

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

CCFNB BANCORP INC  
Form 10-Q  
November 13, 2006

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, 2006

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. 1,243,834 shares of \$1.25  
(par) common stock were outstanding as of 10/31/06.

CCFNB BANCORP, INC. AND SUBSIDIARY  
TABLE OF CONTENTS  
SEPTEMBER 30, 2006

Page  
-----

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

PART 1 - FINANCIAL INFORMATION:	
- Consolidated Balance Sheets	2
- 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 - 23
- Controls and Procedures	24
PART II - OTHER INFORMATION	
SIGNATURES	26 - 29

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

	Unaudited September 30, 2006	December 31, 2005
	-----	-----
<b>ASSETS</b>		
Cash and due from banks	\$ 4,171	\$ 5,123
Interest-bearing deposits with other banks	380	1,110
Federal funds sold	8,218	5,129
Investment securities available-for-sale	51,276	53,919
Loans, net of unearned income	160,294	154,271
Allowance for loan losses	1,488	1,552
	-----	-----
Net loans	158,806	152,719
Premises and equipment, net	4,772	4,837
Cash surrender value of bank-owned life insurance	6,708	6,480
Accrued interest receivable	1,076	959
Other assets	1,050	942
	-----	-----
TOTAL ASSETS	\$236,457	\$231,218
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 18,190	\$ 18,249
Interest bearing	146,623	146,598
	-----	-----
Total deposits	164,813	164,847
Short-term borrowings	28,844	24,600
Long-term borrowings	11,301	11,310
Accrued interest and other expenses	1,593	1,442

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Other liabilities	3	6
	-----	-----
TOTAL LIABILITIES	206,554	202,205
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share; authorized 5,000,000 shares; issued and outstanding 1,245,834 shares in 2006 and 1,258,337 shares in 2005	1,557	1,573
Surplus	2,791	3,127
Retained earnings	25,725	24,616
Accumulated other comprehensive income (loss)	(170)	(303)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	29,903	29,013
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$236,457	\$231,218
	=====	=====

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 Nine Months Ending September 30,		For the Three Months Ending September 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans:				
Taxable	\$ 7,584	\$ 6,475	\$ 2,686	\$ 2,686
Tax-exempt	313	329	110	110
Interest and dividends on investment securities:				
Taxable	1,242	1,116	429	429
Tax-exempt	217	275	58	58
Dividends	83	61	28	28
Federal funds sold	255	135	131	131
Deposits in other banks	26	40	17	17
	-----	-----	-----	-----
TOTAL INTEREST AND DIVIDEND INCOME	9,720	8,431	3,459	2,959
	-----	-----	-----	-----
INTEREST EXPENSE				
Deposits	2,525	2,079	891	891
Short-term borrowings	810	415	327	327
Long-term borrowings	507	507	171	171
	-----	-----	-----	-----
TOTAL INTEREST EXPENSE	3,842	3,001	1,389	1,389
	-----	-----	-----	-----
Net interest income	5,878	5,430	2,070	1,570
Provision for loan losses	127	90	62	62
	-----	-----	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,751	5,340	2,008	1,508

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

NON-INTEREST INCOME				
Service charges and fees	618	616	225	
Gain on sale of loans	32	29	12	
Bank-owned life insurance income	194	193	63	
Trust department	114	106	38	
Other	433	310	184	
TOTAL NON-INTEREST INCOME	1,391	1,254	522	
NON-INTEREST EXPENSE				
Salaries	1,914	1,726	658	
Pensions and other employee benefits	612	596	194	
Occupancy, net	339	346	113	
Equipment	364	389	120	
State shares tax	228	211	84	
Professional services	158	220	52	
Directors' fees	125	142	39	
Stationery and supplies	103	98	29	
Other	875	829	337	
TOTAL NON-INTEREST EXPENSE	4,718	4,557	1,626	1,
Income before income taxes	2,424	2,037	904	
Income tax expense	590	433	234	
NET INCOME	\$ 1,834	\$ 1,604	\$ 670	\$
PER SHARE DATA				
Net income	\$ 1.47	\$ 1.27	\$ 0.54	\$ 0
Cash dividends	\$ 0.58	\$ 0.55	\$ 0.20	\$ 0
Weighted average shares outstanding	1,251,832	1,263,405	1,251,832	1,263,

See accompanying notes to Consolidated Financial Statements.

