

CCFNB BANCORP INC  
Form 10-Q  
May 10, 2011

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

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

**For the quarterly period ended March 31, 2011.**

**Or**

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

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

**No. 000-19028**

**(Commission file number)**

**CCFNB BANCORP, INC.**

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

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

**23-2254643**  
**(I.R.S. Employer  
Identification Number)**

**232 East Street, Bloomsburg, PA**  
**(Address of principal executive offices)**

**17815**  
**(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of larger accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

On May 2, 2011, there were 2,229,791 shares of the Registrant's common stock outstanding, par value \$1.25.



**CCFNB Bancorp, Inc. and Subsidiary  
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**PART I Financial Information**  
**Item 1. Financial Statements**

**CCFNB Bancorp, Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

<b>(In Thousands)</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 6,696	\$ 7,263
Interest-bearing deposits in other banks	24,783	18,683
Federal funds sold	1,472	1,649
<b>Total cash and cash equivalents</b>	<b>32,951</b>	<b>27,595</b>
Investment securities, available for sale, at fair value	204,238	207,173
Restricted securities, at cost	2,863	3,012
Loans, net of unearned income	343,381	340,453
Less: Allowance for loan losses	4,858	4,801
<b>Loans, net</b>	<b>338,523</b>	<b>335,652</b>
Premises and equipment, net	12,043	11,992
Accrued interest receivable	1,691	1,632
Cash surrender value of bank-owned life insurance	12,075	11,942
Investment in limited partnerships	1,568	1,607
Intangible Assets:		
Core deposit	2,065	2,192
Goodwill	7,937	7,937
Prepaid FDIC assessment	1,352	1,490
Other assets	2,800	2,075
<b>TOTAL ASSETS</b>	<b>\$ 620,106</b>	<b>\$ 614,299</b>
<b>LIABILITIES</b>		
Interest-bearing deposits	\$ 416,893	\$ 410,915
Noninterest-bearing deposits	65,574	62,877
<b>Total deposits</b>	<b>482,467</b>	<b>473,792</b>
Short-term borrowings	55,060	58,759
Long-term borrowings	6,122	6,123
Junior subordinate debentures	4,640	4,640
Accrued interest payable	592	652
Other liabilities	2,682	2,479
<b>TOTAL LIABILITIES</b>	<b>551,563</b>	<b>546,445</b>

**STOCKHOLDERS EQUITY**

Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued 2,290,791 shares in 2011 and 2,286,931 shares in 2010	2,864	2,859
Surplus	28,076	27,964
Retained earnings	37,317	36,397
Accumulated other comprehensive income	1,873	2,221
Treasury stock, at cost; 61,000 shares in 2011 and 2010	(1,587)	(1,587)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>68,543</b>	<b>67,854</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 620,106</b>	<b>\$ 614,299</b>

See accompanying notes to unaudited consolidated financial statements.

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

<b>(In Thousands, Except Per Share Data)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>INTEREST AND DIVIDEND INCOME</b>		
Interest and fees on loans:		
Taxable	\$ 4,448	\$ 4,677
Tax-exempt	280	212
Interest and dividends on investment securities:		
Taxable	1,457	1,861
Tax-exempt	126	105
Dividend and other interest income	11	10
Federal funds sold	1	1
Deposits in other banks	9	2
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>6,332</b>	<b>6,868</b>
<b>INTEREST EXPENSE</b>		
Deposits	1,224	1,537
Short-term borrowings	84	106
Long-term borrowings	39	125
Junior subordinate debentures	24	23
<b>TOTAL INTEREST EXPENSE</b>	<b>1,371</b>	<b>1,791</b>
<b>NET INTEREST INCOME</b>	<b>4,961</b>	<b>5,077</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>80</b>	<b>310</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,881</b>	<b>4,767</b>
<b>NON-INTEREST INCOME</b>		
Service charges and fees	414	426
Gain on sale of loans	161	130
Earnings on bank-owned life insurance	108	116
Brokerage	60	89
Trust	216	171
Interchange fees	219	195
Other	250	171
<b>TOTAL NON-INTEREST INCOME</b>	<b>1,428</b>	<b>1,298</b>

**NON-INTEREST EXPENSE**

Salaries	1,657	1,576
Employee benefits	585	471
Occupancy	298	293
Furniture and equipment	301	311
State shares tax	143	133
Professional fees	153	145
Director's fees	68	67
FDIC assessments	149	147
Telecommunications	83	96
Amortization of core deposit intangible	127	151
Automated teller machine and interchange	151	130
Other	429	455

<b>TOTAL NON-INTEREST EXPENSE</b>	<b>4,144</b>	<b>3,975</b>
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INCOME BEFORE INCOME TAX PROVISION	2,165	2,090
INCOME TAX PROVISION	555	550

<b>NET INCOME</b>	<b>\$ 1,610</b>	<b>\$ 1,540</b>
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<b>EARNINGS PER SHARE</b>	<b>\$ 0.72</b>	<b>\$ 0.69</b>
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<b>CASH DIVIDENDS PER SHARE</b>	<b>\$ 0.31</b>	<b>\$ 0.29</b>
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<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>2,226,195</b>	<b>2,243,439</b>
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See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands Except Per Share Data)	Common Stock		Surplus	Accumulated Other Comprehensive Income			Total Stockholders' Equity
	Shares	Amount		Earnings	(Loss)	Treasury Stock	
Balance, December 31, 2009	2,270,850	\$ 2,838	\$ 27,539	\$ 32,723	\$ 2,523	\$ (537)	\$ 65,086
Comprehensive Income:							
Net income				1,540			1,540
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects					348		348
Total comprehensive income							1,888
Common stock issuance under dividend reinvestment and stock purchase plans	4,140	6	106				112
Recognition of employee stock purchase plan expense			1				1
Purchase of treasury stock (17,500 shares)						(474)	(474)
Cash dividends, (\$0.29 per share)				(650)			(650)
Balance, March 31, 2010	2,274,990	\$ 2,844	\$ 27,646	\$ 33,613	\$ 2,871	\$ (1,011)	\$ 65,963
Balance, December 31, 2010	2,286,931	\$ 2,859	\$ 27,964	\$ 36,397	\$ 2,221	\$ (1,587)	\$ 67,854
Comprehensive Income:							
Net income				1,610			1,610
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects					(348)		(348)
Total comprehensive income							1,262
Common stock issuance under dividend reinvestment and stock purchase plans	3,860	5	111				116
Recognition of employee stock purchase plan expense			1				1
Cash dividends, (\$0.31 per share)				(690)			(690)
Balance, March 31, 2011	2,290,791	\$ 2,864	\$ 28,076	\$ 37,317	\$ 1,873	\$ (1,587)	\$ 68,543

See accompanying notes to the unaudited consolidated financial statements.





