.S. Treasury - Short-Term Borrowings	0	1	1	(2)	(2)	(4)
Short-Term Borrowings - Other	0	0	0	0	0	0
Long-Term Borrowings	0	1	1	(1)	0	(1)
Repurchase Agreements	24	(5)	19	(9)	(40)	(49)
Total Interest-Bearing Deposits	$ (15)	$(692)	$(707)	$ 227	$(1,533)	$(1,306)
NET INTEREST INCOME	$(108)	$ 327	$ 219	$(105)	$ (70)	$ (175)

(1) Includes non-accrual loans.

FINANCIAL CONDITION

Our consolidated assets at December 31, 2004 were $235 million which represented an increase of $2 million or .9 percent over $233 million at December 31, 2003. The comparable increase for 2003 over 2002 was 1.7 percent or $4 million.

Capital increased 3.3 percent from $27.6 million in 2003 to $28.5 million in 2004. The net adjustment reflected in stockholders equity for the fair market value of securities was a positive $376,000 for 2003 compared to a positive $213,000 for 2004. Common stock and surplus decreased a net $261,000 resulting from purchase and retirement of stock in the amount of $467,000 and stock issued under our stock plans in the amount of $206,000.

Total average assets grew .2 percent from 2003 at $231.0 million to 2004 at $231.5 million. Average earning assets were $215.0 million in 2003 and $215.1 million in 2004.

Loans increased 1.6 percent from $147.6 million at December 31, 2003 to $149.9 million at December 31, 2004.

Non-interest bearing deposits grew 8.1 percent to $18.7 million at December 31, 2004 from $17.3 million at December 31, 2003. Interest bearing deposits decreased .5 percent from $154.5 million in 2003 to $153.8 million in 2004.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio increased during 2004 to 86.9 percent compared to 85.9 percent during 2003.

It is our opinion that the balance sheet mix and the interest rate risk associated with the balance sheet is within manageable parameters. Constant monitoring using asset/liability reports and interest rate risk scenarios are in place along with quarterly asset/liability management meetings on the committee level by the bank's Board of Directors. Additionally, the bank's Asset/Liability Committee meets quarterly with an investment consultant.

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INVESTMENTS
(Dollars in thousands)

	2004	2003	2002
Federal Agency Obligations	$18,135	$16,002	$10,107
Mortgage-backed Securities	32,021	33,338	22,690
Obligations of State and Political Subdivisions	8,930	10,773	15,751
Corporate Securities	0	0	3,419
Marketable Equity Securities	1,378	1,341	363
Restricted Equity Securities	1,370	1,321	1,198
Total Investment Securities	$61,834	$62,775	$53,528

All of our securities are available-for sale and are carried at estimated fair value. The following table sets forth the estimated maturity distribution of the investments, the weighted average yield for each type and ranges of maturity at December 31, 2004. Yields are presented on a tax-equivalent basis, are based upon carrying value and are weighted for the scheduled maturity. At December 31, 2004, our investment securities portfolio had an average maturity of approximately 4.65 years.

					(Dollars in Thousands)		
	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		A Ten
	Amount	Yield	Amount	Yield	Amount	Yield	Amoun
Federal Agency Obligations	3,136	2.90%	43,068	3.25%	$3,004	4.21%	$ 94
Obligations of State and Political Subdivisions	0	0.00%	0	0.00%	4,287	7.13%	4,64

Marketable Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,37
Restricted Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,37
Total	$3,136	2.90%	$43,068	3.25%	$7,291	6.03%	$8,33

Available-for-sale securities are reported on the balance sheet at fair value. An adjustment to capital, net of deferred taxes, is the offset for this entry. The possibility of material price volatility in a changing interest rate environment is offset by the availability to us of restructuring the portfolio for gap positioning at any time through the securities classed as available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on December 31, 2004 of $213,000 compared to an unrealized gain, net of tax, on December 31, 2003 of $376,000.

The mix of securities in the portfolio is 81.1 percent Federal Agency Obligations, 14.4 percent Municipal Securities, and 4.5 percent Other. We do not engage in derivative investment products.

LOANS

LOAN PORTFOLIO
LOANS OUTSTANDING
(Dollars in thousands)

	2004	2003	2002	2001	
Commercial	$ 12,182	$ 15,328	$ 15,033	$ 13,091	$
Tax-Exempt	10,062	6,214	3,535	1,947	
Real Estate - Construction	734	2,505	1,185	2,538	
Real Estate	122,104	118,129	123,746	115,716	
Personal	4,738	5,410	7,902	9,962	
Total Gross Loans	$ 149,820	$ 147,586	$ 151,401	$ 143,254	$
Add (Deduct) Unearned discount	(46)	(64)	(139)	(279)	
Unamortized loan costs, net of fees	126	109	76	15	
Loans, Net	$ 149,900	$ 147,631	$ 151,338	$ 142,990	$

The loan portfolio increased 1.6 percent from $147.6 million in 2003 to $149.9 million in 2004. The percentage distribution in the loan portfolio was 82.0 percent in real estate loans at $123.0 million; 8.1 percent in commercial loans at $12.2 million; 3.2 percent in consumer loans at $4.7 million; and 6.7 percent in tax exempt loans at $10.0 million. Real estate loans were comprised of 6.5 percent with 7/3-year adjustable rates, 5.1 percent with 5-year adjustable rates; 35.9 percent with 3-year adjustable rates; 14.3 percent with 1-year adjustable rates; and 9.3 percent with one-day to 3-month adjustable rates. Many adjustable rate loans have bi-weekly payments. The remaining 28.9 percent of real estate loans were fixed rates.

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

For the years ended December 31,

	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000
Commercial	8.13	10.38	9.93	9.14	10.
Tax Exempt	6.71	4.21	2.34	1.36	2.
Real Estate-Construction	.49	1.70	0.78	1.77	1.
Real Estate	81.54	80.04	81.73	80.78	77.
Personal	3.13	3.67	5.22	6.95	8.
Total Loans	100.00	100.00	100.00	100.00	100.

The following table shows the maturity of loans in specified categories of CCFNB's loan portfolio at December 31, 2004, and the amount of such loans with predetermined fixed rates or with floating or adjustable rates:

	December 31, 2004				
	Maturing In One Year Or Less	Maturing After One Year Through Five Years	Maturing After Five Years Through Ten Years	Maturing After Ten Years	Total
Amounts in Thousands					
Commercial, Tax Exempt, Real Estate and Personal Loans	$56,506	$76,042	$14,253	$2,285	$149,0
Real Estate-Construction Loans	734	0	0	0	7
Total	$57,240	$76,042	$14,253	$2,285	$149,8
Amount of Such Loans with:					
Predetermined Fixed Rates	$ 6,002	$22,738	$11,011	$2,285	$ 42,0
Floating or Adjustable Rates	51,238	53,304	3,242	0	107,7
Total	$57,240	$76,042	$14,253	$2,285	$149,8

DEPOSITS AND BORROWED FUNDS

TABLE OF DISTRIBUTION OF AVERAGE DEPOSITS
(DOLLARS IN THOUSANDS)

	December 31,		
	2004	2003	2002
Demand deposits	$ 46,953	$ 43,106	$ 39,168
Savings deposits	37,881	36,881	33,128
Time deposits	51,133	52,599	53,631

Time deposits, $100,000 and over	36,061	40,036	37,779
Total	$172,028	$172,622	$163,706

TABLE OF MATURITY DISTRIBUTION OF TIME DEPOSITS OVER $100,000
(Dollars in thousands)

	December 31,		
	2004	2003	2002
Three months or less	$ 6,695	$ 7,571	$ 9,236
Over three months to six months	3,034	2,099	5,769
Over six months to twelve months	6,879	6,990	8,123
Over twelve months	9,722	11,272	8,063
Total	$26,330	$27,932	$31,191

Total average deposits decreased by .01 percent from $172.6 million at year-end 2003 to $172.0 million at year-end 2004. Average savings deposits increased to $37.9 million at year-end 2004 from $36.9 million at year-end 2003. Average time deposits decreased 5.9 percent from $92.6 million at year-end 2003 to $87.2 million at year-end 2004. Average non-interest bearing demand deposits increased to $17.2 million for 2004 from $16.0 million for 2003. Average interest bearing NOW accounts increased 13.4 percent from $27.1 million for 2003 to $29.8 million for 2004. This change in deposit mix resulted in an overall positive impact to earnings due to the decrease in Certificates of Deposit and the increase in core deposits.

Short-term borrowings, securities sold under agreements to repurchase and day-to-day borrowings from the FHLB increased 2.9 percent from $20.6 million at year-end 2003 to $21.2 million at year-end 2004. Treasury Tax and Loan deposits held by us for the U.S. Treasury averaged $296,000 for 2004. One-day borrowings did not occur in 2004 and repurchase agreements increased from an average $16.8 million in 2003 to $18.2 million in 2004. Long-term borrowings, namely borrowings from the FHLB-Pgh, averaged $11.3 million for 2004.

NON-PERFORMING ASSETS
PAST DUE AND NON-ACCRUAL LOANS
(Dollars in thousands)

2004	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$ 421	$71	$ 0	$ 492
Days 90 Plus	20	0	0	20
Non-accrual	902	0	339	1,241
Total	$1,343	$71	$339	1,753

2003	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$ 438	$66	$ 81	$ 585
Days 90 Plus	345	0	24	369
Non-accrual	1,208	3	641	1852
Total	$1,991	$69	$746	$2,806

2002	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$1,216	$112	$ 513	$1,841
Days 90 Plus	40	10	0	50
Non-accrual	1,279	6	837	2,122
Total	$2,535	$128	$1,350	$4,013

At year-end 2004, loans 30-89 days past due totaled $492,000 compared to $585,000 at year-end 2003. Past due loans 90 days plus totaled $20,000 at year-end 2004 compared to $369,000 at year-end 2003. Non-accrual loans at year-end 2004 totaled $1,241,000 compared to $1,852,000 at year-end 2003. Overall, past due and non-accrual loans decreased 37.5 percent from $2,806,000 at year-end 2003 to $1,753,000 at year-end 2004. During this same period of time, the ratio of net charge offs during the period to average loans outstanding during the period was .11 percent. (See Summary of Loan Loss Experience). We do not consider these percentages to be significant or material.

Refer to the Loan section of footnote one to the Consolidated Financial Statements, Item 8.

