

CCFNB BANCORP INC
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011.

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

For the transition period from _____ to _____.

No. 000-19028
(Commission file number)

CCFNB BANCORP, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation or organization)

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

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

17815
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

On 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

	Page Number
Part I Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010	3
Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2011 and 2010	4
Consolidated Statement of Changes in Stockholders' Equity (unaudited) for the nine months ended September 30, 2011 and 2010	5
Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2011 and 2010	6
Notes to Consolidated Financial Statements (unaudited)	7
Report of Independent Registered Public Accounting Firm	24
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	34
Part II Other Information	34
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 5. Other Information	35
Item 6. Exhibits	35
Signatures	36
Exhibits	37

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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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.

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

(In Thousands, Except Per Share Data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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		Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
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.

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 investment 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)	Amortized Cost	September 30, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
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			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government Corporations and Agencies:				
Mortgage-backed	\$ 129,008	\$ 3,794	\$ (287)	\$ 132,515
Other	59,046	279	(422)	58,903
Obligations of state and political subdivisions	13,625	115	(69)	13,671
Total debt securities	201,679	4,188	(778)	205,089
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:

(In Thousands)	September 30, 2011					
	Less than Twelve Months		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

(In Thousands)	December 31, 2010					
	Less than Twelve Months		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						
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/Thriffs, and Diversified Financial Service Corporations varying in asset size and geographic region. The Corporation's equity securities represent less than 1 percent of the total available for sale investments as of September 30, 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)	Amortized	September 30, 2011		Estimated
		Gross	Gross	
Asset size(\$)	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	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			
	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 Corporation's commercial real estate portfolio are diverse in terms of type and geographic locations served by the Corporation. This diversity helps reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral. As a general rule the Corporation avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk.

The Corporation originates consumer loans using a credit scoring system to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are reviewed and modified on a regular basis. In addition, risk is reduced by keeping the loan amounts relatively small and spread across many individual borrowers. Additionally, trend reports are reviewed regularly by management. Underwriting standards for home equity loans are influenced by statutory requirements, which include such controls as maximum loan-to-value percentages, collection remedies, documentation requirements, and limits on the number of loans an individual can have at one time. The Corporation contracts an independent third party consultant that reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's loan policies and procedures.

Real estate loans held-for-sale in the amount of \$3,068,000 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:		

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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

16

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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:

(In Thousands)	September 30, 2011					
	Loans 30-89 Days	Loans 90 or more days	Total Past	Current	Total	Accruing Loans
	Past Due	Past Due	Due Loans	Loans	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	\$ -

(In Thousands)	December 31, 2010					
	Loans 30-89 Days	Loans 90 or more days	Total Past	Current	Total	Accruing Loans
	Past Due	Past Due	Due Loans	Loans	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:

(In Thousands)	September 30, 2011				
	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

(In Thousands)	December 31, 2010				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial, financial and agricultural	\$ 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.

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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					Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	
Balance, beginning of year	\$ 752	\$ 2,286	\$ 1,243	\$ 106	\$ 414	\$ 4,801
Provision charged to operations	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					Total
	Commercial Financial & Agricultural	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	
Balance, beginning of year	\$ 567	\$ 1,793	\$ 1,339	\$ 149	\$ 362	\$ 4,210
Provision charged to operations	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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

	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.

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

(In Thousands)	Level I	December 31, 2010		Total
		Level II	Level III	
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:

(In Thousands)	Level I	September 30, 2011		Total
		Level II	Level III	
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

(In Thousands)	December 31, 2010			Total
	Level I	Level II	Level III	
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	\$ -	\$ 132,515	\$ -	\$ 132,515
Other	-	58,903	-	58,903
Obligations of state and political subdivisions				
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.

(In Thousands)	September 30, 2011			Total
	Level I	Level II	Level III	
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

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

9. ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

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

At September 30, 2011 and December 31, 2010, the carrying values and estimated fair values of financial instruments are presented in the table below:

(In Thousands)	September 30, 2011		December 31, 2010	
	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

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:

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

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

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

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

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

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

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

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

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

Given current economic and financial market conditions, our forward-looking statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low throughout 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.

