

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

CCFNB BANCORP INC  
Form 10-Q  
August 12, 2005

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 June 30, 2005

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  No   
-----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 1,261,870 shares of \$1.25 (par) common stock were outstanding as of July 12, 2005.

CCFNB BANCORP, INC. AND SUBSIDIARY  
TABLE OF CONTENTS  
JUNE 30, 2005

Page  
-----

PART 1 - FINANCIAL INFORMATION:

- Consolidated Balance Sheets

2

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

- Consolidated Statements of Income	3
- Consolidated Statements of Cash Flows	4
- Notes to Consolidated Financial Statements	5 - 14
- Report of Independent Registered Public Accounting Firm	15
- Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations	16 - 22
- Controls and Procedures	23
PART II - OTHER INFORMATION	24
SIGNATURES	25 - 28

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

	Unaudited June 30, 2005 -----	December 31, 2004 -----
<b>ASSETS</b>		
Cash and due from banks	\$ 4,513	\$ 5,018
Interest-bearing deposits with other banks	3,041	1,821
Federal funds sold	6,013	5,994
Investment securities available-for-sale	54,909	61,834
Loans, net of unearned income	149,441	149,900
Allowance for loan losses	1,469	1,392
	-----	-----
Net loans	147,972	148,508
Premises and equipment, net	4,978	4,519
Cash surrender value of bank-owned life insurance	6,357	6,199
Accrued interest receivable	807	816
Other assets	997	668
	-----	-----
TOTAL ASSETS	\$229,587	\$235,377
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 16,734	\$ 18,687
Interest bearing	150,828	153,800
	-----	-----
Total Deposits	167,562	172,487
Short-term borrowings	20,608	21,757
Long-term borrowings	11,317	11,323
Accrued interest and other expenses	1,264	1,269
Other liabilities	30	34
	-----	-----
TOTAL LIABILITIES	200,781	206,870
	-----	-----

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

STOCKHOLDERS' EQUITY

Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued and outstanding 1,261,870 shares in 2005 and 1,267,718 shares in 2004	1,577	1,585
Surplus	3,226	3,385
Retained earnings	23,925	23,324
Accumulated other comprehensive income (loss)	78	213
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	28,806	28,507
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$229,587	\$235,377
	=====	=====

See accompanying notes to Consolidated Financial Statements.

-2-

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

	For the Six Months Ending June 30,		For the Three Months Ending June 30,	
	2005	2004	2005	2004
	-----	-----	-----	-----
INTEREST INCOME				
Interest and fees on loans:				
Taxable	\$ 4,260	\$ 4,156	\$ 2,170	\$ 2,170
Tax-exempt	217	163	107	107
Interest and dividends on investment securities:				
Taxable interest	760	752	373	373
Tax-exempt interest	186	240	90	90
Dividends	41	26	21	21
Federal funds sold	64	4	38	38
Deposits in other banks	19	22	13	13
	-----	-----	-----	-----
TOTAL INTEREST INCOME	5,547	5,363	2,812	2,812
	-----	-----	-----	-----
INTEREST EXPENSE				
Deposits	1,359	1,337	687	687
Short-term borrowings	245	130	131	131
Long-term borrowings	336	339	169	169
	-----	-----	-----	-----
TOTAL INTEREST EXPENSE	1,940	1,806	987	987
	-----	-----	-----	-----
Net interest income	3,607	3,557	1,825	1,825
Provision for loan losses	60	80	30	30
	-----	-----	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,547	3,477	1,795	1,795
	-----	-----	-----	-----
NON-INTEREST INCOME				
Service charges and fees	486	369	248	248