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

	For Years Ended December 31,			
	2004	2003	2002	200
Loans Outstanding at End of Period	$ 149,900	$ 147,631	$ 151,338	$ 142
Average Loans Outstanding During the Period	$ 147,348	$ 148,344	$ 147,545	$ 139

Allowance for Loan Losses:				
Balance, Beginning of Period	$ 1,415	$ 1,298	$ 1,028	$ 1
Loans Charged Off:				
Commercial and Industrial	(147)	(52)	(29)	
Real Estate Mortgages	(25)	0	(17)	
Consumer	(31)	(76)	(54)	
Total Loans Charged Off	(203)	(128)	(100)	
Recoveries:				
Commercial and Industrial	0	12	19	
Real Estate Mortgages	5	0	0	
Credit Cards	0	0	0	
Consumer	35	33	42	
Total Recoveries	40	45	61	
Net Loans Charged Off	(163)	(83)	(39)	
Provision for Loan Losses	140	200	390	
Balance, End of Period	$ 1,392	$ 1,415	$ 1,298	$ 1
Ratio of net charge-offs during the year to average loans outstanding during year	0.11%	0.06%	0.03%	

The following table presents an allocation of CCFNB's allowance for loan losses for specific categories as of the dates indicated:

	For Years Ended December 31,				
	2004	2003	2002	2001	2000
Commercial	$ 349	$ 493	$ 406	$ 372	$ 173
Real Estate Mortgages	755	696	723	464	318
Consumer	24	28	66	94	79
Unallocated	264	198	103	98	438
Total	$1,392	$1,415	$1,298	$1,028	$1,008

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The following table presents a summary of CCFNB's nonaccrual, restructured and past due loans as of the dates indicated:

	For Years Ended December 31,				
	2004	2003	2002	2001	
Nonaccrual, Restructured and Past Due Loans:					
Nonaccrual Loans	$ 1,241	$ 1,336	$ 2,112	$ 729	$

Restructured Loans on Accrual Status	0	516	0	0	
Accrual Loans Past Due 90 Days or More	20	369	50	969	
Total Nonaccrual, Restructured and Past Due Loans	$ 1,261	$ 2,221	$ 2,162	$ 1,698	$
Other Real Estate	$ 0	$ 36	$ 68	$ 0	$
Interest Income That Would Have Been Recorded Under Original Terms	$129,182	$142,873	$131,335	$37,712	$2
Interest Income Recorded During the Period	$ 86,834	$ 17,586	$ 67,873	$61,568	$

ALLOWANCE FOR LOAN LOSSES AND RELATED PROVISION
(Dollars in Thousands)

	Outstanding Balance at December 31,					
	2004		2003		2002	
	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
Commercial	$ 349	15.6	$ 493	13.1	$ 406	13.0
Real estate mortgages	755	81.3	696	81.7	723	82.0
Consumer	24	3.1	28	5.2	66	5.0
Unallocated	264	N/A	198	N/A	103	N/A
	$1,392	100.0	$1,415	100.0	$1,298	100.0

The allowance for loan losses was $1,392,000 at December 31, 2004, compared to $1,415,000 at December 31, 2003. This allowance equaled .93 percent and .96 percent of total loans, net of unearned income, at the end of 2004 and 2003. This allowance was considered adequate based on delinquency trends and actual loans written as it relates to the loan portfolio.

The loan loss reserve was analyzed quarterly and reviewed by the bank's Board of Directors. The assessment of the loan policies and procedures during 2004 revealed no anticipated loss on any loans considered "significant". No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Monthly loan meetings with the bank's Credit Administration Committee reviewed new loans, delinquent loans and loan exceptions to determine compliance with policies.

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, sales of assets, growth in core deposits, short and long-term borrowings, investment securities coming due, loan prepayments and repurchase agreements. Regular loan payments are a dependable source of funds, while the sale of investment securities, deposit growth and loan prepayments are significantly influenced by general economic conditions and the level of interest rates.

We manage liquidity on a daily basis. We believe that our liquidity is sufficient to meet present and future financial obligations and commitments on a timely basis. However, see "Factors That May Affect Future Results" and refer to consolidated Statements of Cash Flows.

CAPITAL RESOURCES

Capital continues to be a strength for us. 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. We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material impact on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by federal banking regulation to ensure capital adequacy require that we maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined).

As of December 31, 2004, the most recent notification from the Comptroller of the Currency, the Bank's primary federal regulator, categorized the Bank 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 as set forth in the Table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts are ratios in the following table:

	Actual		For Capital Adequacy Purposes		TO be Well Capitalized Und Prompt Correcti Action Provisio	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Rati
As of December 31, 2004:						
Total Risk Based Capital (To risk-weighted assets)	$30,027	20.31%	$11,827	8.00%	$14,784	10.
Tier I Capital (To risk-weighted assets)	$28,488	19.27%	$ 5,913	4.00%	$ 8,870	6.

Tier I Capital						
(To average assets)	$34,669	12.17%	$11,394	4.00%	$14,244	5.
As of December 31, 2003:						
Total Risk Based Capital						
(To risk-weighted assets)	$28,752	19.88%	$11,570	8.00%	$14,463	10.
Tier I Capital						
(To risk-weighted assets)	$27,220	18.82%	$ 5,785	4.00%	$ 8,678	6.
Tier I Capital						
(To average assets)	$26,303	11.79%	$ 8,924	4.00%	$11,155	5.

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

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Dividend payouts are restricted by the Pennsylvania Business Corporation Law of 1988, as amended (the BCL). The BCL operates generally to preclude dividend payments if the effect thereof would render us unable to meet our obligations as they become due. As a practical matter, our payment of dividends is contingent upon our ability to obtain funding in the form of dividends from the Bank. Payment of dividends to us by the Bank is subject to the restrictions set forth in the National Bank Act. Generally, the National Bank Act would permit the Bank to declare dividends in 2005 of approximately $1,142,885 plus additional amounts equal to the net income earned in 2005 for the period January 1, 2005 through the date of declaration, less any dividends which may be paid in 2005.

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 the net interest spread.

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STATEMENT OF INTEREST SENSITIVITY GAP
(Dollars in thousands)
DECEMBER 31, 2004

	90 Days Or Less	>90 Days But <1 Year	1 to 5 Years	5 to 10 Years
Short-term investments	$ 7,815	$ 0	$ 0	$ 0
Securities Available-for-Sale (1)	4,844	18,365	33,566	2,293
Loans (1)	30,741	32,570	78,632	7,957
Rate Sensitive Assets	43,400	50,935	112,198	10,250
Deposits:				
Interest-bearing demand deposits (2)	$ 4,428	$ 4,131	$ 22,578	$ 0
Savings (2)	5,485	5,107	27,234	0
Time	23,521	28,843	32,473	0
Borrowed funds	20,322	0	1,435	0
Long-term debt	3	9	2,191	9,014
Shareholders' equity	414	1,242	6,601	8,257
Rate Sensitive Liabilities and Shareholders' Equity	54,173	39,332	92,512	17,271
Interest Sensitivity Gap	(10,773)	11,603	19,686	(7,021)
Cumulative Gap	$(10,773)	$ 830	$ 20,516	$ 13,495

(1) Investments and loans are included at the earlier of repricing or maturity adjusted for the effects of prepayments.

(2) Interest bearing demand and savings accounts are included based on historical experience and managements' judgment about the behavior of these deposits in changing interest rate environments.

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At December 31, 2004, our cumulative gap positions and the potential earnings change resulting from a 200 basis point change in rates were within the internal risk management guidelines.

Upon reviewing the current interest sensitivity scenario, declining interest rates could negatively affect net income because the Bank is asset-sensitive. In an increasing interest rate environment, net income could be

positively affected because more assets than liabilities will reprice during a given period.

Certain shortcomings are inherent in the method of analysis presented in the above table. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

In addition to gap analysis, the Bank uses earnings simulation to assist in measuring and controlling interest rate risk.

The following table provides information about our financial instruments. The table presents the financial instruments including the expected cash flow over the next five years. In addition the average interest rate is shown for each period presented. The table also includes the fair market value for each category of financial instruments as of December 31, 2004. This presentation differs from the above gap report primarily due to presenting the financial instruments based on a contractual maturity as opposed to a repricing scenario as reflected in the above gap report.

PRINCIPAL / NOTIONAL AMOUNTS ESTIMATED TO MATURE IN:
(Dollars in thousands)

	2005	2006	2007	2008	2009	There-After
Rate sensitive assets:						
Fixed interest loans (1)	6,002	7,657	5,816	4,933	4,332	13,490
Average interest rate	6.42%	6.26%	6.01%	5.68%	5.86%	4.78%
Variable interest rate loans (2)	48,415	18,591	16,670	3,204	7,811	3,237
Average interest rate	5.29%	6.02%	5.75%	5.95%	4.79%	6.64%
Fixed interest rate securities (2)	0	3,889	6,601	9,806	4,791	15,171
Average interest rate	0.00%	2.67%	3.03%	3.13%	3.40%	4.90%
Variable interest rate securities (2)	2,748	0	0	1,000	2,496	15,332
Average interest rate	2.69%	0.00%	0.00%	3.00%	3.00%	3.62%
Other interest-bearing assets	7,815	0	0	0	0	0
Average interest rate	2.16%	0.00%	0.00%	0.00%	0.00%	0.00%
Rate sensitive liabilities:						
Non-interest-bearing checking (2)	5,231	3,364	3,364	3,364	3,364	0
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Savings & interest-bearing checking (2)	15,999	10,649	10,649	10,649	10,649	0
Average interest rate	.30%	.30%	.30%	.30%	.30%	0.00%
Money market accounts (2)	3,921	2,941	2,941	0	0	0
Average interest rate	.35%	.35%	.35%	0.00%	0.00%	0.00%
Time deposits (under $100,000)	30,015	9,948	8,040	7,678	3,391	0

Average interest rate	1.99%	2.34%	3.41%	.3.85%	4.00%	0.00%
Time deposits (over $100,000)	16,608	1,831	2,194	2,861	2,836	0
Average interest rate	2.94%	3.89%	4.28%	4.04%	4317%	0.00%
Fixed interest rate borrowings	13	14	160	4	128	4
Average interest rate	5.91%	5.91%	5.91%	5.91%	5.91%	5.91%
Variable interest rate borrowings	21,629	0	0	2,000	128	9,000
Average interest rate	1.43%	0.00%	0.00%	5.99%	5.99%	5.99%

(1) Investments and loans are included at contractual maturity.

