CCFNB BANCORP INC
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

Or

o 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

On November 7, 2011, there were 2,222,365 shares of the Registrant's common stock outstanding, par value $1.25.

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

PART I Financial Information
Item 1. Financial Statements

CCFNB Bancorp, Inc.
Consolidated Balance Sheets

(In Thousands)	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 12,082	$ 7,263
Interest-bearing deposits in other banks	32,120	18,683
Federal funds sold	369	1,649
Total cash and cash equivalents	44,571	27,595
Investment securities, available for sale, at fair value	199,280	207,173
Restricted securities, at cost	2,769	3,012
Loans, net of unearned income	344,595	340,453
Less: Allowance for loan losses	5,158	4,801
Loans, net	339,437	335,652
Premises and equipment, net	11,179	11,992
Accrued interest receivable	1,493	1,632
Cash surrender value of bank-owned life insurance	12,317	11,942
Investment in limited partnerships	1,493	1,607
Intangible Assets:		
Core deposit	1,764	2,192
Goodwill	7,937	7,937
Prepaid FDIC assessment	1,216	1,490
Other assets	2,333	2,075
TOTAL ASSETS	$ 625,789	$ 614,299
LIABILITIES		
Interest-bearing deposits	$ 399,837	$ 410,915
Noninterest-bearing deposits	78,549	62,877
Total deposits	478,386	473,792
Short-term borrowings	63,198	58,759
Long-term borrowings	6,119	6,123
Junior subordinate debentures	4,640	4,640
Accrued interest payable	550	652
Other liabilities	2,003	2,479
TOTAL LIABILITIES	554,896	546,445
STOCKHOLDERS' EQUITY		
Common stock, par value $1.25 per share; authorized 15,000,000 shares, issued 2,297,765 shares in 2011; authorized 5,000,000 shares, issued 2,286,931 shares in 2010	2,872	2,859
Surplus	28,312	27,964
Retained earnings	39,406	36,397

Accumulated other comprehensive income		2,395			2,221	
Treasury stock, at cost; 75,400 shares in 2011 and 61,000 shares in 2010		(2,092	)		(1,587	)
TOTAL STOCKHOLDERS' EQUITY		70,893			67,854	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	625,789		$	614,299	

See accompanying notes to unaudited consolidated financial statements.

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

(In Thousands, Except Per Share Data)	For the Three Months Ended September 30, 2011	2010	For the Nine Months Ended September 30, 2011	2010
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans:				
Taxable	$ 4,363	$ 4,648	$ 13,227	$ 14,081
Tax-exempt	288	251	853	694
Interest and dividends on investment securities:				
Taxable	1,220	1,604	4,038	5,142
Tax-exempt	148	97	413	302
Dividend and other interest income	13	10	38	31
Federal funds sold	-	-	1	1
Deposits in other banks	22	14	49	27
TOTAL INTEREST AND DIVIDEND INCOME	6,054	6,624	18,619	20,278
INTEREST EXPENSE				
Deposits	1,118	1,421	3,550	4,457
Short-term borrowings	75	105	233	310
Long-term borrowings	40	84	119	310
Junior subordinate debentures	28	27	76	74
TOTAL INTEREST EXPENSE	1,261	1,637	3,978	5,151
NET INTEREST INCOME	4,793	4,987	14,641	15,127
PROVISION FOR LOAN LOSSES	30	400	440	870
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,763	4,587	14,201	14,257
NON-INTEREST INCOME				
Service charges and fees	419	455	1,272	1,328
Gain on sale of loans	188	454	555	758
Earnings on bank-owned life insurance	103	102	318	325
Brokerage	80	84	208	246
Trust	148	168	555	507
Investment security gains	-	-	3	-
Gain on sale of premises and equipment	-	-	489	-
Interchange fees	232	216	691	624
Other	250	304	746	686
TOTAL NON-INTEREST INCOME	1,420	1,783	4,837	4,474
NON-INTEREST EXPENSE				
Salaries	1,606	1,627	4,879	4,791
Employee benefits	503	526	1,616	1,424
Occupancy	248	267	807	836
Furniture and equipment	327	356	955	1,002