-3-

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

	For the Nine Months Ending September 30,	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 1,834	\$ 1,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	127	90
Depreciation and amortization	274	315
Premium amortization on investment securities	85	195
Discount accretion on investment securities	(14)	(8)

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Deferred income taxes (benefit)	(65)	(87)
(Gain) on sale of loans	(32)	(29)
Proceeds from sale of mortgage loans	1,650	1,536
Originations of mortgage loans for resale	(1,713)	(1,239)
(Income) from investment in insurance agency	(10)	(16)
(Increase) in accrued interest receivable and other assets	(219)	(108)
Net (increase) in cash surrender value of bank-owned life insurance	(228)	(227)
Increase in accrued interest, other expenses and other liabilities	149	31
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,838	2,057
	-----	-----
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(10,560)	(1,058)
Proceeds from sales, maturities and redemptions of investment securities available-for-sale	13,334	9,645
Net (increase) in loans	(6,121)	(1,730)
Purchases of premises and equipment	(208)	(729)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,555)	6,128
	-----	-----
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(34)	(8,452)
Net increase in short-term borrowings	4,244	414
Net (decrease) in long-term borrowings	(9)	(9)
Acquisition of treasury stock	(505)	(335)
Proceeds from issuance of common stock	153	158
Cash dividends paid	(725)	(695)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	3,124	(8,919)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,407	(734)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,362	12,833
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 12,769	\$12,099
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 3,785	\$ 2,991
Income taxes	\$ 581	\$ 443

See accompanying notes to Consolidated Financial Statements.

-4-

CCFNB BANCORP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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

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

"Bank"). 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 eight offices covering an area of approximately 484 square miles in Northcentral 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 branch. 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.

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

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 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 judgement 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

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

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

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. This 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 nine-month period ended September 30, 2006 and the year ended December 31, 2005, 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



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

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 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 September 30, 2006 and December 31, 2005 was \$209,000 and \$199,000, 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

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

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.

### RECENT ACCOUNTING PRONOUNCEMENTS

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP)115 - "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss in the consolidated statement of income. Specifically, this guidance clarifies that an investor should recognize an impairment loss no later than when an impairment is deemed other-than-temporary, even if the decision to sell has not been made. The FSP also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Corporation has followed the guidance of this FSP in 2005 and 2006.

-9-

In May 2005, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections" which modifies the accounting for and reporting of a change in an accounting principle. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement also requires retrospective application to prior period financial statements of changes in accounting principles, unless it is impractical to determine either the period-specific or cumulative effects of the accounting change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a material impact on the Corporation's consolidated financial condition or results of operation.

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 Statement of Financial Accounting Standards

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

("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.

In addition, this statement amends SFAS No. 95 "Statement of Cash Flows" to require that excess tax benefits be reported as financing cash inflow rather than as a reduction of taxes paid. The Corporation has adopted these statements as of January 1, 2006. SFAS 123R will require the Corporation to change its method of accounting for share-based awards to include estimated forfeitures in the initial estimate of compensation expense and to accelerate the recognition of compensation expense for retiree-eligible employees. The adoption of these standards is not expected to have a material effect 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 nine-month periods ended September 30, 2006 and 2005 was approximately \$71,000 and \$61,000, respectively.

-10-

### RECLASSIFICATION

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentation used in the 2006 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 nine-month periods ended September 30, 2006 and 2005 were as follows:

	(Amounts in Thousands)	
	2006	2005
	-----	-----
Balance, beginning of year	\$1,552	\$1,392
Provision charged to operations	127	90
Loans charged-off	(216)	(31)
Recoveries	25	51
	-----	-----
Balance, September 30	\$1,488	\$1,502
	=====	=====

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

At September 30, 2006, the total recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was \$167,000. These impaired loans had a related allowance for loan losses of \$42,000. 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 September 30, 2006, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

Non-accrual loans at September 30, 2006 and December 31, 2005 were \$167,000 and \$707,000, respectively, all of which were considered impaired.

Loans past due 90 days or more and still accruing interest amounted to \$24,000 at September 30, 2006.

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. 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. The additional expenses related to these non-qualified deferred compensation plans amounted to \$98,000 and \$95,000 for the nine-month periods ended September 30, 2006 and 2005, respectively.

