CCFNB BANCORP INC
Form 10-Q
November 14, 2008

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

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

For the quarterly period ended September 30, 2008.

Or

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

For the transition period from __________ to __________.

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

PENNSYLVANIA	**23-2254643**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
232 East Street, Bloomsburg, PA	**17815**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

On October 31, 2008, there were 2,249,010 shares of the Registrant s Common stock outstanding, par value $1.25.

CCFNB Bancorp, Inc. and Subsidiary
Index to Quarterly Report on Form 10-Q

	Page Number
Part I Financial Information	
Item1. Financial Statements	
Consolidated Balance Sheet as of September 30,2008 (unaudited) and December 31, 2007	2
Consolidated Statement of Income (unaudited) for the Three and Nine months ended September 30, 2008 and 2007	3
Consolidated Statement of Cash Flows (unaudited) for the Nine Months ended September 30, 2008 and 2007	4
Notes to Consolidated Financial Statements (unaudited)	5
Report of Independent Registered Public Accounting Firm	21
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	31
Part II Other Information	32
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	32
Item 4. Submission of Matters to a Vote of Security Holders	32
Item 5. Other Information	32
Item 6. Exhibits	33
Signatures	34
Exhibits	35

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CCFNB Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets

(In Thousands)	(Unaudited) September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 10,764	$ 5,550
Interest-bearing deposits in other banks	348	732
Federal funds sold	1,056	7,119
Total cash and cash equivalents	12,168	13,401
Investment securities, available for sale, at fair value	209,817	57,686
Loans,net of unearned income	324,747	161,460
Less: Allowance for loan losses	3,055	1,437
Loans, net	321,692	160,023
Premises and equipment, net	12,504	5,087
Accrued interest receivable	2,802	1,082
Cash surrender value of bank-owned life insurance	10,610	7,077
Investment in limited partnerships	890	
Intangible Assets:		
Core deposit	3,579	
Goodwill	6,235	
Other assets	1,944	968
TOTAL ASSETS	$ 582,241	$ 245,324
LIABILITIES		
Interest-bearing deposits	$ 385,672	$ 151,544
Noninterest-bearing deposits	52,580	19,394
Total deposits	438,252	170,938
Short-term borrowings	68,838	29,511
Long-term borrowings	9,134	11,137
Junior subordinate debentures	3,126	
Accrued interest payable	1,112	475
Other liabilities	2,828	1,636
TOTAL LIABILITIES	523,290	213,697
STOCKHOLDERS EQUITY		

Common stock, par value $1.25 per share; authorized 5,000,000 shares; issued and outstanding 2,249,010 shares in 2008 and 1,226,536 shares in 2007		2,811		1,533
Surplus		27,102		2,271
Retained earnings		28,896		27,679
Accumulated other comprehensive income		142		144
TOTAL STOCKHOLDERS EQUITY		58,951		31,627
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	582,241	$	245,324

See accompanying notes to the unaudited consolidated financial statements.

CCFNB Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
(UNAUDITED)

(In Thousands, Except Per Share Data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans:				
Taxable	$ 4,535	$ 2,667	$ 9,614	$ 7,926
Tax-exempt	197	132	495	363
Interest and divedends on investment securities:				
Taxable	1,967	657	3,220	1,757
Tax-exempt	80	44	164	141
Dividend and other interest income	39	32	88	92
Federal funds sold	45	138	153	412
Deposits in other banks	3	48	23	136
TOTAL INTEREST AND DIVIDEND INCOME	6,866	3,718	13,757	10,827
INTEREST EXPENSE				
Deposits	1,979	1,038	4,005	3,016
Short-term borrowings	222	406	580	1,108
Long-term borrowings	140	168	432	502
Junior subordinate debentures	44		44	
TOTAL INTEREST EXPENSE	2,385	1,612	5,061	4,626
NET INTEREST INCOME	4,481	2,106	8,696	6,201
PROVISION FOR LOAN LOSSES				30
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,481	2,106	8,696	6,171
NON-INTEREST INCOME				
Service charges and fees	317	240	797	680
Gain on sale of loans	74	60	194	124
Bank-owned life insurance	111	74	244	217
Investment center	82	68	174	339
Trust department	143	50	217	132
Other	427	81	565	230
TOTAL NON-INTEREST INCOME	1,154	573	2,191	1,722

NON-INTEREST EXPENSE				
Salaries	1,637	723	3,056	2,224
Employee benefits	1,125	212	1,595	660
Occupancy	240	122	496	369
Equipment	361	121	583	363
State shares tax	114	77	277	236
Professional services	250	84	382	213
Director s fees	55	46	152	139
Stationary and supplies	99	32	153	127
Impairment loss on securities	283		283	
Other	416	295	987	900
TOTAL NON-INTEREST EXPENSE	4,580	1,712	7,964	5,231
INCOME BEFORE INCOME TAX PROVISION	1,055	967	2,923	2,662
INCOME TAX PROVISION	183	249	653	675
NET INCOME	$ 872	$ 718	$ 2,270	$ 1,987
EARNINGS PER SHARE BASIC AND DILUTED	$ 0.43	$ 0.58	$ 1.51	$ 1.61
DIVIDENDS PER SHARE	$ 0.24	$ 0.21	$ 0.66	$ 0.61
WEIGHTED AVERAGE SHARES OUTSTANDING	2,056,686	1,235,249	1,503,955	1,235,249

See accompanying notes to the unaudited consolidated financial statements.