State shares tax	151	142	445	418
Professional fees	160	173	464	467
Director's fees	88	71	221	203
FDIC assessments	51	163	305	460
Telecommunications	60	98	222	275
Amortization of core deposit intangible	125	140	428	442
Automated teller machine and interchange	173	144	488	412
Other	490	420	1,379	1,378
TOTAL NON-INTEREST EXPENSE	3,982	4,127	12,209	12,108
INCOME BEFORE INCOME TAX PROVISION	2,201	2,243	6,829	6,623
INCOME TAX PROVISION	573	557	1,751	1,736
NET INCOME	$ 1,628	$ 1,686	$ 5,078	$ 4,887
EARNINGS PER SHARE	$ 0.73	$ 0.76	$ 2.28	$ 2.19
CASH DIVIDENDS PER SHARE	$ 0.31	$ 0.30	$ 0.93	$ 0.88
WEIGHTED AVERAGE SHARES OUTSTANDING	2,226,139	2,228,836	2,226,711	2,235,114

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 Shares	Amount	Surplus	Retained Earnngs	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2009	2,270,850	$ 2,838	$ 27,539	$ 32,723	$ 2,523	$ (537)	$ 65,086
Comprehensive Income:							
Net income				4,887			4,887
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					317		317
Total comprehensive income							5,204
Common stock issuance under dividend reinvestment and stock purchase plans	12,155	16	312				328
Recognition of employee stock purchase plan expense			3				3
Purchase of treasury stock (33,500 shares)						(906)	(906)
Cash dividends, ($0.88 per share)				(1,964)			(1,964)
Balance, September 30, 2010	2,283,005	$ 2,854	$ 27,854	$ 35,646	$ 2,840	$ (1,443)	$ 67,751
Balance, December 31, 2010	2,286,931	$ 2,859	$ 27,964	$ 36,397	$ 2,221	$ (1,587)	$ 67,854
Comprehensive Income:							
Net income				5,078			5,078
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					174		174
Total comprehensive income							5,252
Common stock issuance under dividend reinvestment and stock purchase plans	10,834	13	344				357
Recognition of employee stock purchase plan expense			4				4
Purchase of treasury stock (14,400 shares)						(505)	(505)
Cash dividends, ($0.93 per share)				(2,069)			(2,069)
Balance, September 30, 2011	2,297,765	$ 2,872	$ 28,312	$ 39,406	$ 2,395	$ (2,092)	$ 70,893

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands)	For The Nine Months Ended September 30, 2011	2010
OPERATING ACTIVITIES		
Net income	$ 5,078	$ 4,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	440	870
Depreciation and amortization of premises and equipment	594	709
Amortization and accretion on investment securities	699	663
Deferred income taxes benefit	(183)	(145)
Gain on sale of investment securities	(3)	-
Gain on sale of loans	(555)	(758)
Gain on sale of premises and equipment	(489)	-
Proceeds from sale of mortgage loans	18,945	31,058
Originations of mortgage loans held for resale	(19,453)	(31,482)
Loss on sale of other real estate	-	11
Amortization of intangibles and invesment in limited partnerships	542	565
Decrease in accrued interest receivable	139	115
Increases in cash surrender value of bank-owned life insurance	(375)	(382)
Decrease in accrued interest payable	(102)	(185)
Other, net	136	489
Net cash provided by operating activities	5,413	6,415
INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases	(91,752)	(74,870)
Proceeds from sales, maturities and redemptions	98,714	91,218
Proceeds from redemption of restricted securities	298	-
Purchase of restricted securities	(55)	(184)
Net increase in loans	(3,162)	(9,442)
Proceeds from sale of premises and equipment	1,268	-
Purchase of investment in limited partnership	-	(1,084)
Acquisition of premises and equipment	(560)	(406)
Proceeds from sale of other real estate owned	-	318
Net cash provided by investing activities	4,751	5,550
FINANCING ACTIVITIES		
Net increase in deposits	22,262	8,635
Disposition of deposits on the sale of Hazleton branch	(17,668)	-
Net decrease in short-term borrowings	4,439	10,520
Repayment of long-term borrowings	(4)	(9,004)
Acquisition of treasury stock	(505)	(906)
Proceeds from issuance of common stock	357	328
Cash dividends paid	(2,069)	(1,964)
Net cash provided by financing activities	6,812	7,609
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,976	19,574

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		27,595		11,459
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	44,571	$	31,033
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$	4,080	$	5,336
Income taxes paid		1,658		1,816
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.
During 2011, the Bank sold its Hazleton Branch office to another financial institution. The sale resulted in the disposition of the Hazleton branch building, equipment, and cash. The sale also included the purchaser's assumption of all deposits associated with the Hazleton office which amounted to approximately $17.7 million. There were no loans sold as part of this transaction. The sale of this office was completed on June 24, 2011.

