CCFNB BANCORP INC
Form 10-Q
May 13, 2009

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

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

For the quarterly period ended March 31, 2009.

Or

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

For the transition period from __________ to __________.

No. 0-19028
(Commission file number)
CCFNB BANCORP, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**23-2254643**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
232 East Street, Bloomsburg, PA	**17815**
(Address of principal executive offices)	(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 requirings for the past 90 days. Yes þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

On March 31, 2009, there were 2,257,946 shares of the Registrant s Common stock outstanding, par value $1.25.

CCFNB Bancorp, Inc. and Subsidiary
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PART I Financial Information

Item 1. Financial Statements

CCFNB Bancorp, Inc.
Consolidated Balance Sheets

(In Thousands)	**(Unaudited) March 31, 2009**	**December 31, 2008**
ASSETS		
Cash and due from banks	$ 9,050	$ 10,173
Interest-bearing deposits in other banks	1,055	149
Federal funds sold	1,349	5,163
Total cash and cash equivalents	11,454	15,485
Investment securities, available for sale, at fair value	197,047	196,580
Loans, net of unearned income	325,050	320,068
Less: Allowance for loan losses	3,753	3,758
Loans, net	321,297	316,310
Premises and equipment, net	11,895	12,609
Accrued interest receivable	2,256	2,388
Cash surrender value of bank-owned life insurance	11,065	10,943
Investment in limited partnerships	806	845
Intangible Assets:		
Core deposit	3,243	3,411
Goodwill	7,937	7,937
Other assets	2,542	1,811
TOTAL ASSETS	$ 569,542	$ 568,319
LIABILITIES		
Interest-bearing deposits	$ 396,391	$ 381,849
Noninterest-bearing deposits	50,857	52,460
Total deposits	447,248	434,309
Short-term borrowings	41,939	55,462
Long-term borrowings	9,131	9,133
Junior subordinate debentures	4,640	4,640
Accrued interest payable	981	1,075
Other liabilities	3,711	2,925
TOTAL LIABILITIES	507,650	507,544

STOCKHOLDERS EQUITY				
Common stock, par value $1.25 per share; authorized 5,000,000 shares; issued and outstanding 2,257,946 shares in 2009 and 2,253,080 shares in 2008		2,822		2,816
Surplus		27,256		27,173
Retained earnings		30,167		29,164
Accumulated other comprehensive income		1,647		1,622
TOTAL STOCKHOLDERS EQUITY		61,892		60,775
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	569,542	$	568,319

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,			
(In Thousands, Except Per Share Data)		**2009**		**2008**
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans:				
Taxable	$	4,733	$	2,583
Tax-exempt		203		144
Interest and dividends on investment securities:				
Taxable		2,212		608
Tax-exempt		87		45
Dividend and other interest income		26		25
Federal funds sold		5		64
Deposits in other banks				13
TOTAL INTEREST AND DIVIDEND INCOME		7,266		3,482
INTEREST EXPENSE				
Deposits		2,013		1,036
Short-term borrowings		81		228
Long-term borrowings		137		154
Junior subordinate debentures		42		
TOTAL INTEREST EXPENSE		2,273		1,418
NET INTEREST INCOME		4,993		2,064
PROVISION FOR LOAN LOSSES		60		
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		4,933		2,064
NON-INTEREST INCOME				
Service charges and fees		398		239
Gain on sale of loans		96		47
Earnings on bank-owned life insurance		103		65
Brokerage		56		38
Trust		152		38
Other		361		73
TOTAL NON-INTEREST INCOME		1,166		500

NON-INTEREST EXPENSE		
Salaries	1,601	703
Employee benefits	434	245
Occupancy	307	138
Furniture and equipment	323	115
State shares tax	143	85
Professional fees	167	66
Director s fees	71	46
Other	922	301
TOTAL NON-INTEREST EXPENSE	3,968	1,699
INCOME BEFORE INCOME TAX PROVISION	2,131	865
INCOME TAX PROVISION	588	214
NET INCOME	$ 1,543	$ 651
EARNINGS PER SHARE	$ 0.69	$ 0.53
CASH DIVIDENDS PER SHARE	$ 0.24	$ 0.21
WEIGHTED AVERAGE SHARES OUTSTANDING	2,254,044	1,227,035

See accompanying notes to the unaudited consolidated financial statements.

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

(In Thousands Except Per Share Data)	Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2007	1,226,536	$ 1,533	$ 2,271	$ 27,679	$ 144	$	$ 31,627
Comprehensive Income:							
Net income				651			651
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					355		355
Total comprehensive income							1,006
Common stock issuance under dividend reinvestment and stock purchase plans	2,828	3	67				70
Recognition of employee stock purchase plan expense			2				2
Purchase of treasury stock (2,000 shares)						(52)	(52)
Retirement of treasury stock	(2,000)	(3)	(49)			52	
Cash dividends, ($0.21 per share)				(258)			(258)
Balance, March 31, 2008	1,227,364	$ 1,533	$ 2,291	$ 28,072	$ 499	$	$ 32,395
Balance, December 31, 2008	2,253,080	$ 2,816	$ 27,173	$ 29,164	$ 1,622	$	$ 60,775
Comprehensive Income:							
Net income				1,543			1,543
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects.					25		25
Total comprehensive income							1,568
Common stock issuance under dividend reinvestment and stock purchase plans	4,866	6	81				87
Recognition of employee stock purchase plan expense			2				2
Cash dividends, ($0.24 per share)				(540)			(540)
Balance, March 31, 2009	2,257,946	$ 2,822	$ 27,256	$ 30,167	$ 1,647	$	$ 61,892

See accompanying notes to the unaudited consolidated financial statements.