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

<b>(In Thousands)</b>	<b>For The Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,610	\$ 1,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	80	310
Depreciation and amortization of premises and equipment	200	233
Amortization and accretion on investment securities	255	242
Deferred income taxes (benefit) provision	(63)	44
Gain on sale of loans	(161)	(130)
Proceeds from sale of mortgage loans	7,305	4,561
Originations of mortgage loans held for resale	(8,202)	(4,815)
Amortization of intangibles and investment in limited partnerships	166	192
(Increase) Decrease in accrued interest receivable	(59)	103
Increases in cash surrender value of bank-owned life insurance	(133)	(141)
Decrease in accrued interest payable	(60)	(96)
Other, net	8	(1,085)
Net cash provided by operating activities	946	958
<b>INVESTING ACTIVITIES</b>		
Investment securities available for sale:		
Purchases	(20,044)	(5,118)
Proceeds from sales, maturities and redemptions	22,048	29,102
Proceeds from redemption of restricted securities	149	
Purchase of restricted securities		(184)
Net increase in loans	(1,893)	(6,905)
Acquisition of premises and equipment	(251)	(158)
Net cash provided by investing activities	9	16,737
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	8,675	5,968
Net decrease in short-term borrowings	(3,699)	(2,747)
Repayment of long-term borrowings	(1)	(5,001)
Acquisition of treasury stock		(474)
Proceeds from issuance of common stock	116	112
Cash dividends paid	(690)	(650)
Net cash provided by (used for) financing activities	4,401	(2,792)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,356</b>	<b>14,903</b>

<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	27,595	11,459
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 32,951	\$ 26,362

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW  
INFORMATION**

Interest paid	\$ 1,431	\$ 1,887
Income taxes paid		99
Loans transferred to other real estate owned		300

See accompanying notes to the unaudited consolidated financial statements.

**CCFNB BANCORP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**PRINCIPLES OF CONSOLIDATION**

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

**NATURE OF OPERATIONS**

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

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

**SEGMENT REPORTING**

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

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

**USE OF ESTIMATES**

The preparation of these consolidated financial statements in conformity with accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes include the assessment for impairment of certain investment securities, the allowance for loan losses, deferred tax assets and liabilities, impairment of other intangible assets, and other real estate owned. Assumptions and factors used in the estimates are evaluated on an annual basis or whenever events or changes in circumstances indicate that the previous assumptions and factors have changed. The result of the analysis could result in adjustments to the estimates.

**INVESTMENT SECURITIES**

The Corporation classifies its investment securities as either held-to-maturity or available-for-sale at the time of purchase. Debt securities are classified as held-to-maturity when the Corporation has the ability and positive intent to

hold the securities to maturity. Investment securities held-to-maturity are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity.

Debt securities not classified as held-to-maturity and equity securities included in the available-for-sale category are carried at fair value, and the amount of any unrealized gain or loss net of the effect of deferred income taxes is reported as other comprehensive income in the Consolidated Statement of Changes in Stockholders' Equity. Management's decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

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

#### **RESTRICTED SECURITIES**

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh ( FHLB Pittsburgh ), and Atlantic Central Bankers Bank ( ACBB ) and do not have a readily determinable fair value because their ownership is restricted, and they can be sold back only to the FHLB-Pittsburgh, ACBB or to another member institution. Therefore, these securities are classified as restricted equity investment securities, carried at cost, and evaluated for impairment. At March 31, 2011, the Corporation held \$2,828,000 in stock of the FHLB-Pittsburgh and \$35,000 in stock of ACBB. At December 31, 2010, the Corporation held \$2,977,000 in stock of FHLB-Pittsburgh and \$35,000 in stock of ACBB.

The Corporation evaluated its holding of restricted stock for impairment and deemed the stock to not be impaired due to the expected recoverability of par value, which equals the value reflected within the Corporation's financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within FHLB's mortgage portfolio to the FHLB's liquidity position and credit rating. The Corporation utilizes the impairment framework outlined in GAAP to evaluate stock for impairment. The following factors were evaluated to determine the ultimate recoverability of the par value of the Corporation's restricted stock holdings; (i) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (ii) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB; (iv) the liquidity position of the FHLB; and (v) whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the materiality of the carrying amount to the member institution and (b) whether an assessment of the institution's operational needs for the foreseeable future allow management to dispose of the stock. Based on the analysis of these factors, the Corporation determined that its holding of restricted stock was not impaired at March 31, 2011 and December 31, 2010.

#### **LOANS**

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

Real estate mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. A portion of these loans are sold with limited recourse by the Corporation.

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 may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Certain non-accrual loans may continue to perform wherein payments are still being received with those payments generally applied to principal. Non-accrual loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectibility of principal.

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

#### **ALLOWANCE FOR LOAN LOSSES**

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

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

In addition, the Bank is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. At the present time, select loans are not aggregated for collective impairment evaluation, as such; all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a trouble debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses adjusted for current factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding two years. In calculating the historical component of our allowance, we aggregate our loans into one of four portfolio segments: Commercial, Financial & Agriculture, Commercial Real Estate, Consumer Real Estate, and Installment Loans to Individuals. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. Actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: the concentration of watch and substandard loans as a percentage of total loans, levels of loan concentration within the portfolio segment or division of a portfolio segment and broad economic conditions.

#### **PREMISES AND EQUIPMENT**

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

#### **MORTGAGE SERVICING RIGHTS**

The Bank originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Bank retains the right to service most of these loans. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The unamortized cost is included in other assets in the accompanying consolidated balance sheets. The servicing rights are periodically evaluated for impairment based on their relative fair value.

#### **JUNIOR SUBORDINATE DEBENTURES**

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



3-month LIBOR plus 1.75%. The coupon rate was 2.06% at March 31, 2011. The securities are callable by the Corporation, subject to any required regulatory approval, at par, after five years. The Corporation unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the Trust.

**INTANGIBLE ASSETS    GOODWILL**

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired. The Corporation has recorded net goodwill of \$7,937,000 at March 31, 2011 and December 31, 2010 related to the 2008 acquisition of Columbia Financial Corporation and its subsidiary, First Columbia Bank & Trust Co. In accordance with current accounting standards, goodwill is not amortized. Management performs an annual evaluation for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company employs general industry practices in evaluating the impairment of its goodwill and other intangible assets. The Company calculates the value of goodwill using a combination of the following valuation methods: dividend discount analysis under the income approach, which calculates the present value of all excess cash flows plus the present value of a terminal value, the price/earnings multiple under the market approach and the

change in control premium to market price approach. Based upon these reviews, management determined there was no impairment of goodwill during 2011 or 2010. No assurance can be given that future impairment tests will not result in a charge to earnings.

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

The Corporation has an amortizable intangible asset related to the deposit premium paid for the acquisition of Columbia Financial Corporation's subsidiary, First Columbia Bank & Trust Co. This intangible asset is being amortized on a sum of the years digits method over 10 years and has a carrying value of \$2,065,000 as of March 31, 2011. At December 31, 2010, the intangible asset had a carrying value of \$2,192,000. The recoverability of the carrying value is evaluated on an ongoing basis, and permanent declines in value, if any, are charged to expense. Amortization of the core deposit intangible amounted to \$127,000 and \$151,000 for the three months ended March 31, 2011 and 2010, respectively.

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

For the Year Ended:

Remainder of 2011	\$ 382,000
2012	442,000
2013	374,000
2014	308,000
2015	240,000
Thereafter	319,000
 Total	 \$ 2,065,000

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

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense. There was no other real estate owned as of March 31, 2011 and December 31, 2010.

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

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

#### **INVESTMENTS IN LIMITED PARTNERSHIPS**

The Corporation is a limited partner in four partnerships at March 31, 2011 that provide low income housing in the Corporation's geographic market area. The investments are accounted for under the effective yield method. Under the effective yield method, the Corporation recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that the tax credits are allocated to the Corporation. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the consolidated statements of income as a component of income tax expense. The amount of tax credits allocated to the Corporation was \$158,000 and the amortization of the investments in limited partnerships was \$38,000 and \$41,000 for the three months ended March 31, 2011 and 2010, respectively. The carrying value of the Corporation's investments in limited partnerships was \$1,568,000 at March 31, 2011 and \$1,607,000 at December 31, 2010.

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

The Corporation owns a 50 percent interest in a local insurance agency, a corporation organized under the laws of the Commonwealth of Pennsylvania. The income or loss from this investment is accounted for under the equity method of accounting. The carrying value of this investment as of March 31, 2011 and December 31, 2010 was

\$232,000, and is included in other assets in the accompanying consolidated balance sheets.

