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CCFNB BANCORP INC
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended September 30, 2002

TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-19028

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

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

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

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

17815
(Zip Code)

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

Check whether the issuer (1) 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 issuer was required to file such
reports), and (2) has been subject to such filing requirements for the past 90
days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date. 1,299,989 shares of
\$1.25 (par) common stock were outstanding as of October 30, 2002.

CCFNB BANCORP, INC. AND SUBSIDIARY

SEPTEMBER 30, 2002

INDEX 10-Q

EXHIBIT 27 - FINANCIAL DATA SCHEDULE

NO PAGE
#

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | SEPTEMBER 30, 2002 UNAUDITED ----- | DECEMBER 31, 2001 ----- |
|--|---|-------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 5,987 | \$ 6,205 |
| Interest-bearing deposits with other banks | 2,195 | 2,313 |
| Federal funds sold | 4,540 | 0 |
| Investment securities: | | |
| Securities Available-for-Sale | 58,015 | 57,121 |
| Loans, net of unearned income | 150,624 | 142,990 |
| Allowance for loan losses | 1,279 | 1,028 |
| | ----- | ----- |
| Net loans | \$149,345 | \$141,962 |
| Premises and equipment | 4,524 | 4,635 |
| Other real estate owned | 89 | 0 |
| Accrued interest receivable | 898 | 977 |
| Other assets | 1,017 | 1,025 |
| | ----- | ----- |
| TOTAL ASSETS | \$226,610 | \$214,238 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Non-interest bearing | \$ 16,079 | \$ 14,712 |

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| | | |
|---|-----------|-----------|
| Interest bearing | 152,457 | 140,954 |
| | ----- | ----- |
| Total Deposits | \$168,536 | \$155,666 |
| Short-term borrowings | 18,301 | 19,781 |
| Long-term borrowings | 11,350 | 11,357 |
| Accrued interest and other expenses | 1,334 | 1,382 |
| Other liabilities | 167 | 10 |
| | ----- | ----- |
| TOTAL LIABILITIES | \$199,688 | \$188,196 |
| | ===== | ===== |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued and outstanding 1,301,989 shares in 2002 and 1,326,172 shares in 2001 | | |
| | \$ 1,627 | \$ 1,658 |
| Surplus | 4,221 | 4,730 |
| Retained earnings | 20,453 | 19,579 |
| Accumulated other comprehensive income (loss) | 621 | 75 |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | \$ 26,922 | \$ 26,042 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$226,610 | \$214,238 |
| | ===== | ===== |

See accompanying notes to Consolidated Financial Statements.

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS EXCEPT PER SHARE DATA)
UNAUDITED

| | FOR THE NINE MONTHS ENDING SEPTEMBER 30, ----- | | FOR MONT SEPT ----- |
|--|---|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| | ----- | ----- | ----- |
| INTEREST INCOME | | | |
| Interest and fees on loans: | | | |
| Taxable | \$ 7,514 | \$ 7,899 | \$ 2,507 |
| Tax-exempt | 108 | 123 | 43 |
| Interest and dividends on investment securities: | | | |
| Taxable interest | 1,314 | 1,350 | 413 |
| Tax-exempt interest | 611 | 603 | 202 |
| Dividends | 44 | 62 | 14 |
| Interest on federal funds sold | 41 | 58 | 22 |
| Interest on deposits in other banks | 52 | 247 | 19 |
| | ----- | ----- | ----- |
| TOTAL INTEREST INCOME | \$ 9,684 | \$ 10,342 | \$ 3,220 |
| | ----- | ----- | ----- |
| INTEREST EXPENSE | | | |
| Interest on deposits | \$ 3,557 | \$ 4,202 | \$ 1,205 |
| Interest on short-term borrowings | 258 | 607 | 88 |

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| | | | |
|--|-----------|-----------|-----------|
| Interest on long-term borrowings | 509 | 560 | 172 |
| | ----- | ----- | ----- |
| TOTAL INTEREST EXPENSE | \$ 4,324 | \$ 5,369 | \$ 1,465 |
| | ----- | ----- | ----- |
| Net interest income | \$ 5,360 | \$ 4,973 | \$ 1,755 |
| Provision for loan losses | 264 | 148 | 205 |
| | ----- | ----- | ----- |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | \$ 5,096 | \$ 4,825 | \$ 1,550 |
| | ----- | ----- | ----- |
| NON-INTEREST INCOME | | | |
| Service charges and fees | \$ 487 | \$ 453 | \$ 161 |
| Trust department income | 151 | 165 | 48 |
| Securities gains - net | 107 | 71 | 107 |
| Other income | 143 | 132 | 58 |
| | ----- | ----- | ----- |
| TOTAL NON-INTEREST INCOME | \$ 888 | \$ 821 | \$ 374 |
| | ----- | ----- | ----- |
| NON-INTEREST EXPENSES | | | |
| Salaries and wages | \$ 1,638 | \$ 1,524 | \$ 563 |
| Pensions and other employee benefits | 566 | 518 | 193 |
| Occupancy expense, net | 268 | 281 | 88 |
| Furniture and equipment expense | 442 | 406 | 141 |
| Other operating expenses | 1,162 | 1,103 | 404 |
| | ----- | ----- | ----- |
| TOTAL NON-INTEREST EXPENSES | \$ 4,076 | \$ 3,832 | \$ 1,389 |
| | ----- | ----- | ----- |
| Income before income taxes | \$ 1,908 | \$ 1,814 | \$ 535 |
| Income tax expense | 419 | 401 | 101 |
| | ----- | ----- | ----- |
| NET INCOME | \$ 1,489 | \$ 1,413 | \$ 434 |
| | ===== | ===== | ===== |
| PER SHARE DATA | | | |
| Net income | \$ 1.13 | \$ 1.05 | \$.33 |
| Cash dividends | \$.47 | \$.44 | \$.16 |
| Weighted average shares outstanding | 1,312,811 | 1,340,749 | 1,312,811 |

See accompanying notes to Consolidated Financial Statements.