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 thirteen offices covering an area of approximately 752 square miles in Northcentral Pennsylvania. The Corporation and Bank are subject to the regulation of the Pennsylvania Department of Banking, the Federal Deposit Insurance Corporation, and the Federal Reserve Bank of Philadelphia.
Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and include various types of checking accounts, 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 September 30, 2011, the Corporation held $2,734,000 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 September 30, 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 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.

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 of 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 2.10% at September 30, 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 Board of Directors of the Corporation and the Federal Reserve Bank of Philadelphia have approved the redemption of these debentures, at par, on the five year anniversary date of December 15, 2011. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the Trust.

INTANGIBLE ASSETS - GOODWILL

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired. The Corporation has recorded net goodwill of $7,937,000 at September 30, 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 $1,764,000 as of September 30, 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 $428,000 and $442,000 for the nine months ended September 30, 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	$	126,000
2012		435,000
2013		368,000
2014		301,000
2015		234,000
Thereafter		300,000
Total	$	1,764,000

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 September 30, 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 Bank being owner and primary beneficiary of the policies.

INVESTMENTS IN LIMITED PARTNERSHIPS

The Corporation is a limited partner in four partnerships at September 30, 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 $119,000 and the amortization of the investments in limited partnerships was $114,000 and $123,000 for the nine months ended September 30, 2011 and 2010, respectively. The carrying value of the Corporation's investments in limited partnerships was $1,493,000 at June 30, 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 September 30, 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 September 30, 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 September 30, 2011 and December 31, 2010, the Corporation did 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 nine months ended September 30, 2011 and 2010 was approximately $165,000 and $163,000, 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 September 30, 2011 and December 31, 2010:

(In Thousands)	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligation of U.S.Government Corporations and Agencies:				
Mortgage-backed	$ 102,198	$ 3,293	$ (78)	$ 105,413
Other	72,972	285	-	73,257
Obligations of state and political subdivisions	18,349	645	-	18,994
Total debt securities	193,519	4,223	(78)	197,664
Marketable equity securities	2,133	61	(578)	1,616
Total investment securities AFS	$ 195,652	$ 4,284	$ (656)	$ 199,280

(In Thousands)	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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
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 $113,710,000 and $94,979,000 at September 30, 2011 and December 31, 2010, respectively, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and other balances of $91,782,000 and $70,861,000 at September 30, 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 September 30, 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	$ 322	$ 325	3.59 %
Due after one year to five years	62,564	62,813	1.12 %
Due after five years to ten years	29,793	30,607	3.17 %
Due after ten years	102,973	105,535	3.51 %
Total	$ 195,652	$ 199,280	

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 September 30, 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 September 30, 2011 and December 31, 2010:

	September 30, 2011					
(In Thousands)	Less than Twelve Months		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	$2,505	$10	$4,904	$67	$7,409	$77
Other	1,999	1	-	-	1,999	1
Obligations of state and political subdivisions	-	-	-	-	-	-
Total debt securities	4,504	11	4,904	67	9,408	78
Equity securities	21	27	1,290	551	1,311	578
Total	$4,525	$38	$6,194	$618	$10,719	$656

	December 31, 2010					
(In Thousands)	Less than Twelve Months		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 September 30, 2011, the Corporation had a total of 276 individual debt securities and 46 individual equity security positions. At September 30, 2011, there were a total of 5 individual debt securities and 26 individual equity securities that were in a continuous unrealized loss position for less than twelve months. At September 30, 2011, there were a total of 3 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/Thrifts, and Diversified Financial Service Corporations varying in asset size and geographic region. The Corporation's equity securities represent less than 1 percent of the total available for sale investments as of September 30, 2011. The following tables display the Corporation's holdings of these securities by asset size and geographic region as of September 30, 2011:

(In Thousands)	September 30, 2011			
Asset size($)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Under $1 Billion	$ 458	$ 46	$ (50)	$ 454
$1 to $5 Billion	209	-	(55)	154
$6 to $100 Billion	780	13	(319)	474
Over $100 Billion	686	2	(154)	534
	$ 2,133	$ 61	$ (578)	$ 1,616

(In Thousands)	September 30, 2011			
Geographic Region	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Eastern U.S.	$ 1,043	$ 53	$ (250)	$ 846
Southeastern U.S.	110	-	(32)	78
Western U.S.	53	-	(23)	30
National	927	8	(273)	662
	$ 2,133	$ 61	$ (578)	$ 1,616

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 nine months ended September 30, 2011 and 2010 the Corporation did not record an other-than-temporary impairment related to the investment in these equity securities. 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 September 30, 2011.