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

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

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

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

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

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

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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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 securities (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	%
Short-term borrowings	55,068	233	0.57	%	51,847	310	0.80	%
Long-term borrowings	6,121	119	2.60	%	10,306	310	4.02	%
Junior subordinate debentures	4,640	76	2.19	%	4,640	74	2.13	%
Total borrowings	65,829	428	0.87	%	66,793	694	1.39	%
Total interest-bearing liabilities	476,048	3,978	1.12	%	478,108	5,151	1.44	%
Demand deposits	70,763				57,592			
Other liabilities	2,681				4,358			
Stockholders' equity	69,526				67,039			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$619,018				\$607,097			
Interest rate spread (6)			3.36	%			3.50	%
Net interest income/margin (5)		\$15,293	3.56	%		\$15,639	3.72	%

(1) Average volume information was compared using daily (or monthly) averages for interest-earning and bearing accounts.

Certain balance sheet items utilized quarter-end balances for averages.

(2) Interest on loans includes fee income.

(3) Tax exempt interest revenue is shown on a tax-equivalent basis using a statutory federal income tax rate of 34 percent for 2011 and 2010.

(4) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.

(5) Net interest margin is computed by dividing annualized net interest income by total interest earning assets.

(6) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

Reconciliation of Taxable Equivalent Net Interest Income
For the Nine Months Ended September 30,
(In Thousands)

	2011	2010
Total interest income	\$ 18,619	\$ 20,278
Total interest expense	3,978	5,151
Net interest income	14,641	15,127
Tax equivalent adjustment	652	512
Net interest income (fully taxable equivalent)	\$ 15,293	\$ 15,639

Rate/Volume Analysis

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

27

(In Thousands)	Nine Months Ended September 30, 2011 vs 2010		
	Increase (Decrease)		
	Volume	Due to Rate	Net
Interest income:			
Loans, tax-exempt	\$ 268	\$ (27)	\$ 241
Loans	19	(872)	(853)
Taxable investment securities	205	(911)	(706)
Tax-exempt investment securities	(186)	(36)	(222)
Federal funds sold	-	-	-
Interest bearing deposits	17	4	21
Total interest-earning assets	323	(1,842)	(1,519)
Interest expense:			
Savings	13	(26)	(13)
NOW deposits	1	(8)	(7)
Money market deposits	15	(84)	(69)
Time deposits	(162)	(656)	(818)
Short-term borrowings	14	(91)	(77)
Long-term borrowings, FHLB	(81)	(110)	(191)
Junior subordinate debentures	-	2	2
Total interest-bearing liabilities	(200)	(973)	(1,173)
Change in net interest income	\$ 523	\$ (869)	\$ (346)

PROVISION FOR LOAN LOSSES

2011 vs. 2010

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

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at September 30, 2011, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Also, as part of the examination process, bank regulatory agencies periodically review the Bank's loan loss allowance. The bank regulators could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

The provision for loan losses amounted to \$440,000 and \$870,000 for the nine months ended September 30, 2011 and 2010, respectively. Management concluded the 2011 and 2010 increases of the provision were appropriate considering the gross loan growth experience, the level of nonperforming assets and the general condition of the national economy. Utilizing the resources noted above, management concluded that the allowance for loan losses remains at a

level adequate to provide for probable losses inherent in the loan portfolio.

NON-INTEREST INCOME

2011 vs. 2010

Total non-interest income increased \$363,000 or 8.1 percent to \$4.8 million for the nine months ended September 30, 2011. The service charges and fees decreased \$56,000 or 4.2 percent to \$1.3 million for the nine months ended September 30, 2011. Gain on sale of loans decreased \$203,000 or 26.8 percent from \$758,000 in 2010 to \$555,000 in 2011. Brokerage income decreased \$38,000 or 15.4 percent from \$246,000 in 2010 to \$208,000 in 2011. Trust income increased \$48,000 or 9.5 percent from \$507,000 in 2010 to \$555,000 in 2011. Interchange fees increased \$67,000 or 10.7 percent from \$624,000 in 2010 to \$691,000 in 2011. Other non-interest income increased \$60,000 or 8.7 percent from \$686,000 in 2010. The increase primarily resulted from increased servicing fees on several participated commercial loans. The Corporation recorded a gain on the sale of premises and equipment associated with sale of the former Hazleton branch facility in the amount of \$489,000 for the nine months ended September 30, 2011.