There were no substantial changes in other plans as disclosed in the 2005 Annual Report.

NOTE 6 - STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the nine-month period ended September 30, 2006 were as follows:

	(Amounts in Thousands, Except Common Shares)					
	Common Shares	Common Stock	Surplus	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2006	1,258,337	\$1,573	\$3,127		\$24,616	\$(3,000)

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

Comprehensive Income:					
Net income	--	--	--	\$1,834	1,834
Change in unrealized gain (loss) on investment securities available- for-sale net of reclassification adjustment and tax effects	--	--	--	133	--
				-----	
TOTAL COMPREHENSIVE INCOME				\$1,967	
				=====	
Issuance of 5,497 shares of common stock under dividend reinvestment and stock purchase plans	5,497	7	146		--
Purchase of 18,000 shares of treasury stock	--	--	--		--
Retirement of 18,000 shares of treasury stock	(18,000)	(23)	(482)		--
Cash dividends \$.58 per share	--	--	--		(725)
	-----	-----	-----		-----
Balance at September 30, 2006	1,245,834	\$1,557	\$2,791		\$25,725
	=====	=====	=====		=====

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 September 30, 2006 and December 31, 2005 were as follows:

	(Amounts in Thousands)	
	-----	-----
	September	December
	30, 2006	31, 2005
	-----	-----
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$18,414	\$20,418
Financial standby letters of credit	1,352	1,498
Performance standby letters of credit	556	570
Dealer floor plans	358	1,043

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party. When a customer either fails to repay an obligation or fails to perform some non-financial obligation, the credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations, as it does for on-balance sheet instruments.

The Corporation granted commercial, consumer and residential loans to customers primarily within Pennsylvania. Of the total loan portfolio at September 30, 2006, 85.0% was for real estate loans, with significantly most being 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 nine-month period ended September 30, 2006, 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

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

to refer to the Corporation's annual report or Form 10K for the period ended December 31, 2005, 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 September 30, 2006, and the related consolidated statements of income for the three and nine-month periods ended September 30, 2006 and 2005 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2006 and 2005. These consolidated interim financial statements are the responsibility of the management of CCFNB Bancorp, Inc. and Subsidiary.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2005, 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 13, 2006, 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, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

J.H. Williams & Co., LLP  
October 26, 2006

-15-

CCFNB BANCORP, INC.  
FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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)

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

	At and For the Nine Months Ended September 30,		At and For the Year		
	2006	2005	2005	2004	2003
<b>Income and Expense:</b>					
Interest income	\$ 9,720	\$ 8,431	\$ 11,442	\$ 10,843	\$ 10,843
Interest expense	3,842	3,001	4,131	3,669	3,669
Net interest income	5,878	5,430	7,311	7,174	7,174
Loan loss provision	127	90	90	140	140
Net interest income after loan loss provision	5,751	5,340	7,221	7,034	7,034
Non-interest income	1,391	1,254	1,713	1,530	1,530
Non-interest expense	4,718	4,557	6,077	5,746	5,746
Income before income taxes	2,424	2,037	2,857	2,818	2,818
Income taxes	590	433	631	601	601
Net income	\$ 1,834	\$ 1,604	\$ 2,226	\$ 2,217	\$ 2,217
<b>Per Share: (1)</b>					
Net income	\$ 1.47	\$ 1.27	\$ 1.76	\$ 1.74	\$ 1.74
Cash dividends paid	.58	.55	.74	.70	.70
Average shares outstanding	1,251,832	1,263,405	1,262,171	1,274,034	1,280,000
<b>Average Balance Sheet:</b>					
Loans	\$ 158,036	\$ 149,342	\$ 150,065	\$ 147,348	\$ 147,348
Investments	50,822	56,972	54,943	61,999	61,999
Other earning assets	7,470	7,769	7,503	5,705	5,705
Total assets	233,838	230,459	230,081	231,477	231,477
Deposits	166,541	168,878	167,812	172,028	172,028
Other interest-bearing liabilities	35,636	31,730	32,253	29,823	29,823
Stockholders' equity	29,458	28,721	28,789	28,136	28,136
<b>Balance Sheet Data:</b>					
Loans	\$ 160,294	\$ 151,381	\$ 154,271	\$ 149,900	\$ 149,900
Investments	51,276	52,598	53,919	61,834	61,834
Other earning assets	8,598	6,961	6,239	6,233	6,233
Total assets	236,457	227,786	231,218	235,377	235,377
Deposits	164,813	164,035	164,847	172,487	172,487
Other interest-bearing liabilities	40,145	33,485	35,910	30,080	30,080
Stockholders' equity	29,903	28,934	29,012	28,506	28,506
<b>Ratios: (2)</b>					
Return on average assets	1.05%	.93%	.97%	.96%	.96%
Return on average equity	8.30%	7.45%	7.73%	7.88%	7.88%
Dividend payout ratio	39.53%	41.33%	41.92%	40.19%	40.19%
Average equity to average assets ratio	12.60%	12.46%	12.51%	12.17%	12.17%