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
UNAUDITED

FOR THE NINE
MONTHS ENDING
SEPTEMBER 30,

2002 2001

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| | | |
|---|------------|------------|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,489 | \$ 1,413 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 264 | 148 |
| Provision for depreciation and amortization | 361 | 331 |
| Premium amortization on investment securities | 149 | 58 |
| Discount accretion on investment securities | (17) | (13) |
| Securities gains - net | (107) | (71) |
| Deferred income taxes (benefit) | (114) | (47) |
| (Increase) decrease in accrued interest receivable and other assets | 34 | (348) |
| (Decrease) in accrued interest, other expenses and other liabilities | (15) | (6) |
| Loss from investment in insurance agency | 6 | 0 |
| | ----- | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 2,050 | \$ 1,465 |
| | ----- | ----- |
| INVESTING ACTIVITIES | | |
| Proceeds from sales, maturities and redemptions of investment securities Available-for-Sale | \$ 26,042 | \$ 25,408 |
| Purchase of investment securities Available-for-Sale | (26,130) | (29,762) |
| Net (increase) decrease in loans | (7,736) | (4,231) |
| Purchases of premises and equipment | (250) | (72) |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | \$ (8,074) | \$ (8,657) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposits | \$ 12,870 | \$ 8,765 |
| Net increase (decrease) in short-term borrowings | (1,480) | 1,132 |
| Net increase (decrease) in long-term borrowings | (7) | (2,007) |
| Proceeds from issuance of common stock | 135 | 113 |
| Acquisition of treasury stock | (675) | (328) |
| Cash dividends paid | (615) | (589) |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | \$ 10,228 | \$ 7,086 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ 4,204 | \$ (106) |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 8,518 | 12,663 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 12,722 | \$ 12,557 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | \$ 4,353 | \$ 5,369 |
| Income taxes | \$ 532 | \$ 468 |

See accompanying notes to Consolidated Financial Statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CCFNB Bancorp, Inc. and its wholly owned subsidiary, Columbia County Farmers National Bank (the "Bank") and all other equity interests. All significant inter-company balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS & LINES OF BUSINESS

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

Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and the loans are mainly real estate loans covering primary residences and small business enterprises. The trust services, under the name of CCFNB and Co., include administration of various estates, pension plans, self-directed IRA's and other services. A third-party brokerage arrangement is also resident in the main branch, namely Bloomsburg. This investment center offers a full line of stocks, bonds and other non-insured financial services.

On December 19, 2000, the Corporation became a Financial Holding Company by having filed an election to do so with the Federal Reserve Board. The Bancorp acquired a 50% interest in a local insurance agency during January 2001.

USE OF ESTIMATES

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

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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.

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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 a component of Stockholders' Equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

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

LOANS

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

Non-Accrual Loans - Generally, a loan is classified as non-accrual, with the accrual of interest on such a loan discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan currently is performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for credit losses. Certain non-accrual loans may continue to perform, that is, 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 judgement as to collectibility of principal.

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

A factor in estimating the allowance for loan losses is the measurement of impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash

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flows using the loan's effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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

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.

OTHER REAL ESTATE OWNED

Other real estate owned is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. In accordance with Statement of Financial Accounting Standards (SFAS) No. 114, a loan is classified as in-substance foreclosure when the Corporation has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Other real estate owned is recorded at fair value at the date of foreclosure, establishing a new cost basis and is included in other assets. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of (1) cost or (2) fair value minus estimated costs to sell. Income and expenses from operations of other real estate owned and changes in the valuation allowance are included in other non-interest income and expense.

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INVESTMENT IN INSURANCE AGENCY

On January 2, 2001, the Corporation acquired a 50% interest in a local insurance agency, a corporation organized under the laws of the Commonwealth of Pennsylvania. The income or loss from this investment is accounted for under the equity method of accounting. The carrying value of this investment was \$159,289 and \$165,352 at September 30, 2002 and December 31, 2001, respectively.

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 bases of assets and liabilities measured by using the

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enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

PER SHARE DATA

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

CASH FLOW INFORMATION

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

TRUST ASSETS AND INCOME

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

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SEGMENT REPORTING

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting

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for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", is generally effective for transactions occurring after March 31, 2001. For recognition and reclassification of collateral and for disclosure related to securitization transactions and collateral, the effective date is for fiscal years ending after December 15, 2000. SFAS No. 140 replaces SFAS No. 125 and provides revisions to the standards for accounting and requirements for certain disclosures relating to securitizations and other transfers of financial assets. The standard is not expected to have a significant impact on the Corporation's consolidated financial condition or results of operations.

RECLASSIFICATION

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentation used in the 2002 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

NOTE 2 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the periods ended September 30, 2002 and September 30, 2001 were as follows:

| | (AMOUNTS IN THOUSANDS) | |
|---------------------------------------|------------------------|----------|
| | 2002 | 2001 |
| | ----- | ----- |
| Balance, beginning of year | \$ 1,028 | \$ 1,008 |
| Provision charged to operations | 264 | 148 |
| Loans charged-off | (65) | (145) |
| Recoveries | 52 | 37 |
| | ----- | ----- |
| Balance, September 30 | \$ 1,279 | \$ 1,048 |
| | ===== | ===== |

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At September 30, 2002 the recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was \$38,602. 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.

