CCFNB BANCORP INC
Form 10-K
March 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year-ended **December 31, 2011**

or

.. **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________to________________

Commission file Number**: 000-19028**

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, Pennsylvania 17815
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $1.25 per share**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or section 15(d) of the Act.

Yes ¨ No x

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 requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 S-T (232.405 of this chapter) during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant’s most recently completed second fiscal quarter: $71,210,059 as of June 30, 2011.

As of March 1, 2012, the Registrant had outstanding 2,201,587 shares of its common stock, par value $1.25 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement prepared in connection with its annual meeting of Shareholders to be held May 15, 2012, are incorporated by reference into parts III and IV of this report.

CCFNB BANCORP, INC.

FORM 10-K

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PART I

Item 1. Business

General

We are a registered financial holding company, bank holding company, and Pennsylvania business corporation, and are headquartered in Bloomsburg, Pennsylvania. We have one wholly-owned bank subsidiary which is First Columbia Bank & Trust Co. (the “Bank”). A substantial part of our business consists of the management and supervision of the Bank. Our principal source of income is dividends paid by the Bank. At December 31, 2011, we had approximately:

- $625 million in total assets;
- $351 million in gross loans;
- $482 million in deposits; and
- $71 million in stockholders’ equity.

The Bank is a state-chartered bank whose deposits are insured by the Deposit Insurance Fund of the FDIC. The Bank is a full-service commercial bank providing a range of services and products, including time and demand deposit accounts, consumer, commercial and mortgage loans to individuals and small to medium-sized businesses in its Northcentral Pennsylvania market area. The Bank also operates a full-service trust department. Third-party brokerage services are also resident in the Bank’s office in Lightstreet, Pennsylvania. At December 31, 2011, the Bank had thirteen branch banking offices which are located in the Pennsylvania counties of Columbia and Northumberland.

We consider our branch banking offices to be a single operating segment, because these branches have similar:

- economic characteristics,
- products and services,
- operating processes,
- delivery systems,
- customer bases, and
- regulatory oversight.

We have not operated any other reportable operating segments in the 3-year period ended December 31, 2011. We have combined financial information for our third-party brokerage operation with our financial information because

this operation does not meet the quantitative threshold for a reporting operating segment.

We held a 50 percent interest in a local insurance agency until its sale on November 14, 2011. The name of this agency was Neighborhood Group, Inc. and traded under the fictitious name of Neighborhood Advisors (insurance agency). Through this joint venture, we sold insurance products and services. We accounted for this local insurance agency using the equity method of accounting.

As of December 31, 2011, we had 175 employees on a full-time equivalent basis. The Corporation and the Bank are not parties to any collective bargaining agreement and employee relations are considered to be good.

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 transaction was accounted for in accordance with FASB ASC 805, Business Combinations (SFAS No. 141-Business Combinations). In connection therewith, the Corporation issued approximately 1,030,286 shares of its common stock and paid cash of approximately $3,000 in lieu of the issuance of fractional shares in exchange for all of the issued and outstanding shares of CFC common stock. The aggregate value of the Corporation’s common stock issued and cash paid in the merger was $26,316,000. Assets and liabilities of CFC were recorded at estimated fair values as of the acquisition date and the results of the acquired entity operations are included in income from that date.

Regulation and Supervision

The Corporation is a financial holding company, and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a registered bank holding company and financial holding company, the Corporation is subject to regulation under the Bank Holding Company Act of 1956 and to inspection, examination, and supervision by the Federal Reserve Board.

The operations of the Bank are subject to federal and state statutes applicable to banks chartered under the banking laws of the United States, and to banks whose deposits are insured by the Federal Deposit Insurance Corporation. The Bank’s operation also is subject to regulations of the Pennsylvania Department of Banking, the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC).

Several of the more significant regulatory provisions applicable to banks and financial holding companies to which the Corporation and the Bank are subject are discussed below. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory provisions. Any change in applicable law or regulation may have a material effect on the business and prospects of the Corporation

and the Bank.

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Financial and Bank Holding Company Activities

As a financial holding company, the Corporation may engage in, and acquire companies engaged in, activities that are considered “financial in nature”, as defined by the Gramm-Leach-Bliley Act and Federal Reserve Board interpretations. These activities include, among other things, securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, and merchant banking. If any banking subsidiary of the Corporation ceases to be “well capitalized” or “well managed” under applicable regulatory standards, the Federal Reserve Board may, among other things, place limitations on the Corporation’s ability to conduct the broader financial activities permissible for financial holding companies or, if the deficiencies persist, require the Corporation to divest the banking subsidiary. In addition, if any banking subsidiary of the Corporation receives a Community Reinvestment Act rating of less than satisfactory, the Corporation would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. The Corporation may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, as long as it gives the Federal Reserve Board after-the-fact notice of the new activities.

Interstate Banking and Branching

As a bank holding company, the Corporation is required to obtain prior Federal Reserve Board approval before acquiring more than 5% of the voting shares, or substantially all of the assets, of a bank holding company, bank, or savings association. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act (the “Riegle-Neal Act”), subject to certain concentration limits and other requirements, bank holding companies such as the Corporation may acquire banks and bank holding companies located in any state. The Riegle-Neal Act also permits banks to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states, and establishing de novo branch offices in other states. Previously, the ability of banks to acquire or establish branch offices in another state was contingent on the host state having adopted legislation “opting in” to those provisions of the Riegle-Neal Act. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), banks now may acquire or establish branches in another state to the same extent as a bank chartered in that state would be permitted to establish branches.

Control Acquisitions

The Change in Bank Control Act prohibits a person or group of persons from acquiring “control” of a bank holding company, unless the Federal Reserve Board has been notified and has not objected to the transaction.

Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act,

such as the Corporation, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of outstanding voting stock of a bank holding company, or otherwise obtaining control or a “controlling influence” over that bank holding company.

Liability for Banking Subsidiaries

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the “default” of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution “in danger of default”.