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

	For The Three Months Ended March 31,	
(In Thousands)	**2009**	**2008**
OPERATING ACTIVITIES		
Net Income	$ 1,543	$ 651
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	60	
Depreciation and amortization of premises and equipment	259	94
Amortization and accretion on investment securities	22	(2)
Deferred income taxes (provision) benefit	133	(34)
Gain on sale of loans	(96)	(47)
Proceeds from sale of mortgage loans	5,183	2,579
Originations of mortgage loans held for resale	(5,124)	(2,381)
Amortization of intangibles and invesment in limited partnerships	207	
Decrease (increase) in accrued interest receivable	132	(113)
Increases in cash surrender value of bank-owned life insurance	(122)	(70)
Decrease in accrued interest payable	(94)	(189)
Other, net	147	(274)
Net cash provided by operating activities	2,250	214
INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases	(30,806)	(14,942)
Proceeds from sales, maturities and redemptions	31,171	13,789
Proceeds from redemption of regulatory stock		120
Purchase of regulatory stock	(817)	
Net (increase) decrease in loans	(5,534)	1,763
Proceeds from sale of premises and equipment	916	
Proceeds from sale of other real estate owned	220	
Acquisition of premises and equipment	(392)	(1)
Net cash (used for) provided by investing activities	(5,242)	729
FINANCING ACTIVITIES		
Net increase in deposits	12,939	3,405
Net decrease in short-term borrowings	(13,523)	(28)
Repayment of long-term borrowings	(2)	(2,001)
Acquisition of treasury stock		(52)
Proceeds from issuance of common stock	87	70
Cash dividends paid	(540)	(258)
Net cash (used for) provided by financing activities	(1,039)	1,136

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(4,031)		2,079
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		15,485		13,401
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	11,454	$	15,480
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$	2,367	$	1,424
Income taxes paid		103		402
Loans transferred to other real estate owned		524		

See accompanying notes to the unaudited consolidated financial statements.

CCFNB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

NATURE OF OPERATIONS

The Corporation is a financial holding company that provides full-banking services, including trust services, through the Bank, to individuals and corporate customers. The Bank has 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, passbook and 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, 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 offering diverse investment products through its investment center.

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

USE OF ESTIMATES

The preparation of these consolidated financial statements in conformity with accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

INVESTMENT SECURITIES

The Corporation classifies its investment securities as either held-to-maturity or available-for-sale at the time of purchase. Debt securities are classified as held-to-maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities held-to-maturity are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity.

Debt securities not classified as held-to-maturity and equity securities included in the available-for-sale category, are carried at fair value, and the amount of any unrealized gain or loss net of the effect of deferred income taxes is reported as other comprehensive income in the Consolidated Statement of Changes in Stockholders Equity.

Management s decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

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

LOANS

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

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

Past Due Loans Generally, a loan is considered past due when a payment is in arrears for a period of 10 or 15 days, depending on the type of loan. Delinquent notices are issued at this point and related collection efforts will commence and continue until final resolution. Past due loans are continually evaluated with determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

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

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

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

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

In addition, an allowance is provided for possible credit losses on off-balance sheet credit exposures. The allowance is estimated by management and is classified in other liabilities.

PREMISES AND EQUIPMENT

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

MORTGAGE SERVICING RIGHTS

The Bank originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Bank retains the right to service 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 3.75% at March 31, 2009 and December 31, 2008. The securities are callable by the Corporation, subject to any required regulatory approval, at par, after five years. The Corporation unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the Trust.

INTANGIBLE ASSETS GOODWILL

Goodwill represents the excess for the purchase price over the fair market value of net assets acquired. The Corporation has recorded net goodwill of $7,937,000 at March 31, 2009 and December 31, 2008 related to the 2008 acquisition of Columbia Financial Corporation and it s subsidiary, First Columbia Bank & Trust Co. In accordance with current accounting standards, goodwill is not amortized, but evaluated at least annually 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.

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 $3,243,000 and $3,411,000, net of accumulated amortization of $447,000 and $279,000, as of March 31, 2009 and December 31, 2008, respectively. 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 $168,000 and $0 for the three months ended March 31, 2009 and 2008, respectivley.

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

For the Year Ended:	
Remainder of 2009	$ 475,000
2010	576,000
2011	509,000
2012	442,000
2013	374,000
Thereafter	867,000
Total	$ 3,243,000

OTHER REAL ESTATE OWNED

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense. The amount of other real estate owned was $670,000 and $373,000 as of March 31, 2009 and December 31,2008, respectively and is included in other assets in the accompanying consolidated balance sheets.

BANK OWNED LIFE INSURANCE

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

INVESTMENTS IN LIMITED PARTNERSHIPS

The Corporation is a limited partner in three partnerships at December 31, 2008 that provide low income elderly housing in the Corporation s geographic market area. The investments are accounted for under the effective yield method under the Emerging Issues Task Force (EITF) 94-1 *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects* . Under the effective yield method, the Corporation recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that the tax credits are allocated to the Corporation. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the consolidated statements of income as a component of income tax expense. The amount of tax credits allocated to the Corporation were $93,000 and the amortization of the investments in limited partnerships was $39,000 and $0 for the three months ended March 31, 2009 and 2008, respectively. The carrying value of the Corporation s investments in limited partnerships was $806,000 and $845,000

as of March 31, 2009 and December 31, 2008, respectively.