(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, 2006 and 2005 are annualized.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS



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

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.

16

### EARNINGS SUMMARY

Net income for the nine months ended September 30, 2006 was \$1,834 thousand or \$1.47 per basic and diluted share. These results compare with net income of \$1,604 thousand, or \$1.27 per basic and diluted share for the same period in 2005. Annualized return on average equity increased to 8.30 percent from 7.45 percent, while the annualized return on average assets increased to 1.05 percent from .93 percent for the nine months ended September 30, 2006 and 2005 respectively.

Net interest income continues to be the largest source of our operating income. Net interest income on a tax equivalent basis increased from \$5.7 million at September 30, 2005 to \$6.1 million at September 30, 2006. Overall, interest earning assets yielded 6.17 percent for the nine months ended September 30, 2006 compared to 5.44 percent yield for the nine months ended September 30, 2005. The tax equivalized interest margin increased to 3.78 percent for the nine months ended September 30, 2006 compared to 3.58 percent for the nine months ended September 30, 2005.

Average interest earning assets increased \$2.2 million or 1.03 percent for the nine months ended September 30, 2006 over the same period in 2005 from \$214.1 million at September 30, 2005 to \$216.3 million at September 30, 2006. Average loans increased \$8.7 million or 5.83 percent, from \$149.3 million at September 30, 2005 to \$216.3 million at September 30, 2006; average investments decreased \$6.2 million or 10.88 percent from \$57.0 million at September 30, 2005 to \$50.8 million at September 30, 2006 and average federal funds sold and interest-bearing deposits with other financial institutions decreased \$.3 million or 3.85 percent from \$7.8 million at September 30, 2005 to \$7.5 million at September 30, 2006.

Average interest bearing liabilities for the nine months ended September 30, 2005 was \$183.4 million compared to \$184.1 million at September 30, 2006. Average short-term borrowings were \$20.4 million at September 30, 2005 and \$24.3 million at September 30, 2006. Long-term debt, which includes primarily FHLB advances, was \$11.3 million at September 30, 2005 and 2006. Average demand deposits increased \$.8 million from \$17.2 million at September 30, 2005 compared to \$18.0 million at September 30, 2006.

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

The average interest rate for loans increased 43 basis points to 6.66 percent at September 30, 2006 compared to 6.23 percent at September 30, 2005.

Interest-bearing deposits with other Financial Institutions and Federal Funds Sold rates increased 201 basis points to 5.01 percent at September 30, 2006 from 3.00 percent at September 30, 2005. Average rates on interest bearing deposits increased by 44 basis points from 1.83 percent to 2.27 percent in one year. Average interest rates also increased on total interest bearing liabilities by 60 basis points to 2.78 percent from 2.18 percent. The cost of long-term debt averaged 5.97 percent for the past several years which negatively impacted 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 5.97 percent average rate unattractive, this in all probability will not occur. We will continue to price deposits conservatively.

### NET INTEREST INCOME

Net interest income increased from \$5.4 million at September 30, 2005 to \$5.9 million at September 30, 2006.