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Gain on sale of loans	23	9	8	
Bank-owned life insurance income	131	128	64	
Trust department	71	75	35	
Other	118	143	64	
Investment securities gains, net	--	--	--	
	-----	-----	-----	-----
TOTAL NON-INTEREST INCOME	829	724	419	
	-----	-----	-----	-----
NON-INTEREST EXPENSE				
Salaries	1,132	1,139	580	
Pensions and other employee benefits	399	400	195	
Occupancy, net	231	201	115	
Equipment	250	235	126	
State shares tax	141	139	67	
Professional services	157	118	71	
Directors' fees	94	73	47	
Stationery and supplies	76	70	44	
Other	559	528	292	
	-----	-----	-----	-----
TOTAL NON-INTEREST EXPENSE	3,039	2,903	1,537	1,
	-----	-----	-----	-----
Income before income taxes	1,337	1,298	677	
Income tax expense	281	267	145	
	-----	-----	-----	-----
NET INCOME	\$ 1,056	\$ 1,031	\$ 532	\$
	=====	=====	=====	=====
PER SHARE DATA				
Net income	\$ 0.84	\$ 0.81	\$ 0.42	\$ 0
Cash dividends	\$ 0.36	\$ 0.34	\$ 0.18	\$ 0
Weighted average shares outstanding	1,264,235	1,277,196	1,264,235	1,277,

See accompanying notes to Consolidated Financial Statements.

-3-

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

	For the Six Months Endi June 30,	
	2005	20
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 1,056	\$ 1
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses		60
Depreciation and amortization		201
Premium amortization on investment securities		137
Discount accretion on investment securities		(6)
Deferred income taxes (benefit)		(54)
(Gain) on sale of mortgage loans		(23)

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Proceeds from sale of mortgage loans	1,281	
Originations of mortgage loans for resale	(989)	
(Gain) loss from investment in insurance agency	(9)	
(Increase) decrease in accrued interest receivable and other assets	(188)	
Net increase in cash surrender value of bank-owned life insurance	(158)	
Increase (decrease) in accrued interest, other expenses and other liabilities	(9)	
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,299	1
	-----	-----
INVESTING ACTIVITIES		
Purchase of investment securities Available-for-Sale	--	(16)
Proceeds from sales, maturities and redemptions of investment securities Available-for-Sale	6,590	14
Net (increase) decrease in loans	207	
Purchases of premises and equipment	(660)	
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	6,137	(2)
	-----	-----
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(4,925)	1
Net increase (decrease) in short-term borrowings	(1,149)	(4)
Net decrease in long-term borrowings	(6)	
Acquisition of treasury stock	(279)	
Proceeds from issuance of common stock	112	
Cash dividends paid	(455)	
	-----	-----
NET CASH (USED IN) FINANCING ACTIVITIES	(6,702)	(3)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	734	(5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,833	12
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$13,567	\$ 7
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 1,960	\$ 1
Income taxes	\$ 254	\$

See accompanying notes to Consolidated Financial Statements.

-4-

CCFNB BANCORP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2005

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of CCFNB Bancorp, Inc. and Subsidiary (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, Columbia County Farmers National Bank (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation.

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

### 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 seven offices covering an area of approximately 484 square miles in North Central 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 Lightstreet location. This investment center offers a full line of stocks, bonds and other non-insured financial services.

### 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.

-5-

### 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.

### 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 (loss) (see Note 6). Management's decision to sell Available-for-Sale securities is based on changes in economic

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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. These loans are sold with limited recourse to 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 collection efforts will continue on loans past due beyond 60 days which have not been satisfied. Past due loans are continually evaluated with determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

-6-

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 loan losses. Certain non-accrual loans may continue to perform, wherein, payments are still being received with those payments generally applied to principal. Non-accrual loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectibility of principal.

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

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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.

### DERIVATIVES

The Bank has outstanding loan commitments that relate to the origination of mortgage loans that will be held for resale. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149 "Amendments to SFAS 133 on Derivative Instruments and Hedging Activities" and the guidance contained in the Derivatives Implementation Group Statement 133 Implementation Issue No. C 13, the Bank has accounted for such loan commitments as derivative instruments. The outstanding loan commitments in this category did not give rise to any losses for the period ended June 30, 2005 and the year ended December 31, 2004, as the fair market value of each outstanding loan commitment exceeded the Bank's cost basis in each loan commitment.

-7-

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

### 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



## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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.

### BANK OWNED LIFE INSURANCE

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

### 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 as of June 30, 2005 and December 31, 2004 was \$196,000 and \$187,000, respectively, and is carried in other assets in the accompanying consolidated balance sheets.