**INCOME TAXES**

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the

scheduled reversal of deferred tax liabilities, the projected future taxable income and tax planning strategies in making this assessment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Corporation and the Bank are subject to U.S. federal income tax and Commonwealth of Pennsylvania tax. The Corporation is no longer subject to examination by Federal or State taxing authorities for the years before 2007. At March 31, 2011 and December 31, 2010 the Corporation did not have any unrecognized tax benefits. The Corporation does not expect the amount of any unrecognized tax benefits to significantly increase in the next twelve months. The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense. At March 31, 2011 and December 31, 2010, the Corporation does not have any amounts accrued for interest and/or penalties.

#### **PER SHARE DATA**

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

#### **CASH FLOW INFORMATION**

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

#### **TREASURY STOCK**

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

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

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

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

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

#### **ADVERTISING COSTS**

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the three months ended March 31, 2011 and 2010 was approximately \$45,000 and \$46,000, respectively.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB ASU 2010-20, *Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*** ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting

period were effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 3.

**FASB ASU 2010-09** *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure requirements.*

This accounting standard update modifies the requirement to disclose the date that subsequent events are considered through for SEC filers. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements.

**FASB ASC 860** In June 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and servicing (Statement No. 166 *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140). The new guidance

removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new guidance became effective for the Corporation on January 1, 2010. The implementation of this new guidance did not have a material impact on the Corporation's consolidated financial statements.

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

### RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior periods have been reclassified to conform to presentations used in the 2011 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

### 2. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities were as follows at March 31, 2011 and December 31, 2010:

(In Thousands)	Amortized Cost	March 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 118,316	\$ 3,262	\$ (299)	\$ 121,279
Other	65,538	184	(414)	65,308
Obligations of state and political subdivisions	15,417	144	(34)	15,527
Total debt securities	199,271	3,590	(747)	202,114
Marketable equity securities	2,130	183	(189)	2,124
Total investment securities AFS	\$ 201,401	\$ 3,773	\$ (936)	\$ 204,238

(In Thousands)	Amortized Cost	December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 129,008	\$ 3,794	\$ (287)	\$ 132,515
Other	59,046	279	(422)	58,903
Obligations of state and political subdivisions	13,625	115	(69)	13,671
Total debt securities	201,679	4,188	(778)	205,089

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Marketable equity securities	2,130	148	(194)	2,084
Total investment securities AFS	\$ 203,809	\$ 4,336	\$ (972)	\$ 207,173

Securities available-for-sale with an aggregate fair value of \$105,508,000 and \$94,979,000 at March 31, 2011 and December 31, 2010, respectively, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and other balances of \$69,436,000 and \$70,861,000 at March 31, 2011 and December 31, 2010, respectively, as required by law.

The amortized cost and estimated fair value of investment securities, by expected maturity, are shown below at March 31, 2011. Expected maturities on debt securities will differ from contractual maturities, because some borrowers may have the right to call

or prepay obligations with or without call or prepayment penalties. Other securities and marketable equity securities are not considered to have defined maturities and are included in the Due after ten years category:

(In Thousands)	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Due in one year or less	\$ 2,320	\$ 2,339	3.55%
Due after one year to five years	47,391	47,301	1.88%
Due after five years to ten years	35,487	35,821	3.31%
Due after ten years	116,203	118,777	3.60%
Total	\$ 201,401	\$ 204,238	

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 March 31, 2011 or December 31, 2010. 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.

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

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

The following summary shows the gross unrealized losses and fair value, aggregated by investment category of those individual securities that have been in a continuous unrealized loss position for less than or more than 12 months as of March 31, 2011 and December 31, 2010:

March 31, 2011

Total



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(In Thousands)	Less than Twelve Months		Twelve Months or Greater		Estimated Fair Value	Gross Unrealized Losses
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses		
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	\$ 27,570	\$ 299	\$	\$	\$ 27,570	\$ 299
Other	36,587	414			36,587	414
Obligations of state and political subdivisions	2,917	34			2,917	34
Total debt securities	67,074	747			67,074	747
Equity securities	45	3	922	186	967	189
Total	\$ 67,119	\$ 750	\$ 922	\$ 186	\$ 68,041	\$ 936

(In Thousands)	Less than Twelve Months		December 31, 2010 Twelve Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	Obligations of U.S. Government Corporations and Agencies:					
Mortgage-backed	\$ 33,482	\$ 287	\$	\$	\$ 33,482	\$ 287
Other	29,578	422			29,578	422
Obligations of state and political subdivisions	3,849	69			3,849	69
Total debt securities	66,909	778	0	0	66,909	778
Equity securities	45	3	1,005	191	1,050	194
Total	\$ 66,954	\$ 781	\$ 1,005	\$ 191	\$ 67,959	\$ 972

At March 31, 2011, the Corporation had a total of 277 individual debt securities and 45 individual equity security positions. At March 31, 2011, there were a total of 43 individual debt securities and 13 individual equity securities that were in a continuous unrealized loss position for less than twelve months. At March 31, 2011, there were no debt securities and a total of 10 individual equity securities in a continuous loss position for greater than twelve months.

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

The Corporation's marketable equity securities consist of common stock positions in various Commercial Banks, Savings and Loans/Thriffs, and Diversified Financial Service Corporations varying in asset size and geographic region. The Corporation's equity securities represent less than 1 percent of the total available for sale investments as of March 31, 2011. The following tables display the Corporation's holdings of these securities by asset size and geographic region as of March 31, 2011:

(In Thousands)	Asset size(\$)	March 31, 2011			Estimated Fair Value
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	Under \$1 Billion	\$ 455	\$ 64	\$ (24)	\$ 495
	\$1 to \$5 Billion	209	14	(7)	216
	\$6 to \$100 Billion	780	41	(141)	680
	Over \$100 Billion	686	64	(17)	733
		\$2,130	\$183	\$(189)	\$2,124

(In Thousands) Geographic Region	Amortized Cost	March 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Eastern U.S.	\$1,040	\$103	\$ (97)	\$1,046
Southeastern U.S.	110		(1)	109
Western U.S.	53		(3)	50
National	927	80	(88)	919
	\$2,130	\$183	\$(189)	\$2,124

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Corporation also reviews dividend payment activities, levels of non performing assets and loan loss reserves, and whether or not the issuer is participating in the TARP Capital Purchase Program. The starting point for the equity analysis is the length and severity of market value decline. The Corporation and an independent consultant monitor the entire portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. During 2010, impairment was recognized on a

few securities which management believed that a sufficient amount of credit damage had occurred relative to the issuer's capital position to render the security unlikely to recover to our cost within the near term. For the three months ended March 31, 2011 and 2010 the Corporation did not record an other-than-temporary impairment related to the investment in these equity securities. Securities with an unrealized loss that were determined to be other-than-temporary were written down to fair value, with the write-down recorded as a realized loss included in security (losses) gains. The Corporation evaluated the near-term prospects of the issuer in relation the severity and duration of the market value decline as well as the other attributes listed above. Based on that evaluation and the Corporation's ability and intent to hold these equity securities for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider these equity securities to be other-than-temporarily impaired at March 31, 2011.