3. LOANS

Major classifications of loans at September 30, 2011 and December 31, 2010 consisted of:
(In Thousands)

	2011	2010
Commercial, financial and agricultural	$ 38,018	$ 33,819
Tax-exempt	28,291	25,180
Commercial real estate:		
Commercial mortgages	87,963	95,688
Other construction and land development loans	8,844	6,284
Secured by farmland	5,843	5,697
Consumer real estate:		
Home equity loans	19,592	21,687
Home equity lines of credit	18,603	17,802
1-4 family residential mortgages	122,842	121,665
Construction	7,624	5,405
Installment loans to individuals	6,977	7,232
Unearned discount	(2)	(6)
Gross loans	$ 344,595	$ 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. 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 Corporations' 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, polices 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 theses 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 $3,068,000 at September 30, 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 September 30, 2011 and December 31, 2010 amounted to $117,000 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 September 30, 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 September 30, 2011 and December 31, 2010:

(In Thousands)	September 30, 2011	December 31, 2010
Commercial, financial and agricultural	$ 747	$ 224
Tax-exempt	-	-
Commercial real estate:		

Commercial mortgages		907		2,166
Other construction and land development loans		-		-
Secured by farmland		-		-
Consumer real estate:				
Home equity loans		362		297
Home equity lines of credit		63		-
1-4 family residential mortgages		1,392		1,141
Construction		-		-
Installment loans to individuals		-		-
Total	$	3,471	$	3,828

At September 30, 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 aging analysis of past due loans, segregated by class of loans, as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011					
(In Thousands)	Loans 30-89 Days Past Due	Loans 90 or more days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial, financial and agricultural	$192	$ 747	$939	$37,079	$38,018	$ -
Tax-exempt	-	-	-	28,291	28,291	-
Commercial real estate:						
Commercial mortgages	261	907	1,168	86,795	87,963	-
Other construction and land development loans	-	-	-	8,844	8,844	-
Secured by farmland	458	-	458	5,385	5,843	-
Consumer real estate:						
Home equity loans	261	362	623	18,969	19,592	-
Home equity lines of credit	54	63	117	18,486	18,603	-
1-4 family residential mortgages	1,052	1,392	2,444	120,398	122,842	-
Construction	-	-	-	7,624	7,624	-
Installment loans to individuals	45	-	45	6,932	6,977	-
Unearned discount	-	-	-	(2)	(2)	
Gross loans	$2,323	$ 3,471	$5,794	$338,801	$344,595	$ -

	December 31, 2010					
(In Thousands)	Loans 30-89 Days Past Due	Loans 90 or more days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial, financial and agricultural	$244	$ 224	$468	$33,351	$33,819	$ -
Tax-exempt	-	-	-	25,180	25,180	-
Commercial real estate:						
Commercial mortgages	511	2,166	2,677	93,011	95,688	-
Other construction and land development loans	-	-	-	6,284	6,284	-
Secured by farmland	-	-	-	5,697	5,697	-

Consumer real estate:						
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 September 30, 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 $665,000 at September 30, 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 September 30, 2011 and December 31, 2010:

	September 30, 2011				
(In Thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial, financial and agricultural	$ 1,017	$ 863	$ 154	$ 1,017	$ 142
Tax-exempt	-	-	-	-	-
Commercial real estate:					
Commercial mortgages	1,139	188	951	1,139	194
Other construction and land development loans	-	-	-	-	-
Secured by farmland	458	458	-	458	-
Consumer real estate:					
Home equity loans	476	117	359	476	197
Home equity lines of credit	63	63	-	63	-
1-4 family residential mortgages	1,392	846	546	1,392	132
Construction	-	-	-	-	-
Installment loans to individuals	-	-	-	-	-
Gross loans	$ 4,545	$ 2,535	$ 2,010	$ 4,545	$ 665

	December 31, 2010				
(In Thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial, financial and agricultural	$ 498	$ 463	$ 35	$ 498	$ 15
Tax-exempt	-	-	-	-	-
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 nine months ended September 30, 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) September 30, 2011

	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	Total
Balance, beginning of year	$ 752	$ 2,286	$ 1,243	$ 106	$ 414	$ 4,801
Provision charged to operations	194	(331)	231	16	330	440
Loans charged off	(6)	(9)	(63)	(39)	-	(117)
Recoveries	1	-	8	25	-	34
Ending balance	$ 941	$ 1,946	$ 1,419	$ 108	$ 744	5,158
Ending balance individually evaluated for impairment	$ 143	$ 412	$ 97	$ -	$ -	$ 652
Ending balance collectively evaluated for impairment	$ 798	$ 1,534	$ 1,322	$ 108	$ 744	$ 4,506