At September 30, 2002, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

NOTE 3 - SHORT-TERM BORROWINGS

Federal funds purchased, 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.

NOTE 4 - LONG-TERM BORROWINGS

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Long-term borrowings are comprised of advances from the Federal Home Loan Bank.

NOTE 5 - STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the period ended September 30, 2002 were as follows:

| | COMMON SHARES | COMMON STOCK | SURPLUS | COMPREHENSIVE INCOME (LOSS) | RETAINED EARNINGS |
|---|------------------|-----------------|---------|-----------------------------------|----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at January 1, 2002 | 1,326,172 | \$1,658 | \$4,730 | \$ 0 | \$19,579 |
| Comprehensive Income: | | | | | |
| Net income | 0 | 0 | 0 | 1,489 | 1,489 |
| Change in unrealized gain (loss) on investment securities available-for-sale net of reclassification adjustment and tax effects | 0 | 0 | 0 | 546 | 0 |
| | | | | ----- | |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | | | \$ 2,035 | |
| | | | | ===== | |
| Issuance of 6,317 shares of common stock under dividend reinvestment and stock purchase plans | 6,317 | 8 | 127 | | 0 |
| Purchase of 30,500 shares of treasury stock | 0 | 0 | 0 | | 0 |
| Retirement of 30,500 shares of treasury stock | (30,500) | (39) | (636) | | 0 |
| Cash dividends \$.31 per share | 0 | 0 | 0 | | (615) |
| | ----- | ----- | ----- | | ----- |
| Balance at September 30, 2002 | 1,301,989 | \$1,627 | \$4,221 | | \$20,453 |
| | ===== | ===== | ===== | | ===== |

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NOTE 6 - 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

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engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at September 30, 2002 and December 31, 2001 were as follows:

| | (Amounts in Thou | |
|---|------------------|-------|
| | ----- | ----- |
| | SEPTEMBER | DE |
| | 30, 2002 | 31 |
| | ----- | -- |
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | \$12,607 | \$1 |
| Financial standby letters of credit | 1,887 | |
| Performance standby letters of credit | 48 | |
| Dealer floor plans | 1,911 | |

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 the performance of a customer to a third party. 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 within Pennsylvania. Of the total loan portfolio at September 30, 2002, 82.6% was for real estate loans, principally residential. It was the opinion of management that the high concentration did not pose an adverse credit risk. Further, it was management's opinion that the remainder of the loan portfolio was balanced and diversified to the extent necessary to avoid any significant concentration of credit.

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NOTE 7 - 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 CCFNB Bancorp, Inc. and Subsidiary, 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.

The results of operations for the nine-month period ended September 30, 2002, are not necessarily indicative of the results to be expected for the full year.

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, 2001, filed with the Securities and Exchange Commission.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of September 30, 2002, and the related consolidated statements of income and cash flows for the three and nine month periods ended September 30, 2002 and 2001. These consolidated financial statements are the responsibility of the management of CCFNB Bancorp, Inc. and Subsidiary.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, 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 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 auditing standards generally accepted in the United States of America, the consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2001, and the related

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consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 18, 2002, 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, 2001, 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
October 23, 2002

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CCFNB BANCORP, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 2002

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated Summary of Operations
(Dollars in Thousands, except for per share data)

| | At and For the Nine Months Ended September 30, | |
|-------------------------------------|--|-----------|
| | 2002 | 2001 |
| | ---- | ---- |
| Income and Expense: | | |
| Interest income | \$ 9,684 | \$ 10,342 |
| Interest expense | 4,324 | 5,369 |
| | ---- | ---- |
| Net interest income | 5,360 | 4,973 |
| Loan loss provision | 264 | 148 |
| | ---- | ---- |
| Net interest income after loan loss | | |
| Provision | 5,096 | 4,825 |
| Non-interest income | 888 | 821 |
| Non-interest expense | 4,076 | 3,832 |
| | ---- | ---- |
| Income before income taxes | 1,908 | 1,814 |
| Income taxes | 419 | 401 |
| | ---- | ---- |
| Net income | \$ 1,489 | \$ 1,413 |
| | ===== | ===== |
| Per Share (1): | | |
| Net income | \$ 1.13 | \$ 1.05 |
| Cash dividends paid | .47 | .44 |
| Average shares outstanding | 1,312,811 | 1,340,749 |
| Average Balance Sheet: | | |

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| | | | | |
|--|----|---------|----|---------|
| Loans | \$ | 146,565 | \$ | 139,468 |
| Investments | | 54,381 | | 51,680 |
| Other earning assets | | 7,590 | | 8,213 |
| Total assets | | 219,015 | | 210,011 |
| Deposits | | 162,157 | | 150,820 |
| Other interest-bearing liabilities | | 29,417 | | 31,781 |
| Stockholders' equity | | 26,036 | | 26,008 |
| Balance Sheet Data: | | | | |
| Loans | \$ | 150,624 | \$ | 142,990 |
| Investments | | 58,015 | | 57,121 |
| Other earning assets | | 6,735 | | 2,313 |
| Total assets | | 226,610 | | 214,238 |
| Deposits | | 168,536 | | 155,666 |
| Other interest-bearing liabilities | | 29,651 | | 31,138 |
| Stockholders' equity | | 26,922 | | 26,042 |
| Ratios: (2) | | | | |
| Return on average assets | | .91% | | .90% |
| Return on average equity | | 7.63 | | 7.23% |
| Dividend payout ratio | | 41.30% | | 41.68% |
| Average equity to average assets ratio | | 11.89% | | 12.38% |