-8-

### 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 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 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. Trust Department income is generally recognized on a cash basis and is not materially different than if it was reported on an accrual basis.

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

### RECENT ACCOUNTING PRONOUNCEMENTS

In January 2004, the Financial Accounting Standards Board (FASB) issued Staff Position No. 106-1 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which allows companies to recognize or defer recognizing the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003, or Medicare Act, for annual financial statements of fiscal years ending after December 7, 2003. The Medicare Act introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. These provisions of the Medicare Act affect accounting measurements. This standard did not have any material impact on the Corporation's consolidated financial condition or results of operations.

-9-

In September 2004, the FASB issued Staff Position Emerging Issues Task Force ("EITF") Issue No. 03-01, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which delays the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-01. EITF Issue No. 03-01 provides guidance for evaluating whether an investment is other-than-temporarily impaired and was originally effective for other-than-temporarily impairment evaluations made in reporting periods beginning after June 15, 2004. The delay in the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF Issue No. 03-01 does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The disclosure guidance in paragraphs 21 and 22 of EITF Issue No. 03-01 remains effective. The delay will be superseded concurrent with the final issuance of EITF Issue No. 03-01a, which is expected to provide implementation guidance on matters such as impairment evaluations for declines in value caused by increases in interest rates and/or sector spreads.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 153, "Exchanges of Nonmonetary Assets", which amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Corporation's consolidated financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and its related guidance. SFAS No. 123 (revised 2004) established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement established fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This Statement is effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

June 15, 2005. The adoption of SFAS No. 123 (revised 2004) is not expected to have a material impact on the Corporation's consolidated financial condition or results of operations.

### ADVERTISING COSTS

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the six month periods ended June 30, 2005 and 2004 was approximately \$41,000 and \$37,000, respectively.

### RECLASSIFICATION

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentation used in the 2005 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

-10-

### NOTE 2 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the periods ended June 30, 2005 and June 30, 2004 were as follows:

	(Amounts in Thousands)	
	2005	2004
	-----	-----
Balance, beginning of year	\$1,392	\$1,415
Provision charged to operations	60	80
Loans charged-off	(22)	(118)
Recoveries	39	20
	-----	-----
Balance, June 30	\$1,469	\$1,397
	=====	=====

At June 30, 2005, the total recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was \$942,000. These impaired loans had a related allowance for loan losses of \$159,000. 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.

At June 30, 2005, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans. Non-accrual loans at June 30, 2005 and December 31, 2004 were \$942,000 and \$1,241,000, respectively, all of which were considered impaired.

Loans past due 90 days or more and still accruing interest amounted to \$71,000 at June 30, 2005.

### NOTE 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.

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Treasury tax and loan notes for collections made by the Bank were payable on demand.

### NOTE 4 - LONG-TERM BORROWINGS

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

-11-

### NOTE 5 - DEFERRED COMPENSATION PLANS

The Bank has entered into certain non-qualified deferred compensation agreements with certain executive officers and directors. Expense related to these non-qualified deferred compensation plans amounted to \$77,000 and \$71,000 for the six month periods ended June 30, 2005 and 2004, respectively.

There were no substantial changes in other plans as disclosed in the 2004 Annual Report.

### NOTE 6 - STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the period ended June 30, 2005 were as follows:

	(Amounts in Thousands, Except Common Share					
	Common Shares	Common Stock	Surplus	Comprehensive Income	Retained Earnings	Accumu Oth Compreh Inc (Lo
	-----	-----	-----	-----	-----	-----
Balance at January 1, 2005	\$1,267,718	\$1,585	\$3,385		\$23,324	\$ 2
Comprehensive Income:						
Net income				\$1,056	1,056	
Change in unrealized gain (loss) on investment securities available- for-sale net of reclassification adjustment and tax effects				(135)		(1
TOTAL COMPREHENSIVE INCOME				----- \$ 921 =====		
Issuance of 4,152 shares of common stock under dividend reinvestment and stock purchase plans	4,152	5	107		--	
Purchase of 10,000 shares of treasury stock	--	--	--		--	
Retirement of 10,000 shares of treasury stock	(10,000)	(13)	(266)		--	
Cash dividends \$.36 per share	--	--	--		(455)	
Balance at June 30, 2005	1,261,870	\$1,577	\$3,226		\$23,925	\$
	=====	=====	=====		=====	=====

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

### NOTE 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 consolidated 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.