(In Thousands) September 30, 2010

	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	Total
Balance, beginning of year	$ 567	$ 1,793	$ 1,339	$ 149	$ 362	$ 4,210
Provision charged to operations	91	579	(24)	(12)	236	870
Loans charged off	(4)	(518)	(21)	(26)	-	(569)
Recoveries	32	-	12	19	-	63
Ending balance	$ 686	$ 1,854	$ 1,306	$ 130	$ 598	4,574
Ending balance individually evaluated for impairment	$ 140	$ 391	$ 87	$ -	$ -	$ 618
Ending balance collectively evaluated for impairment	$ 546	$ 1,463	$ 1,219	$ 130	$ 598	$ 3,956

The Corporation’s recorded investment in loans as of September 30, 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) September 30, 2011

	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
Ending balance individually evaluated for impairment	$ 1,017	$ 1,597	$ 1,931	$ -	$ 4,545
Ending balance collectively evaluated for impairment	65,292	101,053	166,730	6,975	340,050
Ending balance	$ 66,309	$ 102,650	$ 168,661	$ 6,975	$ 344,595

(In Thousands)	December 31, 2010				
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
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 September 30, 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 $125,000 and $103,000 for the nine month periods ended September 30, 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 September 30, 2011 and December 31, 2010 were as follows:

(In Thousands)	2011	2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 66,923	$ 65,926
Standby letters of credit	5,031	2,674
Dealer floor plans	1,975	966
Loans held for sale	3,068	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, 78.8% 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 September 30, 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.

	September 30, 2011			
(In Thousands)	Level I	Level II	Level III	Total
Assets Measured on a Recurring Basis:				
Investment Securities, available-for-sale	$ 1,616	$ 197,664	$ -	$ 199,280

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

At September 30, 2011 and December 31, 2010, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

	September 30, 2011			
(In Thousands)	Level I	Level II	Level III	Total
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	$ -	$ 105,413	$ -	$ 105,413
Other	-	73,257	-	73,257
	-	18,994	-	18,994

Obligations of state and political subdivisions				
Equity securities	1,616	-	-	1,616
	$ 1,616	$ 197,664	$ -	$ 199,280

	December 31, 2010			
(In Thousands)	Level I	Level II	Level III	Total
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 September 30, 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.

	September 30, 2011			
(In Thousands)	Level I	Level II	Level III	Total
Assets Measured on a Non-recurring Basis:				
Impaired Loans	$ -	$ 4,545	$ -	$ 4,545
Loans Held for Sale	-	3,068	-	3,068
Mortgage Servicing Rights	-	569	-	569
	$ -	$ 8,182	$ -	$ 8,182

	December 31, 2010			
(In Thousands)	Level I	Level II	Level III	Total
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 September 30, 2011 and December 31, 2010, the carrying values and estimated fair values of financial instruments are presented in the table below:

	September 30, 2011		December 31, 2010	
(In Thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and short-term instruments	$ 44,571	$ 44,571	$ 27,595	$ 27,595
Investment securities	199,280	199,280	207,173	207,173
Restricted securities	2,769	2,769	3,012	3,012
Loans, net	339,437	349,950	335,652	341,814
Cash surrender value of bank owned life insurance	12,317	12,317	11,942	11,942
Accrued interest receivable	1,493	1,493	1,632	1,632

Financial Liabilities:						
Interest-bearing deposits	399,837		403,616	410,915		414,706
Noninterest- bearing deposits	78,549		78,549	62,877		62,877
Short-term borrowings	63,198		63,198	58,759		58,759
Long-term borrowings	6,119		6,341	6,123		6,303
Junior subordinate debentures	4,640		4,640	4,640		4,640
Accrued interest payable	550		550	652		652
Off-Balance Sheet Assets (Liabilities):						
Commitments to extend credit		$	66,923		$	65,926
Standby letters of credit			5,031			2,674
Dealer floor plans			1,975			966

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

CASH AND OTHER SHORT-TERM INSTRUMENTS

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

INVESTMENT SECURITIES

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

RESTRICTED SECURITIES

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

LOANS

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

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

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

CASH SURRENDER VALUE OF BANK OWNED LIFE INSURANCE

The fair values are equal to the current carrying value.