### 3. LOANS

Major classifications of loans at March 31, 2011 and December 31, 2010 consisted of:

(In Thousands)	2011	2010
Commercial, financial and agricultural	\$ 35,836	\$ 33,819
Tax-exempt	27,194	25,180
Commercial real estate:		
Commercial mortgages	92,737	95,688
Other construction and land development loans	7,155	6,284
Secured by farmland	5,635	5,697
Consumer real estate:		
Home equity loans	20,494	21,687
Home equity lines of credit	17,778	17,802
1-4 family residential mortgages	124,011	121,665
Construction	5,556	5,405
Installment loans to individuals	6,990	7,232
Unearned discount	(5)	(6)
Gross loans	\$ 343,381	\$ 340,453

#### *Loan Origination and Risk Management*

The Corporation has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and the Board of Directors approve these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial, financial, and agricultural loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Corporation's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial, financial, and agricultural loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial, financial, and agricultural loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial, financial, and agricultural loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporation's commercial real estate portfolio are diverse in terms of type and geographic locations served by the Corporation. This diversity helps reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral. As a general rule the Corporation avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk.

The Corporation originates consumer loans using a credit scoring system to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are reviewed and modified on a regular basis. In addition, risk is reduced by keeping the loan amounts relatively small and spread across many individual borrowers. Additionally, trend reports are reviewed regularly by management. Underwriting standards for home equity loans are influenced by statutory requirements, which include such

controls as maximum loan-to-value percentages, collection remedies, documentation requirements, and limits on the number of loans an individual can have at one time.

The Corporation contracts an independent third party consultant that reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's loan policies and procedures.

Real estate loans held-for-sale in the amount of \$3,063,000 at March 31, 2011 and \$2,005,000 at December 31, 2010 are included in consumer real estate loans above and are carried at the lower of cost or market.

The aggregate amount of demand deposits that have been reclassified as consumer loan balances at March 31, 2011 and December 31, 2010 are \$189,000 and \$137,000, respectively.

#### ***Concentrations of Credit Risk***

Most of the Corporation's lending activity occurs within the Bank's primary market area which encompasses Columbia County, a 484 square mile area located in North central Pennsylvania. The majority of the Corporation's loan portfolio consists of commercial real estate and consumer real estate loans. As of March 31, 2011 and December 31, 2010, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

#### ***Non-Accrual and Past Due Loans***

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

Non-accrual loans, segregated by class of loans, were as follows as of March 31, 2011 and December 31, 2010:

(In Thousands)	March 31, 2011	December 31, 2010
Commercial, financial and agricultural	\$ 338	\$ 224
Tax-exempt		
Commercial real estate:		
Commercial mortgages	1,151	2,166
Other construction and land development loans		
Secured by farmland		
Consumer real estate:		
Home equity loans	305	297
Home equity lines of credit		
1-4 family residential mortgages	1,323	1,141
Construction		
Installment loans to individuals		
<b>Total</b>	<b>\$ 3,117</b>	<b>\$ 3,828</b>

At March 31, 2011 and December 31, 2010, there were no significant commitments to lend additional funds with respect to non-accrual and restructured 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.

An age analysis of past due loans, segregated by class of loans, as of March 31, 2011 and December 31, 2010 were as follows:

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March 31, 2011

(In Thousands)	Loans 30-89 Days	Loans 90 or more days	Total Past Due	Current	Total	Accruing Loans 90 or more Days Past Due
	Past Due	Past Due	Loans	Loans	Loans	
Commercial, financial and agricultural Tax-exempt Commercial real estate:	\$ 309	\$ 338	\$ 647	\$ 35,189	\$ 35,836	\$
Commercial mortgages	136	1,151	1,287	27,194	27,194	
Other construction and land development loans				91,450	92,737	
Secured by farmland				7,155	7,155	
Consumer real estate:				5,635	5,635	
Home equity loans	292	305	597	19,897	20,494	
Home equity lines of credit	40		40	17,738	17,778	
1-4 family residential mortgages	1,954	1,323	3,277	120,734	124,011	
Construction				5,556	5,556	
Installment loans to individuals	37		37	6,953	6,990	
Unearned discount				(5)	(5)	
Gross loans	\$2,768	\$ 3,117	\$5,885	\$337,496	\$343,381	\$

December 31, 2010

(In Thousands)	Loans 30-89 Days	Loans 90 or more days	Total Past Due	Current	Total	Accruing Loans 90 or more Days Past Due
	Past Due	Past Due	Loans	Loans	Loans	
Commercial, financial and agricultural Tax-exempt Commercial real estate:	\$ 244	\$ 224	\$ 468	\$ 33,351	\$ 33,819	\$
Commercial mortgages	511	2,166	2,677	25,180	25,180	
Other construction and land development loans				93,011	95,688	
Secured by farmland				6,284	6,284	
Consumer real estate:				5,697	5,697	
Home equity loans	136	297	433	21,254	21,687	



Home equity lines of credit				17,802	17,802	
1-4 family residential mortgages	2,233	1,141	3,374	118,291	121,665	
Construction				5,405	5,405	
Installment loans to individuals	32		32	7,200	7,232	
Unearned discount				(6)	(6)	
Gross loans	\$3,156	\$ 3,828	\$6,984	\$333,469	\$340,453	\$

There were no loans past due 90 days and still accruing interest at March 31, 2011 and December 31, 2010.

### ***Impaired Loans***

A loan is considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in smaller-balance loans of a similar nature and on an individual basis for other loans. If a loan is impaired, a specific allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

No additional charge to operations was required to provide for these impaired loans as the specifically allocated allowance of \$790,000 at March 31, 2011, is estimated by management to be adequate to provide for the loan loss allowance associated with these impaired loans.

Impaired loans are set forth in the following table as of March 31, 2011 and December 31, 2010:

(In Thousands)	March 31, 2011				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial, financial and agricultural Tax-exempt	\$ 612	\$ 448	\$ 164	\$ 612	\$133
Commercial real estate:					
Commercial mortgages	1,263	198	1,065	1,263	376
Other construction and land development loans					
Secured by farmland	318	318		318	
Consumer real estate:					
Home equity loans	448	80	368	448	210
Home equity lines of credit					
1-4 family residential mortgages	1,293	880	413	1,293	71
Construction					
Installment loans to individuals					
Gross loans	\$3,934	\$1,924	\$2,010	\$3,934	\$790

(In Thousands)	December 31, 2010				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial, financial and agricultural Tax-exempt	\$ 498	\$ 463	\$ 35	\$ 498	\$ 15
Commercial real estate:					
Commercial mortgages	2,325	484	1,841	2,325	499
Other construction and land development loans					
Secured by farmland	319	319		319	
Consumer real estate:					
Home equity loans	411	112	299	411	209
Home equity lines of credit					
1-4 family residential mortgages	1,211	716	495	1,211	90
Construction					
Installment loans to individuals					
Gross loans	\$4,764	\$2,094	\$2,670	\$4,764	\$813

***Allowance for Possible Loan Losses***

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

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

The following table details activity in the allowance for possible loan losses by portfolio segment for the three months ended March 31, 2011 and 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(In Thousands)	March 31, 2011					Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	
Balance, beginning of year	\$752	\$2,286	\$1,243	\$106	\$414	\$4,801
Provision charged to operations	167	(117)	60	9	(39)	80
Loans charged off		(9)	(4)	(15)		(28)
Recoveries			2	3		5
Ending balance	\$919	\$2,160	\$1,301	\$103	\$375	4,858
Ending balance individually evaluated for impairment	\$133	\$567	\$76	\$	\$	\$776
Ending balance collectively evaluated for impairment	\$786	\$1,593	\$1,225	\$103	\$375	\$4,082