(2) Non interest-bearing checking, interest-bearing checking, savings and money market accounts are presented reflecting historical experience and management's judgment about the duration of these deposits.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item can be found at Item 7 of this Annual Report under the caption "Interest Rate Risk Management" and is incorporated in its entirety by reference under this Item 7A.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS AND FOOTNOTES
FOR THE FISCAL YEAR-ENDED DECEMBER 31, 2004

CCFNB BANCORP, INC. AND SUBSIDIARY

CCFNB Bancorp, Inc. (the "Corporation") is a registered bank holding company and organized under the Pennsylvania business corporation law. The assets are primarily those of its wholly owned subsidiary, the Columbia County Farmers National Bank.

The Columbia County Farmers National Bank is a full service nationally-chartered financial institution serving customers from seven locations in Columbia County; namely Orangeville, Bloomsburg, Benton, Buckhorn, South Centre, Millville and Lightstreet. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation to the maximum extent provided by law.

CONSOLIDATED SELECTED FINANCIAL DATA
(In thousands of dollars, except per share data and ratios)

	2004	2003	2002
EARNINGS			
Interest income	$ 10,843	$ 11,221	$ 12,780
Interest expense	3,669	4,366	5,741
Provision for loan losses	140	200	309
Investment securities gains	4	8	137
Net income	2,217	2,163	1,922
PER SHARE			
Net Income	$ 1.74	$ 1.69	$ 1.47
Cash dividends	.70	.66	.63

BALANCES AT DECEMBER 31			
Assets	$235,377	$232,914	$229,032
Investment securities	61,834	62,775	53,528
Net loans	148,508	146,215	150,040
Deposits	172,487	171,786	172,127
Stockholders' equity	28,506	27,603	26,840
RATIOS			
Return on average assets	.96%	.94%	.86%
Return on average equity	7.88%	7.95%	7.22%
Dividend payout ratio	40.19%	39.02%	42.86%

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Cash and due from banks	$ 5,017,525	$ 6,358,541
Interest-bearing deposits with other banks	1,820,989	5,480,177
Federal funds sold	5,994,013	523,336
Investment securities available-for-sale	61,834,051	62,774,590
Loans, net of unearned income	149,899,701	147,630,702
Allowance for loan losses	1,391,826	1,415,431
Net loans	148,507,875	146,215,271
Premises and equipment, net	4,518,625	4,282,457
Other real estate owned	-	35,696
Cash surrender value of bank-owned life insurance	6,199,187	5,907,940
Accrued interest receivable	816,281	810,912
Other assets	668,158	525,401
TOTAL ASSETS	$235,376,704	$232,914,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 18,687,440	$ 17,313,192
Interest bearing	153,799,669	154,472,449
Total Deposits	172,487,109	171,785,641
Short-term borrowings	21,757,386	20,990,219
Long-term borrowings	11,323,443	11,335,477
Accrued interest and other expenses	1,268,762	1,186,968
Other liabilities	33,507	12,618
TOTAL LIABILITIES	206,870,207	205,310,923

STOCKHOLDERS' EQUITY

Common stock, par value $1.25 per share; authorized 5,000,000 shares; issued and outstanding 1,267,718 shares 2004, 1,276,445 shares 2003	1,584,648	1,595,556
Surplus	3,384,761	3,634,608
Retained earnings	23,323,955	21,997,539
Accumulated other comprehensive income	213,133	375,695
TOTAL STOCKHOLDERS' EQUITY	28,506,497	27,603,398
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$235,376,704	$232,914,321

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

CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
INTEREST INCOME			
Interest and fees on loans	$ 8,746,190	$ 9,206,892	$10,096,412
Interest and dividends on investment securities:			
Taxable	1,508,096	1,252,973	1,710,258
Tax-exempt	449,988	609,478	798,663
Dividends	71,944	60,934	58,792
Federal funds sold	15,662	42,562	51,224
Deposits in other banks	51,279	48,487	64,872
TOTAL INTEREST INCOME	10,843,159	11,221,326	12,780,221
INTEREST EXPENSE			
Deposits	2,684,235	3,400,449	4,724,904
Short-term borrowings	303,883	286,216	336,364
Long-term borrowings	680,816	679,277	679,936
TOTAL INTEREST EXPENSE	3,668,934	4,365,942	5,741,204
Net interest income	7,174,225	6,855,384	7,039,017
Provision for loan losses	140,000	200,000	309,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,034,225	6,655,384	6,730,017
NON-INTEREST INCOME			
Service charges and fees	841,245	691,332	649,071
Gain on sale of loans	26,310	190,382	1,435
Bank-owned life insurance income	257,246	247,334	27,968
Trust department	165,017	147,436	215,145
Other	236,943	222,969	180,059
Investment securities gains, net	3,537	8,369	136,892

TOTAL NON-INTEREST INCOME	1,530,298	1,507,822	1,210,570
NON-INTEREST EXPENSE			
Salaries	2,288,564	2,199,135	2,136,784
Pensions and other employee benefits	772,833	746,350	729,689
Occupancy, net	394,134	378,867	354,643
Equipment	474,879	476,233	587,168
State shares tax	273,861	275,093	254,208
Professional services	228,302	223,658	219,929
Directors' fees	147,152	140,511	140,719
Stationery and supplies	136,232	116,336	128,793
Other	1,030,042	853,019	927,239
TOTAL NON-INTEREST EXPENSE	5,745,999	5,409,202	5,479,172
Income before income taxes	2,818,524	2,754,004	2,461,415
Income tax expense	601,111	591,107	539,157
NET INCOME	$ 2,217,413	$ 2,162,897	$ 1,922,258
PER SHARE DATA			
Net income	$ 1.74	$ 1.69	$ 1.47
Cash dividends	0.70	0.66	0.63
Weighted average shares outstanding	1,274,034	1,281,265	1,309,084

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

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Common Stock	Surplus	Comprehensive Income	Retained Earnings	Com Inc
BALANCE AT DECEMBER 31, 2001	$ 1,657,715	$ 4,730,002		$19,578,971	$
Comprehensive income:					
Net income	-	-	$ 1,922,258	1,922,258	
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	461,471	-	
Total comprehensive income			$ 2,383,729		
Issuance of 8,052 shares of common stock under dividend reinvestment and stock					

purchase plans	10,065	167,188		-	
Purchase of 41,500 shares of treasury stock	-	-		-	
Retirement of 41,500 shares of treasury stock	(51,875)	(888,525)		-	
Cash dividends $.63 per share	-	-		(822,598)	
BALANCE AT DECEMBER 31, 2002	1,615,905	4,008,665		20,678,631	
Comprehensive income:					
Net income	-	-	$ 2,162,897	2,162,897	
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	(161,103)	-	
Total comprehensive income			$ 2,001,794		
Issuance of 7,709 shares of common stock under dividend reinvestment and stock purchase plans	9,636	184,159		-	
Purchase of 23,988 shares of treasury stock	-	-		-	
Retirement of 23,988 shares of treasury stock	(29,985)	(558,216)		-	
Cash dividends $.66 per share	-	-		(843,989)	
BALANCE AT DECEMBER 31, 2003	1,595,556	3,634,608		21,997,539	
Comprehensive income:					
Net income	-	-	$ 2,217,413	2,217,413	
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	-	-	(162,562)	-	
Total comprehensive income			$ 2,054,851		
Issuance of 7,273 shares of common stock under dividend reinvestment and stock purchase plans	9,092	197,153		-	
Purchase of 16,000 shares of treasury stock	-	-		-	
Retirement of 16,000 shares of treasury stock	(20,000)	(447,000)		-	
Cash dividends $.70 per share	-	-		(890,997)	
BALANCE AT DECEMBER 31, 2004	$ 1,584,648	$ 3,384,761		$23,323,955	$

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

CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2
OPERATING ACTIVITIES		
Net income	$ 2,217,413	$ 2,
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	140,000	
Depreciation and amortization	374,664	
Premium amortization on investment securities	336,292	
Discount accretion on investment securities	(24,230)	
Deferred income taxes (benefit)	78,844	
(Gain) on sales of investment securities available-for-sale	(3,537)	
(Gain) on sale of mortgage loans	(26,310)	(
Proceeds from sale of mortgage loans	1,895,310	9,
Originations of mortgage loans for resale	(2,137,886)	(8,
(Gain) loss on sales of other real estate owned	3,180	
(Gain) loss from investment in insurance agency	(17,248)	
(Increase) decrease in accrued interest receivable	(5,368)	
Increase in other assets - net	(95,298)	
Net increase in cash surrender value of bank owned life insurance	(291,247)	(
Increase (decrease) in accrued interest and other expenses	81,794	(
Increase (decrease) in other liabilities - net	20,889	
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,547,262	2,
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(24,794,418)	(50,
Proceeds from sales, maturities and redemption of investment securities available-for-sale	25,154,814	40,
Proceeds from sales of other real estate owned	32,516	
Net (increase) decrease in loans	(2,163,718)	3,
Purchase of premises and equipment	(610,832)	(
Purchase of bank owned life insurance policies	-	(2,
NET CASH USED IN INVESTING ACTIVITIES	(2,381,638)	(8,
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	701,468	(
Net increase (decrease) in short-term borrowings	767,167	3,
Repayment of long-term borrowings	(12,034)	
Acquisition of treasury stock	(467,000)	(
Proceeds from issuance of common stock	206,245	
Cash dividends paid	(890,997)	(
NET CASH PROVIDED BY FINANCING ACTIVITIES	304,849	2,
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	470,473	(3,
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,362,054	16,
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,832,527	$ 12,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 3,698,805	$ 4,
Income taxes	$ 569,349	$

The accompanying notes are an integral part of these consolidated financial

statements.

CCFNB BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of CCFNB Bancorp, Inc. and Subsidiary (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, Columbia County Farmers National Bank (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS & LINES OF BUSINESS

The Corporation provides full banking services, including trust services, through the Bank, to individuals and corporate customers. The Bank has seven offices covering an area of approximately 484 square miles in Northcentral Pennsylvania. The Corporation and its banking subsidiary are subject to regulation of the Office of the Comptroller of the Currency, The Federal Deposit Insurance Corporation and the Federal Reserve Bank of Philadelphia.

Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and the loans are mainly real estate loans covering primary residences and small business enterprises. The trust services, under the name of CCFNB and 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.

On December 19, 2000, the Corporation became a Financial Holding Company by having filed an election to do so with the Federal Reserve Board. The Financial Holding Company status was required in order to acquire an interest in a local insurance agency that occurred during January 2001.

SEGMENT REPORTING

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

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

available and segment reporting would not be meaningful.