CCFNB Bancorp, Inc. & Subsidiary
Consolidated Statement of Cash Flows
(Unaudited)

(In Thousands)	Nine Months Ended September 30, 2008	2007
OPERATING ACTIVITIES		
Net Income	$ 2,270	$ 1,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses		30
Depreciation and amortization	565	307
Employee stock purchase plan expense	2	2
Impairment loss on securites	283	
Amortization of investment security premiums	217	70
Accretion of investment security discounts	(36)	(21)
Deferred income taxes benefit	(165)	(55)
Gain on sale of loans	(194)	(124)
Proceeds from sale of mortgage loans	11,194	5,260
Originations of mortgage loans held for resale	(11,775)	(5,167)
Income from investment in insurance agency	(18)	(10)
Increase in accrued interest receivable and other assets	(617)	(728)
Increases in cash surrender value of bank-owned life insurance	(275)	(242)
(Decrease) Increase in accrued interest payable, other expenses and other liabilites	(22)	135
Net cash provided by operating activities	1,429	1,444
INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases	(48,283)	(31,379)
Proceeds from sales, maturities and redemptions	34,380	22,806
Proceeds from redemption of regulatory stock	1,387	6
Purchase of regulatory stock	(1,825)	(62)
Net decrease in loans	(412)	(830)
Acquisition of bank cash	5,803	
Acquisition of bank premises and equipment	(515)	(440)
Net cash used for investing activities	(9,465)	(9,899)
FINANCING ACTIVITIES		
Net increase in deposits	2,622	3,271
Net increase in short-term borrowings	7,444	8,056
Repayment of long-term borrowings	(2,003)	(159)
Acquisition of treasury stock	(398)	(499)
Proceeds from issuance of common stock	191	181
Cash dividends paid	(1,053)	(752)
Net cash provided by financing activities	6,803	10,098

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,233)	1,643
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,401	15,531
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,168	$ 17,174
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 4,424	$ 4,564
Income taxes paid	735	644
Loans transferred to other real estate owned	242	

See accompanying notes to the unaudited consolidated financial statements.

CCFNB Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2008

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, First Columbia Bank & Trust Co. (the Bank **).** Columbia Financial Corporation (CFC), parent company of the Bank was acquired by CCFNB Bancorp, Inc. on July 18, 2008 and Columbia County Farmers National Bank (CCFNB) merged with the Bank on July 18, 2008. Financial results reflected in the statements of this report include results of earnings of the Corporation from January 1, 2008 through September 30, 2008, which includes the earnings results of the acquired entities from July 18, 2008 through September 30, 2008. 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 fourteen offices covering an area of approximately 752 square miles in Northcentral Pennsylvania. The Corporation and its banking subsidiary are subject to regulation of the Pennsylvania Department of Banking, The Federal Deposit Insurance Corporation and the Federal Reserve Bank of Philadelphia. Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and the loans are mainly real estate loans covering primary residences and small business enterprises. The trust services, under the name of B.B.C.T. Co. include administration of various estates, pension plans, self-directed IRA s and other services. Two third-party brokerage arrangements are also resident in the Main branch in Bloomsburg and the Lightstreet branch. These investment centers offer 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.

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 (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.

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 collectability 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. 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, 2008 and the year ended December 31, 2007, as the fair market value of each outstanding loan commitment exceeded the Bank s cost basis in each loan commitment.

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 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 Limited Partnerships

The Corporation is a limited partner in three partnerships at September 30, 2008 that provide low income elderly housing in the Corporation s geographic market area. The carrying value of the Corporation s investments in limited partnerships was $890,000 and $0 at September 30, 2008 and December 31, 2007, respectively. The Corporation is fully amortizing the investments in the partnerships over the fifteen year holding period.

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, 2008 and December 31, 2007 was $231,000 and $213,000, respectively, and is carried in other assets in the accompanying consolidated balance sheets.

Junior Subordinated Debentures

During 2006, CFC issued $4,640,000 in junior debentures due December 15, 2036 to Columbia Financial Statutory Trust I (Trust). On July 18, 2008 CCFNB Bancorp, Inc. became the successor Corporation of this Trust. The debentures trustees were changed following the merger. A fair value market adjustment of $1,517,000 was made to these debentures at acquisition. Additionally, $3,000 was amortized against this fair value adjustment during the third quarter. The Corporation owns all of the $140,000 in common equity of the Trust and the debentures are the sole asset of the Trust. The Trust, a wholly-owned unconsolidated subsidiary of the Corporation, issued $4,500,000 of floating-rate trust capital securities in a non-public offering in reliance on Section 4 (2) of the Securities Act of 1933. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on the 3-month LIBOR plus 1.75%. The coupon rate was 4.57% at September 30, 2008 and 6.74% at December 31, 2007, respectively. The securities are callable by the Corporation, subject to any required regulatory approval, at par, after five years. The Corporation unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the Trust.

Intangible Asset Goodwill

Goodwill represents the excess for the purchase price over the fair market value of net assets acquired. The Corporation has recorded net goodwill of $6,235,000 at September 30, 2008 and $0 at December 31, 2007 related to the acquisition of Columbia Financial Corporation and it s subsidiary, First Columbia Bank & Trust Co. In accordance with current accounting standards, goodwill is not amortized, but evaluated at least annually for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired.

Intangible Asset Core Deposit

The Corporation has an amortizable intangible asset related to the deposit premium paid for the acquisition of Columbia Financial Corporation subsidiary, First Columbia Bank & Trust Co. This intangible asset is being amortized on a sum of the years digits method over 10 years and has a carrying value of $3,579,000 and $0, net of accumulated amortization of $112,000 and $0 as of September 30, 2008 and December 31, 2007 respectively.

Amortization expense on intangible assets was $112,000 and $0 for the nine months ended September 2008 and 2007, respectively. For the years ending December 31, amortization expense is estimated to be as follows:

Remainder of 2008	$ 168,000
2009	643,000
2010	576,000
2011	509,000
2012	442,000
2013	374,000
Thereafter	867,000
Total	$3,579,000

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.