(In Thousands)	March 31, 2010					Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	
Balance, beginning of year	\$567	\$1,793	\$1,339	\$149	\$362	\$4,210
Provision charged to operations	37	577	(21)	(14)	(269)	310
Loans charged off		(518)	(18)	(4)		(540)
Recoveries	1		1	4		6
Ending balance	\$605	\$1,852	\$1,301	\$135	\$93	3,986
Ending balance individually evaluated for impairment	\$	\$411	\$86	\$	\$	\$497
Ending balance collectively evaluated for impairment	\$605	\$1,441	\$1,215	\$135	\$93	\$3,489

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The Corporation's recorded investment in loans as of March 31, 2011 and December 31, 2010 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Corporation's impairment methodology was as follows:

(In Thousands)	March 31, 2011				Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	
Ending balance individually evaluated for impairment	\$ 612	\$ 1,581	\$ 1,741	\$	\$ 3,934
Ending balance collectively evaluated for impairment	62,418	103,946	166,098	6,985	339,447
Ending balance	\$63,030	\$105,527	\$167,839	\$6,985	\$343,381

(In Thousands)	December 31, 2010				Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	
Ending balance individually evaluated for impairment	\$ 498	\$ 2,644	\$ 1,622	\$	\$ 4,764
Ending balance collectively evaluated for impairment	58,501	105,025	164,937	7,226	335,689
Ending balance	\$58,999	\$107,669	\$166,559	\$7,226	\$340,453

**Loan Modifications**

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At March 31, 2011 and December 31, 2010, there were no significant loans modified in troubled debt restructurings.

**4. SHORT-TERM BORROWINGS**

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

**5. LONG-TERM BORROWINGS**

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

**6. DEFERRED COMPENSATION PLANS**

The Bank has entered into certain non-qualified deferred compensation agreements with certain present and retired executive officers and directors. Expenses related to these non-qualified deferred compensation plans amounted to \$42,000 and \$34,000 for the three month periods ended March 31, 2011 and 2010, respectively.

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

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

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at March 31, 2011 and December 31, 2010 were as follows:

(In Thousands)	2011	2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$65,357	\$65,926
Standby letters of credit	5,135	2,674
Dealer floor plans	1,926	966
Loans held for sale	3,063	2,005

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

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

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

The Corporation granted commercial, consumer and residential loans to customers primarily within Pennsylvania. Of the total loan portfolio, 79.6% was for real estate loans, principally residential. It is the opinion of management that this high concentration did not pose an adverse credit risk. Further, it is management's opinion that the remainder of the loan portfolio is balanced and diversified to the extent necessary to avoid any significant concentration of credit.

**8. FAIR VALUE MEASUREMENTS**

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

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

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

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

The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of March 31, 2011 and December 31, 2010 by level within the fair value hierarchy. As required by FASB ASC 820-10, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	March 31, 2011			Total
	Level I	Level II	Level III	
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	\$2,124	\$202,114	\$	\$204,238

(In Thousands)	December 31, 2010			Total
	Level I	Level II	Level III	
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	\$2,084	\$205,089	\$	\$207,173

At March 31, 2011 and December 31, 2010, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

(In Thousands)	March 31, 2011			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$	\$ 121,280	\$	\$ 121,280
Other		65,308		65,308
Obligations of state and political subdivisions		15,526		15,526
Equity securities	2,124			2,124
	\$ 2,124	\$ 202,114	\$	\$ 204,238



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(In Thousands)	December 31, 2010			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$	\$ 132,515	\$	\$ 132,515
Other		58,903		58,903
Obligations of state and political subdivisions		13,671		13,671
Equity securities	2,084			2,084
	\$ 2,084	\$ 205,089	\$	\$ 207,173

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

The following table presents the assets reported on the consolidated statements of financial condition at their fair value on a non-recurring basis as of March 31, 2011 and December 31, 2010 by level within the fair value hierarchy. As required by FASB ASC 820-10, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	March 31, 2011			Total
	Level I	Level II	Level III	
Assets Measured on a Non-recurring Basis:				
Impaired Loans	\$	\$ 3,934	\$	\$ 3,934
Loans Held for Sale		3,063		3,063
Mortgage Servicing Rights		528		528
	\$	\$ 7,525	\$	\$ 7,525

(In Thousands)	December 31, 2010			Total
	Level I	Level II	Level III	
Assets Measured on a Non-recurring Basis:				
Impaired Loans	\$	\$ 4,764	\$	\$ 4,764
Loans Held for Sale		2,005		2,005
Mortgage Servicing Rights		491		491
	\$	\$ 7,260	\$	\$ 7,260

## 9. ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

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

At March 31, 2011 and December 31, 2010, the carrying values and estimated fair values of financial instruments are presented in the table below:

(In Thousands)	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets:</b>				
Cash and short-term instruments	\$ 32,951	\$ 32,951	\$ 27,595	\$ 27,595
Investment securities	204,238	204,238	207,173	207,173
Restricted securities	2,863	2,863	3,012	3,012
Loans, net	338,523	345,485	335,652	341,814
Cash surrender value of bank owned life insurance	12,075	12,075	11,942	11,942
Accrued interest receivable	1,691	1,691	1,632	1,632
<b>Financial Liabilities:</b>				
Interest-bearing deposits	416,893	420,049	410,915	414,706
Noninterest-bearing deposits	65,574	65,574	62,877	62,877
Short-term borrowings	55,060	55,060	58,759	58,759
Long-term borrowings	6,122	6,289	6,123	6,303
Junior subordinate debentures	4,640	4,640	4,640	4,640
Accrued interest payable	592	592	652	652
<b>Off-Balance Sheet Assets (Liabilities):</b>				
Commitments to extend credit		\$ 65,357		\$ 65,926
Standby letters of credit		5,135		2,674
Dealer floor plans		1,926		966

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

#### CASH AND OTHER SHORT-TERM INSTRUMENTS

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

#### INVESTMENT SECURITIES

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

#### RESTRICTED SECURITIES

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

#### LOANS

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

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

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

management were judgmentally determined using specific borrower information.

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

The fair values are equal to the current carrying value.

**ACCRUED INTEREST RECEIVABLE AND PAYABLE**

The fair values are equal to the current carrying value.

**DEPOSITS**

The fair value of deposits with no stated maturity, such as Demand Deposits, Savings Accounts, and Money Market Accounts, was equal to the amount payable on demand at March 31, 2011 and December 31, 2010.

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.

### **10. MANAGEMENT'S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10-Q FILING**

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

These consolidated interim financial statements have been prepared in accordance with requirements of Form 10-Q and therefore do not include all disclosures normally required by accounting principles generally accepted in the United States of America applicable to financial institutions as included with consolidated financial statements included in the Corporation's annual Form 10-K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation's annual report or Form 10-K for the period ended December 31, 2010 filed with the Securities and Exchange Commission.

#### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of March 31, 2011, the related consolidated statements of income for the three month periods ended March 31, 2011 and 2010 and changes in stockholders' equity and cash flows for the three month periods ended March 31, 2011 and 2010. These consolidated interim financial statements are the responsibility of the management of CCFNB Bancorp, Inc. and Subsidiary.

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

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

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 8, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

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

J.H. Williams & Co., LLP  
Kingston, Pennsylvania  
May 10, 2011

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

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

Our business and financial results are affected by business and economic conditions, both generally and specifically in the Northcentral Pennsylvania market in which we operate.

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

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

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

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

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

Changes resulting from the newly enacted Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

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

Given current economic and financial market conditions, our forward-looking statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low throughout most of 2011 with consistent credit spreads and our view that national economic trends currently point to improving economic conditions into 2011 and a subdued recovery.

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

mortgage lending, the protection of confidential customer information, and other aspects of the financial institution industry; and (e) changes in accounting policies and principles.