USE OF ESTIMATES

The preparation of these consolidated financial statements in conformity with accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of income 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 Stockholders' Equity. Management's decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

The cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, as well as interest and dividends, is included in interest income from investments. Realized gains and losses are included in net investment securities gains. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

LOANS

Loans are stated at their outstanding principal balances, net of deferred fees or costs, unearned income, and the allowance for loan losses. Interest on loans is accrued on the principal amount outstanding, primarily on an actual day basis. Non-refundable loan fees and certain direct costs are deferred and amortized over the life of the loans using the interest method. The amortization is reflected as an interest yield adjustment, and the deferred portion of the net fees and costs is reflected as a part of the loan balance.

Real estate mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. These loans are sold with limited recourse to 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 though the loan currently is 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.

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.

A factor in estimating the allowance for loan losses is the measurement of 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 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.

DERIVATIVES

The Bank has outstanding loan commitments that relate to the origination of mortgage loans that will be held for resale. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", SFAS No. 149, "Amendment of Statement 133 on Derivative and Hedging Activities" and the guidance contained in the Derivatives Implementation Group Statement 133 Implementation Issue No. C 13, the Bank has accounted for such loan commitments as derivative instruments. The effective date of the implementation guidance is the first day of the first fiscal quarter beginning after April 10, 2002. The outstanding loan commitments in this category did not give rise to any losses for the years December 31, 2004, 2003 and 2002, as the fair market value of each outstanding loan commitment exceeded the Bank's cost basis in each loan commitment.

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 Corporation originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Corporation retains the right to service 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 sheet. The servicing rights are periodically evaluated for impairment based on their relative fair value.

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.

BANK OWNED LIFE INSURANCE

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

INVESTMENT IN INSURANCE AGENCY

On January 2, 2001, the Corporation acquired a 50% 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 December 31, 2004 and 2003 is $187,543 and $170,296, respectively, and is carried 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

Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", requires dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share is calculated by increasing the denominator for the assumed conversion of all potentially dilutive securities. The Corporation does not have any securities which have or will have a dilutive effect, accordingly, basic and diluted per share data are the same.

CASH FLOW INFORMATION

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

TRUST ASSETS AND INCOME

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

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2004, the Financial Accounting Standards Board (FASB) issued Staff Position No. 106-1 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which allows companies to recognize or defer recognizing the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003, or Medicare Act, for annual financial statements of fiscal years ending after December 7, 2003. The Medicare Act introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least

"actuarially equivalent" to the Medicare benefit. These provisions of the Medicare Act affect accounting measurements. This standard did not have any material impact on the Corporation's consolidated financial condition or results of operations.

In September 2004, the FASB issued Staff Position Emerging Issues Task Force ("EITF") Issue No. 03-01, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which delays the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-01. EITF Issue No. 03-01 provides guidance for evaluating whether an investment is other-than-temporarily impaired and was originally effective for other-than-temporarily impairment evaluations made in reporting periods beginning after June 15, 2004. The delay in the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF Issue No. 03-01 does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The disclosure guidance in paragraphs 21 and 22 of EITF Issue No. 03-01 remains effective. The delay will be superseded concurrent with the final issuance of EITF Issue No. 03-01a, which is expected to provide implementation guidance on matters such as

impairment evaluations for declines in value caused by increases in interest rates and/or sector spreads.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 153, "Exchanges of Nonmonetary Assets", which amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Corporation's consolidated financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and its related guidance. SFAS No. 123 (revised 2004) established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement established fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This Statement is effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The adoption of SFAS No. 123 (revised 2004) is not expected to have a material impact on the Corporation's consolidated financial condition or results of operations.

ADVERTISING COSTS

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the years ended December 31, 2004, 2003 and 2002, was approximately $86,328, $75,434 and $71,923, respectively.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentations used in the 2004 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

2. RESTRICTED CASH BALANCES

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. The amount required at December 31, 2004 was $1,197,000 and was satisfied by vault cash. Additionally, as compensation for check clearing and other services, compensating balances are required to be maintained with the Federal Reserve Bank and other correspondent banks. At December 31, 2004, these balances were $918,021.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities were as follows at December 31, 2004 and 2003:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
DECEMBER 31, 2004:			
Obligation of U.S. Government Corporations and Agencies:			
Mortgage-backed	$ 32,119,791	$ 127,903	$ 226,683
Other	18,250,000	11,332	126,250
Obligations of state and political subdivisions	8,698,272	236,944	5,678
Marketable equity securities	1,072,858	313,196	7,834
Restricted equity securities	1,370,200	-	-
Total	$ 61,511,121	$ 689,375	$ 366,445
DECEMBER 31, 2003:			
Obligation of U.S. Government Corporations and Agencies:			
Mortgage-backed	$ 33,299,509	$ 211,830	$ 173,349
Other	16,000,924	33,998	33,291
Obligations of state and political subdivisions	10,474,524	298,152	-
Marketable equity securities	1,083,786	270,330	13,123
Restricted equity securities	1,321,300	-	-
Total	$ 62,180,043	$ 814,310	$ 219,763

Securities available-for-sale with an aggregate fair value of $40,299,434 in 2004 and $38,434,252 in 2003 were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and other balances of $28,168,191 in 2004 and $27,696,640 in 2003, as required by law.

The amortized cost and estimated fair value of debt securities, by expected maturity, are shown below at December 31, 2004. Expected maturities 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, marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the "Due after ten years" category:

	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Due in one year or less	$ 3,106,841	$ 3,136,132	2.90%
Due after one year through five years	43,305,293	43,068,090	3.25%
Due after five years through ten years	7,160,746	7,291,013	6.03%
Due after ten years	7,938,241	8,338,816	6.07%
Total	$ 61,511,121	$ 61,834,051	3.84%

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh (FHLB), Federal Reserve Bank (FRB) and Atlantic Central Bankers Bank (ACBB) and do not have a readily determinable fair value for purposes of SFAS No. 115, because their ownership is restricted, and they can be sold back only to the FHLB, FRB, ACBB or to another member institution. Therefore, these securities are classified as restricted equity investment securities, carried at cost, and evaluated for impairment.

There were no aggregate investments with a single issuer (excluding the U. S. Government and its Agencies) which exceeded ten percent of consolidated stockholders' equity at December 31, 2004. The quality rating of all obligations of state and political subdivisions were "A" or higher, as rated by Moody's or Standard and Poors. The only exceptions were local issues which were not rated, but were secured by the full faith and credit obligations of the communities that issued these securities. All of the state and political subdivision investments were actively traded in a liquid market.

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Proceeds from sales, maturities and redemptions of investments in debt and equity securities classified as available-for-sale during 2004, 2003 and 2002 were $25,154,814, $40,408,337 and $35,831,825, respectively. Gross gains realized on these sales were $3,537, $8,369 and $136,892, respectively. There were no gross losses on the 2004, 2003, and 2002 sales.

In accordance with disclosures required by EITF No. 03-1, the summary below shows the gross unrealized losses and fair value, aggregated by investment category that individual securities have been in a continuous unrealized loss position for less than or more than 12 months as of December 31, 2004 and 2003:

	Less than 12 months		12 months or more	
Description of Security	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2004				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage backed	$ 678,939	$ 5,678	$ -	$ -
Other	16,763,135	157,165	3,412,092	69,518
Obligations of state and political subdivisions	15,623,750	126,250	-	-
Marketable Equity Securities	-	-	90,630	7,834
Total	$ 33,065,824	$ 289,093	$ 3,502,722	$ 77,352
December 31, 2003				
Obligations of U.S. Government Corporations and Agencies:				
Mortgage backed	$ 14,229,090	$ 159,831	$ 1,131,042	$ 13,518
Other	7,466,710	33,291	-	-
Marketable Equity Securities	54,000	274	31,341	12,849
Total	$ 21,749,800	$ 193,396	$ 1,162,383	$ 26,367

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's marketable equity securities represent common stock positions in various financial institutions. The fair market value of these equities tends to fluctuate with the overall equity markets as well as the trends specific to each institution.

The Corporation has both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the cost.

4. LOANS

Major classifications of loans at December 31, 2004 and 2003 consisted of:

	2004	2003
Commercial	$ 12,181,900	$ 15,327,951
Tax-exempt	10,061,809	6,214,091
Real estate - construction	733,642	2,504,905
Real estate	122,104,012	118,128,511
Personal	4,738,159	5,410,169
Total gross loans	149,819,522	147,585,627
Add (Deduct): Unearned discount	(46,195)	(64,246)
Unamortized loan costs, net of fees	126,374	109,321
Loans, net of unearned income	$ 149,899,701	$ 147,630,702

Real estate loans held-for-sale in the amount of $268,886 at December 31, 2004 are included in real estate loans in the previous schedule and are carried at the lower of cost or market.

Non-accrual loans at December 31, 2004, 2003 and 2002 were $1,240,616, $1,851,686, and $2,122,074, respectively. The gross interest that would have been recorded if these loans had been current in accordance with their original terms and the amounts actually recorded in income were as follows:

	2004	2003	2002
Gross interest due under terms	$ 129,182	$ 142,873	$ 131,335
Amount included in income	86,834	17,586	67,873
Interest income not recognized	$ 42,348	$ 125,287	$ 63,462

At December 31, 2004, 2003 and 2002 the recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was $289,942, $192,409 and $149,278, respectively. 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 loan loss allowance required by SFAS No. 114 along with any other potential losses. The average recorded investment in impaired loans during the years ended December 31, 2004, 2003 and 2002 was approximately $139,084, $232,031 and $86,566, respectively.

Loans past due 90 days or more and still accruing interest amounted to $20,217 at December 31, 2004 and $369,000 at December 31, 2003, as presented in accordance with AICPA Statement of Position 01-06, "Accounting by Certain Entities (Including Entities with Trade Receivables) that Lend to or Finance the Activities of Others," effective for fiscal years beginning after December 15, 2001.

At December 31, 2004, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

Changes in the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Balance, beginning of year	$ 1,415,431	$ 1,298,406	$ 1,027,805
Provision charged to operations	140,000	200,000	309,000
Loans charged-off	(203,430)	(128,452)	(99,707)
Recoveries	39,825	45,477	61,308
Balance, end of year	$ 1,391,826	$ 1,415,431	$ 1,298,406

5. MORTGAGE SERVICING RIGHTS

The Corporation commenced selling real estate mortgages during the last quarter of 2002. The mortgage loans sold serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of mortgage loans serviced for others were $9,788,738 and $8,956,268 at December 31, 2004 and 2003, respectively. The balances of amortized mortgage servicing rights included in other assets at December 31, 2004 and 2003 were $54,207 and $75,097, respectively. Valuation allowances were not provided since fair values were determined to exceed carrying values. Fair values were determined using a discount rate of 6% and average lives of 3 to 6 years depending on loan rate.