Capital Requirements

Information concerning the Corporation and the Bank with respect to capital requirements is incorporated by reference from Note 17, “Regulatory Matters”, of the “Notes to Consolidated Financial Statements” included under Item 8 of this report, and from the “Capital Resources” section of the “Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations”, included under Item 7 of this report.

FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the regulations promulgated under FDICIA, among other things, established five capital categories for insured depository institutions – well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized – and requires federal bank regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements based on these categories. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on certain other aspects of its operations. An undercapitalized bank must develop a capital restoration plan and its parent bank holding company must guarantee the bank’s compliance with the plan up to the lesser of 5% of the bank’s assets at the time it became undercapitalized and the amount needed to comply with the plan. As of December 31, 2011, the Bank was considered well capitalized based on the guidelines implemented by the bank’s regulatory agencies.

Dividend Restrictions

The Corporation's funding for cash distributions to its shareholders is derived principally from dividends received from the Bank. Various federal and state laws limit the amount of dividends the Bank can pay to the Corporation without regulatory approval. In addition, federal bank regulatory agencies have authority to prohibit the Bank from engaging in an unsafe or unsound practice in conducting its business. The payment of dividends, depending upon the financial condition of the bank in question, could be deemed to constitute an unsafe or unsound practice. The ability of the Bank to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines. The Federal Reserve Board in 2009 notified all bank holding companies that dividends should be eliminated, deferred or significantly reduced if the bank holding company's net income for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends; the bank holding company's prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall, current and prospective financial conditions; or the bank holding company will not meet, or is in danger of meeting, its minimum regulatory capital adequacy ratios. Additional information concerning the Corporation and the Bank with respect to dividends is incorporated by reference from Note 15, "Regulatory Matters", of the "Notes to Consolidated Financial Statements" included under Item 8 of this report, and the "Capital Resources" section of "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations", included under Item 7 of this report.

Deposit or Preference Statute

In the "liquidation or other resolution" of an institution by any receiver, U.S. federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the insured depository institution would be afforded a priority over the general unsecured claims against that institution, including federal funds and letters of credit.

Other Federal Laws and Regulations

The Corporation's operations are subject to additional federal laws and regulations applicable to financial institutions, including, without limitation:

• Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require us to maintain privacy policies intended to safeguard customer financial information, to disclose the policies to our customers and to allow customers to "opt out" of having their financial service providers disclose their confidential financial information to non-affiliated third parties, subject to certain exceptions;

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Consumer protection rules for the sale of insurance products by depository institutions, adopted pursuant to the requirements of the Gramm-Leach-Bliley Act; and

- USA Patriot Act, which requires financial institutions to take certain actions to help prevent, detect and prosecute international money laundering and the financing of terrorism.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 was enacted. The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies, such as the Corporation, with equity securities registered or that file reports under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws. Many of the provisions were effective immediately while other provisions became effective over a period of time and are subject to rulemaking by the SEC.

FDIC Insurance and Assessments

The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased from $100,000 to $250,000 and unlimited deposit insurance has been extended to non-interest-bearing transaction accounts until December 31, 2012. Prior to the Dodd-Frank Act, the FDIC had established a Temporary Liquidity Guarantee Program under which, for the payment of an additional assessment by insured banks that did not opt out, the FDIC fully guaranteed all non-interest-bearing transaction accounts until December 31, 2010 (the "Transaction Account Guarantee Program") and all senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008 and October 31, 2009, with the FDIC’s guarantee expiring by December 31, 2012 (the “Debt Guarantee Program”). The Company and the Bank opted out of the Debt Guarantee Program. The Bank did not opt out of the Transaction Account Guarantee Program.

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The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on regulatory capital ratios and other supervisory factors. The Bank is currently in Risk Category 1, the lowest risk category.

Starting in 2009, the FDIC significantly raised the assessment rate in order to restore the reserve ratio of the Deposit Insurance Fund to the statutory minimum of 1.15%. For the quarter beginning January 1, 2009, the FDIC raised the base annual assessment rate for institutions in Risk Category 1 to between 12 and 14 basis points. For the quarter beginning April 1, 2009 the FDIC set the base annual assessment rate for institutions in Risk Category 1 to between 12 and 16 basis points. An institution's assessment rate could be lowered by as much as five basis points based on the ratio of its long-term unsecured debt to deposits or, for smaller institutions, based on the ratio of certain amounts of Tier 1 capital to adjusted assets. The assessment rate may be adjusted for Risk Category 1 institutions that have a high level of brokered deposits and have experienced higher levels of asset growth (other than through acquisitions).

The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, payable on September 30, 2009, and reserved the right to impose additional special assessments. Instead of imposing additional special assessments during 2009, the FDIC required all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution's base assessment rate in effect on September 30, 2009 was used, increased by three basis points beginning in 2011, and the assessment base was increased at a 5% annual growth rate. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution. This prepaid assessment does not preclude the FDIC from changing assessment rates or from further revising the risk-based assessment system.

The Dodd-Frank Act requires the FDIC to take such steps as necessary to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020. In setting the assessments, the FDIC is required to off set the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than 10 billion. The Dodd-Frank Act also broadens the base for FDIC insurance assessments so that assessments will be based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits. The FDIC has adopted a new restoration plan to increase the reserve ratio to 1.15% by September 30, 2020 with additional rulemaking scheduled for 2011 regarding the method to be used to achieve a 1.35% reserve ratio by 2020 and offset the effect on institutions with assets less than $10 billion in assets. Pursuant to the new restoration plan, the FDIC will forgo the 3 basis point increase in assessments scheduled to take effect on January 1, 2011. The FDIC has proposed new assessment regulations that would redefine the assessment base as average consolidated assets less average tangible equity. The proposed regulations would use the current assessment rate schedule with modifications to the unsecured debt and brokered deposit adjustments and the elimination of the secured liability adjustment.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (“FICO”), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly,

averaged .0108% of insured deposits on an annualized basis in fiscal year 2011. These assessments will continue until the FICO bonds mature in 2017.