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

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



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

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

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

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

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

## **RESULTS OF OPERATIONS**

### **NET INTEREST INCOME**

#### **2011 vs. 2010**

Tax-equivalent net interest income, as reflected in the following tables, decreased \$70 thousand to \$5.2 million at March 31, 2011 when compared to the same 2010 time period. Reported tax-equivalent interest income decreased \$490 thousand to \$6.5 million for the three months ended March 31, 2011 when compared to the same 2010 time period. The decrease to interest income was primarily rate driven as maturing and called investment securities re-priced throughout the past year. Investment security tax-equivalent interest income for the three months ended March 31, 2011 decreased \$371 thousand when compared to 2010 results. Reported interest expense decreased \$420 thousand to \$1.4 million for the three months ended March 31, 2011 when compared to the same 2010 time period. The decrease was primarily rate driven as maturing time deposits re-priced during the year lowering the average rate paid on interest-bearing deposits to 1.19 percent for the three months ended March 31, 2011 from 1.53 percent at March 31, 2010.

Net interest margin decreased to 3.68 percent at March 31, 2011 from 3.80 percent at March 31, 2010. The overall net decrease in margin resulted from the yield on investment securities decreasing 60 basis points to 3.17 percent and the yield on loans decreasing 30 basis points to 5.76 percent at March 31, 2011. As discussed above, the decrease in loan and investment security yields were partially offset by a 34 basis point decrease in deposit yields and a 59 basis point decrease in other borrowings. The 170 basis point yield decrease on long-term borrowings reflects the maturity and repayment of several FHLB borrowings totaling \$9.0 million during 2010. The FHLB borrowings carried approximate annual percentage rates of 6.0.

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 three months ended March 31, 2011 and 2010.

**AVERAGE BALANCE SHEET AND RATE ANALYSIS  
THREE MONTHS ENDED MARCH 31,**

(In Thousands)	<b>2011</b>			<b>2010</b>		
	Average Balance	Interest (1)	Average Rate	Average Balance	Interest (1)	Average Rate
<b>ASSETS:</b>						
Tax-exempt loans	\$ 27,442	\$ 425	6.28%	\$ 20,251	\$ 321	6.43%
All other loans	315,552	4,448	5.72%	314,504	4,678	6.03%
Total loans (2)(3)(4)	342,994	4,873	5.76%	334,755	4,999	6.06%
Taxable securities	195,024	1,468	3.01%	204,375	1,871	3.66%
Tax-exempt securities (3)	14,199	191	5.38%	10,965	159	5.80%
Total securities	209,223	1,659	3.17%	215,340	2,030	3.77%
Federal funds sold	1,590	1	0.26%	857		0.00%
Interest-bearing deposits	13,750	8	0.24%	5,799	2	0.14%
Total interest-earning assets	567,557	6,541	4.66%	556,751	7,031	5.10%
Other assets	49,925			46,202		
<b>TOTAL ASSETS</b>	<b>\$ 617,482</b>			<b>\$ 602,953</b>		
<b>LIABILITIES:</b>						
Savings	\$ 66,645	57	0.35%	\$ 58,920	58	0.40%
Now deposits	73,843	24	0.13%	72,100	26	0.15%
Money market deposits	45,533	64	0.57%	42,609	81	0.77%
Time deposits	229,899	1,079	1.90%	234,970	1,372	2.37%
Total deposits	415,920	1,224	1.19%	408,599	1,537	1.53%
Short-term borrowings	55,280	84	0.62%	52,727	106	0.82%
Long-term borrowings	6,122	39	2.58%	11,850	125	4.28%
Junior subordinate debentures	4,640	24	2.10%	4,640	23	2.01%
Total borrowings	66,042	147	0.90%	69,217	254	1.49%

Total interest-bearing liabilities	481,962	1,371	1.15%	477,816	1,791	1.52%
Demand deposits	64,534			54,948		
Other liabilities	2,780			3,956		
Stockholders' equity	68,206			66,233		
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 617,482</b>			<b>\$ 602,953</b>		
<b>Interest rate spread (6)</b>			<b>3.50%</b>			<b>3.58%</b>
<b>Net interest income/margin (5)</b>		<b>\$ 5,170</b>	<b>3.68%</b>		<b>\$ 5,240</b>	<b>3.80%</b>

- (1) Average volume information was compared using daily (or monthly) averages for interest-earning and bearing accounts. Certain balance sheet items utilized quarter-end balances for averages.
- (2) Interest on loans includes fee income.
- (3) Tax exempt interest revenue is shown on a tax-equivalent basis using a statutory federal income tax rate of 34 percent for 2011 and 2010.
- (4) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
- (5) Net interest margin is computed by dividing annualized net interest income by total interest earning assets.
- (6) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

**Reconciliation of Taxable Equivalent Net Interest Income  
For the Three Months Ended March 31,**

(In Thousands)	2011	2010
Total interest income	\$ 6,332	\$ 6,868
Total interest expense	1,371	1,791
Net interest income	4,961	5,077
Tax equivalent adjustment	209	163
Net interest income (fully taxable equivalent)	\$ 5,170	\$ 5,240

**Rate/Volume Analysis**

To enhance the understanding of the effects of volumes (the average balance of earning assets and costing liabilities) and average interest rate fluctuations on the consolidated balance sheet as it pertains to net interest income, the table below reflects these changes for 2011 versus 2010:

(In Thousands)	Three Months Ended March 31, 2011 vs 2010		
	Increase (Decrease)		
	Volume	Due to Rate	Net
Interest income:			
Loans, tax-exempt	\$ 111	\$ (7)	\$ 104
Loans	15	(245)	(230)
Taxable investment securities	(70)	(333)	(403)
Tax-exempt investment securities	44	(12)	32
Federal funds sold	1		1
Interest bearing deposits	5	1	6
Total interest-earning assets	106	(596)	(490)
Interest expense:			
Savings	7	(8)	(1)
NOW deposits	1	(3)	(2)
Money market deposits	4	(21)	(17)
Time deposits	(24)	(269)	(293)
Short-term borrowings	4	(26)	(22)
Long-term borrowings, FHLB	(36)	(50)	(86)
Junior subordinate debentures		1	1
Total interest-bearing liabilities	(44)	(376)	(420)
Change in net interest income	\$ 150	\$ (220)	\$ (70)

**PROVISION FOR LOAN LOSSES**

**2011 vs. 2010**

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

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at March 31, 2011, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Also, as part of the examination process, bank regulatory agencies periodically review the Bank's loan loss allowance. The bank regulators could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

The provision for loan losses amounted to \$80,000 and \$310,000 for the three months ended March 31, 2011 and 2010, respectively. Management concluded the 2011 and 2010 increases of the provision were appropriate considering the gross loan growth experience, the level of nonperforming assets and the general condition of the national economy. Utilizing the resources noted above, management concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

## NON-INTEREST INCOME

### 2011 vs. 2010

Total non-interest income increased \$130,000 or 10.0 percent to \$1.4 million for the three months ended March 31, 2011. The service charges and fees decreased \$12,000 or 2.8 percent to \$414 thousand for the three months ended March 31, 2011. Gain on sale of loans increased \$31,000 or 23.8 percent from \$130,000 in 2010 to \$161,000 in 2011. Brokerage income decreased \$29,000 or 32.6 percent from \$89,000 in 2010 to \$60,000 in 2011. Trust income increased \$45,000 or 26.3 percent from \$171,000 in 2010 to \$216,000 in 2011. Interchange fees increased \$24,000 or 12.3 percent from \$195,000 in 2010 to \$219,000 in 2011. Other non-interest income increased \$79,000 or 46.2 percent from \$171,000 in 2010. The increase primarily resulted from increased servicing fees on several participated commercial loans.