| | | At and For the Years Ended December | | | |
|-------------------------------------|----|-------------------------------------|------------|------------|----------|
| | | 2001 | 2000 | 1999 | 1998 |
| | | ---- | ---- | ---- | ---- |
| Income and Expense: | | | | | |
| Interest income | \$ | 13,720 | \$ 13,552 | \$ 12,669 | \$ 12,4 |
| Interest expense | | 6,924 | 6,859 | 6,099 | 6,0 |
| | | ----- | ----- | ----- | ----- |
| Net interest income | | 6,796 | 6,693 | 6,570 | 6,3 |
| Loan loss provision | | 163 | 54 | 78 | |
| | | ----- | ----- | ----- | ----- |
| Net interest income after loan loss | | | | | |
| Provision | | 6,633 | 6,639 | 6,492 | 6,2 |
| Non-interest income | | 1,149 | 1,053 | 1,050 | 9 |
| Non-interest expense | | 5,104 | 4,967 | 4,818 | 4,7 |
| | | ----- | ----- | ----- | ----- |
| Income before income taxes | | 2,678 | 2,725 | 2,724 | 2,5 |
| Income taxes | | 621 | 671 | 685 | 6 |
| | | ----- | ----- | ----- | ----- |
| Net income | \$ | 2,057 | \$ 2,054 | \$ 2,039 | \$ 1,9 |
| | | ===== | ===== | ===== | ===== |
| Per Share (1): | | | | | |
| Net income | \$ | 1.54 | \$ 1.51 | \$ 1.48 | \$ 1. |
| Cash dividends paid | | .59 | .56 | .51 | . |
| Average shares outstanding | | 1,338,007 | 1,355,624 | 1,375,572 | 1,378,3 |
| Average Balance Sheet: | | | | | |
| Loans | \$ | 139,219 | \$ 134,325 | \$ 123,185 | \$ 116,4 |
| Investments | | 50,593 | 47,003 | 49,827 | 45,8 |
| Other earning assets | | 6,569 | 219 | 1,638 | 3,8 |
| Total assets | | 208,630 | 196,727 | 186,597 | 177,6 |
| Deposits | | 149,601 | 139,774 | 138,963 | 131,3 |
| Other interest-bearing liabilities | | 31,629 | 31,203 | 23,458 | 22,6 |
| Stockholders' equity | | 25,890 | 23,910 | 22,874 | 22,2 |
| Balance Sheet Data: | | | | | |
| Loans | \$ | 142,990 | \$ 137,360 | \$ 134,423 | \$ 118,5 |
| Investments | | 57,121 | 47,311 | 49,104 | 48,1 |

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| | | | | |
|--|---------|---------|---------|-------|
| Other earning assets | 63,312 | 4,814 | 1,343 | 5,1 |
| Total assets | 214,238 | 203,054 | 196,122 | 185,2 |
| Deposits | 142,990 | 143,169 | 138,606 | 137,6 |
| Other interest-bearing liabilities | 31,384 | 33,477 | 33,224 | 22,7 |
| Stockholders' equity | 26,042 | 25,050 | 23,047 | 23,4 |
| Ratios: (2) | | | | |
| Return on average assets | .99% | 1.04% | 1.09% | 1. |
| Return on average equity | 7.92% | 8.59% | 8.91% | 8. |
| Dividend payout ratio | 38.31% | 36.89% | 34.09% | 33. |
| Average equity to average assets ratio | 12.16% | 12.34% | 11.75% | 12. |

- (1) Per share data has been calculated on the weighted average number of shares outstanding.
- (2) The ratios for the nine month period ending September 30, 2002 and 2001 are annualized.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-Q, both in the MD & A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about our confidence and strategies and our expectations about new and existing programs and products, relationships, opportunities, technology and market conditions. These statements may be identified by such forward-looking terminology as "expect," "look," "believe," "anticipate," "may," "will," or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties. These include, but are not limited to, the direction of interest rates, continued levels of loan quality and origination volume, continued relationships with major customers, and sources for loans, as well as the effects of economic conditions and legal and regulatory barriers and structure. Actual results may differ materially from such forward-looking statements. We assume no obligation for updating any such forward-looking statement at any time. Our consolidated financial condition and results of operations are essentially those of our wholly-owned subsidiary bank, Columbia County Farmers National Bank. Therefore, our discussion and analysis that follows is primarily centered on the performance of this bank.

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EARNINGS SUMMARY

Net income for the nine months ended September 30, 2002 was \$1,489 thousand or \$1.13 per basic and diluted share. These results compare with net income of \$1,413 thousand, or \$1.050 per basic and diluted share for the same period in 2001. Annualized return on average equity increased to 7.63 percent from 7.23 percent, while the annualized return on average assets increased to .91 percent from .90 percent, for the nine months ended September 30, 2002 and 2001 respectively.

Net interest income continues to be the largest source of our operating income. Net interest income on a tax equivalent basis increased to \$5.7 million at September 30, 2002, compared with \$5.2 million for the nine months ended September 30, 2001. The increase in net interest income is primarily due to the decreased interest rates on deposits "catching up" with decreased loan rates. The tax equavalized interest margin increased to 3.66 percent for the nine months ended September 30, 2002, compared to 3.49 percent for the nine months ended September 30, 2001.