The following summarizes mortgage servicing rights capitalized and amortized.

	2004	2003
Balance, January 1	$ 75,097	$ 1,429
Servicing asset additions	7,600	89,662
Amortization	(28,490)	(15,994)
Balance, December 31	$ 54,207	$ 75,097

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The Bank does not require custodial escrow accounts in connection with the forgoing loan servicing.

6. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2004 and 2003 follows:

	2004	2003
Land	$ 567,939	$ 567,939
Buildings and improvements	4,574,420	4,546,704
Furniture and equipment	4,535,624	4,033,088
	9,677,983	9,147,731
Less: Accumulated depreciation	5,159,358	4,865,274
	$ 4,518,625	$ 4,282,457

Depreciation amounted to $374,664, $379,733 and $479,529 in 2004, 2003 and 2002, respectively.

7. DEPOSITS

Major classifications of deposits at December 31, 2004 and 2003 consisted of:

	2004	2003
Demand - non-interest bearing	$ 18,687,440	$ 17,313,192
Demand - interest bearing	30,572,645	29,736,472
Savings	37,825,629	36,259,730
Time $100,000 and over	26,329,758	27,931,828
Other time	59,071,637	60,544,419
Balance, December 31	$ 172,487,109	$ 171,785,641

The following is a schedule reflecting remaining maturities of time deposits of $100,000 and over at December 31, 2004:

2005	$ 16,607,725
2006	1,830,754
2007	2,193,848
2008	2,861,519
2009 and thereafter	2,835,912

Total	$ 26,329,758

Interest expense related to time deposits of $100,000 or more was $914,663 in 2004, $1,208,973 in 2003 and $1,419,337 in 2002.

8. 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. Short-term borrowings consisted of the following at December 31, 2004 and 2003:

	2004				
	Ending Balance	Weighted Average Balance	Maximum Month End Balance	Average Rate	Ending Balance
Securities sold under agreements to repurchase	$ 21,175,411	$ 18,184,306	$ 21,175,411	1.66%	$ 20,588,977
U.S. Treasury tax and loan notes	581,975	296,214	597,329	1.01%	401,242
Total	$ 21,757,386	$ 18,480,520	$ 21,772,740	1.64%	$ 20,990,219

9. LONG-TERM BORROWINGS

Long-term borrowings consist of advances due Federal Home Loan Bank. Under terms of a blanket agreement, the loans were secured by certain qualifying assets of the Bank which consisted principally of first mortgage loans and certain investment securities. The carrying value of these collateralized items was $11,323,443 at December 31, 2004. The Bank has lines of credit with Atlantic Central Bankers Bank and Federal Home Loan Bank in the aggregate amount of $25,000,000 at December 31, 2004. The unused portion of these lines of credit were $8,676,557 and $5,000,000, respectively at December 31, 2004. Long-term borrowings consisted of the following at December 31, 2004 and 2003:

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Loandated November 28, 1997 in the original amount of $225,000 for a 10 year term requiring monthly payments of $1,627 including interest at 6.12%, maturing in 2007 with a final payment due of $146,690. Principal balances outstanding.	$ 1
Loan dated February 18, 1998 in the original amount of $2,000,000 for a 10 year term with a 5 year put. Interest only is payable monthly at 5.48% with a floating rate option, at the discretion of FHLB, at the end of 5 years. Principal balances oustanding.	2,0
Loan dated June 25, 1998 in the original amount of $72,000 for a 30 year term requiring monthly payments of $425 including interest at 5.856%. Principal balances	

outstanding.	
Loandated February 23, 1999 in the original amount of $29,160 for a 20 year term requiring monthly payments of $179 including interest at 5.50%. Principal balances outstanding.	
Loan dated August 20, 1999 in the original amount of $32,400 for a 20 year term requiring monthly payments of $199 including interest at 5.50%. Principal balances outstanding.	
Loan dated January 27, 2000 in the original amount of $5,000,000 for a 10 year term with a 1 year conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2004 the interest rate was 6.00%. Principal balances outstanding.	5,0
Loan dated August 16, 2000 in the original amount of $2,000,000 for a 10 year term with a 6 month conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2004 the interest rate was 5.925%. Principal balances outstanding.	2,0
Loan dated September 20, 2000 in the original amount of $2,000,000 for a 10 year term with a 3 year conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2004 the interest rate was 6.10%. Principal balances outstanding.	2,0
Loan dated December 13, 2000 in the original amount of $32,092 for a 20 year term requiring monthly payments of $197 including interest at 5.50%. Principal balances outstanding.	
Total	$ 11,3

At December 31, 2004 the annual maturities of long-term debt were as follows: $12,773 in 2005, $13,558 in 2006, $160,203 in 2007, $2,004,367 in 2008, $4,618 in 2009 and $9,127,924 thereafter.

10. COMPREHENSIVE INCOME

The components of the change in other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	2004	2003	20
Unrealized holding gains (losses) on available-for-sale investment securities	$ (275,155)	$ (230,183)	$ 8
Reclassification adjustment for gains realized in income	3,537	8,369	1
Change in unrealized gains (losses) before tax effect	(271,618)	(221,814)	7
Tax effect	109,056	60,711	(2
Net change in unrealized gains (losses)	$ (162,562)	$ (161,103)	$ 4

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11. STOCKHOLDERS' EQUITY AND STOCK PURCHASE PLANS

The Amended Articles of Incorporation contain a provision that permits the Corporation to issue warrants for the purchase of shares of common stock, par value $1.25 per share (the "Common Stock"), at below market prices in the

event any person or entity acquires 25% or more of the Common Stock.

The Corporation offers employees a stock purchase plan. The maximum number of shares of the Common Stock to be issued under this plan shall be 20,000. In addition, the Corporation may choose to purchase shares on the open market to facilitate this plan. A participating employee may annually elect deductions of at least 1% of base pay, but not more than 10% of base pay, to cover purchases of shares under this plan. A participating employee shall be deemed to have been granted an option to purchase a number of shares of the Common Stock equal to the annual aggregate amount of payroll deductions elected by the employee divided by 90% of the fair market value of Common Stock on the first day of January in each year. Stock issued to participating employees under the plan for the most recent three year period was:

		Per Share	
	Number of Shares	Employees' Purchase Price	Market Value of Shares
Date Issued:			
2004	469	$ 25.20	$ 28.00
2003	641	$ 21.22	$ 23.58
2002	590	$ 20.92	$ 23.25

The Corporation also offers to its stockholders a Dividend Reinvestment and Stock Purchase Plan. Under the plan, the Corporation registered with the Securities and Exchange Commission 500,000 shares of the Common Stock to be sold pursuant to the plan. The price per share for purchases under this plan is determined at each quarterly dividend payment date by the reported average mean between the bid and asked prices for the shares at the close of trading in the over-the-counter market on the trading day immediately preceding the quarterly dividend payment date. Participation in this plan by Shareholders began in June 1995. Shares issued under this plan for the most recent three year period was:

	Number of Shares	Total Proceeds
Year:		
2004	6,804	$ 194,425
2003	7,068	$ 180,193
2002	7,462	$ 164,906

12. INCOME TAXES

The provision for income tax expense consisted of the following components:

	2004	2003	2002
Federal:			

Current	$ 522,267	$ 648,349	$ 678,526
Deferred (benefit)	79,146	(57,728)	(139,377)
	601,413	590,621	539,149
State:			
Current	-	-	-
Deferred (benefit)	(302)	486	8
	(302)	486	8
Total Provision for Taxes	$ 601,111	$ 591,107	$ 539,157

A reconciliation of the actual provision for federal income tax expense and the amounts which would have been recorded based upon the statutory rate of 34% follows:

	2004		2003		200
	Amount	% Rate	Amount	% Rate	Amount
Provision at statutory rate	$ 958,298	34.0	$ 936,361	34.0	$ 836,811
Tax-exempt income	(283,567)	(10.1)	(282,067)	(10.2)	(323,811)
Non-deductible expenses	23,262	0.8	26,314	0.9	38,296
Bank owned life insurance income-net	(87,464)	(3.1)	(84,094)	(3.1)	(9,509)
Other, net	(9,116)	(0.3)	(5,893)	(0.2)	(2,638)
Actual federal income tax and rate	$ 601,413	21.3	$ 590,621	21.4	$ 539,149

Income taxes applicable to realized security gains included in the provision for income taxes totaled $1,203 in 2004, $2,845 in 2003 and $48,110 in 2002.

The net deferred tax asset (liability) recorded by the Corporation consisted of the following tax effects of temporary timing differences at December 31, 2004, 2003 and 2002:

	2004	2003	2002
Deferred tax assets:			
Allowance for loan losses	$ 371,459	$ 379,485	$ 339,696
Allowance for off balance sheet losses	3,230	1,530	-
Deferred compensation and director's fees	227,019	201,611	185,430
Non-accrual loan interest	12,704	33,260	16,800
Mortgage Servicing Rights	9,559	3,463	-
Contributions	-	-	5,588
Investment in insurance agency	-	-	746
Total	623,971	619,349	548,260

Deferred tax liabilities:			
Loan fees and costs	(75,993)	(76,689)	(74,104
Accretion	(1,067)	(986)	(2,516
Unrealized investment securities gains	(109,795)	(218,852)	(279,563
Depreciation	(337,924)	(259,504)	(247,944
Investment in insurance agency	(6,894)	(1,232)	-
Total	(531,673)	(557,263)	(604,127
Net deferred tax asset (liability)	$ 92,298	$ 62,086	$ (55,867

The above net deferred asset (liability) is included in other assets or other liabilities on the consolidated balance sheets. It is anticipated that all tax assets shown above will be realized, accordingly, no valuation allowance was provided.

The Corporation and its subsidiary file a consolidated federal income tax return. The Parent Company is also required to file a separate state income tax return and has available state operating loss carryforwards totaling $654,229. The losses expire through 2024. The related deferred state tax asset in the amount of $65,357 has been fully reserved and is not reflected in the net tax asset (liability) since management is of the opinion that such assets will not be realized in the foreseeable future.

13. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

EMPLOYEE BENEFIT PLANS

The Bank maintains a 401K salary deferred profit sharing plan for the benefit of its employees. Under the salary deferral component, employees may elect to contribute up to 25% of their compensation with the possibility that the Bank may make matching contributions to the plan. Under the profit sharing component, contributions are made at the discretion of the Board of Directors.