(In Thousands)

For The Nine Months Ended

	September 30, 2011		September 30, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	\$1,272	26.2	\$1,328	29.8	\$(56)	(4.2)
Gain on sale of loans	555	11.5	758	16.9	(203)	(26.8)
Earnings on bank-owned life insurance	318	6.6	325	7.3	(7)	(2.2)
Brokerage	208	4.3	246	5.5	(38)	(15.4)
Trust	555	11.5	507	11.3	48	9.5
Investment security gains	3	0.1	-	-	3	-
Gain on sale of premises and equipment	489	10.1	-	-	489	-
Interchange fees	691	14.3	624	13.9	67	10.7
Other	746	15.4	686	15.3	60	8.7
Total non-interest income	\$4,837	100.0	\$4,474	100.0	\$363	8.1

NON-INTEREST EXPENSE

2011 vs. 2010

Total non-interest expense increased \$101,000 thousand or 0.8 percent from \$12.1 million in 2010. The net increase primarily resulted from higher employee benefits and a \$100,000 donation divided between several Bloomsburg area charitable organizations that were instrumental in the September 2011 flood relief effort. Employee benefits increased \$192,000 or 13.5 percent for the nine months ended September 30, 2011 as a result of higher health care premiums. One standard to measure non-interest expense is to express annualized non-interest expense as a percentage of average total assets. As of September 30, 2011 this percentage was 2.63 percent compared to 2.66 percent in 2010.

(In Thousands)

For The Nine Months Ended

	September 30, 2011		September 30, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Salaries	\$ 4,879	40.1	\$ 4,791	39.5	\$ 88	1.8
Employee benefits	1,616	13.2	1,424	11.7	192	13.5
Occupancy	807	6.6	836	6.9	(29)	(3.5)
Furniture and equipment	955	7.8	1,002	8.3	(47)	(4.7)
State shares tax	445	3.6	418	3.5	27	6.5
Professional fees	464	3.8	467	3.9	(3)	(0.6)
Directors fees	221	1.8	203	1.7	18	8.9
FDIC assessments	305	2.5	460	3.8	(155)	(33.7)
Telecommunications	222	1.8	275	2.3	(53)	(19.3)
Amortization of core deposit intangible	428	3.5	442	3.7	(14)	(3.2)
Automated teller machine and interchange	488	4.0	412	3.4	76	18.4
Other	1,379	11.3	1,378	11.3	1	0.1
Total non-interest expense	\$ 12,209	100.0	\$ 12,108	100.0	\$ 101	0.8

FINANCIAL CONDITION

Consolidated assets at September 30, 2011 were \$625.8 million which represented an increase of \$11.5 million from \$614.3 million at December 31, 2010.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio increased during 2011 to 72.0 percent compared to 71.9 percent at December 31, 2010.

INVESTMENTS

All of our securities are available-for-sale and are carried at estimated fair value. Available-for-sale securities are reported on the consolidated balance sheet at fair value with offsetting adjustments to deferred taxes and accumulated other comprehensive income. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the Corporation of restructuring the portfolio for gap positioning at any time through the securities classified as available-for-sale. As reflected in the Consolidated Statements of Changes in Stockholders' Equity, the impact of the fair value accounting was an unrealized gain, net of tax, on September 30, 2011 of \$2,395,000 compared to an unrealized gain, net of tax, on December 31, 2010 of \$2,221,000, which represents an unrealized gain, net of tax, of \$174,000 for the nine months ended September 30, 2011. The following table shows the amortized cost and estimated fair value of the investment securities as of the dates shown:

(In Thousands)	September 30, 2011	
	Amortized Cost	Estimated Fair Value
Obligation of U.S. Government Corporations and Agencies:		
Mortgage-backed	\$ 102,198	\$ 105,413
Other	72,972	73,257
Obligations of state and political subdivisions	18,349	18,994
Total debt securities	193,519	197,664
Marketable equity securities	2,133	1,616
Total investment securities AFS	\$ 195,652	\$ 199,280

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

LOANS

The loan portfolio increased 1.2 percent from \$340.5 million at December 31, 2010 to \$344.6 million at September 30, 2011. The percentage distribution in the loan portfolio was 78.8 percent in real estate loans at \$271.1 million; 11.0 percent in commercial loans at \$38.0 million; 2.0 percent in consumer loans at \$7.2 million; and 8.2 percent in tax exempt loans at \$28.3 million.