Government Actions and Legislation

The Emergency Economic Stabilization Act of 2008 (the "EES Act"), effective October 2008, allocated up to $700 billion towards purchasing and insuring assets held by financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Pursuant to authority granted under the EES Act, the U.S. Treasury announced the Capital Purchase Program whereby the U.S. Treasury agreed to purchase senior preferred shares from qualifying U.S. financial institutions. Participating institutions must agree to certain limitations on executive compensation, repurchases of junior preferred or common stock and increases in common stock dividend payments. The Corporation, after considerate analysis, chose not to participate in the Capital Purchase Program.

The government has also implemented the Homeowner Affordability and Stability Plan ("HASP"), a $75 billion federal program intended to support recovery in the housing market and ensure that eligible homeowners are able to continue to fulfill their mortgage obligations. HASP includes the following initiatives: (i) a refinance option for homeowners that are current in their mortgage payments and whose mortgages are owned by Fannie Mae or Freddie Mac; (ii) a homeowner stability initiative to prevent foreclosures and help eligible borrowers stay in their homes by offering loan modifications that reduce mortgage payments to more sustainable levels; and (iii) an increase in U.S. Treasury funding to Fannie Mae and Freddie Mac to allow them to lower mortgage rates. HASP also offers monetary incentives to mortgage holders for certain modifications of at-risk loans and would establish an insurance fund designed to reduce foreclosures.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is intended to affect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act additionally creates a new independent federal regulator to administer federal consumer protection laws. The Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Among the provisions that may affect us are the following:

Holding Company Capital Requirements. The Dodd-Frank Act requires the Federal Reserve Board to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Corporate Governance. The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter (“Say-On-Pay”) and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. Pursuant to recently adopted SEC regulations, “smaller reporting companies,” such as the Corporation, are not required to comply with the Say-On-Pay voting requirements until the first annual shareholders meeting occurring on or after January 21, 2013. The new legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions. Effective one year after enactment, the Dodd-Frank Act prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating hereto.

Limits on Derivatives. Effective 18 months after enactment, the Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the loans to one borrower limits of the state in which the bank is chartered takes into consideration credit exposure to derivatives transactions. For this purpose, a derivatives transaction includes any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest or other rates, indices or other assets.

Transactions with Affiliates and Insiders. Effective one year from the date of enactment, the Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal

Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The current exemption from Section 23A for transactions with financial subsidiaries will be eliminated. The Dodd-Frank Act will additionally prohibit an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

Debit Card Interchange Fees. Effective July 21, 2011, the Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. The Federal Reserve Board has issued rules under this provision that limit the fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. Although the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, these rules may affect our ability to compete with larger institutions that are subject to the rules.

Interest on Business Accounts. Effective July 21, 2011, the Dodd-Frank Act repealed the federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts. Our interest expense will increase and our net interest margin will decrease if we begin to offer interest on demand deposits to attract additional customers or maintain current customers.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the consumer financial privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Basel III

The Basel Committee on Banking Supervision (the “Basel Committee”) released in December 2010 revised final frameworks for the regulation of capital and liquidity of internationally active banking organizations. These new frameworks are generally referred to as “Basel III.” Although the U.S. Banking agencies have not yet published a notice of proposed rulemaking to implement Basel III in the United States, they are expected to do so (at least with respect to the Basel III capital framework) during the first half of 2012. While we anticipate that the Basel III capital framework as adopted in the United States will not directly apply to us, it is uncertain to what extent that it will impact bank holding companies and banks with less than $50 billion of total consolidated assets.

Future Legislation

Changes to the laws and regulations to which the Corporation and the Bank are subject can affect the operating environment of both the Corporation and the Bank in substantial and unpredictable ways. The Corporation cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon the financial condition or results of operations of the Corporation. This is also true of federal legislation particularly given the current volatile environment.

The Bank

The Bank’s legal headquarters are located at 232 East Street, Bloomsburg, Columbia County, Pennsylvania 17815. The Bank is a locally managed community bank that seeks to provide personal attention and professional financial assistance to its customers. The Bank serves the needs of individuals and small to medium-sized businesses. The Bank’s business philosophy includes offering direct access to its President and other officers and providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures and consistently-applied credit policies.

The Bank solicits small and medium-sized businesses located primarily within the Bank’s market area that typically borrow in the $25,000 to $2.0 million range. In the event that certain loan requests may exceed the Bank’s lending limit to any one customer, the Bank seeks to arrange such loans on a participation basis with other financial institutions.

Marketing Area

The Bank's primary market area encompasses Columbia County, a 484 square mile area located in Northcentral Pennsylvania with a population of approximately 67,295 based on 2010 census data. The Town of Bloomsburg is Columbia County's largest municipality and its center of industry and commerce. Bloomsburg has a population of approximately 14,855 based on 2010 census data, and is the county seat. Berwick, located on the eastern boundary of Columbia County, is the second largest municipality, with a 2010 census data population of approximately 10,477. The Bank currently serves its market area through thirteen branch offices located in Bloomsburg, Benton, Berwick, Buckhorn, Catawissa, Elysburg, Lightstreet, Millville, Orangeville and Scott Township.

The Bank competes with other depository institutions in Columbia, Luzerne, and Northumberland Counties. The Bank's major competitors are: First Keystone Community Bank, PNC Bank, FNB Bank and M & T Bank, as well as several credit unions. The Bank's extended market area includes the adjacent Pennsylvania counties of Lycoming, Montour, Schuylkill and Sullivan.

Allowance for Loan Losses

Commercial loans and commercial real estate loans comprised 47.5 percent of our total consolidated loans as of December 31, 2011. Commercial loans are typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial loans and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a loss of earnings from these loans 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, among other things, our historical experience, an evaluation of economic conditions, and regular reviews of any delinquencies and loan portfolio quality. We cannot assure you that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. Additions to the allowance for loan losses would result in a decrease in our net income and, possibly, our capital.

In evaluating our allowance for loan losses, we divide our loans into the following categories:

- commercial, financial, and agricultural
- real estate mortgages,
- consumer, and
- unallocated.