Recent Accounting Pronouncements

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

The Corporation will be required to prospectively apply SFAS 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. Management is currently evaluating the effects that SFAS 141(R) will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented in the consolidated financial statements.

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

EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements , was issued in September 2006 and is effective for fiscal years beginning after December 15, 2007 with earlier application permitted. EITF 06-4 requires that, for split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods, an employer should recognize a liability for future benefits in accordance with SFAS No. 106. EITF 06-4 requires that recognition of the effects of adoption should be either by (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Corporation adopted this standard as of January 1, 2007 through a cumulative-effect adjustment to beginning retained earnings. This adjustment represented a decrease of $12,570 to retained earnings.

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 109, which addresses the valuation of written loan commitments accounted for at fair value through earnings. The guidance in SAB 109 expresses the staff s view that the measurement of fair value for a written loan commitment accounted for at fair value through earnings should incorporate the expected net future cash flows related to the associated servicing of the loan. Previously under SAB 105, Application of Accounting Principles to Loan Commitments, this component of value was not incorporated into the fair value of the loan commitment. The Corporation does not account for any written loan commitments at fair value through earnings.

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

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

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities . The statement allows an entity to elect to measure certain financial assets and liabilities at fair value with changes in fair value recognized in the income statement each period. The statement also requires additional disclosures to identify the effects of an entity s fair value election on its earnings. The election is irrevocable. The Corporation is currently assessing whether it will elect to adopt SFAS 159.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS 158 Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans which requires the Corporation to recognize the funded status of a benefit plan as either assets or liabilities in the consolidated balance sheet and to recognize as a component of other comprehensive income, net of tax, the unrecognized actuarial gains or losses, prior service costs and transition obligations that arise during the period. The adoption of SFAS 158 for the year ended December 31, 2007 did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

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

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

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

In March 2006, the FASB issued Statement of Financial Accounting Standards SFAS 156, Accounting for Servicing of Financial Assets , an amendment of SFAS 140. This standard requires entities to separately recognize a servicing asset or liability whenever it undertakes an obligation to service financial assets and also requires all separately recognized servicing assets or liabilities to be initially measured at fair value. Additionally, this standard permits entities to choose among two alternatives, the amortization method or fair value measurement method, for the subsequent measurement of each class of separately recognized servicing assets and liabilities. Under the amortization method, an entity shall amortize the value of servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date. Under the fair value measurement method, an entity shall measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur. Effective January 1, 2006, the Corporation adopted this statement by electing amortization method as its measurement method for residential real estate mortgage servicing rights (MSRs).

In February 2006, the FASB issued Statement of Financial Accounting Standards SFAS 155, Accounting for Certain Hybrid Financial Instruments , which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities , and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain an embedded derivative requiring bifurcation, or hybrid financial instruments that contain embedded derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement was effective for all financial instruments acquired or issued by the Corporation on or after January 1, 2007 and the adoption of SFAS 155 did not have a material impact on the Corporation s consolidated financial condition, results of operations or liquidity.

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, 2008 and 2007 was approximately $77,000 and $76,000, respectively.

Reclassification

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentation used in the 2008 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, 2008 and September 30, 2007 were as follows:

	(Amounts in Thousands)	
	2008	2007
Balance, beginning of year	$ 1,437	$ 1,456
Provision charged to operations		30
Allowance acquired	1,683	
Loans charged-off	(94)	(59)
Recoveries	29	33
Balance, September 30	$ 3,055	$ 1,460

At September 30, 2008, the total recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was $3,835000. These impaired loans had a related allowance for loan losses of $128,000. 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. Impaired loans of CFC on the date of acquisition were $2,361,000.

At September 30, 2008, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

Non-accrual loans at September 30, 2008, and December 31, 2007 were $3,835,000 and $77,000, respectively. Non-accrual loans of CFC at the date of acquisition were $2,361,000**.**

At September 30, 2008 there were no loans past due 90 days or more and still accruing interest.

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.

NOTE 5 Deferred Compensation Plans

The Bank has entered into certain non-qualified deferred compensation agreements with certain executive officers and directors. Expenses related to these non-qualified deferred compensation plans amounted to $116,000 and $70,000 for the nine-month periods ended September 30, 2008 and 2007, respectively.

There were no substantial changes in other plans as disclosed in the 2007 Annual Report.

NOTE 6 Stockholders Equity

Changes in stockholders equity for the nine-month period ended September 30, 2008 were as follows:

(Amounts in Thousands, Except Common Share Data)

	Common Shares	Common Stock	Surplus	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2008	1,226,536	$ 1,533	$ 2,271		$ 27,679	$ 144	$	$ 31,627
Comprehensive Income:								
Net income				$ 2,270	2,270			2,270
Change in unrealized gain (loss) on investment securities available-for-sale net of reclassification adjustment and tax effects				(2)		(2)		(2)
TOTAL COMPREHENSIVE INCOME				$ 2,268				
Par value of new shares issued to acquire Columbia Financial	1,030,286	1,288	25,026					26,314
Issuance of 8,188 shares of common stock under dividend reinvestment and stock purchase plans	8,188	10	181					191
Recognition of employee stock purchase plan expense			2					2
Purchase of 16,000 shares of treasury stock							(398)	(398)
Retirement of 16,000 shares of treasury stock	(16,000)	(20)	(378)				398	
Cash dividends $.66 per share					(1,053)			(1,053)
Balance at September 30, 2008	2,249,010	$ 2,811	$ 27,102		$ 28,896	$ 142	$	$ 58,951

NOTE 7 Acquisition

On July 18, 2008, the Corporation completed its acquisition of Columbia Financial Corporation(CFC). Under the terms of the Agreement and Plan of Reorganization dated as of November 29, 2007, CFC merged with and into the Corporation; and the Corporations wholly-owned subsidiary, Columbia County Farmers National Bank merged with and into the Bank. The Corporation acquired 100% of the outstanding shares of CFC for a total purchase price of

$26.316 million. The transaction was accounted for in accordance with SFAS No. 141, Business Combinations. In connection therewith, the Corporation issued approximately 1,030,286 shares of its common stock and paid cash of approximately $3 thousand in lieu of the issuance of fractional shares in exchange for all of the issued and outstanding shares of CFC common stock. Assets and liabilities of CFC are recorded at estimated fair values as of the acquisition date.