(In Thousands)	For The Three Months Ended					
	March 31, 2011		March 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	\$ 414	29.0%	\$ 426	32.8%	\$ (12)	(2.8)%
Gain on sale of loans	161	11.3	130	10.0	31	23.8
Earnings on bank-owned life insurance	108	7.6	116	8.9	(8)	(6.9)
Brokerage	60	4.2	89	6.9	(29)	(32.6)
Trust	216	15.1	171	13.2	45	26.3
Interchange fees	219	15.3	195	15.0	24	12.3
Other	250	17.5	171	13.2	79	46.2
Total non-interest income	\$1,428	100.0%	\$1,298	100.0%	\$130	10.0%

## NON-INTEREST EXPENSE

### 2011 vs. 2010

Total non-interest expense increased \$169,000 thousand or 4.3 percent from \$4.0 million in 2010. The net increase primarily resulted from higher employee benefits offset by lower amortization of core deposit intangible. Employee benefits increased \$114,000 or 24.2 percent for the three months ended March 31, 2011 as a result of higher premiums.

One standard to measure non-interest expense is to express annualized non-interest expense as a percentage of average total assets. As of March 31, 2011 this percentage was 2.68 percent compared to 2.64 percent in 2010.

(In Thousands)	March 31, 2011		For The Three Months Ended March 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Salaries	\$1,657	39.9%	\$1,576	39.7%	\$ 81	5.1%
Employee benefits	585	14.1	471	11.8	114	24.2
Occupancy	298	7.2	293	7.4	5	1.7
Furniture and equipment	301	7.3	311	7.8	(10)	(3.2)
State shares tax	143	3.5	133	3.3	10	7.5
Professional fees	153	3.7	145	3.6	8	5.5
Directors fees	68	1.6	67	1.7	1	1.5
FDIC assessments	149	3.6	147	3.7	2	1.4
Telecommunications	83	2.0	96	2.4	(13)	(13.5)
Amortization of core deposit intangible	127	3.1	151	3.8	(24)	(15.9)
Automated teller machine and interchange	151	3.6	130	3.3	21	16.2
Other	429	10.4	455	11.5	(26)	(5.7)
Total non-interest expense	\$4,144	100.0%	\$3,975	100.0%	\$169	4.3%

## FINANCIAL CONDITION

Consolidated assets at March 31, 2011 were \$620.1 million which represented an increase of \$5.8 million from \$614.3 million at December 31, 2010.

Gross loans increased 0.9 percent from \$340.5 million at December 31, 2010 to \$343.4 million at March 31, 2011.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio decreased during 2011 to 71.2 percent compared to 71.9 percent at December 31, 2010.

## INVESTMENTS

All of our securities are available-for-sale and are carried at estimated fair value. Available-for-sale securities are reported on the consolidated balance sheet at fair value with an offsetting adjustment to deferred taxes. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the Corporation of restructuring the portfolio for gap positioning at any time through the securities classified as available-for-sale. As reflected in the Consolidated Statements of Changes in Stockholders' Equity, the impact of the fair value accounting was an unrealized gain, net of tax, on March 31, 2011 of \$1,873,000 compared to an unrealized gain, net of tax, on December 31, 2010 of \$2,221,000, which represents an unrealized loss, net of tax, of \$348,000 for the three months ended March 31, 2011. The following table shows the amortized cost and estimated fair value of the investment securities as of the dates shown:

(In Thousands)	March 31, 2011	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 118,316	\$ 121,279
Other	65,538	65,308
Obligations of state and political subdivisions	15,417	15,527
Total debt securities	199,271	202,114
Marketable equity securities	2,130	2,124

Total investment securities AFS	\$ 201,401	\$ 204,238
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(In Thousands)	December 31, 2010	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 129,008	\$ 132,515
Other	59,046	58,903
Obligations of state and political subdivisions	13,625	13,671
Total debt securities	201,679	205,089
Marketable equity securities	2,130	2,084
Total investment securities AFS	\$ 203,809	\$ 207,173

### LOANS

The loan portfolio increased 0.9 percent from \$340.5 million at December 31, 2010 to \$343.4 million at March 31, 2011. The percentage distribution in the loan portfolio was 79.7 percent in real estate loans at \$273.2 million; 10.4 percent in commercial loans at \$35.8 million; 2.0 percent in consumer loans at \$7.2 million; and 7.9 percent in tax exempt loans at \$27.2 million.

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

(In Thousands)	March 31, 2011	December 31, 2010	Change	
			Amount	%
Commercial, financial and agricultural	\$ 35,836	\$ 33,819	\$ 2,017	6.0%
Tax-exempt	27,194	25,180	2,014	8.0
Real estate	254,835	262,355	(7,520)	(2.9)
Real estate construction	18,346	11,689	6,657	57.0
Installment loans to individuals	6,990	7,232	(242)	(3.3)
Add (deduct): Unearned discount	(5)	(6)	1	(16.7)
Unamortized loan costs, net of fees	185	184	1	0.5
Gross loans	\$ 343,381	\$ 340,453	\$ 2,928	0.9%

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

	March 31, 2011	December 31, 2010
Commercial, financial and agricultural	10.4%	9.9%
Tax-exempt	7.9	7.4
Real estate	74.4	77.2
Real estate construction	5.3	3.4
Installment loans to individuals	2.0	2.1
Gross loans	100.0%	100.0%

### ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was \$4.9 million at March 31, 2011, compared to \$4.0 million at March 31, 2010. This allowance equaled 1.42 percent and 1.19 percent of total loans, net of unearned income, as of March 31, 2011

and 2010, respectively. The loan loss reserve is analyzed quarterly and reviewed by the Bank's Board of Directors. No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Regular meetings with the Bank's Director Loan Committee reviewed new loans. Delinquent loans, loan exceptions and certain large loans are addressed by the full Board no less than monthly to determine compliance with policies. Allowance for loan losses was considered adequate based on delinquency trends and actual loans written.

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

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(In Thousands)	For the Three Months Ended March	
	2011	2010
Average Loans Outstanding during the period	\$ 342,994	\$ 334,755
Balance, beginning of year	\$ 4,801	\$ 4,210
Provision charged to operations	80	310
Loans charged off:		
Commercial, financial, and agricultural		
Real estate mortgages	(13)	(536)
Installment loans to individuals	(15)	(4)
Recoveries:		
Commercial, financial, and agricultural		1
Real estate mortgages	2	1
Installment loans to individuals	3	4
Balance, end of period	\$ 4,858	\$ 3,986
Ratio of net charge-offs to average loans outstanding during the period	0.01%	0.16%

**NON-PERFORMING LOANS**

As of March 31, 2011, loans 30 to 89 days past due totaled \$2.8 million compared to \$3.2 million at December 31, 2010. Non-accrual loans totaled \$3.1 million at March 31, 2011 and \$3.8 million at December 31, 2010.

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

(In Thousands)	March 31, 2011	December 31, 2010
Commercial, financial and agricultural		
Days 30-89	\$ 309	\$ 244
Days 90 plus		
Non-accrual	338	224
Real estate		
Days 30-89	2,422	2,880
Days 90 plus		
Non-accrual	2,779	3,604
Installment loans to individuals		
Days 30-89	37	32
Days 90 plus		
Non-accrual		
	\$ 5,885	\$ 6,984
Days 30-89	\$ 2,768	\$ 3,156
Days 90 plus		

Non-accrual		3,117		3,828
		\$	5,885	\$
				6,984
Restructured loans still accruing		\$	318	\$
				319
Other real estate owned		\$		\$

**DEPOSITS**

Total average deposits increased by 2.0 percent from \$470.1 million at December 31, 2010 to \$480.5 million at March 31, 2011. Average savings deposits increased 5.4 percent to \$66.7 million at March 31, 2011 from \$63.2 million at December 31, 2010. Average money market deposits increased 7.2 percent to \$45.5 million as of March 31, 2011 from \$42.5 million as of December 31, 2010. Average interest bearing NOW accounts increased 3.5 percent from \$71.4 million at December 31, 2010 to \$73.8 million at March 31, 2011.