Matching contributions amounted to $63,453, $64,088 and $24,927 for 2004, 2003 and 2002, respectively. Discretionary contributions amounted to $0, $0 and $92,312 in 2004, 2003 and 2002, respectively.

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DEFERRED COMPENSATION PLANS

DIRECTORS

During 1990, the Bank entered into agreements with two directors to establish non-qualified deferred compensation plans for each of these directors. In 1994, additional plans were established for these two directors plus another director. These plans were limited to four-year terms. The Bank may, however, enter into subsequent similar plans with its directors. Each of the participating directors deferred the payment to himself of certain directors' fees to which he was entitled. Each director's future payment is based upon the cumulative amount of deferred fees together with interest currently accruing thereon at the rate of 8% per annum, subject to change by the Board of Directors. The total accrued liability was $212,669 and $214,418, respectively, relating to these directors' deferred compensation agreements.

During 2003, the directors were given the option of receiving or deferring

their directors' fees under a non-qualified deferred compensation plan which allows the director to defer such fees until the year following the expiration of the directors' term. Payments are then made over specified terms under these arrangements up to a ten year period. Interest is to accrue on these deferred fees at a five year certificate of deposit rate, which was 4% in 2004. The certificate of deposit rate will reset in January 2008. Two directors have elected to participate in this program and the total accrued liability at December 31, 2004 and 2003 was $41,753 and $13,317, respectively.

Total directors fees, including amounts currently paid for the years ended December 31, 2004, 2003 and 2002 were $147,152, $140,511 and $140,719, respectively, and the total accrued liabilities under the directors deferred compensation plans as of December 31, 2004 and 2003 were $254,422 and $227,735, respectively.

EXECUTIVE OFFICERS

In 1992, the Bank entered into agreements with two executive officers to establish non-qualified deferred compensation plans. Each officer deferred compensation in order to participate in this Deferred Compensation Plan. If the officer continued to serve as an officer of the Bank until he attained sixty-five (65) years of age, the Bank agreed to pay him 120 guaranteed consecutive monthly payments commencing on the first day of the month following the officer's 65th birthday. Each officer's guaranteed monthly payment was based upon the future value of life insurance purchased with the compensation the officer has deferred. The Bank obtained life insurance (designating the Bank as the beneficiary) on the life of each participating officer in an amount which is intended to cover the Bank's obligations under the Deferred Compensation Plan, based upon certain actuarial assumptions.

During 2002, the agreements with the two executive officers were modified. Under one agreement, the executive officer will receive $225,000 payable monthly over a 10 year period commencing in February 2003. Under another agreement, another executive officer will receive $175,000 payable monthly over a 10 year period commencing in April 2003. This second agreement also provides post-employment health care benefits to the executive officer until the attainment of age 65. As of December 31, 2004 and 2003, the net cash value of insurance policies was $344,936 and $318,119 respectively, and the total accrued liability, equal to the present value of these obligations, was $269,418 and $295,767, respectively, relating to these executive officers' and directors' deferred compensation agreements, and the accrued liability related to the post-employment health care benefit was $9,024 and $14,336 as of December 31, 2004 and December 31, 2003, respectively.

In April 2003, the Bank entered into non-qualified deferred compensation agreements with three executive officers to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to these agreements for the years ended December 31, 2004 and 2003 was $79,710 and $55,131 and the total accrual liability as of December 31, 2004 and 2003 was $134,841 and $55,131, respectively.

Total deferred compensation expense for executive officers for the years ended December 31, 2004, 2003 and 2002 was $95,697, $73,714 and $101,807, respectively and the total accrued liabilities under the executive officers deferred compensation plans as of December 31, 2004 and 2003 was $418,283 and $365,234, respectively.

14. LEASE COMMITMENTS AND CONTINGENCIES

The Corporation's banking subsidiary entered into an operating lease on October 23, 2004 for the rental of a branch banking facility. The initial lease

is for a term of five years, with two options available to renew for an additional term of five years each. Rent expense for this facility was $5,043 for the year ended December 31, 2004. Minimum rental payments required under this lease are: 2005 - $28,000, 2006 - $28,000, 2007 - $28,000, 2008 - $28,000, 2009 - $22,957.

At December 31, 2004 the Bank was leasing some minor office equipment under operating leases.

Rental expense under operating leases for the years ended December 31, 2004, 2003 and 2002 were $1,304, $2,778 and $4,976, respectively.

In the normal course of business, there were various pending legal actions and proceedings which were not reflected in the consolidated financial statements. In the opinion of management, the consolidated financial statements have not and will not be affected materially by the outcome of such actions and proceedings.

15. RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Bank, as well as companies in which they are principal owners (i.e., at least 10% ownership), were indebted to the Bank at December 31, 2004 and 2003. These loans were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. These loans did not present more than the normal risk of collectibility nor present other unfavorable features.

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A summary of the activity on the related party loans, comprised of five directors, seven executive officers and their related companies, consisted of the following:

	2004	2003
Balance, beginning of year	$ 1,688,979	$ 2,004,160
Additions	889,909	654,404
Deductions	(1,040,154)	(969,585)
Balance, end of year	$ 1,538,734	$ 1,688,979

The above loans represent funds drawn and outstanding at the date of the accompanying consolidated financial statement. Commitments by the Bank to related parties on lines of credit for 2004 and 2003 presented an additional off-balance sheet risk to the extent of undisbursed funds in the amount of $441,353 and $410,768, respectively, on the above loans.

16. REGULATORY MATTERS

Dividends are paid by the Corporation to shareholders from its assets which are mainly provided by dividends from the Bank. However, national banking laws place certain restrictions on the amount of cash dividends allowed to be paid by the Bank to the Corporation. Generally, the limitation provides that dividend payments may not exceed the Bank's current year's retained income plus retained net income for the preceding two years. Accordingly, in 2005, without

prior regulatory approval, the Bank may declare dividends to the Corporation in the amount of $1,142,885 plus additional amounts equal to the net income earned in 2005 for the period January 1, 2005, through the date of declaration, less any dividends which may have already been paid in 2005. Regulations also limit the amount of loans and advances from the Bank to the Corporation to 10% of consolidated net assets.

The Corporation is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of December 31, 2004 and 2003, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined).

As of December 31, 2004, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank 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 as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004:						
Total Risk Based Capital						
(To risk-weighted assets)	$30,027	20.31%	$11,827	8.00%	$14,784	10.00%
Tier I Capital						
(To risk-weighted assets)	$28,488	19.27%	$ 5,913	4.00%	$ 8,870	6.00%
Tier I Capital						
(To average assets)	$34,669	12.17%	$11,394	4.00%	$14,244	5.00%
As of December 31, 2003:						
Total Risk Based Capital						
(To risk-weighted assets)	$28,752	19.88%	$11,570	8.00%	$14,463	10.00%
Tier I Capital						
(To risk-weighted assets)	$27,220	18.82%	$ 5,785	4.00%	$ 8,678	6.00%

Tier I Capital (To average assets)	$26,303	11.79%	$ 8,924	4.00%	$11,155	5.00%

The Corporation's capital ratios are not materially different from those of the Bank.

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17. 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 December 31, 2004 and 2003 were as follows:

	2004	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$13,828,499	$
Financial standby letters of credit	1,741,568	
Performance standby letters of credit	846,260	
Dealer floor plans	852,161	

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2004 varied from 0 percent to 100 percent; the average amount collateralized was 85.0 percent.

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 81.3% was for real estate loans, principally residential. It was the opinion of management that the high concentration did not pose an adverse credit risk. Further, it was management's opinion that the remainder of the loan portfolio was balanced and diversified to the extent necessary to avoid any significant concentration of credit.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not required to be recognized in the consolidated balance sheet, for which it is practicable to estimate such value. 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. SFAS No. 107 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.

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.

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.

DEPOSITS

Under SFAS No. 107, 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 December 31, 2004 and 2003.

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.

At December 31, 2004 and 2003, the carrying values and estimated fair values of financial instruments are presented in the table below:

	2004		
	Carrying Amount	Estimated Fair Value	Carr Amo

Financial Assets:			
Cash and short-term investments	$ 12,832,527	$ 12,832,527	$ 12,
Investment securities	61,834,051	61,834,051	62,
Loans:			
Commercial	12,181,900	12,169,946	15,
Tax-exempt	10,061,809	9,853,309	6,
Real estate - construction	733,642	731,745	2,
Real estate	122,104,012	122,368,121	118,
Personal	4,738,159	4,944,444	5,
Gross loans	149,819,522	150,067,565	147,
Add (Deduct): Unearned discount	(46,195)	-	
Unamortized loan fees, net of costs	126,374	-	
Loans, net of unearned income	149,899,701	150,067,565	147,
Allowance for losses	1,391,826	-	1,
Net loans	$ 148,507,875	$ 150,067,565	$ 146,
Cash surrender value of bank ow ned life insurance	$ 6,199,187	$ 6,199,187	$ 5,
Financial Liabilities:			
Deposits:			
Demand - non-interest bearing	$ 18,687,440	$ 18,687,440	$ 17,
Demand - interest bearing	30,572,645	30,572,645	29,
Savings	37,825,629	37,825,629	36,
Time - $100,000 and over	26,329,758	26,587,624	27,
Other time	59,071,637	59,601,171	60,
Total Deposits	$ 172,487,109	$ 173,274,509	$ 171,
Short-Term Borrowings	$ 21,757,386	$ 21,757,386	$ 20,
Long-Term Borrowings	11,323,443	11,417,151	11,
Off-Balance Sheet Assets (Liabilities):			
Commitments to extend credit		$ 13,828,499	
Standby letters of credit		1,741,568	
Performance standby letters of credit		846,260	
Dealer floor plans		852,161	

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19. PAREENT COMPANY FINANCIAL INFORMATION

Condensed financial information for CCFNB Bancorp, Inc. (Parent Company only) was as follows:

	December 31,	
BALANCE SHEETS	2004	2003
Assets		

Cash	$ 178,134	$ 367,924
Investment in subsidiary	26,850,446	25,797,196
Investment in other equity securities	1,378,220	1,326,234
Prepayments and other assets	245,276	180,946
Receivable from subsidiary	-	35,181
Total Assets	$28,652,076	$27,707,481
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 110,717	$ 104,083
Payable to subsidiary	34,862	-
Total Liabilities	145,579	104,083
Stockholders' Equity		
Common stock	1,584,648	1,595,556
Surplus	3,384,761	3,634,608
Retained earnings	23,323,955	21,997,539
Accumulated other comprehensive income	213,133	375,695
Total Stockholders' Equity	28,506,497	27,603,398
Total Liabilities and Stockholders' Equity	$28,652,076	$27,707,481