-12-

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at June 30, 2005 and December 31, 2004 were as follows:

	(Amounts in Thousands)	
	June 30, 2005	December 31, 2004
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$16,453	\$13,829
Financial standby letters of credit	1,877	1,742
Performance standby letters of credit	571	846
Dealer floor plans	2,195	852

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. 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.

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

The Corporation granted commercial, consumer and residential loans to customers within Pennsylvania. Of the total loan portfolio at June 30, 2005, 84.6% 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.

-13-

### NOTE 8 - 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 six-month period ended June 30, 2005, 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, 2004, filed with the Securities and Exchange Commission.

-14-

### 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 June 30, 2005, and the related consolidated statements of income for the three and six-month periods ended June 30, 2005 and 2004 and the consolidated statements of cash flows for the six-month periods ended June 30, 2005 and 2004. 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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2004, 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 January 14, 2005, 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, 2004, 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  
 July 15, 2005

-15-

CCFNB BANCORP, INC.  
 FORM 10-Q  
 FOR THE QUARTER ENDED JUNE 2005

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 Six Months Ended June 30,		At and For the Year		
	2005	2004	2004	2003	2002
Income and Expense:					
Interest income	\$ 5,547	\$ 5,363	\$ 10,843	\$ 11,221	\$
Interest expense	1,940	1,806	3,669	4,366	
Net interest income	3,607	3,557	7,174	6,855	
Loan loss provision	60	80	140	200	
Net interest income after loan loss provision	3,547	3,477	7,034	6,655	
Non-interest income	829	724	1,530	1,508	
Non-interest expense	3,039	2,903	5,746	5,409	
Income before income taxes	1,337	1,298	2,818	2,754	
Income taxes	281	267	601	591	
Net income	\$ 1,056	\$ 1,031	\$ 2,217	\$ 2,163	\$
Per Share: (1)					
Net income	\$ .84	\$ .81	\$ 1.74	\$ 1.69	\$
Cash dividends paid	.36	.34	.70	.66	

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Average shares outstanding	1,264,235	1,277,196	1,267,718	1,281,265	1,3
Average Balance Sheet:					
Loans	\$ 149,628	\$ 147,299	\$ 147,348	\$ 149,485	\$ 1
Investments	56,627	62,230	61,999	58,152	
Other earning assets	6,939	3,100	5,705	8,036	
Total assets	230,659	228,555	231,477	230,975	2
Deposits	169,401	171,542	172,028	171,956	1
Other interest-bearing liabilities	31,351	27,948	29,823	29,772	
Stockholders' equity	28,605	27,840	28,136	27,223	
Balance Sheet Data:					
Loans	\$ 149,441	\$ 148,198	\$ 149,900	\$ 147,631	\$ 1
Investments	54,909	63,367	61,834	62,775	
Other earning assets	9,054	1,872	11,012	6,882	
Total assets	229,587	229,817	235,377	232,914	2
Deposits	167,562	173,238	172,487	171,786	1
Other interest-bearing liabilities	31,925	27,755	33,080	32,325	
Stockholders' equity	28,806	27,618	28,506	27,603	
Ratios: (2)					
Return on average assets	.92%	.90%	.96%	.94%	
Return on average equity	7.38%	7.41%	7.88%	7.95%	
Dividend payout ratio	43.09%	42.10%	40.19%	39.02%	
Average equity to average assets ratio	12.40%	12.18%	12.17%	11.79%	

- (1) Per share data has been calculated on the weighted average number of shares outstanding.
- (2) The ratios for the six month period ending June 31, 2005 and 2004 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.

### EARNINGS SUMMARY

Net income for the six months ended June 30, 2005 was \$1,056,000 or \$.84 per basic and diluted share. These results compare with net income of \$1,031,000, or \$.81 per basic and diluted share for the same period in 2004. Annualized return on average equity decreased to 7.38 percent from 7.41 percent, while the annualized return on average assets increased to .92 percent from .90 percent, for the six months ended June 30, 2005 and 2004 respectively.