We evaluate some loans as a group and some individually. We use the following criteria in choosing loans to be evaluated individually:

- by risk profile, and
- by past due status.

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After our evaluation of these loans, we allocate portions of our allowance for loan losses to categories of loans based upon the following considerations:

- historical trends,
- economic conditions, and
- any known deterioration.

We use a self-correcting mechanism to reduce differences between estimated and actual losses. We will, on an annual basis, weigh our loss experience among the various categories and reallocate the allowance for loan losses.

For a more in-depth presentation of our allowance for loan losses and the components of this allowance, please refer to Item 7 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "Provision for Loan Losses," "Allowance for Loan Losses," and "Non-performing Loans," as well as Note 4, Item 8 to this report.

Sources of Funds

General. Our primary source of funds is the cash flow provided by our investing activities, including principal and interest payments on loans and mortgage-backed and other securities. Our other sources of funds are provided by operating activities (primarily net income) and financing activities, including borrowings and deposits.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. We currently offer savings accounts, NOW accounts, money market accounts, demand deposit accounts and certificates of deposit. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, pricing of deposits and competition. Our deposits are primarily obtained from areas surrounding our banking offices. We rely primarily on marketing, new products, service and long-standing relationships with customers to attract and retain these deposits. At December 31, 2011, our deposits totaled $482 million.

When we determine the levels of our deposit rates, consideration is given to local competition, yields of U.S. Treasury securities and the rates charged for other sources of funds. We have maintained a high level of core deposits, which has contributed to our low cost of funds. Core deposits include savings, money market, NOW and demand deposit accounts, which, in the aggregate, represented 57.4 percent of total deposits at December 31, 2011 and 51.0 percent of total deposits at December 31, 2010.

We are not dependent for deposits nor exposed by loan concentrations to a single customer, or to a small group of customers of which the loss of any one or more would have a materially adverse effect on our financial condition.

For a further discussion of our deposits, please refer to Item 7 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "Deposits," as well as Note 7, Item 8 to this report.

Available Information

We file reports, proxy, statements and other information electronically with the SEC. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room located at 450 5th Street, N.W., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The SEC's website address is http://www.sec.gov. Our website address is http://www.firstcolumbiabank.com. Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC may be obtained without charge by writing to CCFNB Bancorp, Inc., 232 East Street, Bloomsburg, PA 17815; Attn: Mr. Jeffrey T. Arnold, CFO and Treasurer.

Item 1A. Risk Factors

Adverse changes in the economic conditions in our market area could materially and negatively affect our business.

Substantially all of our business is with consumers and small to mid-sized companies located within Columbia, Lycoming, Luzerne, Montour, and Northumberland Counties, Pennsylvania. Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in economic conditions, whether caused by national or local concerns, in particular an economic slowdown in northcentral Pennsylvania, could result in the following consequences, any of which could materially harm our business:

- customers' credit quality may deteriorate;
- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decrease;
- competition for low cost or non-interest bearing deposits may increase; and

· collateral securing loans may decline in value.

Competitive pressures from financial services companies and other companies offering banking services could negatively impact our business.

We conduct banking operations primarily in northcentral Pennsylvania. Increased competition in the Bank’s market may result in reduced loans and deposits, high customer turnover, and lower net interest rate margins. Ultimately, the Bank may not be able to compete successfully against current and future competitors. Many competitors in the Bank’s market area, including regional banks, other community-focused depository institutions and credit unions, offer the same banking services as the Bank offers. The Bank also faces competition from many other types of financial institutions, including without limitation, finance companies, brokerage firms, insurance companies, mortgage banks and other financial intermediaries. These competitors often have greater resources affording them the competitive advantage of maintaining numerous retail locations and ATMs and conducting extensive promotional and advertising campaigns. Moreover, our credit union competitors pay no corporate taxes and can, therefore, more aggressively price many products and services.

Changes in interest rates could reduce our income and cash flows.

The Bank's income and cash flows and the value of its assets and liabilities depend to a great extent on the difference between the income earned on interest-earning assets such as loans and investment securities, and the interest expense paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans and investment securities and the amounts paid on deposits. If the rates of interest the Bank pays on its deposits and other borrowings increases more than the rates of interest the Bank earns on its loans and other investments, the Bank's net interest income, and therefore our earnings, could be adversely affected. The Bank's earnings could also be adversely affected if the rates on its loans or other investments fall more quickly or rise slower than those on its deposits and other borrowings.

Significant increases in interest rates may affect customer loan demand and payment habits.

Significant increases in market interest rates, or the perception that an increase may occur, could adversely impact the Bank's ability to generate new loans. An increase in market interest rates may also adversely impact the ability of adjustable rate borrowers to meet repayment obligations, thereby causing nonperforming loans and loan charge-offs to increase in these mortgage products.

If the Bank’s loan growth exceeds that of its deposit growth, then the Bank may be required to obtain higher cost sources of funds.

Our growth strategy depends upon generating an increasing level of loans at the Bank while maintaining a low level of loan losses for the Bank. As the Bank's loans grow, it is necessary for the Bank's deposits to grow at a comparable pace in order to avoid the need for the Bank to obtain other sources of loan funds at higher costs. If the Bank's loan growth exceeds the deposit growth, the Bank may have to obtain other sources of funds at higher costs which could adversely affect our earnings.

If the Bank's allowance for loan losses is not adequate to cover actual loan losses, its earnings may decline.

The Bank maintains an allowance for loan losses to provide for loan defaults and other classified loans due to unfavorable characteristics. The Bank's allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our operating results. The Bank's allowance for loan losses is based on prior experience, as well as an evaluation of risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, changes in borrowers' creditworthiness, and the value of collateral securing loans and leases that may be beyond the Bank's control, and these losses may exceed our current estimates. The FDIC and Pennsylvania Department of Banking review the Bank's loans and allowance for loan losses and may require the Bank to increase its allowance. While we believe that the Bank's allowance for loan losses is adequate to cover current losses, we cannot assure that the Bank will not further increase the allowance for loan losses or that the regulators will not require the Bank to increase the allowance. Either of these occurrences could adversely affect our earnings.