The following table shows the excess purchase price of the carrying value of net assets acquired, purchase price allocation and resulting goodwill recorded for this acquisition:

(Amounts in thousands)	
Purchase price	$ 26,316
Carrying value of net assets acquired	(17,855)
Excess of purchase price over carrying value of net assets acquired	8,461
Purchase accounting adjustments:	
Loans	30
Premises and equipment	19
Deposits	1,235
Junior subordinate debentures	(1,517)
Severance and related costs	840
Deferred taxes	857
Subtotal	9,925
Core deposit intangibles	(3,690)
Goodwill	$ 6,235

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

(Amounts in thousands)	
Assets	
Cash and cash equivalents	$ 5,157
Interest-bearing deposits in other banks	129
Federal funds sold	517
Investment securities	138,257
Loans, net of allowance for loan losses	160,724
Premises and equipment	7,326
Accrued interest receivable	1,534
Bank-owned life insurance	3,258
Investment in limited partnerships	919
Goodwill and other intangibles	9,925
Other assets	119
Total assets	$ 327,865
Liabilities	
Deposits	$ 264,692
Borrowings	31,883
Junior subordinate debenturs	3,123
Accrued interest payable	764
Other liabilities	1,087

Total liabilities	$ 301,549
Fair value of net assets acquired	$ 26,316

The following unaudited pro forma consolidated financial information presents the combined results of operations of the Corporation as if the CFC acquisition had occurred as of the beginning of 2008 and 2007, respectively:

	Nine Months Ended	
(Amounts in thousands, except per share amounts)	September 30, 2008	September 30, 2007
Net interest income	$ 13,975	$ 13,334
Provision for loan losses	25	255
Net interest income after provision for loan losses	13,950	13,079
Noninterest income	3,604	3,125
Noninterest expense	12,432	12,560
Income before income tax expense	5,122	3,644
Income tax expense	1,500	832
Net income	$ 3,622	$ 2,812
Net Income per Common Share	$ 1.61	$ 1.24
Average common shares outstanding	2,252,228	2,265,535

The pro forma results include amortization of fair value adjustments on loans, deposits, and debt, and amortization of newly acquired intangibles. The proforma number of average shares outstanding includes adjustments for shares issued for the acquisitions but does not assume any incremental repurchases. The pro forma results presented do not reflect cost savings or revenue enhancements anticipated from the acquisition and are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the periods presented, nor are they necessarily indicative of future consolidated results.

NOTE 8 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.

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, 2008 and December 31, 2007 were as follows:

	(Amounts in Thousands)	
	September 30, 2008	December 31, 2007
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$62,334	$20,492
Financial standby letters of credit	2,970	756
Performance standby letters of credit	106	923
Dealer floor plans	337	66
Loans for resale	1,632	418

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 customer. Collateral held varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Financial standby letters of credit and performance standby 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, 2008, 83.2% 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.

NOTE 9 Fair Value Measurements

Effective January 1, 2008, the Corporation adopted SFAS No. 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. SFAS No. 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by SFAS No.157 hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observables as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments of which can be directly observed.

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

The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of September 30, 2008 by level within the fair value hierarchy. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	September 30, 2008			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Investment Securities, available-for-sale	$	$209,817	$	$209,817

NOTE 10 Management s Assertions and Comments Required to be Provided with Form 10Q Filing

In management s opinion, the consolidated interim financial statements reflect fair presentation of the consolidated financial position of the Corporation, and the results of their operations and their cash flows for the interim periods presented. Further, the consolidated interim financial statements are unaudited, however they reflect all adjustments, which are in the opinion of management, necessary to present fairly the consolidated financial condition and consolidated results of operations and cash flows for the interim periods presented and that all such adjustments to the consolidated financial statements are of a normal recurring nature.

Due to the mergers with CFC and the Bank, the results of operations for the nine-month period ended September 30, 2008, are not 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, 2007 filed with the Securities and Exchange Commission.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated balance sheet of CCFNB Bancorp, Inc. and Subsidiary as of September 30, 2008, the related consolidated statements of income for the three and nine-month periods ended September 30, 2008 and 2007 and cash flows for the nine-month periods ended September 30, 2008 and 2007. 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, 2007, 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 February 28, 2008, 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, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ J. H. Williams & Co., LLP

J.H. Williams & Co., LLP

Kingston, Pennsylvania

November 7, 2008

CCFNB Bancorp, Inc.
Form 10-Q
For the Quarter Ended September 30, 2008

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Consolidated Summary of Operations
(Dollars in Thousands, except for per share data)