Average interest earning assets increased \$9.2 million or 4.6 percent for the

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nine months ended September 30, 2002 over the same period in 2001. Average loans increased \$7.1 million or 5.1 percent, average investments increased \$2.7 million or 5.2 percent and average federal funds sold and interest-bearing deposits with other financial institutions decreased .6 million or 7.6 percent for this nine month period.

Average interest bearing liabilities for the nine months ended September 30, 2002 increased \$8.8 million or 5.2 percent from the same period in 2001. Average short-term borrowings were \$18.1 million at September 30, 2002 and \$20.4 million at September 30, 2001. Long-term debt, which includes primarily FHLB advances, remained at 13.4 million at September 30, 2002 and September 30, 2001 Average demand deposits increased \$200 thousand from 2001 balances.

The average interest rate on total interest earning assets was 6.19 percent for the nine months ended September 30, 2002, compared with 6.92 percent for the nine months ended September 30, 2001. The average interest rate for loans decreased 74 basis points to 6.93 percent at September 30, 2002 compared to 7.67 percent September 30, 2001. Interest-bearing deposits with other Financial Institutions interest rates decreased drastically 373 basis points to 1.57 percent from 5.30 percent at September 30, 2002 and September 30, 2002 respectively. Average rates on interest bearing deposits decreased by 89 basis points to 3.21 percent from 4.10 percent one year ago. Average interest rates also decreased on total interest bearing liabilities by 100 basis points to 3.25 percent from 4.25 percent. The reason for these decreases on interest bearing liabilities was primarily attributed to the decreasing rates on all deposit liabilities and the tied-to-prime interest rates paid on repurchase agreements with large customers. The net interest margin increased to 3.66 percent for the nine months ended September 30, 2002 from 3.49 percent for the nine months ended September 30, 2001.

NET INTEREST INCOME

Net interest income increased to \$5.4 million for the nine months ended September 30, 2002 compared to \$5.0 million for the same period in 2001.

The following table reflects the components of net interest income for each of the nine months ended September 30, 2002 and 2001.

ANALYSIS OF AVERAGE ASSETS, LIABILITIES AND CAPITAL EQUITY AND NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

AVERAGE BALANCE SHEET AND RATE ANALYSIS (Dollars in Thousands)

| | Average Balance ----- (1) | Nine Months Ended Septe Interest Income / Expense ----- (2) | Average Yield / Rate ---- |
|--|------------------------------------|--|------------------------------------|
| ASSETS: | | | |
| Interest-bearing deposits with other financial institutions..... | \$4,413 | \$52 | 1.57% |
| Investment securities (3)..... | 54,381 | 1,969 | 5.73% |
| Federal funds sold..... | 3,177 | 41 | 1.72% |
| Loans | 146,565 | 7,622 | 6.93% |
| | ----- | ----- | |
| Total interest earning assets..... | \$208,536 | \$9,684 | 6.19% |

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| | | |
|------------------------------|-----------|-------|
| Reserve for loan losses..... | (1,053) | |
| Cash and due from banks..... | 2,266 | |
| Other assets..... | 9,266 | |
| | ----- | |
| Total assets..... | \$219,015 | ===== |

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LIABILITIES AND CAPITAL:

| | | | |
|------------------------------------|-----------|----------|-------|
| Interest bearing deposits | \$147,789 | \$ 3,557 | 3.21% |
| Short-term borrowings | 18,064 | 258 | 2.91% |
| Long-term borrowings | 11,353 | 509 | 5.98% |
| | ----- | ----- | |
| Total interest-bearing liabilities | \$177,206 | \$ 4,324 | 3.25% |
| | ----- | ----- | |
| Demand deposits..... | \$14,368 | | |
| Other liabilities..... | 1,405 | | |
| Stockholders' equity..... | 26,036 | | |
| | ----- | | |
| Total liabilities and capital..... | \$219,015 | | |
| | ----- | | |

| | | | |
|--------------------------------------|--|----------|-------|
| NET INTEREST INCOME / | | \$ 5,360 | 3.43% |
| NET INTEREST MARGIN (4)..... | | | |
| TAX EQUIVALENT NET INTEREST INCOME / | | \$ 5,730 | 3.66% |
| NET INTEREST MARGIN (5)..... | | | |

- (1) Average volume information was computed using daily averages.
- (2) Interest on loans includes fee income.
- (3) Yield on tax-exempt obligations has been computed on a tax-equivalent basis.
- (4) Net interest margin is computed by dividing net interest income by total interest earning assets.
- (5) Interest and yield are presented on a tax-equivalent basis using 34 percent for 2002 and 2001.

The following table demonstrates the relative impact on net interest income of changes in volume of interest earnings assets and interest bearing liabilities and changes in rates earned and paid by us on such assets and liabilities.

CHANGE IN NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

| | Nine Months Ended September 30 | |
|------------------|--------------------------------|------|
| | Compared with 2001 | |
| | Increase (Decrease) (2) | |
| | Volume | Rate |
| | (In thousands) | |
| Interest income: | | |

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| | | | | |
|---|----|-----|-----------|-----|
| Loans (1) | \$ | 554 | (\$1,032) | (\$ |
| Investments | | 166 | (222) | |
| Federal funds sold and other short-term investments | | 46 | (43) | |
| Interest expense: | | | | |
| Deposits | \$ | 457 | (\$1,216) | (\$ |
| Short-term borrowings | | 0 | (12) | |
| Long term debt | | (1) | (67) | |
| Net: | \$ | 300 | \$ (2) | \$ |

- (1) Interest income is adjusted to a tax equivalent basis using a 34 percent tax rate.
- (2) Variances resulting from a combination of changes in volume and rates are allocated to the categories in proportion to the absolute dollar amounts of the change in each category.