Net interest income continues to be the largest source of our operating income. Net interest income on a tax equivalent basis remained at \$3.8 million at June 30, 2005 and June 30, 2004. Overall, interest earning assets yielded 5.20 percent for the six months ended June 30, 2005 compared to 5.04 percent yield for the six months ended June 30, 2004. The tax equivalized interest margin increased to 3.58 percent for the six months ended June 30, 2005 compared to 3.54 percent for the six months ended June 30, 2004.

Average interest earning assets increased \$.6 million or .3 percent for the six months ended June 30, 2005 over the same period in 2004 from \$212.6 million at June 30, 2004 to \$213.2 million at June 30, 2005. Average loans increased \$2.3 million or 1.6 percent, average investments decreased \$5.6 million or 9.0 percent from \$62.2 million at June 30, 2004 to \$56.6 million at June 30, 2005 and average federal funds sold and interest-bearing deposits with other financial institutions increased \$3.8 million or 122.6 percent from \$3.1 million at June 30, 2004 to \$6.9 million at June 30, 2005.

Average interest bearing liabilities for the six months ended June 30, 2005 were \$182.5 million and for the six month period ending June 30, 2004 they were \$183.0 million. Average short-term borrowings were \$11.6 million at June 30, 2004 and 2005. Long-term debt, which includes primarily FHLB advances, was \$11.3 million at June 30, 2004 and 2005. Average demand deposits decreased \$1.7 million from 2004 balances.

The average interest rate for loans increased 15 basis points to 6.13 percent at June 30, 2005 compared to 5.98 percent June 30, 2004. Interest-bearing deposits with other Financial Institutions and Federal Funds Sold rates increased 71 basis points to 2.39 percent at June 30, 2005 from 1.68 percent at June 30, 2004. Average rates on interest bearing deposits increased by 8 basis points from 1.72 percent to 1.80 percent in one year. Average interest rates also increased on total interest bearing liabilities by 16 basis points to 2.13 percent from 1.97 percent. The reason for these increases on interest bearing liabilities was primarily attributed to the interest rates on all deposit liabilities and the tied-to-prime interest rates paid on repurchase agreements rising slowly throughout the year. The tax equivalized net interest margin increased to 3.58 percent for the six months ended June 30, 2005 from 3.54 percent for the six months ended June 30, 2004. The cost of long-term debt averaged 5.96 percent for the past several years which contributed to the declining net interest margin. This high costing liability will remain due to the fact that the Federal Home Loan Bank has the option to reprice these loans at their discretion. Until interest rates would rise to make the current 5.96 percent average rate unattractive, this in all probability will not occur. We will continue to price conservatively.

#### NET INTEREST INCOME

Net interest income remained at \$3.6 million for the six months ended June 30, 2005 and 2004.

The following table reflects the components of net interest income for each of the six months ended June 30, 2005 and 2004.

#### 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)

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

	Six Months Ended June 30, 2005 and				
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Inter Inco Expe
	(1)	(2)		(1)	(2)
<b>ASSETS:</b>					
Interest-bearing deposits with other financial institutions	\$ 2,079	\$ 19	1.83%	\$1,837	\$
Investment securities (3)	56,627	987	3.82%	62,230	1,
Federal Funds Sold	4,860	64	2.63%	1,263	
Loans	149,628	4,477	6.13%	147,299	4,
Total interest earning assets	\$213,194	\$5,547	5.20%	\$212,629	\$5,
Reserve for loan losses	(1,456)			(1,381)	
Cash and due from banks	6,000			5,135	
Other assets	12,921			12,172	
Total assets	\$230,659			\$228,555	
<b>LIABILITIES AND CAPITAL:</b>					
Interest bearing deposits	\$151,185	\$1,359	1.80%	\$155,088	\$1,
Short-term borrowings	20,032	245	2.45%	16,616	
Long-term borrowings	11,319	336	5.94%	11,332	
Total interest-bearing liabilities	\$182,536	\$1,940	2.13%	\$183,036	\$1,
Demand deposits	\$ 18,216			\$ 16,454	
Other liabilities	1,302			1,225	
Stockholders' equity	28,605			27,840	
Total liabilities and capital	\$230,659			\$228,555	
NET INTEREST INCOME / NET INTEREST MARGIN (4)		\$3,607	3.38%		\$3,
TAX EQUIVALENT NET INTEREST INCOME / NET INTEREST MARGIN (5)		\$3,815	3.58%		\$3,