Adverse changes in the market value of securities and investments that we manage for others may negatively impact the growth level of the Bank's non-interest income.

The Bank provides a broad range of trust and investment management services for estates, trusts, agency accounts, and individual and employer sponsored retirement plans. The market value of the securities and investments managed by the Bank may decline due to factors outside the Bank's control. Any such adverse changes in the market value of the securities and investments could negatively impact the growth of the non-interest income generated from providing these services.

The Bank's branch locations may be negatively affected by changes in demographics.

We and the Bank have strategically selected locations for bank branches based upon regional demographics. Any changes in regional demographics may impact the Bank's ability to reach or maintain profitability at its branch locations. Changes in regional demographics may also affect the perceived benefits of certain branch locations and management may be required to reduce the number of locations of its branches.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation and supervision under federal and state laws and regulations. The requirements and limitations imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation including, without limitations, the Dodd-Frank Wall Street Reform Consumer Protection Act, and may be the subject of further significant legislation in the future, none of which is within our control. These programs and proposals subject us and other financial institution to additional restrictions, oversight and costs that may have an adverse impact on our business, financial condition, results of operations or the price of our common stock. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied or enforced. We cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

Training and technology costs, as well as product development and operating costs, may exceed our expectations and negatively impact our profitability.

The financial services industry is constantly undergoing technological changes in the types of products and services provided to customers to enhance customer convenience. Our future success will depend upon our ability to address the changing technological needs of our customers. We have invested a substantial amount of resources to update our technology and train the management team. This investment in technology and training seeks to increase efficiency in the management team's performance and improve accessibility to customers. We are also investing in the improvement of operating systems and the development of new marketing initiatives. The costs of implementing the technology, training, product development, and marketing costs may exceed our expectations and negatively impact our results of operations and profitability.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

If we fail to maintain an effective system of internal controls; fail to correct any issues in the design or operating effectiveness of internal controls over financial reporting; or fail to prevent fraud, our shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

The loss of one or more of our key personnel may materially and adversely affect our prospects.

We depend on the services of our President and Chief Executive Officer, Lance O. Diehl, and a number of other key management personnel. The loss of Mr. Diehl’s services or that of other key personnel could materially and adversely affect our results of operations and financial condition. Our success also depends, in part, on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and we may not be successful in attracting or retaining such personnel due to our geographic location and prevailing salary levels in our market area.

Increases in FDIC insurance premiums may have a material adverse effect of our results of operations.

During 2008, 2009 and 2010, higher levels of bank failures have dramatically increased resolution costs of the Federal Deposit Insurance Corporation, or the FDIC, and depleted the deposit insurance fund. In addition, the FDIC and the U.S. Congress have taken action to increase federal deposit insurance coverage, placing additional stress on the deposit insurance fund.

In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions uniformly by seven cents for every $100 of deposits beginning with the first quarter of 2009, with additional changes beginning April 1, 2009, which require riskier institutions to pay a larger share of premiums by factoring the rate adjustments based on secured liabilities and unsecured debt levels.

To further support the rebuilding of the deposit insurance fund, the FDIC imposed a special assessment on each insured institution, equal to five basis points of the institution's total assets minus Tier 1 capital as of September 30, 2009. For the Bank, this represented an aggregate charge of approximately $260,000. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $2.0 million. The FDIC has indicated that future special assessments are possible, although it has not determined the magnitude or timing of any future assessments.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums. Our expenses for the years ended December 31, 2010 and 2009 were adversely affected by these increased premiums and any additional special assessments may further adversely affect our results of operations.

We are a holding company dependent for liquidity on payments from First Columbia Bank & Trust Co., our major subsidiary, which are subject to restrictions.

We are a financial holding company and depend on dividends, distributions and other payments from First Columbia Bank & Trust Co., our subsidiary to fund dividend payments and to fund all payments on obligations. The Bank is subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from it to us. Restrictions or regulatory action of that kind could impede access to funds that we need to make payments on our obligations, dividend payments or stock repurchases. In addition, our right to participate in a distribution of assets upon our subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Our commercial real estate lending may expose us to a greater risk of loss and hurt our earnings and profitability.

Our business strategy includes making loans secured by commercial real estate. These types of loans generally have higher risk-adjusted returns and shorter maturities than traditional one-to-four family residential mortgage loans. At December 31, 2011, our loans secured by commercial real estate properties totaled approximately $87 million, which represented 24.9% of total loans. Loans secured by commercial real estate properties are generally for larger amounts and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on loans secured by these properties are often dependent on the income produced by the underlying properties which, in turn, depends on the successful operation and management of the properties. Accordingly, repayment of these loans is subject to adverse conditions in the real estate market of the local economy. In addition, many economists believe that deterioration in income producing commercial real estate is likely to worsen as vacancy rates continue to rise and absorption rates of existing square footage continue to decline. Because of the current general economic slowdown, these loans represent higher risk, could result in an increase in our total net-charge offs and could require us to increase our allowance for loan losses, which could have a material adverse effect on our financial condition and results of operations. While we seek to minimize these risks in a variety of ways, there can be no assurance that these measures will protect against credit-reacted losses.

We are required to make a number of judgments in applying accounting policies and different estimates and assumptions in the application of these policies could result in a decrease in capital and/or other material changes to our reports of financial condition and results of operations. Also, changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments and the fair value of certain financial instruments (securities, derivatives, and privately held investments). While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could result in a decrease to net income and, possibly, capital and may have a material adverse effect on our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, and the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value in the near term. Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. Assessment of goodwill and such other intangible assets could result in circumstances were the applicable intangible asset is deemed to be impaired for accounting purposes. Under such circumstances, the intangible asset's impairment would be reflected as a charge to earnings in the period during which such impairment is identified. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The impact of each of these impairment matters could have a material adverse effect on our business, result of operations and financial condition.