INVESTMENT IN INSURANCE AGENCY

The Corporation owns a 50 percent interest in a local insurance agency, a corporation organized under the laws of the Commonwealth of Pennsylvania. The income or loss from this investment is accounted for under the equity method of accounting. The carrying value of this investment as of March 31, 2009 and December 31, 2008 was $222,000 and $218,000, respectively, and is included in other assets in the accompanying consolidated balance sheets.

INCOME TAXES

The provision for income taxes is based on the results of operations, adjusted primarily for tax-exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and

liabilities are determined based on the differences between the consolidated financial statement and income tax basis of assets and liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

PER SHARE DATA

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

TRUST ASSETS AND INCOME

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

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

ADVERTISING COSTS

It is the Corporation s policy to expense advertising costs in the period in which they are incurred Advertising expense for the three months ended March 31, 2009 and 2008 was approximately $39,000 and $17,000, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued Staff Position No. SFAS 140-4 and FIN 46(R)-8 (FSP 140-4), *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. FSP 140-4 amends FASB Statement No. 140 to require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities.

Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (QSPE) that holds a variable interest in the QSPE but was not the transferor (non-transferor) of financial assets into the QSPE; and (b) a servicer of a QSPE that holds a significant interest in the QSP but was not the transferor (non-transferor) of financial assets to the QSPE. The Corporation does not have involvement with any variable interest entities.

In January 2009, the FASB ratified EITF 99-20-1, *Amendments to the Impairment Guidance of EITF* Issue *99-20*. EITF 99-20-I amends the impairment guidance in EITF 99-20 to achieve more consistent determination of whether an other-than-temporary impairment has occurred. EITF 99-20-1 was effective December 31, 2008. The change in the impairment guidance with the issuance of FSP EITF 990-20I was effective December 31, 2008. The change in the impairment guidance with the issuance of FSP EITF 99-20-I was effective December 31, 2008. The change in the impairment guidance with the issuance of FSP EITF 99-20-I did not result in any material impact on the Corporation s consolidated financial condition, results of operation or liquidity.

In December 2007, the Financial Accounting Standards Board (FASB) issued State of Financial Accounting Standards SFAS 141(R), *Business Combinations*. SFAS 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Corporation will account for business combinations under this Statement include: the acquisition date will be the date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and

income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward.

The Corporation will be required to prospectively apply SFAS 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. The Corporation will adopt SFAS 141(R) for any business combinations occurring at or subsequent to January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards SFAS 160, "*Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51* . SFAS 160 establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will require entities to classify noncontrolling interests as a component of stockholders equity and will require subsequent changes in ownership interest in a subsidiary to be accounted for as an equity transaction. Additionally, SFAS 160 will require entities to recognize a gain or loss upon the loss of control of a subsidiary and to remeasure any ownership interest retained at fair value on that date. This statement also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. The adoption of this standard is not expected to have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* , was issued in September 2006 and is effective for fiscal years beginning after December 15, 2007 with earlier application permitted. EITF 06-4 requires that, for split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods, an employer should recognize a liability for future benefits in accordance with SFAS No. 106. EITF 06-4 requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Corporation adopted this standard as of January 1, 2007 through a cumulative-effect adjustment to beginning retained earnings. This adjustment represented a decrease of $12,000 to retained earnings.

In June 2007, the FASB ratified the consensus reached in EITF 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* . EITF 06-11 applies to entities that have share-based payment arrangements that entitle employees to receive dividends or dividend equivalents on equity-classified nonvested shares when those dividends or dividend equivalents are charged to retained earnings and result in an income tax deduction. Entities that have share-based payment arrangements that fall within the scope of EITF 06-11 will be required to increase capital surplus for any realized income tax benefit associated with dividends or dividend equivalents paid to employees for equity classified nonvested equity awards. Any increase recorded to capital surplus is required to be included in an entity s pool of excess tax benefits that are available to absorb potential future tax deficiencies on share-based payment awards. The Corporation adopted EITF 06-11 on January 1, 2008 for dividends declared on share-based payment awards subsequent to this date. The impact of adoption did not have a material impact on consolidated financial condition, results of operations, or liquidity.

In April 2007, the FASB issued FSP 39-1, *Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts* . FSP 39-1 permits entities to offset fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting agreement. FSP 39-1 clarifies that the fair value amounts recognized for the right to reclaim cash collateral, or the obligation to return cash collateral, arising from the same master netting arrangement, should also be offset against the fair value of the related derivative

instruments.

Effective January 1, 2008, the Corporation adopted a net presentation for derivative positions and related collateral entered into under master netting agreements pursuant to the guidance in FIN 39 and FSP 39-1. The adoption of this guidance would result in balance sheet reclassifications of certain cash collateral-based short-term investments against the related derivative liabilities and certain deposit liability balances against the related fair values of derivative assets. The effects of these reclassifications will fluctuate based on the fair values of derivative contracts but overall would not have a material impact on either total assets or total liabilities. The adoption of these standards did not have an impact on the Corporations consolidated financial condition, results of operations or liquidity.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* . The statement allows an entity to elect to measure certain financial assets and liabilities at fair value with changes in fair value recognized in the income statement each period. The statement also requires additional disclosures to identify the effects of an entity s fair value

election on its earnings. The election is irrevocable. The Corporation has chosen not to elect to measure any specific group of financial assets or liabilities pursuant to SFAS 159.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS 158 *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* which requires the Corporation to recognize the funded status of a benefit plan as either assets or liabilities in the consolidated balance sheet and to recognize as a component of other comprehensive income, net of tax, the unrecognized actuarial gains or losses, prior service costs and transition obligations that arise during the period. The adoption of SFAS 158 for the year ended December 31, 2008 did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