ACCRUED INTEREST RECEIVABLE AND PAYABLE

The fair values are equal to the current carrying value.

DEPOSITS

The fair value of deposits with no stated maturity, such as Demand Deposits, Savings Accounts, and Money Market Accounts, was equal to the amount payable on demand at September 30, 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 September 30, 2011, the related consolidated statements of income for the three and nine month periods ended September 30, 2011 and 2010 and changes in stockholders' equity and cash flows for the nine month periods ended September 30, 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
November 7, 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 Quarterly Report on Form 10-Q, other periodic reports filed by us under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of us may include "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 which reflect our current views with respect to future events and financial performance. Such forward looking statements are based on general assumptions and are subject to various risks, uncertainties, and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to:

Ÿ 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.

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

Ÿ 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.

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

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

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

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

Ÿ 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.

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

Ÿ 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 the remainder of 2011 with consistent credit spreads and our view that national economic trends currently point to improving economic conditions into 2012 and a subdued recovery.

Ÿ 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.

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- 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. During September 2011 Tropical Storm Lee caused flooding to portions of our operating area. Specifically two of our branch offices were impacted sustaining light to moderate damage. The corporation's insurance claim will cover a significant portion of the damage. Our Benton office sustained light damage and was operational within a few days of the incident. Our Bloomsburg Market Street office, which is a leased facility, remains closed with a rebuilt structure planned to reopen during the second quarter of 2012. While the impact on the Corporations facilities is easily evaluated, the flood's effect on the local economy is not. As of this date, the overall impact on the local economy is not determinable.

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 $346 thousand to $15.3 million at September 30, 2011 when compared to the same 2010 time period. Reported tax-equivalent interest income decreased $1.5 million to $19.3 million for the nine months ended September 30, 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 nine months ended September 30, 2011 decreased $928 thousand when compared to 2010 results. Reported interest expense decreased $1.2 million to $4.0 million for the nine months ended September 30, 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 1.16 percent for the nine months ended September 30, 2011 from 1.45 percent at September 30, 2010.

Net interest margin decreased to 3.56 percent at September 30, 2011 from 3.72 percent at September 30, 2010. The overall net decrease in margin resulted from the yield on investment securities decreasing 55 basis points to 3.09 percent and the yield on loans decreasing 35 basis points to 5.63 percent at September 30, 2011. As discussed above, the decrease in loan and investment security yields were partially offset by a 29 basis point decrease in deposit yields and a 52 basis point decrease in other borrowings. The 142 basis point yield decrease on long-term borrowings reflects the maturity and repayment of several FHLB borrowings totaling $9.0 million during 2010. The matured FHLB borrowings carried approximate annual percentage rates of 6.0 percent.

The following Average Balance Sheet and Rate Analysis table presents the average assets, actual income or expense and the average yield on assets, liabilities and stockholders' equity for the nine months ended September 30, 2011 and 2010.

AVERAGE BALANCE SHEET AND RATE ANALYSIS

NINE MONTHS ENDED SEPTEMBER 30,

(In Thousands)	2011				2010			
	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate	
ASSETS:	(1)				(1)			
Tax-exempt loans	$27,774	$1,293	6.22	%	$22,009	$1,052	6.39	%
All other loans	316,864	13,227	5.58	%	316,411	14,080	5.95	%
Total loans (2)(3)(4)	344,638	14,520	5.63	%	338,420	15,132	5.98	%
Taxable securities	186,980	4,076	2.91	%	195,499	5,173	3.53	%
Tax-exempt securitites (3)	15,807	626	5.28	%	10,628	457	5.73	%
Total securities	202,787	4,702	3.09	%	206,127	5,630	3.64	%
Federal funds sold	1,639	1	0.08	%	1,363	1	0.10	%
Interest-bearing deposits	25,404	48	0.25	%	16,268	27	0.22	%
Total interest-earning assets	574,468	19,271	4.48	%	562,178	20,790	4.94	%
Other assets	44,550				44,919			
TOTAL ASSETS	$619,018				$607,097			

LIABILITIES:								
Savings	$67,524	167	0.33	%	$62,354	180	0.39	%
Now deposits	72,256	67	0.12	%	70,850	74	0.14	%
Money market deposits	46,363	176	0.51	%	42,487	245	0.77	%
Time deposits	224,076	3,140	1.87	%	235,624	3,958	2.25	%
Total deposits	410,219	3,550	1.16	%	411,315	4,457	1.45	%