	At and For the Nine Months Ended September 30, 2008	At and For the Nine Months Ended September 30, 2007	At and For the Years Ended December 31, 2007	2006	2005	2004	2003
Income and Expense:							
Interest income	$ 13,757	$ 10,827	$ 14,483	$ 13,202	$ 11,442	$ 10,843	$ 11,221
Interest expense	5,061	4,626	6,185	5,301	4,131	3,669	4,366
Net interest income	8,696	6,201	8,298	7,901	7,311	7,174	6,855
Provision for possible loan losses	0	30	30	175	90	140	200
Net interest income after loan loss provision	8,696	6,171	8,268	7,726	7,221	7,034	6,655
Non-interest income	2,191	1,722	2,305	1,900	1,713	1,530	1,508
Non-interest expense	7,964	5,231	7,038	6,437	6,077	5,746	5,409
Income before income taxes	2,923	2,662	3,535	3,189	2,857	2,818	2,754
Income taxes	653	675	888	777	631	601	591
Net income	$ 2,270	$ 1,987	$ 2,647	$ 2,412	$ 2,226	$ 2,217	$ 2,163
Per Share: (1)							
Net income	$ 1.51	$ 1.61	$ 2.15	$ 1.93	$ 1.76	$ 1.74	$ 1.69
Cash dividends paid	.66	.61	.82	.78	.74	.70	.66
Average shares outstanding	1,503,955	1,235,249	1,233,339	1,249,844	1,262,171	1,267,718	1,281,265
Average Balance Sheet:							
Loans	$ 205,486	$ 160,038	$ 160,348	$ 158,554	$ 150,065	$ 147,348	$ 149,485
Investments	98,444	57,503	58,553	53,703	54,943	61,999	58,152
Other earning assets	9,870	14,362	12,767	7,621	7,503	5,705	8,036
Total assets	313,800	247,625	248,476	236,569	230,081	231,477	230,975
Deposits	250,799	170,489	172,803	167,024	167,812	172,028	171,956
Other interest-bearing	46,279	45,440	42,770	36,676	32,253	29,823	29,772

liabilities							
Stockholders equity	39,602	30,658	31,003	29,672	28,789	28,136	27,223
Balance Sheet Data:							
Loans	$ 324,747	$ 161,476	$ 161,460	$ 160,641	$ 154,271	$ 149,900	$ 147,631
Investments	209,817	62,159	57,686	53,486	53,919	61,834	62,775
Other earning assets	12,168	11,790	13,401	10,712	6,239	6,233	6,882
Total assets	582,241	254,202	245,324	241,920	231,218	235,377	232,914
Deposits	438,252	172,556	170,938	169,285	164,847	172,487	171,786
Other interest-bearing liabilities	81,098	48,504	40,648	40,607	35,910	30,080	32,325
Stockholders equity	58,951	31,228	31,627	30,248	29,012	28,506	27,603
Ratios: (2)							
Return on average assets	.89%	1.07%	1.07%	1.02%	.97%	.96%	.94%
Return on average equity	7.64%	8.64%	8.54%	8.13%	7.73%	7.88%	7.95%
Dividend payout ratio	46.39%	37.80%	38.15%	40.39%	41.92%	40.19%	39.02%
Average equity to average assets ratio	11.68%	12.38%	12.89%	12.54%	12.51%	12.17%	11.79%

(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, 2008 and 2007 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. S 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, the Bank, which reflects the acquisition of CFC and the resulting merger of Columbia County Farmers National Bank. Therefore, our discussion and analysis that follows is primarily centered on the performance of this bank.

Earnings Summary

Assets and liabilities of CFC are recorded at estimated fair values as of the acquisition date and financial results reflected in the statements of this report include results of earnings of he Corporation from January 1, 2008 through September 30, 2008, which includes the earnings results of the acquired entities from July 18, 2008 through September 30, 2008.

Net income for the nine months ended September 30, 2008 was $2,270,000 or $1.51 per basic and diluted share. These results compare with net income of $1,987,000 or $1.61 per basic and diluted share for the same period in 2007. Annualized return on average equity decreased to 7.64 percent from 8.64 percent, while the annualized return on average assets decreased to .89 percent from 1.07 percent, for the nine months ended September 30, 2008 and 2007 respectively.

Net interest income continues to be the largest source of our operating income. Net interest income on a tax equivalent basis increased 39.8 percent to $9,036,000 at September 30, 2008 from $6,461,000 at September 30, 2007. Overall, interest earning assets yielded 5.99 percent for the nine months ended September 30, 2008 compared to 6.37 percent yield for the nine months ended September 30, 2007. The tax equivalized net interest margin increased to 3.84 percent compared to 3.72 percent for the nine months ended September 30, 2007.

Average interest earning assets increased $81.9 million or 35.3 percent for the nine months ended September 30, 2008 over the same period in 2007 from $231.9 million at September 30, 2007 to $313.8 million at September 30, 2008. Average loans increased $45.4 million for the nine months ended September 30, 2008 from $160.0 million at September 30, 2007 to $205.5 million at September 30, 2008. Average investments increased $40.9 million or 71.1 percent from $57.5 million at September 30, 2007 to $98.4 million at September 30, 2008 and average federal funds sold and interest-bearing deposits with other financial institutions decreased $4.5 million or 31.3 percent from $14.4 million at September 30, 2007 to $9.9 million at September 30, 2008.

Average interest bearing liabilities for the nine months ended September 30, 2008 were $268.0 million and for the nine month period ending September 30, 2007, they were $197.6 million, an increase of $70.4 million or 35.7 percent. Average short-term borrowings were $34.3 million at September 30, 2007 and $35.7 million at September 30, 2008. Average long-term debt, which includes primarily FHLB advances, was $11.1 million at September 30, 2007 and $9.5 million at September 30, 2008. Average Junior subordinate debentures were $0 at September 30, 2007 and $1.1 million at September 30, 2008. Average demand deposits increased from $18.4 million at September 30, 2007 to $29.1 million at September 30, 2008.