In September 2006, the FASB issued Statement of Financial Accounting Standards SFAS 157, *Fair Value Measurements* , which upon adoption will replace various definitions of fair value in existing accounting literature with a single definition, will establish a framework for measuring fair value, and will require additional disclosures about fair value measurements. The statement clarifies that fair value is the price that would be received to sell an asset or the price paid to transfer a liability in the most advantageous market available to the entity and emphasizes that fair value is a market-based measurement and should be based on the assumptions market participants would use. The statement also creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The statement does not expand the use of fair value to any new circumstances. The Corporation has applied the new guidance beginning January 1, 2008, and such application did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

In July 2006, the FASB issued FASB Staff Position FSP 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* . This FSP amends SFAS 13, Accounting for Leases , to require a lessor in a leveraged lease transaction to recalculate the leveraged lease for the effects of a change or projected change in the timing of cash flows relating to income taxes that are generated by the leveraged lease. The guidance in FSP 13-2 was adopted by the Corporation on January 1, 2007. The application of this FSP did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

In June 2006, the FASB issued Interpretation No. 48 FIN 48, *Accounting for Uncertainty in Income Taxes* , an interpretation of SFAS 109, Accounting for Income Taxes . FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. FIN 48 also revises disclosure requirements to include an annual tabular roll-forward of unrecognized tax benefits. The provisions of this interpretation were adopted by the Corporation on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

In March 2006, the FASB issued Statement of Financial Accounting Standards SFAS 156, *Accounting for Servicing of Financial Assets* , an amendment of SFAS 140. This standard requires entities to separately recognize a servicing asset or liability whenever it undertakes an obligation to service financial assets and also requires all separately recognized servicing assets or liabilities to be initially measured at fair value. Additionally, this standard permits entities to choose among two alternatives, the amortization method or fair value measurement method, for the subsequent measurement of each class of separately recognized servicing assets and liabilities. Under the amortization method, an entity shall amortize the value of servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or liabilities for impairment or

increased obligation based on fair value at each reporting date. Under the fair value measurement method, an entity shall measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

Effective January 1, 2006, the Corporation adopted this statement by electing amortization method as its measurement method for residential real estate mortgage servicing rights (MSRs).

In February 2006, the FASB issued Statement of Financial Accounting Standards SFAS 155, *Accounting for Certain Hybrid Financial Instruments* , which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities , and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain an embedded derivative requiring bifurcation, or hybrid financial instruments that contain embedded

derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement was effective for all financial instruments acquired or issued by the Corporation on or after January 1, 2007 and the adoption of SFAS 155 did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentations used in the 2009 consolidated financial statements. Such reclassifications had no effect on the Corporation s consolidated financial condition or net income.

2. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the three months ended March 31, 2009 and 2008 were as follows:

(In Thousands)	2009	2008
Balance, beginning of year	$ 3,758	$ 1,437
Provision charged to operations	60	
Allowance acquired		
Loans charged off	(77)	(11)
Recoveries	12	12
Balance, March 31,	$ 3,753	$ 1,438

As of March 31, 2009, the total recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was $4,858,000. These impaired loans had a related allowance for loan losses of $508,000. No additional charge to operations was required to provide for the impaired loans since the total allowance for loan losses is estimated by management to be adequate to provide for the loan loss allowance required by SFAS No. 114 along with any other potential losses.

3. 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.

4. LONG-TERM BORROWINGS

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

5. DEFERRED COMPENSATION PLANS

The Bank has entered into certain non-qualified deferred compensation agreements with certain executive officers and directors. Expenses related to these non-qualified deferred compensation plans amounted to $43,000 and $39,000 for the three-month periods ended March 31, 2009 and 2008, respectively.

There were no substantial changes in other plans as disclosed in the 2008 Annual Report.

6. ACQUISITION

On July 18, 2008, the Corporation completed its acquisition of Columbia Financial Corporation(CFC). Under the terms of the Agreement and Plan of Reorganization dated as of November 29, 2007, CFC merged with and into the Corporation; and the Corporations wholly-owned subsidiary, Columbia County Farmers National Bank merged with and into the Bank. The Corporation acquired 100% of the outstanding shares of CFC for a total purchase price of $26,316,000. The transaction was accounted for in accordance with SFAS No. 141, Business Combinations . In connection therewith, the Corporation issued approximately 1,030,286 shares of its common stock and paid cash of approximately $3,000 in lieu of the issuance of fractional shares in exchange for all of the issued and outstanding shares of CFC common stock. Assets and liabilities of CFC are recorded at estimated fair values as of the acquisition date and the results of the acquired entity operations are included in income from that date. The fair values of acquired assets and liabilities, including identified intangible assets, are finalized as quickly as possible following the

acquisition. The CFC purchase price allocation is substantially complete; however, its valuations may be subject to revision as additional information becomes available. Purchase accounting adjustments determinable within twelve months of acquisition date result in adjustments to goodwill.

The following table shows the excess purchase price of the carrying value of net assets acquired, purchase price allocation and resulting goodwill recorded for this acquisition. Changes to the carrying amount of goodwill, premises and equipment and junior subordinate debentures, since the merger date, reflect additional information obtained about the fair value of the assets acquired and liabilities assumed.