If we want to, or are compelled to, raise additional capital in the future, that capital may not be available when it is needed and on terms favorable to current shareholders.

Federal banking regulators requires us and our banking subsidiary to maintain adequate levels of capital to support our operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by our management and board of directors based on capital levels that they believe are necessary to support our business operations. At December 31, 2011, all three capital ratios for us and our banking subsidiary were above "well capitalized" levels under current bank regulatory guidelines. To be "well capitalized," banking companies generally must maintain a Tier 1 leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a Total risk-based capital ratio of at least 10%. However, our regulators may require us or our banking subsidiary to operate with higher capital levels. For example, regulators recently have required some banks to attain a Tier 1 leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10%, and a Total risk-based capital ratio of at least 12%.

Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital on terms and time frames acceptable to us and to raise additional capital at all. If we cannot raise additional capital in sufficient amounts when needed, our ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial conditions and results of operations. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by recent turmoil in the domestic and worldwide credit markets. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of current investors and could dilute the per share book value or earnings per share of our common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on our stock price.

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The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems, losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions . We could experience increases in deposits and assets as a result of other banks' difficulties or failure, which would increase the capital we need to support such growth.

A substantial decline in the value of our Federal Home Loan Bank of Pittsburgh common stock may adversely affect our financial condition.

We own common stock of the Federal Home Loan Bank of Pittsburgh, or the FHLB, in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair market value of our FHLB common stock was approximately $2.9 million as of December 31, 2011.

Published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In December 2008, the FHLB had notified its member banks that it had suspended dividend payments and the repurchase of capital stock until further notice is provided. In an extreme situation, it is possible that the capitalization of the Federal Home Loan Bank, including the FHLB, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB common stock, we believe that there is a risk that our investment could be deemed other-than-temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations, and financial condition. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our business, financial condition, liquidity, capital and results of operations may be materially adversely affected.

An interruption or breach in security with respect to our information system, or our outsourced service providers, could adversely impact our reputation and have an adverse impact on our financial condition and results of operations.

We rely on software, communication, and other information exchange on a variety of computing platforms and networks and over the Internet. Despite numerous safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. We rely on the services of a variety of vendors to meet our data processing and communication needs. If information security is breached or other technology

difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. Any of these results could have a material adverse effect on our financial condition, results of operations or liquidity.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our executive offices are at 232 East Street, Bloomsburg, Pennsylvania. The Bank's legal or registered office is also at 232 East Street, Bloomsburg, Pennsylvania.

We own all of the banking centers except 2 branch facilities and 2 ATM facilities, which we lease. See Footnote 13 at Item 8 for lease details. During 2011 we sold a former branch bank building located at 3 Dessen Drive, West Hazleton. The remaining banking centers are described as follows:

Location	Approximate Square Footage	Own or Lease	Use
Market Street, Benton, PA	8,512	Own	Banking Services
1919 W. Front Street, Berwick, PA	2,440	Own	Banking Services
Market Street, Berwick, PA	3,547	Own	Banking Services
1 Hospital Drive, Bloomsburg	120	Lease	ATM Facility
17 E. Main Street, Bloomsburg	100	Lease	ATM Facility
232 East Street, Bloomsburg	16,213	Own	Main Office and Bancorp Headquarters
Market Street, Bloomsburg	550	Lease	Banking Services
Buckhorn, PA	693	Lease	Banking Services (In Wal-Mart Supercenter)
Buckhorn, PA	3,804	Own	Banking Services
Catawissa, PA	1,558	Own	Banking Services
Catawissa, PA	1,300	Own	Residential
Elysburg, PA	2,851	Own	Banking Services
Millville, PA	2,553	Own	Banking Services
Orangeville, PA	3,444	Own	Banking Services
1199 Lightstreet Road, Scott Township, PA	16,384	Own	Banking Services, Financial Planning, IT and Deposit Operations
2691 Columbia Blvd, Scott Township, PA	3,680	Own	Banking Services
992 Central Road, Scott Township, PA	12,813	Own	Operations Center

We consider our facilities to be suitable and adequate for our current and immediate future purposes.

Item 3. Legal Proceedings

We and the Bank are not party to any legal proceedings that could have a material effect upon our financial condition or income. In addition, we and the Bank are not parties to any legal proceedings under federal and state environmental laws.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

We had 985 stockholders of record and 2,201,587 shares of common stock, par value of $1.25 per share, the only authorized class of common stock, outstanding as of March 1, 2012. Quotations for our common stock appear under the symbol "CCFN" on the Pink Sheets compiled by the National Quotation Bureau. These quotations represent inter-dealer prices and do not include retail mark up, markdown or commission. They may not necessarily represent actual transactions. The high and low closing sale prices and dividends per share of our common stock for the four quarters of 2011 and 2010 are summarized in the following table.

2011:	High ($)	Low ($)	Dividends Declared ($)
First quarter	32.12	27.45	.31
Second quarter	36.75	29.93	.31
Third quarter	37.65	33.39	.31
Fourth quarter	37.16	33.69	.31

2010:	High ($)	Low ($)	Dividends Declared ($)
First quarter	27.78	24.95	.29
Second quarter	27.99	25.70	.29
Third quarter	28.22	25.70	.30
Fourth quarter	30.00	27.72	.30

We have paid cash dividends since organization of the Corporation in 1983. It is our present intention to continue the dividend payment policy, although the payment of future dividends must necessarily depend upon earnings, financial position, restrictions under applicable law and other factors relevant at the time the Board of Directors considers any declaration of dividends. Our ability to pay dividends is subject to certain legal restrictions described in Note 15, "Regulatory Matters" of the "Notes to Consolidated Financial Statements" included under Item 8 of this report, and in the "Capital Resources" section of the "Management's Discussion and Analysis of Consolidated Financial Conditions and Results of Operations," included under Item 7 of this report.