	Years End	
STATEMENTS OF INCOME	2004	20
Income		
Dividends from subsidiary bank	$ 967,703	$ 2,3
Dividends - other	37,256	
Securities gains	-	
Other	174	
Interest	2,661	
Total Income	1,007,794	2,3
Operating Expenses	97,013	
Income Before Taxes and Equity in Undistributed Net Income of Subsidiary	910,781	2,2
Applicable income tax (benefit)	(22,555)	(
Income Before Equity in Undistributed Net Income of Subsidiary and Equity in Income from Insurance Agency	933,336	2,2
Equity in (excess of) undistributed income of subsidiary	1,266,829	(1
Income from investment in insurance agency	17,248	
Net Income	$ 2,217,413	$ 2,1
STATEMENTS OF CASH FLOWS		
Operating Activities:		
Net income	$ 2,217,413	$ 2,1
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes (benefit)	5,665	
Securities gains	-	
Distributions in excess of (equity in undistributed) net income of		

subsidiary	(1,266,829)	1
(Income) loss from investment in an insurance agency	(17,248)	
(Increase) decrease in prepayments and other assets	(47,082)	
(Increase) decrease in receivable from subsidiary	35,181	(
Increase (decrease) in payable to subsidiary	34,862	(
Increase (decrease) in income taxes and accrued expenses payable	-	(
Net Cash Provided By Operating Activities	961,962	2,2
Investing Activities:		
Purchase of equity securities	-	(7
Proceeds from sale of equity securities	-	
Net Cash (Used in) Investing Activities	-	(7
Financing Activities:		
Acquisition of treasury stock	(467,000)	(5
Proceeds from issuance of common stock	206,245	1
Cash dividends	(890,997)	(8
Net Cash (Used in) Financing Activities	(1,151,752)	(1,2
Increase (Decrease) in Cash and Cash Equivalents	(189,790)	2
Cash and Cash Equivalents at Beginning of Year	367,924	1
Cash and Cash Equivalents at End of Year	178,134	$ 3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of CCFNB Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ J. H. Williams & Co., LLP

J. H. Williams & Co., LLP
Kingston, Pennsylvania
January 14, 2005

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF OUR DISCLOSURE CONTROLS AND INTERNAL CONTROLS. Within the 90-day period prior to the date of this report on Form 10-K, we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (Disclosure Controls), and our "internal controls and procedures for financial reporting" (Internal Controls). This evaluation (the Controls Evaluation) was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (Treasurer). Rules adopted by the SEC require that, in this section of this report, we present the conclusions of the CEO and the Treasurer about the effectiveness of our Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

CEO AND CFO CERTIFICATIONS. Appearing at Exhibits 31.1, 31.2, 32.1 and 32.2 of this report are two separate forms of "Certifications" for each of the CEO and the Treasurer. This section of this report which you are currently reading is the information concerning the Controls Evaluation referred to in the Section 302 Certification and this information should be read in conjunction with the Section 302 Certification for a more complete understanding of the topics presented.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS. Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (Exchange Act), such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and Treasurer, as appropriate, to allow timely decisions regarding required disclosure.

The Corporation has created a disclosure committee. The committee consists of nine key management personnel. The purpose of the committee is to verify that all internal controls and procedures are in place in each area of authority. Whistle Blowing procedures have been put in place and communicated to all directors and employees. The disclosure committee meets quarterly before each quarter end.

We design Internal Controls procedures with the objective of providing reasonable assurance that: (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principals.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS. Our management, including the CEO and Treasurer, does not expect that our Disclosure Controls or our Internal Controls will prevent all error or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits or controls must be considered relative to their

costs. 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 and the Bank 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. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

SCOPE OF THE CONTROLS EVALUATION. The CEO and Treasurer evaluation of our Disclosure Controls and Internal Controls included a review of the controls' objectives and design, the control's implementation by us and the Bank and the effect of the controls on the information generated for use in this report. In the course of the Controls Evaluation, we sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Our Internal Controls are also evaluated on an ongoing basis by our Outside Internal Auditors, by other personnel in the Bank and by our external independent auditors in connection with their audit and review activities. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and Internal Controls and to make modifications as necessary. Our intent in this regard is that the Disclosure Controls and Internal Controls will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in our and the Bank's Internal Controls, or whether we had identified any acts of fraud involving personnel who have a

significant role in our and the Bank's Internal Controls. This information was important both for the Controls Evaluation generally and because items 5 and 6 in the Section 302 Certifications of the CEO and Treasurer require that the CEO and Treasurer disclose that information to our Board's Audit Committee and to our independent auditors and to report on related matters in this section of our Annual Report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; these are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. In addition, we sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accord with our on-going procedures.

In accord with SEC requirements, the CEO and Treasurer note that, since the date of the Controls Evaluation (Evaluation Date) to the date of this Annual Report,

there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

CONCLUSIONS. Based upon the Controls Evaluation, our CEO and Treasurer have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that material information relating to CCFNB Bancorp, Inc. and its consolidated subsidiaries is made known to management, including the CEO and Treasurer, particularly during the period when our Exchange Act periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

The Corporation has nine directors who are divided into three classes: three directors are in Class 1; three directors are in Class 2; and three directors are in Class 3. Each director holds office for a three-year term. The terms of the classes are staggered, so that the term of office of one class expires each year.

At this meeting, the stockholders elect three Class 1 directors. Unless you withhold authority to vote for one or more of the nominees, the persons named as proxies intend to vote for the election of the three nominees for Class 1 director. All of the nominees are recommended by the Board of Directors:

Robert M. Brewington, Jr.
Willard H. Kile, Jr.
Charles E. Long

All nominees have consented to serve as directors. The Board of Directors has no reason to believe that any of the nominees should be unable to act as a director. However, if any director is unable to stand for re-election, the Board of Directors will designate a substitute. If a substitute nominee is named, the proxies will vote for the election of the substitute.

The following information includes the age of each nominee and current director as of the date of the meeting. All directors of the Corporation are also directors of the bank.

CLASS 1 DIRECTORS WHOSE TERM EXPIRES IN 2005 AND NOMINEES FOR CLASS 1 DIRECTORS WHOSE TERM WILL EXPIRE IN 2008

ROBERT M. BREWINGTON, JR., 54

Director since 1996. Owner of Sutliff Motors and Brewington Transportation and a part owner of J&B Honda (sales and service of cars and trucks; school bus contractor). Mr. Brewington is the brother of Sally Tucker, the bank's Marketing Director.

WILLARD H. KILE, JR., D.M.D., 50

Director since 2000. Partner of Kile & Robinson LLC (dentists); Partner of Kile & Kile Real Estate. Mr. Kile is a first cousin to Lance O. Diehl, our President and Chief Executive Officer.

CHARLES E. LONG, 69

Director since 1993. Retired. Former President of Long Supply Co., Inc. (a wholesaler and retailer of hardware and masonry products).

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CLASS 2 DIRECTORS WHOSE TERM EXPIRES IN 2007

LANCE O. DIEHL, 39

Director since 2003. President and Chief Executive Officer of the Corporation and the bank. Former Executive Vice President of Branch Operations and Marketing of the bank. Mr. Diehl is a first cousin to Mr. Kile, a director.

WILLIAM F. HESS, 71

Director since 1983. Former Chairman of the Corporation and the bank. Dairy farmer.

PAUL E. REICHART, 67

Director since 1983. Chairman and former Vice Chairman of the Corporation and the bank. Former President and Chief Executive Officer of the Corporation and the bank.

CLASS 3 DIRECTORS WHOSE TERM EXPIRES IN 2006

EDWARD L. CAMPBELL, 66

Director since 1985. Secretary of the Corporation and the bank. President of ELC Enterprises, Inc. and the sole proprietor of Heritage Acres Christmas tree sales.

FRANK D. GEHRIG, 59

Director since 2004. Partner in Accounting Firm of Brewer, Gehrig & Johnson, Certified Public Accountants.

ELWOOD R. HARDING, JR., 58

Director since 1984. Vice Chairman of the Corporation and the Bank. Attorney at law and President of Premier Real Estate Settlement Services, Inc. (title insurance).

PRINCIPAL OFFICERS

Our principal officers are appointed by the Board of Directors and serve at the will of the Board of Directors, subject to certain change in control agreements discussed later in this report. The following information is presented for those persons who were principal officers at December 31, 2004:

NAME & POSITION	HELD SINCE	EMPLOYEE SINCE	AGE
Paul E. Reichart, Chairman	2004	1960	67
Edward L. Campbell,,			

Secretary	2004	*	66
Elwood R. Harding, Jr.,			
Vice Chairman	2004	*	58
Lance O. Diehl,			
President and Chief Executive Officer	2004	1995	39
Virginia D. Kocher			
Treasurer and Assistant Secretary	1991	1972	57

* Not an employee of the Company and the Bank.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Executive officers and directors and "beneficial owners" of more than ten percent of the Common Stock must file initial reports of ownership and reports of changes in ownership with the SEC pursuant to Section 16(a) of the Securities Exchange Act of 1934.

We have reviewed the reports and written representations from the executive officers and directors. The Corporation believes that all filing requirements were met during 2004 with the exception of the second quarter filing for Frank D. Gehrig and fourth quarter filing

for Willard H. Kile, Jr. Mr. Gehrig was newly appointed to the Board on April 29, 2004 but an initial Statement of Beneficial Ownership, Form 3, was not filed until May 25, 2004. Filings are electronic now with a two-day filing deadline from the date of the transaction. The bank was unable to obtain the proper paperwork and register Mr. Gehrig's initial ownership holdings of 2,052.684, held between he and his spouse, within the new two-day deadline. Mr. Kile was gifted 164 shares on October 18, 2004, but the bank was not notified of the transaction until October 28, 2004, which is the date the Form 4 was transmitted.

CODE OF ETHICS

All our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer are required to abide by our Code of Ethics to ensure that our business is conducted in a consistently legal and ethical manner. This Code of Ethics forms the foundation of a comprehensive process that includes compliance with all corporate policies and procedures, an open relationship among colleagues that contributes to good business conduct, and an abiding belief in the integrity of our employees. Our policies and procedures cover all areas of professional conduct, including employment policies, conflicts of interest, intellectual property and the protection of confidential information, as well as strict adherence to all laws and regulations applicable to the conduct of our business.