(In Thousands)	
Purchase price	$ 26,316
Carrying value of net assets acquired	(17,855)
Excess of purchase price over carrying value of net assets acquired	8,461
Purchase accounting adjustments:	
Loans	30
Premises and equipment	853
Deposits	1,235
Severance and related costs	840
Deferred taxes	208
Subtotal	11,627
Core deposit intangibles	(3,690)
Goodwill	$ 7,937

The following table summarized the estimated fair value of net assets acquired:

(In Thousands)	
Assets	
Cash and cash equivalents	$ 5,157
Interest-bearing deposits in other banks	129
Federal funds sold	517
Investment securities	138,257
Loans, net of allowance for loan losses	160,724
Premises and equipment	6,492
Accrued interest receivable	1,534
Bank-owned life insurance	3,462
Investment in limited partnerships	919
Goodwill and other intangibles	11,627
Other assets	564
Total assets	$ 329,382
Liabilities	
Deposits	$ 264,692
Borrowings	31,883
Junior subordinate debentures	4,640
Accrued interest payable	764
Other liabilities	1,087
Total liabilities	$ 303,066
Fair value of net assets acquired	$ 26,316

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

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

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at March 31, 2009 and December 31, 2008 were as follows:

(In Thousands)	2009	2008
Financial instruments whose contract amounts repsresent credit risk:		
Commitments to extend credit	$72,831	$68,412
Standby letters of credit	3,197	3,064
Dealer floor plans	1,785	1,129
Loans held for sale	109	72

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 at March 31, 2009, 83.5% was for real estate loans, primarily residential. It was 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 was 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 SFAS No. 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. SFAS No. 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by SFAS No.157 hierarchy are as follows:

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 observables as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments of which can be directly observed.

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

The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of March 31, 2009 by level within the fair value hierarchy. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value

measurement.

	March 31, 2009			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Investment Securities, available-for-sale	$1,617	$195,430	$	$197,047

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

(In Thousands)	Level I	Level II	Level III	Total
Available for sale securities				
Obligation of US Government Agencies				
Mortgage-backed	$	$ 129,123	$	$ 129,123
Other		52,923		52,923
Obligations of state and political subdivisions		10,400		10,400
Equity securities	1,617			1,617
Restricted equity securities		2,984		2,984
	$ 1,617	$ 195,430	$	$ 197,047

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.

NOTE 9 MANAGEMENT S ASSERTIONS AND COMMENTS REQUIRED TO BE PROVIDED WITH FORM 10Q 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 their operations and their cash flows for the interim periods presented. Further, the consolidated interim financial statements are unaudited, however they reflect all adjustments, which are in the opinion of management, necessary to present fairly the consolidated financial condition and consolidated results of operations and cash flows for the interim periods presented and that all such adjustments to the consolidated financial statements are of a normal recurring nature.

These consolidated interim financial statements have been prepared in accordance with requirements of Form 10Q 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 10K filing. The reader of these consolidated interim financial statements may wish to refer to the Corporation s annual report or Form 10K for the period ended December 31, 2008 filed with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of March 31, 2009, and the related consolidated statements of income, changes in stockholders equity and cash flows for the three-month periods ended March 31, 2009 and 2008. 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, 2008, 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 10, 2009, 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, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J. H. Williams & Co., LLP
J.H. Williams & Co., LLP
Kingston, Pennsylvania
May 12, 2009

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

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

Our business and financial results are affected by business and economic conditions, both generally and specifically in the Northcentral Pennsylvania market in which we operate. In particular, our businesses and financial results may be impacted by:

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

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

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

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

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

Changes resulting from the newly enacted Emergency Economic Stabilization Act of 2008.

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

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

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low through 2009 with continued wide market credit spreads and our view that national economic trends currently point to a continuation of severe recessionary conditions through 2009 followed by a subdued recovery.

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

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

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

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

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

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

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

The words believe, expect, anticipate, project and similar expressions signify forward looking statements. Reade 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

2009 vs. 2008

Tax-equivalent net interest income increased $3.0 million to $5.2 million for the three months ended March 31, 2009. Reported tax-equivalent interest income increased $3.8 million to $7.4 million for the three months ended March 31, 2009. The increase primarily resulted from the acquisition of Columbia Financial Corporation (CFC) as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. The acquisition of CFC contributed an increase in net loans in the amount of $160.7 million, an increase in investment securities in the amount of $138.3 million, an increase in federal funds sold in the amount of $517,000, and an increase in interest-bearing deposits in other banks of $129,000. Reported interest expense increased $1.3 million or 21.3 percent to $7.5 million. The acquisition of CFC contributed an increase in deposits in the amount of $264.7 million, an increase in other borrowings of $31.9 million, and an increase of $4.6 million in junior subordinate debentures.

Net interest margin increased to 3.95 percent at March 31, 2009 from 3.79 percent at March 31, 2008. The increase in margin resulted primarily from the yield on interest-bearing deposits decreasing 69 basis points to 2.07 percent at March 31, 2009 while the yield on total borrowings decreased 223 basis points to 1.75 percent at March 31, 2009. A decrease of 252 basis points on the short-term borrowings for the three months ended March 31, 2009 was the primary reason for the yield decrease in the total borrowings as the long-term borrowing yield decreased 1 basis point over the same period. The short-term borrowing had an average balance of $46.6 million and $28.7 million as of March 31, 2009 and 2008, respectively. The yield decreases were driven by the rate decreases enacted throughout 2008 by the Federal Open Market Committee (FOMC) as well as local market competition. The yield on interest-earning assets decreased 59 basis points to 5.70 percent for the three months ended March 31, 2009. The yield on total loans decreased 76 basis points to 6.31 percent for the three months ended March 31, 2009.

The following Average Balance Sheet and Rate Analysis table presents the average assets, actual income or expense and the average yield on assets, liabilities and stockholders equity for the three months ended March 31, 2009 and 2008.