Following is a schedule of the shares of the Corporation's common stock purchased by the Corporation during the fourth quarter of 2011:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1 - October 31, 2011)	-	$ -	-	124,600
Month #2 (November 1 - November 30, 2011)	11,000	34.75	11,000	113,600
Month #3 (December 1 - December 31, 2011)	2,500	34.50	2,500	111,100

(1) This program was announced in 2009. The Board of Directors approved the purchase of 200,000 shares from time to time at prevailing market prices in block trades on the open market or in privately negotiated transactions, as market conditions warrant. No expiration date is associated with this program.

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Item 6. Selected Financial Data

During the year ended December 31, 2008, we completed the acquisition of Columbia Financial Corporation which had a material affect on the comparability of the information listed below.

CCFNB BANCORP, INC.

SELECTED CONSOLIDATED FINANCIAL SUMMARY

(In Thousands except per share data)	For the Year Ending December 31,				
	2011	2010	2009	2008	2007
INCOME STATEMENT DATA:					
Total interest income	$24,508	$26,776	$28,420	$21,357	$14,483
Total interest expense	5,126	6,683	8,614	7,504	6,185
Net interest income	19,382	20,093	19,806	13,853	8,298
Provision for possible loan losses	820	1,555	1,025	750	30
Non interest income	6,340	6,123	5,065	3,043	2,305
Non interest expenses	15,810	16,031	15,914	12,172	7,038
Federal income taxes	2,316	2,326	2,055	896	888
Net income	$6,776	$6,304	$5,877	$3,078	$2,647
PER SHARE DATA:					
Earnings per share (1)	$3.05	$2.82	$2.61	$1.82	$2.15
Cash dividends declared per share	$1.24	$1.18	$1.03	$0.90	$0.82
Book value per share	$32.28	$30.48	$28.95	$26.94	$25.79
Average annual shares outstanding	2,224,455	2,232,239	2,253,087	1,688,498	1,233,339
BALANCE SHEET DATA:					
Total assets	$624,677	$614,299	$602,489	$568,319	$245,324
Total loans	350,838	340,453	330,489	320,068	161,460
Total securities	199,245	210,185	223,250	196,580	57,686
Total deposits	482,379	473,792	462,288	434,309	170,938
FHLB advances-long-term	6,118	6,123	15,128	9,133	11,137
Total stockholders' equity	71,415	67,854	65,086	60,775	31,627
PERFORMANCE RATIOS:					
Return on average assets	1.09 %	1.03 %	1.01 %	0.77 %	1.07 %
Return on average stockholders' equity	9.68 %	9.35 %	9.25 %	6.91 %	8.54 %
Net interest margin (2)	3.52 %	3.68 %	3.80 %	3.90 %	3.74 %
Total non-interest expense as a percentage of average assets	2.55 %	2.62 %	2.73 %	3.06 %	2.83 %

ASSET QUALITY RATIOS:										
Allowance for possible loan losses as a percentage of total loans	1.53	%	1.41	%	1.27	%	1.17	%	0.89	%
Allowance for possible loan losses as a percentage of non-performing loans (3)	102.80	%	115.75	%	89.87	%	83.29	%	102.64	%
Non-performing loans as a percentage of total loans (3)	1.49	%	1.22	%	1.42	%	1.43	%	0.09	%
Non-performing assets as a percentage of total assets (3)	0.84	%	0.68	%	0.78	%	0.86	%	0.57	%
Net charge-offs as a percentage of average net loans (4)	-0.07	%	-0.28	%	-0.18	%	-0.05	%	-0.03	%
LIQUIDITY AND CAPITAL RATIOS:										
Average equity to average assets	11.29	%	11.04	%	10.90	%	11.19	%	12.48	%
Tier 1 capital to risk-weighted assets (5)	16.88	%	17.25	%	16.38	%	15.37	%	18.10	%
Leverage ratios (5) (6)	9.71	%	10.00	%	9.82	%	9.27	%	12.71	%
Total capital to risk-weighted assets (5)	18.14	%	18.50	%	17.62	%	16.48	%	18.93	%
Dividend Payout Ratio	40.65	%	41.72	%	39.44	%	51.75	%	38.16	%

(1) Based upon average shares and common share equivalents outstanding.

(2) Represents net interest income as a percentage of average total interest-earning assets, calculated on a tax-equivalent basis.

(3) Non-performing loans are comprised of (i) loans which are on a non-accrual basis, (ii) accruing loans that are 90 days or more past due, and (iii) troubled debt restructurings in compliance. Non-performing assets are comprised of non-performing loans and foreclosed real estate (assets acquired in foreclosure), if applicable.

(4) Based upon average balances for the respective periods.

(5) Based on the Federal Reserve Bank's risk-based capital guidelines, as applicable to the Corporation. The Bank is subject to similar requirements imposed by the FDIC.

(6) The leverage ratio is defined as the ratio of Tier 1 Capital to average total assets less intangible assets, if applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT

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

Ÿ Our business and financial results are affected by business and economic conditions, both generally and specifically in the Northcentral Pennsylvania market in which we operate.

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

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

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

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

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

Ÿ Changes resulting from the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

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

Ÿ Given current economic and financial market conditions, our forward-looking statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low throughout most of 2012 with consistent credit spreads and our view that national economic trends currently point to improving economic conditions during 2012 and a continued subdued recovery.

Ÿ Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity and funding. These legal and regulatory developments could include: (a) the unfavorable resolution of legal proceedings or regulatory and other governmental inquiries; (b) increased litigation risk from recent regulatory and other governmental developments; (c) the results of the regulatory examination process, and regulators' future use of supervisory and enforcement tools; (d) legislative and regulatory reforms, including changes to laws and regulations involving tax, pension, education and mortgage lending, the protection of confidential customer information, and other aspects of the financial institution industry; and (e) changes in accounting policies and principles.

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

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

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

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

- Our business and operating results can also be affected by widespread natural disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers and suppliers. During September 2011 Tropical Storm Lee caused flooding to portions of our operating area. Specifically two of our branch offices were impacted sustaining damage. The Corporation's insurance claim covered a significant portion of the damage. Our Benton office sustained light damage and was operational within a few days of the incident. Our Bloomsburg Market Street office, which is a leased facility, remains closed with a rebuilt structure planned to reopen during the second quarter of 2012. While the impact on the Corporations facilities is easily evaluated, the flood's effect on the local economy is not. As of this date, the overall impact on the local economy is not determinable.