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

(In Thousands)	September 30, 2011	December 31, 2010	Change	
			Amount	%
Commercial, financial and agricultural	\$ 38,018	\$ 33,819	\$ 4,199	12.4 %
Tax-exempt	28,291	25,180	3,111	12.4
Real estate	254,630	262,355	(7,725)	(2.9)
Real estate construction	16,468	11,689	4,779	40.9
Installment loans to individuals	6,977	7,232	(255)	(3.5)
Add (deduct): Unearned discount	(2)	(6)	4	(66.7)
Unamortized loan costs, net of fees	213	184	29	15.8
Gross loans	\$ 344,595	\$ 340,453	\$ 4,142	1.2 %

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

	September 30, 2011		December 31, 2010	
Commercial, financial and agricultural	11.0	%	9.9	%
Tax-exempt	8.2		7.4	

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Real estate	74.0		77.2	
Real estate construction	4.8		3.4	
Installment loans to individuals	2.0		2.1	
Gross loans	100.0	%	100.0	%

30

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was \$5.2 million at September 30, 2011, compared to \$4.6 million at September 30, 2010. This allowance equaled 1.50 percent and 1.34 percent of total loans, net of unearned income, as of September 30, 2011 and 2010, respectively. The loan loss reserve is analyzed quarterly and reviewed by the Bank's Board of Directors. No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Regular meetings with the Bank's Director Loan Committee reviewed new loans. Delinquent loans, loan exceptions and certain large loans are addressed by the full Board no less than monthly to determine compliance with policies. Allowance for loan losses was considered adequate based on delinquency trends and actual loans written.

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

(In Thousands)	For the Nine Months Ended September 30,				
	2011		2010		
Average Loans Outstanding during the period	\$	344,638	\$	338,420	
Balance, beginning of year	\$	4,801	\$	4,210	
Provision charged to operations		440		870	
Loans charged off:					
Commercial, financial, and agricultural		(6)		(4)	
Real estate mortgages		(72)		(539)	
Installment loans to individuals		(39)		(26)	
Recoveries:					
Commercial, financial, and agricultural		1		33	
Real estate mortgages		8		12	
Installment loans to individuals		25		18	
Balance, end of period	\$	5,158	\$	4,574	
Ratio of net charge-offs to average loans outstanding during the period		0.02	%	0.15	%

NON-PERFORMING LOANS

As of September 30, 2011, loans 30 to 89 days past due totaled \$2.3 million compared to \$3.2 million at December 31, 2010. Non-accrual loans totaled \$3.5 million at September 30, 2011 and \$3.8 million at December 31, 2010.

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

(In Thousands)	September 30, 2011		December 31, 2010	
Commercial, financial and agricultural				
Days 30-89	\$	192	\$	244
Days 90 plus		-		-
Non-accrual		747		224
Real estate				
Days 30-89		2,086		2,880
Days 90 plus		-		-
Non-accrual		2,724		3,604
Installment loans to individuals				
Days 30-89		45		32

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Days 90 plus	-	-
Non-accrual	-	-
	\$ 5,794	\$ 6,984
Days 30-89	\$ 2,323	\$ 3,156
Days 90 plus	-	-
Non-accrual	3,471	3,828
	\$ 5,794	\$ 6,984
Restructured loans	\$ 465	\$ 319
Other real estate owned	\$ -	\$ -

DEPOSITS

Total average deposits increased by 2.1 percent from \$470.9 million at December 31, 2010 to \$481.0 million at September 30, 2011. Average savings deposits increased 6.8 percent to \$67.5 million at September 30, 2011 from \$63.2 million at December 31, 2010. Average money market deposits increased 9.2 percent to \$46.4 million as of September 30, 2011 from \$42.5 million as of December 31, 2010. Average interest bearing NOW accounts increased 1.2 percent from \$71.4 million at December 31, 2010 to \$72.3 million at September 30, 2011.

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

(In Thousands)	September 30, 2011		December 31, 2010		Change	
	Balance	Average Rate	Balance	Average Rate	Amount	%
Non-interest bearing	\$ 70,763	- %	\$ 59,013	- %	\$ 11,750	19.9 %
Savings	67,524	0.33	63,223	0.37	4,301	6.8
Now deposits	72,256	0.12	71,374	0.14	882	1.2
Money market deposits	46,363	0.51	42,460	0.75	3,903	9.2
Time deposits	224,076	1.87	234,812	2.19	(10,736)	(4.6)
Total deposits	\$ 480,982	0.98 %	\$ 470,882	1.23 %	\$ 10,100	2.1 %

BORROWED FUNDS

Average short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB - Pittsburgh borrowings increased 2.6 percent from \$53.7 million at December 31, 2010 to \$55.1 million at September 30, 2011. Average long-term borrowings decreased \$3.1 million from \$13.9 million at December 31, 2010 to \$10.8 million at September 30, 2011.