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

(In Thousands)	2009 Average Balance (1)	2009 Interest	2009 Average Rate	2008 Average Balance (1)	2008 Interest	2008 Average Rate
ASSETS:						
Tax-exempt loans	$ 19,891	$ 308	6.28%	$ 12,852	$ 218	6.88%
All other loans	303,855	4,733	6.32%	147,855	2,583	7.08%
Total loans (2)(3)(4)	323,746	5,041	6.31%	160,707	2,801	7.07%
Taxable securities	180,892	2,238	4.95%	55,719	633	4.54%
Tax-exempt securitites (3)	9,351	132	5.65%	3,907	69	7.06%
Total securities	190,243	2,370	4.98%	59,626	702	4.71%
Federal funds sold	10,722	5	0.19%	8,201	64	3.16%
Interest-bearing deposits	573	1	0.71%	1,730	13	3.05%
Total interest-earning assets	525,284	7,417	5.70%	230,264	3,580	6.29%
Other assets	44,292			18,909		
TOTAL ASSETS	$ 569,576			$ 249,173		
LIABILITIES:						
Savings	$ 55,231	54	0.40%	$ 24,094	24	0.40%
Now deposits	69,265	26	0.15%	28,054	21	0.30%
Money market deposits	42,289	127	1.22%	7,375	12	0.66%
Time deposits	227,652	1,806	3.22%	92,840	979	4.28%
Total deposits	394,437	2,013	2.07%	152,363	1,036	2.76%
Short-term borrowings	46,623	81	0.70%	28,705	228	3.22%
Long-term borrowings	9,132	137	6.08%	10,257	154	6.09%
Junior subordinate debentures	4,640	42	3.67%			
Total borrowings	60,395	260	1.75%	38,962	382	3.98%

Total interest-bearing liabilities	454,832	2,273	2.03%	191,325	1,418	3.01%
Demand deposits	49,751			18,477		
Other liabilities	3,385			7,905		
Stockholders equity	61,608			31,466		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 569,576			$ 249,173		
Interest rate spread (6)			3.67%			3.28%
Net interest income/margin (5)		$ 5,144	3.95%		$ 2,162	3.79%

(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 2009 and 2008.

(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.

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

(In Thousands)	2009	2008
Total interest income	$ 7,266	$ 3,482
Total interest expense	2,273	1,418
Net interest income	4,993	2,064
Tax equivalent adjustment	151	98
Net interest income (fully taxable equivalent)	$ 5,144	$ 2,162

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 balance sheet as it pertains to net interest income, the table below reflects these changes for 2009 versus 2008:

	Three Months Ended March 31, 2009 vs 2008 Increase (Decrease) Due to		
(In Thousands)	Volume	Rate	Net
Interest income:			
Loans, tax-exempt	$ 109	$ (19)	$ 90
Loans	2,430	(280)	2,150
Taxable investment securities	1,549	56	1,605
Tax-exempt investment securities	77	(14)	63
Federal funds sold	1	(60)	(59)
Interest bearing deposits	(2)	(10)	(12)
Total interest-earning assets	4,164	(327)	3,837
Interest expense:			
Savings	30		30
NOW deposits	15	(10)	5
Money market deposits	105	10	115
Time deposits	1,069	(242)	827
Short-term borrowings	31	(178)	(147)
Long-term borrowings, FHLB	(17)		(17)
Junior subordinate debentures	42		42
Total interest-bearing liabilities	1,275	(420)	855
Change in net interest income	$ 2,889	$ 93	$ 2,982

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PROVISION FOR LOAN LOSSES
2009 vs. 2008

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

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at March 31, 2009, 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 $60,000 and $0 for the three months ended March 31, 2009 and 2008, respectively. Management concluded the increase of the provision was appropriate considering the gross loan growth experience of $4,982,000, increases in nonperforming assets, and the general downturn in 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
2009 vs. 2008

Total non-interest income increased $666 thousand or 133.2 percent to $1.2 million for the three months ended March 31, 2009. The increase primarily resulted from the acquisition of CFC as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. The service charges and fees increased $159,000 or 66.5 percent to $398,000 for the three months ended March 31, 2009. Gain on sale of loans increased $49,000 or 104.3 percent from $47,000 in 2008 to $96,000 in 2009. Brokerage income increased $18,000 or 47.4 percent from $38,000 in 2008 to $56,000 in 2009. Trust income increased $114,000 or 300.0 percent from $38,000 in 2008 to $152,000 in 2009. Other income increased $288,000 from $73,000 in 2008 to $361,000 in 2009 as a result of a $68,000 gain recorded on the sale of the Main street facility as well as increased ATM transaction revenue and related surcharges.

	For The Three Months Ended					
	March 31, 2009		March 31, 2008		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	$ 398	34.1%	$239	47.8%	$159	66.5%
Gain on sale of loans	96	8.2	47	9.4	49	104.3
Earnings on bank-owned life insurance	103	8.8	65	13.0	38	58.5
Brokerage and insurance	56	4.8	38	7.6	18	47.4
Trust	152	13.0	38	7.6	114	300.0
Other	361	31.1	73	14.6	288	394.5
Total non-interest income	$1,166	100.0%	$500	100.0%	$666	133.2%

NON-INTEREST EXPENSE
2009 vs. 2008

Total non-interest expense increased $2.3 million or 133.5% from $1.7 million in 2008 to $4.0 million in 2009. The increases primarily resulted from the acquisition of CFC as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. Salaries and employee benefits increased $1.1 million or 110.1 percent for the three months ended March 31, 2009. Professional fees increased $101,000 or 153.0 percent from $66,000 in 2008 to $167,000 in 2009. Other expenses, Occupancy, Furniture and Equipment, Professional fees, and Directors fees all experienced net increases as a result of the CFC acquisition.