17

- (1) Average volume information was computed using daily (or monthly) averages for interest earning and bearing accounts. Certain balance sheet items utilized quarter end balances for averages. Due to the availability of certain daily and monthly average balance information, certain reclassifications were made to prior period amounts.
- (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 annualized net interest income

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

by total interest earning assets.

- (5) Interest and yield are presented on a tax-equivalent basis using 34 percent for 2005 and 2004.

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

	Six Months Ended June 30, 2005 Compared with 2004 Increase (Decrease) (2)		
	Volume	Rate	Total
	(In thousands)		
Interest income:			
Loans (1)	139	220	359
Investments (1)	(236)	93	(143)
Federal funds sold and other short-term investments	68	18	86
	-----	-----	-----
Total Interest Income:	(29)	331	302
Interest expense:			
Deposits	(67)	124	57
Short-term borrowings	53	148	201
Long term debt	(1)	(5)	(6)
	-----	-----	-----
Total Interest expense:	(15)	267	252
Net Interest Income:	(14)	64	50

(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.

The outstanding balance of loans at June 30, 2005 was \$149.4 million compared to \$149.9 million at December 31, 2004.

Income from investment securities declined \$31 thousand at \$987 thousand for the six months ended June 30, 2005 compared to \$1,018 thousand at June 30, 2004.

The average balance of investment securities for the six months ended June 30, 2005 was \$56.6 million compared to \$62.2 million at June 30, 2004.

Total interest expense increased \$134 thousand or 7.4 percent for the first six months of 2005 as compared to the first six months of 2004. The average yield on interest earning assets increased from 5.04 percent to 5.20 percent through June 2004 and 2005, respectively.

NON-INTEREST INCOME

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

The following table presents the components of non-interest income for the six months ended June 30, 2005 and 2004:

	Six Months Ended June 30,	
	-----	
	(In thousands)	
	2005	2004
	----	----
Service charges and fees	\$486	\$369
Trust Department income	71	75
Investment securities gain - net	0	0
Gain on sale of loans	23	9
Gain on Cash Surrender Value of BOLI	131	128
Other	118	143
	-----	-----
Total	\$829	\$724
	-----	-----

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 six months ended June 30, 2005, total non-interest income increased \$105 thousand to \$829 thousand or 14.5 percent, compared to \$724 thousand for the six month period ended June 30 2004. Service charges and fees increased \$117 thousand from \$369 thousand at June 30, 2004 to \$486 thousand or 31.7 percent at June 30, 2005. This increase is mainly attributable to the introduction of the "Overdraft Privilege" program in the second half of 2004. Trust Department income decreased 5.3% from \$75 thousand at June 30, 2004 to \$71 thousand at June 30, 2005. By selling fixed rate mortgages through the MPF and PHFA programs we increased our gain on sale of loans from \$9 thousand through June 2004 to \$23 thousand through June 2005. The MPF loans are being serviced by CCFNB and the bank retains some credit risk. Investment in Bank Owned Life Insurance is reflected in the June 30, 2005 balance sheet and income statement. Other non-interest income decreased \$25 thousand from \$143 thousand at June 30, 2004 to \$118 thousand at June 30, 2005.

18

### NON-INTEREST EXPENSE

The following table presents the components of non-interest expense for the six months ended June 30, 2004 and 2005:

	Six Months Ended June 30,	
	-----	
	2005	2004
	-----	-----
	(Dollars in Thousands)	
Salaries and wages	\$1,132	\$1,139
Employee benefits	399	400
Net occupancy expense	231	201

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Furniture and equipment expense	250	235
State shares tax	141	139
Professional Services	157	118
Director Fees	94	73
Stationery and Supplies	76	70
Other expense	559	528
	-----	-----
Total	\$3,039	\$2,903
	-----	-----

Non-interest expense increased from \$2.9 million at June 30, 2004 to \$3.0 million at June 30, 2005.