The average interest rate for loans decreased to 6.73 percent at September 30, 2008 from 7.06 at September 30, 2007, a 33 basis point decrease. Interest-bearing deposits with other Financial Institutions and Federal Funds Sold rates decreased 271 basis points to 2.37 percent at September 30, 2008 from 5.08 percent at September 30, 2007. Average rates on interest bearing deposits decreased by 23 basis points from 2.64 percent to 2.41 percent in one year. Average interest rates decreased on total interest bearing liabilities by 60 basis points to 2.52 percent from 3.12 percent. The cost of long-term debt averaged 6.06 percent at September 30, 2008 compared to 6.01 percent at September 30, 2007. $2 million of this long term debt was able to be paid off in 2008 with the remaining $9 million due in 2010. 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. We will continue to price deposits accordingly. Junior subordinate debentures, acquired July 18, 2008, reflects an average rate of 5.40 percent at September 30, 2008 and 0 percent at September 30, 2007.

Net Interest Income

Tax equivalized net interest income increased $2.5 million at September 30, 2008 from $6.5 million at September 30, 2007 to $9.0 million at September 30, 2008.

The following table sets forth the average balances of, and the interest earned or incurred on, each principal category of assets, liabilities and stockholders equity, the related rates, net interest income and rate spread created:

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

	AVERAGE BALANCES AND INTEREST RATES					
	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
(In Thousands)	Average Balance (1)	Interest (2)	Average Rate	Average Balance (1)	Interest (2)	Average Rate
Assets:						
Tax-exempt loans (3)	$ 14,994	$ 750	6.68%	$ 11,880	$ 550	6.19%
All other loans	190,492	9,614	6.74%	148,158	7,926	7.15%
Total loans	205,486	10,364	6.74%	160,038	8,476	7.08%
Taxable investment securities	93,239	3,309	4.73%	53,489	1,849	4.61%
Tax-exempt investment securities (3)	5,205	248	6.35%	4,014	214	7.11%
Total securities	98,444	3,557	4.82%	57,503	2,063	4.78%
Interest bearing deposits	9,870	176	2.38%	14,362	548	5.10%
Total interest-earning assets	313,800	14,097	6.00%	231,903	11,087	6.39%
Other assets	25,220			15,722		
Total assets	$ 339,020			$ 247,625		
Liabilities:						
Interest-bearing deposits	$ 221,738	4,005	2.41%	$ 152,137	3,016	2.65%
Short-term borrowings	35,684	580	2.17%	34,302	1,108	4.32%
Junior subordinate debt	1,087	44	5.41%			N/A
Other borrowings	9,508	432	6.07%	11,138	502	6.03%
Total interest-bearing liabilities	268,017	5,061	2.52%	197,577	4,626	3.13%
Demand deposits	29,061			18,352		
Other liabilities	2,340			1,038		
Shareholders equity	39,602			30,658		

	$ 339,020			$ 247,625		
Interest rate spread (6)			3.48%			3.26%
Net interest income/margin (4)(5)		$ 9,036	3.84%		$ 6,461	3.72%

(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 2008 and 2007.

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

The following table presents the adjustment to convert net interest income to net interest income on a fully tax equivalent basis for the nine month period ended September 30, 2008.

(In Thousands)	For the Nine Months Ended September 30, 2008	2007
Total interest income	$ 13,757	$ 10,827
Total interest expense	5,061	4,626
Net interest income	8,696	6,201
Tax equivalent adjustment	340	260
Net interest income (fully taxable equivalent)	$ 9,036	$ 6,461

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

	Nine Months Ended September 30, 2008 vs 2007 Increase (Decrease) Due to (1)		
(In Thousands)	Volume	Rate	Net
Interest income:			
Loans, tax-exempt	$ 144	$ 56	$ 200
Loans	2,265	(577)	1,688
Taxable investment securities	1,374	86	1,460
Tax-exempt investment securities	63	(29)	34
Interest bearing deposits	(171)	(201)	(372)
Total interest-earning assets	3,675	(665)	3,010
Interest expense:			
Interest -bearing deposits	1,380	(391)	989
Short-term borrowings	45	(573)	(528)
Junior subordinate debentures	44		44
Long-term borrowings, FHLB	(73)	3	(70)
Total interest-bearing liabilities	1,396	(961)	435
Change in net interest income	$ 2,279	$ 296	$ 2,575

(1) 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, 2008 was $324.7 million and September 30, 2007 was $161.5 million. The acquisition of CFC contributed an increase in net loans in the amount of $160.7 as described in Note 7 of the Notes to Consolidated Financial Statements.

Income from investment securities increased to $3.5 million at September 30, 2008 compared to $2.0 million at September 30, 2007. The average balance of investment securities for the nine months ended September 30, 2008 was $98.4 million compared to $57.5 million at September 30, 2007.

Total interest expense increased $.5 million or 10.9 percent for the first nine months of 2008 as compared to the first nine months of 2007.

Non-Interest Income

The following table presents the components of non-interest income for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30, (Dollars in thousands)	
	2008	2007
Service charges and fees	$ 797	$ 680
Gain on sale of loans	194	124
Bank-owned life insurance income	244	217
Investment center	174	339
Trust department	217	132
Other	565	230
Total	$ 2,191	$ 1,722

Non-interest income continues to represent a considerable source of our income. We are committed to increasing non-interest income. Increases will be from our existing sources of non-interest income and any new opportunities that may develop. For the nine months ended September 30, 2008 and September 30, 2007 total non-interest income increased $469 thousand from $1,722 thousand at September 30, 2007 to $2,191 thousand at September 30, 2008.

Service charges and fees increased $117 thousand from $680 thousand at September 30, 2007 to $797 thousand, or 17.2 percent, at September 30, 2008.