One standard to measure non-interest expense is to express annualized non-interest expense as a percentage of average total assets. As of March 31, 2009 this percentage was 2.79 percent compared to 2.73 percent in 2008.

	For The Three Months Ended					
	March 31, 2009		March 31, 2008		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Salaries	$1,601	40.3%	$ 703	41.4%	$ 898	127.7%
Employee benefits	434	10.9	245	14.4	189	77.1
Occupancy	307	7.7	138	8.1	169	122.5
Furniture and equipment	323	8.1	115	6.8	208	180.9
State shares tax	143	3.6	85	5.0	58	68.2
Professional fees	167	4.2	66	3.9	101	153.0
Directors fees	71	1.8	46	2.7	25	54.3
Other	922	23.4	301	17.7	621	206.3
Total non-interest expense	$3,968	100.0%	$1,699	100.0%	$2,269	133.5%

FINANCIAL CONDITION

Our consolidated assets at March 31, 2009 were $569.5 million which represented an increase of $1.2 million from $568.3 million at December 31, 2008.

Loans increased 1.6 percent from $320.1 million at December 31, 2008 to $325.1 million at March 31, 2009.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio decreased during 2009 to 72.7 percent compared to 73.7 percent at December 31, 2008.

INVESTMENTS

All of our securities are available-for-sale and are carried at estimated fair value. Available-for-sale securities are reported on the consolidated balance sheet at fair value with an offsetting adjustment to deferred taxes. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the bank of restructuring the portfolio for gap positioning at any time through the securities classed as available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on March 31, 2009 of $1,646,000 compared to an unrealized gain, net of tax, on December 31, 2008 of $1,622,000, which represents an unrealized gain, net of tax, of $24,000 for the three months ended March 31, 2009. The following table shows the amortized cost and estimated fair value of the investment securities as of the dates shown:

	March 31, 2009	
(In Thousands)	Amortized Cost	Estimated Fair Value
Obligation of U.S.Government Corporations and Agencies:		
Mortgage-backed	$ 126,521	$ 129,123
Other	52,112	52,923
Obligations of state and political subdivisions	10,313	10,400
Total debt securities	188,946	192,446
Marketable equity securities	2,623	1,617
Restricted equity securities	2,984	2,984
Total investment securities AFS	$ 194,553	$ 197,047

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(In Thousands)	December 31, 2008 Amortized Cost	Estimated Fair Value
Obligation of U.S.Government Corporations and Agencies:		
Mortgage-backed	$ 116,357	$ 118,046
Other	63,031	64,080
Obligations of state and political subdivisions	9,944	9,994
Total debt securities	189,332	192,120
Marketable equity securities	2,623	2,293
Restricted equity securities	2,167	2,167
Total investment securities AFS	$ 194,122	$ 196,580

LOANS

The loan portfolio increased 1.6 percent from $320.1 million at December 31, 2008 to $325.1 million at March 31, 2009. The percentage distribution in the loan portfolio was 83.5 percent in real estate loans at $271.5 million; 8.0 percent in commercial loans at $26.0 million; 2.4 percent in consumer loans at $7.9 million; and 6.0 percent in tax exempt loans at $19.6 million.

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

(In Thousands)	3/31/2009	12/31/2008	Change Amount	Change %
Commercial, financial and agricultural	$ 25,990	$ 27,165	$ (1,175)	(4.3)%
Tax-exempt	19,589	16,762	2,827	16.9
Real estate	263,998	262,539	1,459	0.6
Real estate construction	7,507	5,307	2,200	41.5
Installment loans to individuals	7,899	8,202	(303)	(3.7)
Add (deduct): Unearned discount	(21)	(24)	3	(12.5)
Unamortized loan costs, net of fees	88	117	(29)	(24.8)
Gross loans	$ 325,050	$ 320,068	$ 4,982	1.6%

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

	3/31/2009	12/31/2008
Commercial, financial and agricultural	8.0%	8.5%
Tax-exempt	6.0	5.2
Real estate	81.2	82.1
Real estate construction	2.3	1.7
Installment loans to individuals	2.4	2.5
Gross loans	100.0%	100.0%

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was $3.8 million at March 31, 2009, compared to $1.4 million at March 31, 2008. This allowance equaled 1.16 percent and .90 percent of total loans, net of unearned income, as of March 31, 2009 and 2008, respectively. An increase of $1.7 million resulted from the acquisition of CFC as described in Note 6 of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q. The loan loss reserve is analyzed quarterly and reviewed by the Bank s Board of Directors. The assessment of the loan policies and procedures during 2009 revealed no anticipated loss on any loans considered significant . No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Semi-monthly loan 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 as it relates to the loan portfolio.

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

(In Thousands)	For the Three Months Ended March 31, 2009	2008
Average Loans Outstanding during the period	$ 323,746	$ 160,707
Balance, beginning of year	$ 3,758	$ 1,437
Provision charged to operations	60	
Allowance acquired		
Loans charged off:		
Commercial, financial, and agricultural	(67)	
Real estate mortgages		(1)
Installment loans to indiviuals	(10)	(10)
Recoveries:		
Commercial, financial, and agricultural		
Real estate mortgages	7	
Installment loans to indiviuals	5	12
Balance, March 31,	$ 3,753	$ 1,438
Net charge-offs to Average loans outstanding during the period	-0.02%	0.00%