The following table reflects the components of net interest income for each of the nine months ended September 30, 2006 and 2005:

### 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)

	Nine Months Ended September 30, 2006 and 2005					
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Aver Yiel Ra
	(1)	(2)		(1)	(2)	
<b>ASSETS:</b>						
Interest-bearing deposits with other financial institutions	\$ 676	\$ 26	5.13%	\$ 1,843	\$ 40	2.8
Investment securities (3)	50,822	1,542	4.34%	56,972	1,452	3.7
Federal funds sold	6,794	255	5.00%	5,926	135	3.0
Loans	158,036	7,897	6.66%	149,342	6,804	6.2
	-----	-----		-----	-----	
Total interest earning assets	\$216,328	\$9,720	6.17%	\$214,083	\$8,431	5.4
	-----	-----		-----	-----	
Reserve for loan losses	(1,478)			(1,447)		
Cash and due from banks	4,240			4,851		
Other assets	14,748			12,972		
	-----			-----		
Total assets	\$233,838			\$230,459		
	-----			-----		

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

LIABILITIES AND CAPITAL:						
Interest bearing deposits	\$148,504	\$2,525	2.27%	\$ 151,673	\$2,079	1.
Short-term borrowings	24,331	810	4.44%	20,412	416	2.
Long-term borrowings	11,305	507	5.98%	11,318	506	5.
	-----	-----		-----	-----	
Total interest-bearing liabilities	\$184,140	\$3,842	2.78%	\$ 183,403	\$3,001	2.
	-----	-----		-----	-----	
Demand deposits	\$ 18,037			\$ 17,205		
Other liabilities	2,203			1,130		
Stockholders' equity	29,458			28,721		
	-----			-----		
Total liabilities and capital	\$233,838			\$ 230,459		
	-----			-----		
NET INTEREST INCOME /						
NET INTEREST MARGIN (4)		\$5,878	3.62%		\$5,430	3.
TAX EQUIVALENT NET INTEREST INCOME /						
NET INTEREST MARGIN (5)		\$6,134	3.78%		\$5,741	3.

- (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 by total interest earning assets.
- (5) Interest and yield are presented on a tax-equivalent basis using 34 percent for 2006 and 2005.

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, 2006 Compared with 2005 Increase (Decrease) (2)		
	Volume	Rate	Total
	-----	-----	-----
	(In thousands)		
Interest income:			
Loans (1)	\$ 542	\$ 642	\$1,184
Investments (1)	(229)	348	119
Federal funds sold and other short-term investments	(9)	157	148
	-----	-----	-----
Total Interest Income:	\$ 304	\$1,147	\$1,451
Interest expense:			

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

Deposits	\$ (58)	\$ 667	\$ 609
Short-term borrowings	107	351	458
Long term debt	(1)	2	1
	-----	-----	-----
Total Interest Expense:	\$ 48	\$1,020	\$1,068
Net Interest Income:	\$ 256	\$ 127	\$ 383

- (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 September 30, 2006 was \$160.3 million and December 31, 2005 was \$154.3 million.

Income from investment securities remained at \$1.5 million at September 30, 2006 and 2005. The average balance of investment securities for the nine months ended September 30, 2006 was \$50.8 million compared to \$57.0 million at September 30, 2005.

Total interest expense increased \$.8 million or 26.66 percent for the first nine months of 2006 as compared to the first nine months of 2005.

This percentage increase is attributable to volume increases along with rising interest rates, particularly in short term borrowings.

The average yield on interest earning assets increased from 5.44 percent to 6.17 percent as of September 30, 2005 and 2006, respectively.

18

### NON-INTEREST INCOME

The following table presents the components of non-interest income for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30, (In thousands)	
	2006	2005
	-----	-----
Service charges and fees	\$ 618	\$ 616
Trust department income	114	106
Gain on sale of loans	32	29
Gain on cash surrender value of BOLI	194	193
Other	433	310
	-----	-----
Total	\$1,391	\$1,254
	-----	-----

Non-interest income continues to represent a considerable source of our income.

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

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, 2006 and September 30, 2005 total non-interest income increased from \$1,254 thousand at September 30, 2005 to \$1,391 thousand at September 30, 2006. Service charges and fees increased \$2 thousand from \$616 thousand at September 30, 2005 to \$618 thousand or .32 percent at September 30, 2006.