Average interest earning assets at September 30, 2002 increased by 4.6 percent over September 30, 2001 to \$208.5 million from \$199.4 million.

Average loans outstanding increased from \$139.5 million to \$146.6 million or 5.1 percent for the nine months ended September 30, 2002, as compared to the nine months ended September 30, 2001.

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The outstanding balance of loans at September 30, 2002 was \$150.6 million compared to \$143 million at December 31, 2001.

Interest income from investment securities remained constant at \$2 million for the nine months ended September 30, 2002 and 2001. The average balance of investment securities for the nine months ended September 30, 2002 increased 5.2 percent to \$5.4 million, compared to the \$51.7 million for the same period of 2001.

Total interest expense decreased \$1.1 million or 20.4 percent for the first nine months of 2002 as compared to the first nine months of 2001. The cost of interest bearing liabilities decreased on an average yield basis from 4.25 percent through September 2001 compared to 3.25 percent through September 2002. The average yield on interest earning assets decreased from 6.92 percent to 6.19 percent through September 2002 and 2001, respectively.

Average short-term borrowings decreased \$2.4 million from \$20.4 million at September 30, 2001 to \$18.1 million at September 30, 2002.

Long-term borrowings from Federal Home Loan Bank remained constant at an average \$11.4 million at September 30, 2002 and 2001.

NON-INTEREST INCOME

The following table presents the components of non-interest income for the six months ended June 30, 2002 and 2001.

| Nine Months Ended | |
|-------------------|------|
| September 30, | |
| (In thousands) | |
| 2002 | 2001 |
| ---- | ---- |

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| | | |
|----------------------------------|-------|-------|
| Service charges and fees | \$487 | \$453 |
| Trust Department income | 151 | 165 |
| Investment securities gain - net | 107 | 71 |
| Third party brokerage income | 71 | 43 |
| Other | 72 | 89 |
| | | ---- |
| Total | \$888 | \$821 |
| | ---- | ---- |

Non-interest income continues to represent a considerable source of our income. We are committed to increasing non-interest income. Increases will be from our existing sources of non-interest income and any new opportunities that may develop. For the nine months ended September 30, 2002, total non-interest income increased \$67 thousand to \$888 thousand or 8.2 percent, compared to \$821 thousand for the nine months period ended September 30, 2001. Service charges and fees increased \$34 thousand from \$453 thousand at September 30, 2002 to \$487 thousand or 7.5 percent at September 30, 2002. Trust Department income decreased from \$165 thousand at September 30, 2001 to \$151 thousand or 8.5 percent at September 30 2002. Third party brokerage income reflected a \$28 thousand increase or 65.1 percent comparing September 30 2002 to September 30, 2001. Other non-interest income decreased from \$89 thousand at September 30, 2001 to \$72 thousand or 1.9 percent at June 30, 2002. This decrease was attributable to a change in accounting for loan and credit report fees.

Investment securities gains were \$107 thousand at September 30, 2002 and \$71 thousand at September 30, 2001. If the investment security gains are not considered, then the non-interest income increased \$31 thousand for the nine month period ending September 30, 2002 and 2001. This consisted mainly of increases in interchange income from debit cards and third party brokerage income increases.

NON-INTEREST EXPENSE

The following table presents the components of non-interest expense for the nine months ended September 30, 2002 and 2001.

| | Nine Months Ended September 30, | |
|---------------------------------|------------------------------------|---------|
| | 2002 | 2001 |
| | ---- | ---- |
| | (Dollars in Thousands) | |
| Salaries and wages | \$1,638 | \$1,534 |
| Employee benefits | 566 | 518 |
| Net occupancy expense | 268 | 281 |
| Furniture and equipment expense | 442 | 406 |
| State shares tax | 192 | 181 |
| Other expense | 970 | 922 |
| | ----- | ----- |
| Total | \$4,076 | \$3,832 |
| | ----- | ----- |

Non-interest expense increased from \$3.8 million at September 30, 2001 to \$4.1 million at September 30, 2002 or 6.4%.

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Generally, non-interest expense accounts for the cost of maintaining facilities; providing salaries and benefits to employees; and paying for insurance, supplies, advertising, data processing services, taxes and other related expenses. Some of the costs and expenses are variable while others are fixed. To the extent possible, we utilize budgets and related measures to control variable expenses.

Salaries increased 6.8 percent at September 30, 2002 compared to September 30, 2001. A 9.3 percent increase was reflected in employee benefits from \$518 thousand at September 30, 2001, to \$566 thousand at September 30, 2002. Increased cost of employee benefits, specifically health coverage, accounted for the increase in employee benefits.

Occupancy expense and furniture and equipment expense reflects a \$23 thousand or 3.3 percent increase for the first nine months of 2002 compared to the first nine months of 2001.

Pennsylvania Bank Shares Tax increased 6.1 percent from \$181 thousand at September 30, 2001 compared to \$192 thousand at September 30, 2002.

Other expenses increased 5.2 percent from \$922 thousand at September 30, 2001 to \$970 thousand at September 30, 2002.

INCOME TAXES

Income tax expense as a percentage of pre-tax income was 22 percent for the nine months ended September 30, 2002 compared with 22.1 percent for the same period in 2001. The effective tax rate for 2002 is expected to approximate 34 percent.