NON-PERFORMING LOANS

As of March 31, 2009, loans 30-89 days past due totaled $2.6 million compared to $1.6 million at December 31, 2008. There were no 90-days past due loans that were not classified as non-accrual at March 31, 2009 or December 31, 2008.. Non-accrual loans totaled $4.5 million at March 31, 2009 and December 31, 2008. Overall, past due and non-accrual loans increased $987 thousand to $7.0 million at March 31, 2009 from $6.1 million at December 31, 2008

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

(In Thousands)	March 31, 2009	December 31, 2008
Commercial, financial and agricultural		
Days 30-89	$ 769	$ 61
Days 90 plus		
Non-accrual	529	581
Real estate		
Days 30-89	1,789	1,528
Days 90 plus		
Non-accrual	3,860	3,780
Installment loans to individuals		

Days 30-89		17		9
Days 90 plus				
Non-accrual		74		92
	$	7,038	$	6,051
Days 30-89	$	2,575	$	1,598
Days 90 plus				
Non-accrual		4,463		4,453
	$	7,038	$	6,051
Restructured loans still accruing	$	57	$	58
Other real estate owned	$	670	$	373

DEPOSITS

Total deposits increased by 3.0 percent from $434.3 million at December 31, 2008 to $447.2 million at March 31, 2009. Savings deposits increased 3.6 percent to $56.7 million at March 31, 2009 from $54.7 million at December 31, 2008. Money market deposits increased 26.9 percent to $47.1 million as of March 31, 2009 from $37.1 million as of December 31, 2008. Interest bearing NOW accounts increased 3.9 percent from $63.8 million at December 31, 2008 to $66.3 million at March 31, 2009**.**

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

	March 31, 2009		December 31, 2008		Change	
(In Thousands)	Balance	Average Rate	Balance	Average Rate	Amount	%
Non-interest bearing	$ 50,857	%	$ 52,460	%	$ (1,603)	(3.1)%
Savings	56,673	0.40	54,717	0.40	1,956	3.6
Now deposits	66,286	0.15	63,776	0.27	2,510	3.9
Money market deposits	47,090	1.22	37,120	1.66	9,970	26.9
Time deposits	226,342	3.22	226,236	3.53	106	
Total deposits	$447,248	1.83%	$434,309	2.07%	$12,939	3.0%

BORROWED FUNDS

Short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB Pittsburgh borrowings decreased 19.5 percent from $69.2 million at December 31, 2008 to $55.7 million at March 31, 2009.

(In Thousands)	March 31, 2009		December 31, 2008		Change	
	Amount	% Total	Amount	% Total	Amount	%
Short-term borrowings:						
FHLB repurchase agreements	$	%	$	%	$	%
Short-term borrowings, FHLB						
Securities sold under agreement to repurchase	41,939	75.3	55,462	80.1	(13,523)	(24.4)
Total short-term borrowings	41,939	75.3%	55,462	80.1%	(13,523)	(24.4)
Junior subordinate debentures	4,640	8.3	4,640	6.7		
Long-term borrowings, FHLB	9,131	16.4	9,133	13.2	(2)	(0.0)
Total borrowed funds	$55,710	100.0%	$69,235	100.0%	$(13,525)	(19.5)%

LIQUIDITY

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

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

We manage liquidity on a daily basis. We believe that our liquidity is sufficient to meet present and future financial obligations and commitments on a timely basis.

CAPITAL RESOURCES

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

As of March 31, 2009, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios.

Our actual consolidated capital amounts and ratios as of March 31, 2009 and December 31, 2008 are in the following table:

	2009		2008	
(In Thousands)	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	$56,463	17.4%	$55,851	16.5%
For Capital Adequacy Purposes	26,024	8.0	27,112	8.0
To Be Well-Capitalized	32,529	10.0	33,890	10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	$52,700	16.2%	$52,083	15.4%
For Capital Adequacy Purposes	13,012	4.0	13,556	4.0
To Be Well-Capitalized	19,518	6.0	20,334	6.0
Tier I Capital (to Average Assets)				
Actual	$52,700	9.4%	$52,083	9.3%
For Capital Adequacy Purposes	22,336	4.0	22,476	4.0
To Be Well-Capitalized	27,920	5.0	28,095	5.0

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

INTEREST RATE RISK MANAGEMENT

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

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

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

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

At March 31, 2009, our cumulative gap positions and the potential earnings change resulting from a 200 basis point change in rates were within the internal risk management guidelines.

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. Constant monitoring using asset/liability reports and interest rate risk scenarios are in place along with quarterly

asset/liability management meetings on the committee level by the Bank s Board of Directors. Additionally, the Bank s Asset/Liability Committee meets quarterly with an investment consultant.

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, 2008.

Item 4. Controls and Procedures

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

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

The CEO and CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended March 31, 2009, 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, 2008, which could materially affect our business, financial condition or future results. At March 31, 2009 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K. However, 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.

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

CCFNB BANCORP, INC.
ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	NUMBER OF SHARES PURCHASED	PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM (1)	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
01/01/09 - 01/31/09	0		0	0
02/01/09 - 02/28/09	0		0	0
03/01/09 - 03/31/09	0		0	0
TOTAL	0		0	0

(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.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

On March 30, 2009 the Bank entered into a sales agreement to sell a former branch facility located at 1016 W. Front Street, Berwick, PA for a price of $205,000.

On May 4, 2009 the Bank entered into a sales agreement to sell a former branch facility located at 4242 Old Berwick Road, Bloomsburg, PA for a price of $187,500.

Item 6. Exhibits

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

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

32 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended March 31, 2009, 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

Date: May 12, 2009

By /s/ Jeffrey T. Arnold
Jeffrey T. Arnold, CPA, CIA
Chief Financial Officer

Date: May 12, 2009