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 decreased .6 percent at June 30, 2005 compared to June 30, 2004. Employee benefits remained at or near \$400 thousand at June 30, 2004 and 2005.

Occupancy expense increased 14.9 percent. This increase is partly attributable to additional landscaping and the hot temperatures of late spring and early summer. Furniture and equipment expense reflects a \$15 thousand or 6.4 percent increase for the first six months of 2005 compared to the first six months of 2004. New optical hardware is replacing fully depreciated hardware and recognition of depreciation on this new equipment will have the effect of increased expense going forward.

Pennsylvania Bank Shares Tax increased 1.4 percent from \$139 thousand at June 30, 2004 compared to \$141 thousand at June 30, 2005.

Professional services increased 33.1 percent from \$118 thousand at June 30, 2004 to \$157 thousand at June 30, 2005. This is partly attributable to the Sarbanes Oxley (Sox 404) required project that is ongoing throughout 2005 and 2006.

Director's fees increased 28.8 percent from \$73 thousand through June 30, 2004 compared to \$94 thousand through June 30, 2005. Beginning January 2005, the Chairman of the Board fee increased from \$21 thousand annually to \$50 thousand annually.

Stationery and Supplies increased 8.6 percent in comparing \$70 thousand at June 30, 2004 to \$76 thousand at June 30, 2005.

Other expenses increased \$31 thousand or 5.9 percent from \$528 thousand at June 30, 2004 to \$559 thousand at June 30, 2005.

### INCOME TAXES

Income tax expense as a percentage of pre-tax income was 21.0 percent for the six months ended June 30, 2005 compared with 20.6 percent for the same period in 2004. The effective tax rate for 2005 remains at 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

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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 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. As of June 30, 2005, we had \$54.9 million of securities available for sale recorded at their fair value, compared with \$61.8 million at December 31, 2004. As of June 30, 2005, the investment securities available for sale had an unrealized gain of \$78 thousand, net of deferred taxes, compared with an unrealized gain of \$213 thousand, net of deferred taxes, at December 31, 2004. 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.

19

In accordance with disclosures required by EITF NO. 03-1, the summary below reflects the gross unrealized losses and fair value, aggregated by investment category that individual securities have been in a continuous unrealized loss position for less than or more than 12 months as of June 30, 2005:

Description of Security	Less than 12 months		12 months or more		Fair Value
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	
Obligations of U.S. Government Corporations and Agencies:					
Mortgage backed	\$ 8,714,061	\$ 59,847	\$ 8,807,941	\$148,038	\$17,520
Other	10,672,422	77,578	5,403,594	96,406	16,070
Obligations of state and political Subdivisions	356,570	823	0	0	356,570
Marketable Equity Securities	136,890	8,188	34,062	10,128	172,824
<b>Total</b>	<b>\$19,879,943</b>	<b>\$146,436</b>	<b>\$14,245,597</b>	<b>\$254,572</b>	<b>\$34,120</b>

Note: This schedule reflects only unrealized losses without the effect of unrealized gains.

The Corporation invests in various forms of agency debt including mortgage backed securities and callable agency debt. The fair market value of these

## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid to offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the market value of these securities may be higher or lower than the Corporations carrying value at any measurement date.

The Corporation's marketable equity securities represent common stock positions in various financial institutions. The fair market value of these equities tends to fluctuate with the overall equity markets as well as the trends specific to each institution.

The Corporation has both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the cost.

### Non-Performing Assets

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

	(Dollars in thousands)	
	June 30, 2005	December 31, 2004
Past due and non-accrual:		
Days 30 - 89	\$ 705	\$ 492
Days 90 plus	71	20
Non-accrual	942	1,241
Total	\$1,718	\$1,753

Past due and non-accrual loans decreased 5.6 percent from \$1.8 million at December 31, 2004 to \$1.7 million at June 30, 2005. The loan delinquency expressed as a ratio to total loans was 1.1 percent at June 30, 2005 and 1.2 percent at December 31, 2004.