Income from sales of fixed rate mortgages through the Mortgage Partnership Finance (MPF) and PHFA programs reflected an increase at September 30, 2008 to $194 thousand compared to $124 thousand at September 30, 2007. The MPF loans are being serviced by the bank and the bank retains minimal credit risk.

Third party brokerage fees at September 30, 2007 of $339 thousand included $68 thousand from the one time sale of non deposit retail products. The current economic environment has affected the investment center income.

Other income increased from $230 thousand at September 30, 2007 to $565 thousand at September 30, 2008 primarily due to increased ATM related fees.

Non-Interest Expense

The following table presents the components of non-interest expense for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
	2008	2007
	(Dollars in Thousands)	
Salaries	$ 3,056	$ 2,224
Employee benefits	1,595	660
Occupancy	496	369
Equipment	583	363
State shares tax	277	236
Professional services	382	213
Director s fees	152	139
Stationery and supplies	153	127

Impairment loss on securities	283	0
Other	987	900
Total	$ 7,964	$ 5,231

Non-interest expense increased from $5.2 million at September 30, 2007 to $8.0 million at September 30, 2008, an increase of 53.8 percent. 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, the bank utilizes budgets and related measures to control variable expenses.

Salaries increased 37.4 percent from $2.2 million at September 30, 2007 to $3.1 million at September 30, 2008. This is attributable to increased staffing costs from the acquisition of CFC and a decrease in commissions paid on third party brokerage firm sales. Commissions at September 30, 2007 were $138 thousand and at September 30, 2008 were $0 thousand due to the factors discussed above under third party brokerage fee income. Employee benefits increased 141.7 percent from $660 thousand at September 30, 2007 to $1.6 million at September 30, 2008 as a result of severance costs payable to former CCFNB employees.

Occupancy expense increased 34.2 percent from $369 thousand at September 30, 2007 to $496 thousand at September 30, 2008. This increase is attributable to the acquisition and the general increases in the cost of utilities.

Pennsylvania Bank Shares Tax increased 17.4 percent from $236 thousand at September 30, 2007 to $277 thousand at September 30, 2008.

Professional services increased 79.3 percent from $213 thousand at September 30, 2007 to $382 thousand at September 30, 2008 as a result of increased post acquisition related accounting and consulting fees.

Director s fees increased 9.4 percent from $139 thousand through September 30, 2007 compared to $152 thousand through September 30, 2008. As a result of the CFC acquisition, the total number of board members increased to 16 at September 30, 2008 as compared to 9 at September 30, 2007.

Stationery and supplies increased $26 thousand in comparing September 30, 2007 at $127 thousand and September 30, 2008 at $153 thousand, a 20.5 percent increase. Due to the mergers with Columbia Financial Corporation and First Columbia Bank & Trust Co., consummated on July 18, 2008, supply expenditures were greatly increased due to the bank name change.

Other expenses increased $87 thousand from $900 thousand at September 30, 2007 to $987 thousand at September 30, 2008, a 9.7 percent increase.

Income Taxes

Income tax expense as a percentage of pre-tax income was 22.3 percent for the nine months ended September 30, 2008 compared with 25.4 percent for the same period in 2007.

ASSET / LIABILITY MANAGEMENT

Interest Rate Sensitivity

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

We use a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a 12 and 24 month period. The model is based on the actual maturity and repricing characteristics of rate sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment rates of certain assets and liabilities. In the current 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, 2008, we had $209.8 million of securities available for sale recorded at their fair value, compared with $62.2 million at September 30, 2007. The increase in securities available for sale includes the securities acquired from CFC in the amount of $138.3 million. As of September 30, 2008, the investment securities available for sale had a net unrealized gain of $142 thousand, net of deferred taxes, compared with a net unrealized gain of $33 thousand, net of deferred taxes, at September 30, 2007. These securities are not considered trading account securities, which may be sold on a continuous basis, but rather are securities which the Corporation has the ability and positive intent to hold the securities to maturity and are classified as available-for-sale.

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 the individual securities which have been in a continuous unrealized loss position for less than or more than 12 months as of September 30, 2008:

Description of Security	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Government Corporations and Agencies:						
Mortgage backed	$ 21,321	$ 117	$ 661	$ 2	$ 21,982	$ 119
Other	43,333	626	0	0	43,333	626
Obligations of State and Political Subdivisions	7,006	132	0	0	7,006	132
Marketable Equity Securities	710	54	179	33	889	87
Total	$ 72,370	$ 929	$ 840	$ 35	$ 73,210	$ 964

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 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.

Non-Performing Assets

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

	September 30, 2008	December 31,2007
Past due and non-accrual:		
Days 30 89	$ 3,197	$ 460
Days 90 plus	0	80
Non-accrual	3,835	77

Total	$ 7,032	$ 617

Past due and non-accrual loans increased from $617 thousand at December 31, 2007 to $7.0 million at September 30, 2008. Past due and non-accrual loans of CFC on the date of acquisition were $4.9 million. The non-performing assets expressed as a ratio to total loans was 1.27 percent at September 30, 2008 and .74 at December 31, 2007.
Non-performing assets are comprised of non-performing loans and foreclosed real estate (assets acquired in foreclosure), if applicable. Non-performing loans are comprised of loans which are on a non-accrual basis, accruing loans that are 90 days or more past due, and restructured loans.

The provision for loan losses for the first nine months of 2008 was $0 compared to the first nine months of 2007 at $30 thousand. Management is diligent in its efforts to maintain low delinquencies and continues to monitor and review current loans to foresee future delinquency occurrences and react to them quickly. See the following discussion under Allowance for Loan Losses below.