Employees are required to report any conduct they believe in good faith to be an actual or apparent violation of the standards contained in our Code of Ethics or any other unusual or suspicious business arrangement or behavior. The Sarbanes-Oxley Act of 2002 requires audit committees to have procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. We currently have such procedures in place.

In addition, the members of our Board of Directors are required to comply with the Code of Ethics. This Code of Ethics is intended to focus the Board and the individual directors on areas of ethical risk, help directors recognize and deal

with ethical issues, provide mechanisms to report unethical conduct, and foster a culture of honesty and accountability. The Code of Ethics covers all areas of professional conduct relating to service on the Board, including conflicts of interest, unfair or unethical use of corporate opportunities, strict maintenance of confidential information, compliance with all applicable laws and regulations and oversight of ethics and compliance by employees of the Company.

Copies of our Code of Ethics will be provided without charge upon written request to: Virginia D. Kocher, Treasurer, 232 East Street, Bloomsburg, PA 17815. This Code of Ethics is also included in this 10K as Exhibit 14.

ITEM 11. EXECUTIVE COMPENSATION

This section of the report contains a table that shows the amounts of compensation earned by our executive officers whose salary and bonus exceeded $100,000 for 2004. The bank makes all payments to the applicable executive officers. This section also contains the performance graph comparing our performance relative to a peer group and the report of our compensation committee on executive compensation explaining compensation philosophy for our most highly paid officers.

SUMMARY COMPENSATION TABLE(1)

		ANNUAL COMPENSATION			
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY($)	BONUS($)	OTHER ANNUAL COMPENSATION($)	ALL OTHER COMPENSATION($)
LANCE O. DIEHL	2004	110,000	3,517(2)	15,391(3)	18,121(4)
PRESIDENT AND CHIEF	2003	100,000	1,883(5)	13,048(6)	13,118(7)
EXECUTIVE OFFICER	2002	72,424	2,796(8)	1,130(9)	7,779(10)

(1) From January 1, 2002 through December 31, 2004, we did not pay any long-term compensation in the form of stock options, stock appreciation rights, restricted stock or any other long-term compensation, nor did we enter into any long-term incentive plan payments. Accordingly, no such information is presented in the summary compensation table set forth above. No such arrangements are currently in effect.

(2) Represents a cash bonus representing 3 1/2% of 2003 base salary.

(3) Includes $10,800 as the payment of directors' fees and $4,591 representing the year 2004, 100% up to 3% and 50% up to the next 2% matching contribution to Mr. Diehl's 401K plan.

(4) Includes $16,047 as a payment for a deferred compensation plan; $678 representing car expense;$403 representing cell phone expense; $758 representing cafeteria plan benefits and $235 as annual term insurance premium payments on the life of Mr. Diehl.

(5) Represents a cash bonus representing 2 1/2% of 2002 base salary.

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(6) Includes $8,925 as the payment of directors' fees and $4,123 representing the year 2003, 100% up to 3% and 50% up to the next 2% matching contribution to Mr. Diehl's 401K plan.

(7) Includes $11,099 as a payment for a deferred compensation plan; $711 representing car expense; $420 representing cell phone expense; $661 representing cafeteria plan benefits and $227 as annual term insurance premium payments on the life of Mr. Diehl.

(8) Represents a cash bonus representing 4% of 2001 base salary.

(9) Represents the year 2002, 50% up to 3% matching contribution to Mr. Diehl's 401K plan.

(10) Includes $3,411 as a contribution to the bank's profit sharing plan; $420 representing cell phone expense; $3,680 representing cafeteria plan benefits and $268 as annual term insurance premium payments on the life of Mr. Diehl.

COMMITTEE REPORT ON EXECUTIVE COMPENSATION (HOW WE DETERMINE EXECUTIVE COMPENSATION)

COMPOSITION OF COMMITTEE

Our independent directors deem executive compensation to be very important to the overall development and performance of the company, so they decided to sit as our committee on executive compensation. Mr. Diehl, the President and Chief Executive Officer, and Mr. Reichart, the Chairman, do not participate in discussions and decisions concerning their performance and compensation. All of our other directors meet the independence standards contained in Rule 4200(a)(15) of the listing rules for The NASDAQ Stock Market.

In addition to this committee on executive compensation, the bank has a Human Resource Committee comprised of four of our directors who also serve as directors of the bank. One of those directors is Mr. Reichart who is also the Chairman of the bank. The bank's Human Resource Committee discusses and reviews evaluations of all management positions within the bank, except for Messrs Reichart, the Chairman, Diehl, the President and Chief Executive Officer, and Wenner, the Executive Vice President and Chief Operating Officer. The compensation committee on executive compensation is solely responsible for the compensation decisions involving the latter three officers.

Objectives Of Executive Compensation

Our executive compensation policy aims to:

- Link the executive's goals with your interests as stockholders;

- Support our strategic business plan and long-term development;

- Tie a portion of the executive's compensation to our overall performance; and

- Attract and retain talented management.

Type Of Compensation

We utilize annual compensation which includes salary, bonus and contributions to our 401K profit sharing plan. We award bonuses based upon our and the specific executive's performance.

We do not have a long-term compensation program based upon the award of

stock options and restricted stock or other long-term incentive awards. However, we do have long-term compensation agreements. See the discussion of these agreements elsewhere in this 10K. We may consider the award of stock options in the future.

Factors Considered In Determining Compensation

Our committee on executive compensation wants the compensation of an executive to be competitive with other commercial banking institutions doing business in similar markets. Each year, our compensation committee on executive compensation and the bank's Human Resources Committee reviews a report from an outside consultant that delineates compensation at peer group banking companies; discusses such report as well as the performance and compatibility to the position with each executive; and takes into consideration recommendations by such executives supervisory officers or by members of the Board of Directors for the senior most executives. The total executive compensation for Messrs. Reichart, Diehl and Wenner place them generally in the median percentile of executives in peer group banking companies based upon the report by the outside consultant. All of these factors are taken into consideration in the determination of the compensation of the executives as a group and of the officers individually.

Annual Compensation

Annual compensation for our senior executives includes salary, any bonus and contribution to his 401K profit sharing plan. This is similar to the compensation programs for most of our peer group banking companies. We intend to pay salaries at the median of the peer group banking companies that are represented in the report of the outside consultant.

Chief Executive Officer Compensation

Mr. Diehl received total compensation of $147,029 in the year 2004. Please refer to the Summary Compensation Table on page 62 for more details.

We established the following 2005 compensation package for Mr. Diehl: Annual salary to be paid is $120,000, and we expect the other payment and benefits described in the Summary Compensation Table to remain the same, in 2005 as in 2004.

Other Factors That Influenced Compensation

Our Compensation Committee considered that Mr. Diehl has worked for the bank for a total of 11 years and has 17 years experience in the financial services industry. Mr. Diehl is a magna cum laude graduate of Bloomsburg University, receiving a Bachelor of Science in Business Administration; holds a Masters in Business Administration from Lehigh University; and is a graduate of the Stonier Graduate School of Banking.

Committee on Executive Compensation

Robert M. Brewington, Jr.
Edward L. Campbell
Frank D. Gehrig
Elwood R. Harding, Jr.
William F. Hess
Willard H. Kile, Jr.
Charles E. Long

Deferred Compensation Agreements for Executive Officers

In 1992, the bank entered into agreements with two executive officers, Paul E. Reichart and J. Jan Girton, to establish non-qualified deferred compensation plans. Each officer deferred compensation in order to participate in this Deferred Compensation Plan. If the officer continued to serve as an officer of the bank until he attained 65 years of age, the bank agreed to pay him 120 consecutive monthly payments commencing on the first day of the month following that officer's 65th birthday. Each officer's monthly payment is based upon the future value of life insurance purchased with the compensation the officer has deferred. The bank has obtained life insurance (designating the bank as the beneficiary) on the life of each of these officers in an amount which is intended to cover the bank's obligations under this Deferred Compensation Plan, based upon certain actuarial assumptions.

During 2002, these agreements with the two executive officers, Paul E. Reichart and J. Jan Girton, were modified. Under one agreement, the executive officer receives monthly payments of $1,875 for 120 consecutive months commencing in February 2003. Under another agreement, another executive officer receives monthly payments of $1,458.33 for 120 consecutive months commencing in April 2003. This second agreement also provides post employment health care benefits to the executive officer until the attainment of age 65. As of December 31, 2004 and 2003, the net cash values of insurance policies were $407,319 and $318,119, respectively. The total accrued liability, equal to the present value of these obligations, was $269,418 and $295,674, respectively. The accrued liability related to the post employment health care benefit was $13,650 and $14,336 as of December 31, 2004 and 2003, respectively. Mr. Reichart is the former President and Chief Executive Officer of the bank and currently the Chairman of the Board. Mr. Girton served in the capacity of Chief Operating Officer and Executive Vice President and retired in 2003.

In April 2003, the bank entered into non-qualified deferred compensation agreements with three additional officers, Lance O. Diehl, Edwin A. Wenner and Jacob S. Trump, to provide supplemental retirement benefits commencing with these executive's retirement and ending 15 years thereafter. The deferred compensation expense related to these agreements for the year ended December 31, 2004 was $79,710 and the total accrued liability as of December 31, 2004 and December 31, 2003 was $134,841 and $55,131, respectively. Mr.

Diehl is currently the President and Chief Executive Officer. Mr. Wenner is currently the Executive Vice President and Chief Operating Officer. Mr. Trump is currently the Senior Vice President of Financial Planning.

FIVE-YEAR PERFORMANCE GRAPH

The following graph and table compare the cumulative total stockholder return on our Common Stock during the five-year period ending on December 31, 2004, with the cumulative total return on the SNL Securities Corporate Performance Index (1) for 35 publicly-traded banks with under $250 million in total assets in the United States of America, and the cumulative total return for all United States stocks traded on the NASDAQ Stock Market. The comparison assumes the value of the investment in our Common Stock and each index was $100 on December 31, 1999, and assumes further the reinvestment of dividends into the applicable securities. The stockholder return shown on the graph and table below is not necessarily indicative of future performance.

CCFNB BANCORP, INCORPORATED

[LINE GRAPH]

INDEX	PERIOD ENDING					
	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/
CCFNB Bancorp, Incorporated	100.00	85.36	122.61	130.89	157.92	156.0
NASDAQ Composite	100.00	60.82	48.16	33.11	49.93	54.4
SNL						