Sales of fixed rate mortgages through the MPF and PHFA programs increased in the first nine months of 2006 compared to the first nine months of 2005 resulting in gain on sale of loans increasing from \$29 thousand in 2005 to \$32 thousand in 2006. The MPF loans are being serviced by CCFNB and the bank retains minimal credit risk. Other non-interest income increased \$123 thousand from \$310 thousand at September 30, 2005 to \$433 thousand at September 30, 2006. This increase is primarily attributable to investment center income, from \$88.5 thousand at September 30, 2005 to \$162.9 thousand at September 30, 2006; a State initiative for donations to private schools and community projects resulting in a State Shares Tax credit in 2006, thus creating other income of \$27.4 thousand compared to 0 in 2005; and certificate of deposit penalties, from \$10.6 thousand at September 30, 2005 to \$22.5 thousand at September 30, 2006.

### NON-INTEREST EXPENSE

The following table presents the components of non-interest expense for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,	
	2006	2005
	-----	-----
	(Dollars in Thousands)	
Salaries and wages	\$1,914	\$1,726
Employee benefits	612	596
Net occupancy expense	339	346
Equipment expense	364	389
State shares tax	228	211
Professional services	158	220
Director fees	125	142
Stationery and supplies	103	98
Other expense	875	829
	-----	-----
Total	\$4,718	\$4,557
	-----	-----

Non-interest expense increased 2.17 percent from \$4.6 million at September 30, 2005 to \$4.7 million at September 30, 2006.

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 10.89 percent from \$1,726 thousand at September 30, 2005 to \$1,914 thousand at September 30, 2006. Additionally, employee benefits increased

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

2.68 percent from \$596 thousand at September 30, 2005 to \$612 thousand at September 30, 2006. These increases were partially attributable to the addition of new personnel to increase business development and annual increases in salaries and cost of benefits.

Occupancy expense decreased 2.02 percent, from \$346 thousand at September 30, 2005 to \$339 thousand at September 30, 2006. This decrease is attributable to savings of miscellaneous occupancy, which includes heat, snow plowing and air conditioning. Equipment expense reflects a \$25 thousand decrease for the first nine months of 2006 compared to the first nine months of 2005. This decrease is a result of less depreciation expense as some equipment has fully depreciated. Occupancy expense is expected to increase as our eighth office, Berwick, opened on October 12, 2006.

Pennsylvania Bank Shares Tax increased \$17 thousand from \$211 thousand at September 30, 2005 to \$228 thousand at September 30, 2006.

19

Professional services decreased 28.18 percent from \$220 thousand at September 30, 2005 to \$158 thousand at September 30, 2006. This decrease is attributable to reduced costs of Sarbanes Oxley (Sox 404) of \$32,000 and the implementation cost of the Overdraft Privilege Program in 2004 - 2005 which were \$32,000 in 2005 and \$0 in 2006.

Director's fees decreased 11.97 percent from \$142 thousand through September 30, 2005 compared to \$125 thousand through September 30, 2006. Beginning January 2006, the Chairman of the Board fee decreased from \$56 thousand annually to \$40 thousand annually.

Stationery and supplies increased \$5 thousand in comparing September 30, 2005 at \$98 thousand and September 30, 2006 at \$103 thousand.

Other expenses increased \$46 thousand or 5.55 percent from \$829 thousand at September 30, 2005 to \$875 thousand at September 30, 2006. Donations increased \$38.6 thousand due to the State initiative for donations to private schools and community projects. Data Processing also reflected an increase of \$16.8 thousand. This was for compliance and various improvements in various areas and the addition of the Berwick branch.

### INCOME TAXES

Income tax expense as a percentage of pre-tax income was 24.34 percent for the nine months ended September 30, 2006 compared with 21.26 percent for the same period in 2005. The effective tax rate for 2006 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 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.

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

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 September 30, 2006, we had \$51.3 million of securities available for sale recorded at their fair value, compared with \$53.9 million at December 31, 2005. As of September 30, 2006, the investment securities available for sale had a net unrealized loss of \$170 thousand, net of deferred taxes, compared with a net unrealized loss of \$303 thousand, net of deferred taxes, at December 31, 2005. 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.