The average balances are summarized as follows:

(In Thousands)	September 30, 2011		December 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Short-term borrowings:						
Securities sold under agreement to repurchase	\$ 54,416	82.7 %	\$ 52,315	77.4 %	\$ 2,101	4.0 %
Short-term borrowings, FHLB	-	-	603	0.9	(603)	(100.0)
U.S. Treasury tax and loan notes	652	1.0	773	1.1	(121)	(15.7)
Total short-term borrowings	55,068	83.7 %	53,691	79.4 %	1,377	2.6
Long-term borrowings, FHLB	6,121	9.3	9,252	13.7	(3,131)	(33.8)
Junior subordinate debentures	4,640	7.0	4,640	6.9	-	-
Total borrowed funds	\$ 65,829	100.0 %	\$ 67,583	100.0 %	\$ (1,754)	(2.6) %

Short-term borrowings consisted of the following at September 30, 2011 and 2010:

September 30, 2011	
Weighted	Maximum

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

(In Thousands)	Ending Balance	Average Balance	Month End Balance	Average Rate
Securities sold under agreements to repurchase	\$ 62,198	\$ 54,416	\$ 62,198	0.57 %
Other short-term borrowings	-	-	-	0.00 %
U.S. Treasury tax and loan notes	1,000	652	1,000	0.00 %
Total	\$ 63,198	\$ 55,068	\$ 63,198	0.57 %

(In Thousands)	Ending Balance	September 30, 2010		
		Weighted Average Balance	Maximum Month End Balance	Average Rate
Securities sold under agreements to repurchase	\$ 62,172	\$ 50,213	\$ 62,172	0.81 %
Other short-term borrowings	-	1,034	4,075	0.73 %
U.S. Treasury tax and loan notes	345	600	1,000	0.00 %
Total	\$ 62,517	\$ 51,847	\$ 67,247	0.80 %

LIQUIDITY

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

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

CAPITAL RESOURCES

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

As of September 30, 2011, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios.

Our actual consolidated capital amounts and ratios as of September 30, 2011 and December 31, 2010 are in the following table:

(In Thousands)	2011		2010	
	Amount	Ratio	Amount	Ratio
Total Capital				
(to Risk-weighted Assets)				
Actual	\$ 67,283	19.3 %	\$ 64,476	18.5 %
For Capital Adequacy Purposes	27,857	8.0	27,884	8.0
To Be Well-Capitalized	34,821	10.0	34,855	10.0
Tier I Capital				
(to Risk-weighted Assets)				
Actual	\$ 62,920	18.1 %	\$ 60,114	17.3 %
For Capital Adequacy Purposes	13,929	4.0	13,942	4.0
To Be Well-Capitalized	20,893	6.0	20,913	6.0
Tier I Capital				
(to Average Assets)				
Actual	\$ 62,920	10.4 %	\$ 60,114	10.0 %
For Capital Adequacy Purposes	24,214	4.0	24,034	4.0
To Be Well-Capitalized	30,268	5.0	30,043	5.0

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

INTEREST RATE RISK MANAGEMENT

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

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

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

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

At September 30, 2011, our cumulative gap positions and the potential earnings change resulting from a 300 basis point change in rates were both within the internal risk management guidelines.

In addition to gap analysis, the Bank uses earnings simulation to assist in measuring and controlling interest rate risk. The Bank also simulates the impact on net interest income of plus and minus 100, 200 and 300 basis point rate shocks. The results of these theoretical rate shocks provide an additional tool to help manage the Bank's interest rate risk. It is our opinion that the asset/liability mix and the interest rate risk associated with the balance sheet is within manageable parameters. Additionally, the Bank's Asset/Liability Committee meets quarterly with an investment consultant.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 4. Controls and Procedures

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

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

The CEO and CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended September 30, 2011, as required by paragraph (d) Rules 13a – 15 and 15d – 15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1.A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. At September 30, 2011 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K, except as set forth below. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

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

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

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

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

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

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (July 1 - July 31, 2011)	-	-	-	135,000
Month #2 (August 1 - August 31, 2011)	5,400	\$34.87	5,400	129,600
Month #3 (September 1 - September 30, 2011)	5,000	34.50	5,000	124,600

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

The Corporation did not sell any unregistered securities during the quarter ended September 30, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

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

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

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

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

32 Section 906 Certification of Principal Executive Officer and Principal Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended September 30, 2011, to be signed on its behalf by the undersigned thereunto duly authorized.

CCFNB BANCORP, INC.
(Registrant)

By /s/ Lance O. Diehl
Lance O. Diehl
President and CEO
(Principal Executive Officer)
Date: November 7, 2011

By /s/ Jeffrey T. Arnold
Jeffrey T. Arnold, CPA, CIA
Chief Financial Officer and Treasurer
(Principal Financial Officer)
Date: November 7, 2011