The provision for loan losses for the first six months of 2005 was \$60 thousand compared to first six months of 2004 at \$80 thousand. Management is diligent in its efforts to reduce these delinquencies and has increased monitoring and review of current loans to foresee future delinquency occurrences and react to them quickly.

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:

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

MATURITY AND REPRICING DATA FOR LOANS AND LEASES

(Dollars in  
Thousands)  
June 30, 2005  
-----

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	\$ 3,834
(2) Over three months through 12 months	13,428
(3) Over one year through three years	25,218
(4) Over three years through five years	8,132
(5) Over five years through 15 years	17,169
(6) Over 15 years	333
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	24,203
(2) Over three months through 12 months	8,703
(3) Over one year through three years	20,526
(4) Over three years through five years	14,899
(5) Over five years through 15 years	10,997
(6) Over 15 years	1,102
Sub-total	----- \$148,544
Add: Non-accrual loans not included above	942
Less: Unearned income	(45)
Total Loans and Leases	----- \$149,441

ALLOWANCE FOR LOAN LOSSES

Because our loan portfolio and delinquencies 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 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,



## Edgar Filing: CCFNB BANCORP INC - Form 10-Q

- 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.

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

	For the Six Months Ending June 30, Amounts in thousands	
	2005	2004
Average loans outstanding:	\$149,628	\$147,299
Total loans at end of period	149,441	149,900
Balance at beginning of period	1,392	1,415
Total charge-offs	(22)	(118)
Total recoveries	39	20
Net charge-offs	17	(98)
Provision for loan losses	60	80
Balance at end of period	\$ 1,469	\$ 1,397
Net charge-offs as a percent of average loans outstanding during period	(.01)%	.07%
Allowance for loan losses as a percent of total loans	.98%	.93%

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 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.

### 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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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:

	June 30, 2005		December 31, 2004	
	Calculated Ratios	Minimum Standard Ratios	Calculated Ratios	Minimum Standard Ratios
Risk Based Ratios:				
Tier I Capital to risk-weighted assets	18.97%	4.00%	19.27%	4.00%
Total Qualifying Capital to risk-weighted assets	19.95%	8.00%	20.31%	8.00%

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

	June 30, 2005	December 31, 2004
Tier I Capital to average assets	12.45%	12.17%

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 \$22.83 at June 30, 2005, compared with \$22.49 per share at December 31, 2004.

Cash dividends declared amounted to \$.36 per share, for the six months ended June 30, 2005, equivalent to a dividend payout ratio of 43.09 percent, compared with 42.10 percent for the same period in 2004. 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.

The following table presents information on the shares of our common stock that we repurchased during the second quarter of 2005:

CCFNB BANCORP, INC.  
ISSUER PURCHASES OF EQUITY SECURITIES

NUMBER OF SHARES	PRICE PAID PER	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED	NUMBER OF SHARES THAT MAY YET BE PURCHASED
------------------	----------------	--	--

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

MONTH -----	PURCHASED -----	SHARE -----	PROGRAM (1) -----	UNDER THE PROGRAM -----
4/14/05 - 4/14/05	2,000	\$27.50	2,000	76,000
5/16/05 - 5/16/05	2,000	\$27.60	2,000	74,000
6/20/05 - 6/20/05	2,000	\$28.10	2,000	72,000
	-----		-----	
TOTAL	6,000		6,000	

(1) This program was announced in 2003 and represents the second buy-back program. The Board of Directors approved purchase of 100,000 shares. There is no expiration date associated with this program.

22

CONTROLS AND PROCEDURES

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer (CEO) and Principal Financial Officer (PFO) 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 PFO, 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 PFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal quarter ended June 30, 2005, 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.

23

PART II - OTHER INFORMATION;

Item 1. Legal Proceedings

Management and the Corporation's legal counsel are not aware of any litigation

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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 - Nothing to report.

24

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 June 30, 2005, 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: August 10, 2005

By /s/ Virginia D. Kocher

-----  
Virginia D. Kocher  
Treasurer

Date: August 10, 2005

25