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 September 30, 2006:

Description of Security	Less than 12 months		12 months or more		Fair
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	
Obligations of U.S. Government Corporations and Agencies:					
Mortgage backed	\$ 3,616,549	\$14,664	\$11,973,884	\$293,908	\$15,59
Other	7,714,563	29,642	12,305,945	194,055	20,02
Obligations of State and Political Subdivisions	0	0	320,948	2,493	32
Marketable Equity Securities	133,223	9,915	91,937	16,860	22
<b>Total</b>	<b>\$11,464,335</b>	<b>\$54,221</b>	<b>\$24,692,714</b>	<b>\$507,316</b>	<b>\$36,15</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 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

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

Corporation's 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:

	September 30, 2006	December 31, 2005	
	-----	-----	
	(Dollars in thousands)		
Past due and non-accrual:			
Days 30 - 89	\$703	\$1,229	
Days 90 plus	24	130	
Non-accrual	167	707	
	-----	-----	
Total	\$894	\$2,066	

Past due and non-accrual loans decreased 57.14 percent from \$2.1 million at December 31, 2005 to \$.9 million at September 30, 2006. The loan delinquency expressed as a ratio to total loans was .56 percent at September 30, 2006 and 1.34 percent at December 31, 2005.

The provision for loan losses for the first nine months of 2006 was \$127 thousand compared to the first nine months of 2005 at \$90 thousand. Management is diligent in its efforts to reduce delinquencies and continues to monitor and review 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:

### MATURITY AND REPRICING DATA FOR LOANS AND LEASES

September 30,  
-----  
(Dollars in Thou



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

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	\$ 2,196
(2) Over three months through 12 months	12,442
(3) Over one year through three years	30,008
(4) Over three years through five years	6,673
(5) Over five years through 15 years	19,631
(6) Over 15 years	258
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	17,579
(2) Over three months through 12 months	12,604
(3) Over one year through three years	32,267
(4) Over three years through five years	12,119
(5) Over five years through 15 years	13,478
(6) Over 15 years	892
Sub-total	\$160,147
Add: Non-accrual loans not included above	167
Less: Unearned income	(20)
Total Loans and Leases	\$160,294

### 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.

21

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 all 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

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

- 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 N Ending Sep Amounts in ----- 2006 -----
Average loans outstanding:	\$158,036
Total loans at end of period	160,294
Balance at beginning of period	\$ 1,552
Total charge-offs	(216)
Total recoveries	25
Net (charge-offs) recoveries	(191)
Provision for loan losses	127
Balance at end of period	\$ 1,488
Net (charge-offs) recoveries as a percent of average loans outstanding during period	(.12)%
Allowance for loan losses as a percent of total loans	.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 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 are 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.

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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

	September 30, 2006		December 31, 2005	
	Calculated Ratios	Minimum Standard Ratios	Calculated Ratios	Minimum Standard Ratios
Risk Based Ratios:				
Tier I Capital to risk-weighted assets	18.69%	4.00%	19.24%	4.00%
Total Qualifying Capital to risk-weighted assets	19.71%	8.00%	20.32%	8.00%

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

	September 30, 2006	December 31, 2005
Tier I Capital to average assets	12.66%	12.74%

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 \$24.00 at September 30, 2006, compared with \$23.06 per share at December 31, 2005.

Cash dividends declared amounted to \$.58 per share for the nine months ended September 30, 2006, equivalent to a dividend payout ratio of 39.53 percent, compared with 41.33 percent for the same period in 2005. 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 third quarter of 2006:

CCFNB BANCORP, INC.  
ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	NUMBER OF SHARES PURCHASED	PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM (1)	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
07/24/06 - 07/24/06	2,000	\$28.00	2,000	50,000
08/22/06 - 08/22/06	2,000	\$27.65	2,000	48,000
09/20/06 - 09/20/06	2,000	\$27.95	2,000	46,000

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

TOTAL 6,000 6,000

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

23

### 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 September 30, 2006, as required by paragraph (d) Rules 13a - 15 (e) and 15d - 15 (e) 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.

24

### 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

Edgar Filing: CCFNB BANCORP INC - Form 10-Q

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 - The following were filed with the SEC during 2006:

March 10, 2006 - Proxy dated December 31, 2005

April 3, 2006 - Item 1.01 - Entry into a Material Definitive Agreement - Complying with newly enacted Section 409A of Internal Revenue Code of 1986...changes made to existing deferred compensation programs maintained by the Subsidiary.

May 1, 2006 - Item 5.02 - Departure of a Director and Election of a Director - Resignation of Director and Election of Director to fill unexpired term.

25

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q for the period ended September 30, 2006, 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: November 9, 2006

By /s/ Virginia D. Kocher

-----  
Virginia D. Kocher  
Treasurer

Date: November 9, 2006

26