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

(In Thousands)	March 31, 2011		December 31, 2010		Change	
	Balance	Average Rate	Balance	Average Rate	Amount	%
Non-interest bearing	\$ 64,534	%	\$ 59,013	%	\$ 5,521	9.4%
Savings	66,645	0.35	63,223	0.37	3,422	5.4
Now deposits	73,843	0.13	71,374	0.14	2,469	3.5
Money market deposits	45,533	0.57	42,460	0.75	3,073	7.2
Time deposits	229,899	1.90	234,812	2.19	(4,913)	(2.1)
Total deposits	\$480,454	1.03%	\$470,882	1.23%	\$ 9,572	2.0%

### BORROWED FUNDS

Average short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB Pittsburgh borrowings increased 3.0 percent from \$53.7 million at December 31, 2010 to \$55.3 million at March 31, 2011. Average long-term borrowings decreased \$3.1 million from \$13.9 million at December 31, 2010 to \$10.8 million at March 31, 2011.

The average balances are summarized as follows:

(In Thousands)	March 31, 2011		December 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Short-term borrowings:						
Securities sold under agreement to repurchase	\$54,610	82.7%	\$52,315	77.4%	\$ 2,295	4.4%
Short-term borrowings, FHLB			603	0.9	(603)	(100.0)
U.S. Treasury tax and loan notes	670	1.0	773	1.1	(103)	(13.3)
Total short-term borrowings	55,280	83.7%	53,691	79.4%	1,589	3.0
Long-term borrowings, FHLB	6,122	9.3	9,252	13.8	(3,130)	(33.8)
Junior subordinate debentures	4,640	7.1	4,640	6.9		
Total borrowed funds	\$66,042	100.0%	\$67,583	100.0%	\$(1,541)	(2.3)%

Short-term borrowings consisted of the following at March 31, 2011 and March 31, 2010:

(In Thousands)	Ending Balance	March 31, 2011		Average Rate
		Weighted Average Balance	Maximum Month End Balance	
Securities sold under agreements to repurchase	\$54,195	\$54,610	\$56,844	0.63%

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Other short-term borrowings				0.00%
U.S. Treasury tax and loan notes	865	670	1,000	0.00%
Total	\$55,060	\$55,280	\$57,844	0.62%

(In Thousands)	Ending Balance	March 31, 2010		Average Rate
		Weighted Average Balance	Maximum Month End Balance	
Securities sold under agreements to repurchase	\$48,681	\$49,042	\$50,832	0.83%
Other short-term borrowings		3,135	4,075	0.73%
U.S. Treasury tax and loan notes	569	550	569	0.00%
Total	\$49,250	\$52,727	\$55,476	0.82%

**LIQUIDITY**

Liquidity management is required to ensure that adequate funds will be available to meet anticipated and unanticipated deposit withdrawals, debt service payments, investment commitments, commercial and consumer loan demand, and ongoing operating expenses. Funding sources include principal repayments on loans, sale of assets, growth in time and core deposits, short and long-term

borrowings, investment securities coming due, loan prepayments and repurchase agreements. Regular loan payments are a dependable source of funds, while the sale of investment securities, deposit growth and loan prepayments are significantly influenced by general economic conditions and the level of interest rates.

We manage liquidity on a daily basis. We believe that our liquidity is sufficient to meet present and future financial obligations and commitments on a timely basis. However, see potential liquidity risk factors at Item 1A Risk Factors and refer to Consolidated Statements of Cash Flows in this Form 10-Q.

### **CAPITAL RESOURCES**

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

As of March 31, 2011, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios.

Our actual consolidated capital amounts and ratios as of March 31, 2011 and December 31, 2010 are in the following table:

(In Thousands)	2011		2010	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	\$65,705	18.7%	\$64,476	18.5%
For Capital Adequacy Purposes To Be Well-Capitalized	28,168 35,210	8.0 10.0	27,884 34,855	8.0 10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	\$61,303	17.4%	\$60,114	17.3%
For Capital Adequacy Purposes To Be Well-Capitalized	14,084 21,126	4.0 6.0	13,942 20,913	4.0 6.0
Tier I Capital (to Average Assets)				
Actual	\$61,303	10.1%	\$60,114	10.0%
For Capital Adequacy Purposes To Be Well-Capitalized	24,299 30,374	4.0 5.0	24,034 30,043	4.0 5.0

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

### **INTEREST RATE RISK MANAGEMENT**

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

One major objective of the Bank when managing the rate sensitivity of its assets and liabilities is to stabilize net interest income. The management of and authority to assume interest rate risk is the responsibility of the Bank's Asset/Liability Committee (ALCO), which is comprised of senior management and Board members. ALCO meets quarterly to monitor the ratio of interest sensitive assets to interest sensitive liabilities. The process to review interest rate risk management is a regular part of management of the Bank. Consistent policies and practices of measuring and

reporting interest rate risk exposure, particularly regarding the treatment of noncontractual assets and liabilities, are in effect. In addition, there is an annual process to review the interest rate risk policy with the Board of Directors which includes limits on the impact to earnings from shifts in interest rates.

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

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



sheet compositions. The use of this model assists the ALCO to gauge the effects of the interest rate changes on interest sensitive assets and liabilities in order to determine what impact these rate changes will have upon our net interest spread.

At March 31, 2011, our cumulative gap positions and the potential earnings change resulting from a 300 basis point change in rates were both within the internal risk management guidelines.

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

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

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

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

No material changes in market risk occurred during the current period. A detailed discussion of market risk is provided in the Annual Report on Form 10-K for the period ended December 31, 2010.

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

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

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

The CEO and CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended March 31, 2011, as required by paragraph (d) Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II Other Information**

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

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

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

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1.A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. At March 31, 2011 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K, except as set forth below. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act includes provisions affecting large and small financial institutions, including several provisions that will profoundly affect how community banks and bank holding companies will be regulated in the future. Among other things, these provisions relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank holding companies. In addition, there is

significant uncertainty about the full impact of the Dodd-Frank Act because many of its provisions require subsequent regulatory rule making.

The Dodd-Frank Act establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given authority to promulgate consumer protection regulations applicable to all entities offering financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments.

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

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

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

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (January 1 January 31, 2011)				139,000
Month #2 (February 1 February 28, 2011)				139,000
Month #3 (March 1 - March 31, 2011)				139,000

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

The Corporation did not sell any unregistered securities during the quarter ended March 31, 2011.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 5. Other Information

None

## Item 6. Exhibits

3.1.1 Amended and Restated Articles of Incorporation-incorporated by reference to Registrant's Current Report on Form 10-K, dated May 9, 2005, filed with the Commission on May 10, 2005.

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Amended Bylaws-incorporated by reference to Registrant's Annual Report on Form 10-K, filed with the commission on March 26, 2010.

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
- 32 Section 906 Certification of Principal Executive Officer and Principal Financial Officer

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended March 31, 2011, to be signed on its behalf by the undersigned thereunto duly authorized.

CCFNB BANCORP, INC.  
(Registrant)

By /s/ Lance O. Diehl

Lance O. Diehl  
President and CEO  
(Principal Executive Officer)  
Date: May 10, 2011

By /s/ Jeffrey T. Arnold

Jeffrey T. Arnold, CPA, CIA  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)  
Date: May 10, 2011