ASSET/LIABILITY MANAGEMENT

INTEREST RATE SENSITIVITY

Our success is largely dependent upon our ability to manage interest rate risk. Interest rate risk can be defined as the exposure of our net interest income to the movement in interest rates. We do not currently use derivatives to manage market and interest rate risks. Our interest rate risk management is the responsibility of the Asset/Liability Management Committee ("ALCO"), which reports to the Board of Directors. ALCO establishes policies that monitor and coordinate our sources, uses and pricing of funds as well as interest-earning asset pricing and volume.

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a 12 and 24 month period. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment rates of certain assets and liabilities. In the current stagnant interest rate environment, our net interest income is not expected to change materially.

LIQUIDITY

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. Maintaining a level of liquid funds through asset/liability management seeks to ensure that these needs are met at a reasonable cost. On the asset side, liquid funds are maintained in the form of cash and due from banks, federal funds sold, investment securities maturing within one year, and security and loan payments. Liquid assets amounted to \$88.2 million and \$101.3 million at September 30, 2002 and December 31, 2001, respectively. This represents 42.3 percent and 50.0 percent of earning assets, and xxxxx percent and 47.3 percent

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of total assets at September 30, 2002 and December 31, 2001, respectively.

On the liability side, the primary source of funds available to meet liquidity needs is our core deposit base, which generally excludes certificates of deposit over \$100 thousand. Core deposits averaged approximately \$132.4 million for the nine months ended September 30, 2002 and \$125.3 million for the year ended December 31, 2001, representing 60.5 percent and 60.1 percent of average earning assets. Short-term and long-term borrowings through federal funds lines, repurchase agreements, Federal Home Loan Bank advances and large dollar certificates of deposit, generally those over \$100 thousand, are used as supplemental funding sources. Additional liquidity is derived from scheduled loan and investment payments of principal and interest, as well as prepayments received. For the nine months ended September 30, 2002 there were \$26 million of proceeds from the sales, maturities and redemptions of investment securities available for sale. Purchases of investment securities for the nine months ended September 30, 2002 were \$26.1 million. Short-term borrowings and certificates of deposit over \$100 thousand amounted to \$47.1 million and \$43.7 million for the nine months ended September 30, 2002 and the year ended December 31, 2001, respectively.

Our cash requirements consist primarily of dividends to shareholders. This cash need is routinely satisfied by dividends collected from the bank along with cash and investments owned. Projected cash flows from this source are expected to be adequate to pay dividends, given the current capital levels and current profitable operations of the bank. In addition, we may repurchase shares of our outstanding common stock for benefit plans and other corporate purposes. The cash required for a purchase of shares can be met by using our own funds, dividends received from the bank, and borrowed funds.

As of September 30, 2002, we had \$58 million of securities available for sale recorded at their fair value, compared with \$57.1 million at December 31, 2001. As of September 30, 2002, the investment securities available for sale had an unrealized gain of \$621 thousand, net of deferred taxes, compared with an unrealized gain of \$75 thousand, net of deferred taxes, at December 31, 2001. These securities are not considered trading account securities which may be sold on a continuous basis, but rather are securities which may be sold to meet our various liquidity and interest rate requirements.

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NON-PERFORMING ASSETS

Shown below is a summary of past due and non-accrual loans:

| | (Dollars in thousands) | |
|---------------------------|------------------------|----------------------|
| | September 30, 2002 | December 31, 2001 |
| Past due and non-accrual: | | |
| Days 30 - 89 | \$2,049 | \$ 949 |
| Days 90 plus | 92 | 969 |
| Non-accrual | 501 | 729 |
| | ----- | ----- |
| Total | \$2,642 | \$2,647 |
| | ----- | ----- |

Past due and non-accrual loans remained constant at 2.6 million at September 30, 2002 and December 31, 2001. The loan delinquency expressed as a ratio to total

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loans was 1.8% at September 30, 2002 and 1.9% at December 31, 2001.

Subsequently, during the month of October we reclassified 1.3 million from past due to non-accrual loans.

Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed under Industry Guide 3 do not (i) represent or result from trends or uncertainties which we reasonably expect will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which we are aware of any information which causes us to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

We adhere to principles provided by Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan" - Refer to Note 2 above for other details.

The following analysis provides a schedule of loan maturities/interest rate sensitivities. This schedule presents a repricing and maturity analysis as required by the FFIEC:

| MATURITY AND REPRICING DATA FOR LOANS AND LEASES | | (Dollars Thousan Septembe 2002 |
|---|--|---|
| Closed-end loans secured by first liens and 1-4 family residential properties with a remaining maturity or repricing frequency of: | | |
| (1) Three months or less..... | | \$3,8 |
| (2) Over three months through 12 months..... | | 14,8 |
| (3) Over one year through three years..... | | 28,6 |
| (4) Over three years through five years..... | | 2,7 |
| (5) Over five years through 15 years..... | | 21,8 |
| (6) Over 15 years..... | | 3 |
| All loans and leases other than closed-end loans secured by first liens on 1-4 family residential properties with a remaining maturity or repricing frequency of: | | |
| (1) Three months or less..... | | 24,4 |
| (2) Over three months through 12 months..... | | 12,5 |
| (3) Over one year through three years..... | | 19,9 |
| (4) Over three years through five years | | 6,8 |
| (5) Over five years through 15 years..... | | 13,5 |
| (6) Over 15 years..... | | 4 |
| Sub-total..... | | \$150,2 |
| Add: non-accrual loans not included above..... | | 5 |
| Less: unearned income..... | | (|
| Total Loans and Leases | | \$150,6 |

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflected a balance of \$1.3 million or .86 percent of total loans at September 30, 2002 and a balance of \$1 million or .70 percent of total loans at December 31, 2001. The allowance is believed adequate for possible loan losses in the future.