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 of the Notes to Consolidated Financial Statements 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 2008 (Dollars in thousands)
	(1) Three months or less	$ 6,303
	(2) Over three months through 12 months	18,929
	(3) Over one year through three years	44,253
	(4) Over three years through five years	25,558
	(5) Over five years through 15 years	50,930
	(6) Over 15 years	5,164
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	36,496
	(2) Over three months through 12 months	20,001
	(3) Over one year through three years	36,615
	(4) Over three years through five years	22,739
	(5) Over five years through 15 years	46,039
	(6) Over 15 years	7,398
	Sub-total	320,425
Add:	Non-accrual loans not included above	4,351
Less:	Unearned income	(30)
	Total Loans and Leases	$ 324,747

Allowance for Loan Losses

Because our loan portfolio contains a significant number of commercial loans with relatively large balances, the deterioration of one or several of these loans may result in a possible significant increase in 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 mortgages, Residential mortgages, Consumer loans, Municipal loans and Non real estate commercial loans.

We evaluate some loans as a homogeneous group and others on an individual basis. Commercial loans with balances exceeding $350 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

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 the Corporation s loan loss experience as of the dates indicated:

	For the Nine Months Ended September 30, (Dollars in thousands)	
	2008	2007
Average loans outstanding:	$ 205,486	$ 160,038
Total loans at end of period	324,747	161,476
Balance at beginning of period	$ 1,437	$ 1,456
Allowance acquired	1,683	
Total charge-offs	(94)	(59)
Total recoveries ,	29	33
Net charge-offs	(65)	(26)
Provision for loan losses	0	30
Balance at end of period	$ 3,055	$ 1,460
Net charge-offs as a percent of average loans outstanding during period	.03%	.02%
Allowance for loan losses as a percent of total loans	.94%	.90%

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, Management and the Board of Directors 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.

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

	September 30, 2008		December 31, 2007	
	Calculated Ratios	Minimum Standard Ratios	Calculated Ratios	Minimum Standard Ratios
Risk Based Ratios:				

Tier I Capital to risk-weighted assets	14.87%	4.00%	18.10%	4.00%
Total Qualifying Capital to risk-weighted assets	15.76%	8.00%	18.93%	8.00%

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

	September 30, 2008	December 31, 2007
Tier I Capital to average assets	10.21%	12.71%

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 $26.21 at September 30, 2008, compared with $25.79 per share at December 31, 2007.

Cash dividends declared amounted to $.66 per share for the nine months ended September 30, 2008, equivalent to a dividend payout ratio of 46.39 percent, compared with 37.80 percent for the same period in 2007. The 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.

Item 3. Quantitative and qualitative disclosure about market risk

In the normal course of conducting business activities, the Corporation is exposed to market risk, principally interest rate risk, through the operations of its banking subsidiary. Interest rate risk arises from market driven fluctuations in interest rates that affect cash flows, income, expense and values of financial instruments and was discussed previously in this Form 10-Q. Management and a committee of the Board of Directors manage interest rate risk (see also Asset / Liability Management).

No material changes in market risk occurred during the current period. A detailed discussion of market risk is provided in the Annual Report on Form 10-K for the period ended December 31, 2007.

Item 4. Controls and Procedures

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

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

The CEO and CFO have evaluated the changes to our internal controls over financial reporting that occurred during our fiscal Quarter Ended September 30, 2008, as required by paragraph (d) Rules 13a 15 and 15d 15 under the Securities Exchange Act of 1934, as amended, and have concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1.A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. At September 30, 2008 the risk factors of the Corporation have not changed materially from those in our Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

CCFNB BANCORP, INC.

ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	NUMBER OF SHARES PURCHASED	PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM (1)	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
07/01/08 07/31/08	4,000	$ 23.40	4,000	0
08/01/08 08/31/08	0			0
09/01/08 09/30/08	0			0
TOTAL	4,000		4,000	

(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 was no

expiration date associated with this program.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

None

Item 5. Other Information

On October 20, 2008, Jeffrey T. Arnold commenced employment with the Bank. Mr. Arnold became the Chief Financial Officer of the Corporation and the Bank on November 8, 2008 upon the early retirement of the Corporation s and the Bank s Chief Financial Officer, Shirley K. Alters. The Corporation and the Bank have not entered into any written employment agreement or arrangement as of the date of this report. Mr. Arnold s base salary is $100,000 and he will receive the customary benefits afforded officers of his rank and position within the Corporation and the Bank.

On June 25, 2008 the Bank entered into a sales agreement to sell their property at 1089 Columbia Boulevard, Bloomsburg, PA. for a price of $240,000**.** Currently this sale is in an extension period, extension period commencing September 19, 2008.
On September 4, 2008 the Bank purchased a property at 300 Market Street, Berwick, PA. at a price of $120,000.00. The bank anticipates utilizing the property for a new Branch bank facility.
On October 3, 2008 the Bank entered into an agreement to purchase a property at 992 Central Road, Bloomsburg. PA. at a price of $1,475,000. The Bank anticipates utilizing this property for bank operation offices.
On October 29, 2008 the Bank entered into a sales agreement to sell their property at 17 East Main Street, Bloomsburg, PA at a price of $212,000.
On October 29, 2008 the Bank entered into a sales agreement to sell the former branch bank and warehouse at 2041 Columbia Boulevard at a price is $305,100.

Item 6. Exhibits and Reports on Form 8-K

On October 16, 2008 the Corporation filed a Form 8K announcing the recording of a non-cash, other-than-temporary impairment charge of $282,514.08 for the quarter ending September 30, 2008.
On July 23, 2008 a form 8K was filed with the Commission concerning the merger with Columbia Financial Corporation. The merger was consummated July 18, 2008.

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

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

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

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, 2008, 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 7, 2008

By /s/ Shirley K. Alters

Shirley K. Alters
Chief Financial Officer

Date: November 7, 2008