The provision for loan losses was \$264 thousand for the first nine months of

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2002 compared to \$148 thousand for the first nine months of 2001. After carefully examining our loan loss reserve analysis, the decision was made to increase the loan loss provision \$160 thousand in September 2002

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Because our loan portfolio contains a significant number of commercial loans with relatively large balances the deterioration of one or several of these loans may result in a possible significant increase in non-performing loans. An increase in non-performing loans could result in a loss of interest income, higher carrying costs, and an increase in the provision for loan losses and loan charge-offs.

We maintain an allowance for loan losses to absorb any loan losses based on our historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. In evaluating our allowance for loan losses, we segment our loans into the following categories:

- Commercial (including investment property mortgages),
- Residential mortgages, and
- Consumer.

We evaluate some loans as a homogeneous group and others on an individual basis. Commercial loans with balances exceeding \$250 thousand are reviewed individually. After our evaluation of these loans, we determine the required allowance for loan losses based upon the following considerations:

- Historical loss levels,
- Prevailing economic conditions,
- Delinquency trends,
- Changes in the nature and volume of the portfolio,
- Concentrations of credit risk, and
- Changes in loan policies or underwriting standards.

Management and the Board of Directors review the adequacy of the reserve on a quarterly basis and adjustments, if needed, are made accordingly.

| Amounts in thousands ----- | For the Three Months Ending September 30, 2002 2001 ----- | |
|---|---|------------|
| Average loans outstanding: | \$ 146,565 | \$ 139,468 |
| Total loans at end of period | 150,624 | 142,990 |
| Balance at beginning of period | 1,028 | 1,008 |
| Total charge-offs | (52) | (145) |
| Total recoveries | 65 | 37 |
| Net charge-offs | 13 | (108) |
| Provision for loan losses | 264 | 148 |
| Balance at end of period | \$ 1,279 | \$ 1,048 |
| | ----- | ----- |
| Net charge-offs as a percent of average loans outstanding during period | .01% | .08% |
| Allowance for loan losses as a percent of total loans | .85% | .74% |

The allowance for loan losses is based on our evaluation of the allowance for loan losses in relation to the credit risk inherent in the loan portfolio. In establishing the amount of the provision required, management considers a

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variety of factors, including but not limited to, general economic conditions, volumes of various types of loans, collateral adequacy and potential losses from significant borrowers. On a monthly basis, the Board of Directors and the bank's Credit Administration Committee review information regarding specific loans and the total loan portfolio in general in order to determine the amount to be charged to the provision for loan losses.

For the nine month periods ending September 30, 2002 and 2001, the allowance for loan losses was \$1,279,000 and \$1,048,000 respectively.

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CAPITAL ADEQUACY

A major strength of any financial institution is a strong capital position. This capital is very critical as it must provide growth, dividend payments to shareholders, and absorption of unforeseen losses. Our federal regulators provide standards that must be met. These standards measure "risk-adjusted" assets against different categories of capital. The "risk-adjusted" assets reflect off balance sheet items, such as commitments to make loans, and also place balance sheet assets on a "risk" basis for collectibility. The adjusted assets are measured against the standards of Tier I Capital and Total Qualifying Capital. Tier I Capital is common shareholders' equity. Total Qualifying Capital includes so-called Tier II Capital which is common shareholders' equity and the allowance for loan and lease losses. The allowance for loan and lease losses must be lower than or equal to common shareholders' equity to be eligible for Total Qualifying Capital.

We exceed all minimum capital requirements as reflected in the following table:

| | September 30, 2002 | | December 31, 2001 | |
|--|----------------------|-------------------------------|----------------------|-------------------------------|
| | Calculated Ratios | Minimum Standard Ratios | Calculated Ratios | Minimum Standard Ratios |
| Risk Based Ratios: | | | | |
| Tier I Capital to risk-weighted assets | 18.70% | 4.00% | 19.06% | 4.00% |
| Total Qualifying Capital to risk-weighted assets | 19.61% | 8.00% | 19.82% | 8.00% |

Additionally, certain other ratios also provide capital analysis as follows:

| | September 30, 2002 | December 31, 2001 |
|----------------------------------|-----------------------|----------------------|
| Tier I Capital to average assets | 12.01% | 12.44% |

We believe that the bank's current capital position and liquidity positions are strong and that its capital position is adequate to support its operations.

Book value per share amounted to \$20.68 at September 30, 2002, compared with \$19.64 per share at December 31, 2001.

Cash dividends declared amounted to \$0.47 per share, for the nine months ended

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September 30, 2002, equivalent to a dividend payout ratio of 41.30 percent, compared with 41.68 percent for the same period in 2001. Our Board of Directors continues to believe that cash dividends are an important component of shareholder value and that, at the bank's current level of performance and capital, we expect to continue our current dividend policy of a quarterly cash distribution of earnings to our shareholders.

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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, Columbia County Farmers National Bank. 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 2. Changes in Securities - Nothing to report.

Item 3. Defaults Upon Senior Securities - Nothing to report.

Item 4. Submission of Matters to a Vote of Security Holders - Nothing to report.

Item 5. Other Information - Nothing to report.

Item 6. Exhibits and Reports on Form 8-K - Exhibits 99.1, 99.2, 99.3 and 99.4.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CCFNB BANCORP, INC.
(Registrant)

By /s/ Paul E. Reichart

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Paul E. Reichart
President & CEO

Date: November 8, 2002

By /s/ Virginia D. Kocher

Virginia D. Kocher
Treasurer

Date: November 8, 2002