The words "believe," "expect," "anticipate," "project" and similar expressions signify forward looking statements. Readers are cautioned not to place undue reliance on any forward looking statements made by or on behalf of us. Any such statement speaks only as of the date the statement was made. We undertake no obligation to update or revise any forward looking statements.

The following discussion and analysis should be read in conjunction with the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this Annual Report. Our consolidated financial condition and results of operations are essentially those of our subsidiary, the Bank. Therefore, the analysis that follows is directed to the performance of the Bank.

RESULTS OF OPERATIONS

NET INTEREST INCOME

2011 vs. 2010

Tax-equivalent net interest income decreased $531 thousand or 2.6 percent to $20.3 million for the year ended December 31, 2011. Net interest margin decreased to 3.52 percent at December 31, 2011 from 3.68 percent at December 31, 2010. The decrease in margin resulted primarily from the yield on interest-bearing liabilities decreasing 31 basis points to 1.08 percent while the yield on interest-earning assets decreased 44 basis points to 4.42 percent.

The 44 basis point decrease to the yield from interest-earning assets was driven by decreases of 34 basis points to the loan yield and a 53 basis point decrease to the investment yield. Tax-equivalent net interest income from loans decreased to $19.3 million for the year ended December 31, 2011 as variable rate real estate loans re-priced to lower market rates. For the year ended December 31, 2011, tax-equivalent net interest income from investments decreased $1.3 million. The primary cause of the yield decrease was the 2011 reinvestment, at lower rates, of called U.S. Agency securities.

A 31 basis point decrease on interest-bearing liabilities resulted from decreases of 29 basis points to the deposit yield and the 31basis point decrease to the borrowing yield. The total deposit yield decreased to 1.12 percent at December 31, 2011 while the yield on total borrowings decreased 31 basis points to 0.84 percent at December 31, 2011. Decreases of 35 basis points on the time deposits and 29 basis points on the money markets for the year ended December 31, 2011 were the primary reason for the yield decrease in total deposits. A decrease of 24 basis points on the short-term borrowing yield was the primary reason for the yield decrease in total borrowings for the year ended December 31, 2011.

2010 vs. 2009

Tax-equivalent net interest income increased $342 thousand or 1.7 percent to $20.8 million for the year ended December 31, 2010. Net interest margin decreased to 3.68 percent at December 31, 2010 from 3.80 percent at December 31, 2009. The decrease in margin resulted primarily from the yield on interest-bearing liabilities decreasing 47 basis points to 1.39 percent while the yield on interest-earning assets decreased 54 basis points to 4.86 percent.

The 54 basis point decrease to the yield from interest-earning assets was driven by decreases of 24 basis points to the loan yield and the 89 basis point decrease to the investment yield. Tax-equivalent net interest income from loans decreased to $20.1 million for the year ended December 31, 2010 as variable rate real estate loans re-priced to lower market rates and the overall average balance of residential mortgages continued to decline from customer refinancing. For the year ended December 31, 2010, tax-equivalent net interest income from investments decreased $1.6 million while the yield decreased 89 basis points. The primary cause of the yield decrease was the 2010 reinvestment, at lower rates, of called U.S. Agency securities.

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The 47 basis point decrease on interest-bearing liabilities resulted from decreases of 47 basis points to the deposit yield and the 43 basis point decrease to the borrowing yield. The total deposit yield decreased 47 basis points to 1.41 percent at December 31, 2010 while the yield on total borrowings decreased 43 basis points to 1.29 percent at December 31, 2010. Decreases of 75 basis points on the time deposits and 28 basis points on the money markets for the year ended December 31, 2010 were the primary reason for the yield decrease in total deposits. A decrease of 135 basis points on the long-term borrowings for the year ended December 31, 2010 was the primary reason for the yield decrease in the total borrowings as the short-term borrowing yield increased 5 basis points over the same period. The long-term borrowing had an average balance of $9.3 million and $12.5 million as of December 31, 2010 and 2009, respectively and reflects the 2010 maturity and repayment of $9.0 million in term FHLB borrowings. The yield decreases were driven by lower U.S. Treasury rates as well as local market competition.

The following Average Balance Sheet and Rate Analysis table presents the average assets, actual income or expense and the average yield on assets, liabilities and stockholders' equity for the years 2011, 2010 and 2009.

AVERAGE BALANCE SHEET AND RATE ANALYSIS

YEARS ENDED DECEMBER 31,

(In Thousands)	2011			2010			2009		
ASSETS:	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
Tax-exempt loans	$27,864	$1,728	6.20 %	$22,900	$1,460	6.38 %	$19,627	$1,254	6.39 %
All other loans	317,354	17,554	5.53 %	316,511	18,662	5.90 %	307,450	18,925	6.16 %
Total loans (2)(3)(4)	345,218	19,282	5.59 %	339,411	20,122	5.93 %	327,077	20,179	6.17 %
Taxable securities	184,863	5,173	2.80 %	196,615	6,710	3.41 %	189,202	8,220	4.34 %
Tax-exempt securitites (3)	16,691	866	5.19 %	10,640	602	5.66 %	11,550	650	5.63 %
Total securities	201,554	6,039	3.00 %	207,255	7,312	3.53 %	200,752	8,870	4.42 %
Federal funds sold	1,708	2	0.12 %	1,536	2	0.13 %	7,639	10	0.13 %
Interest-bearing deposits	26,500	67	0.25 %	17,623	42	0.24 %	2,877	8	0.28 %
Total interest-earning assets	574,980	25,390	4.42 %	565,825	27,478	4.86 %	538,345	29,067	5.40 %
Other assets	44,740			45,161			44,460		
TOTAL ASSETS	$619,720			$610,986			$582,805		
LIABILITIES:									

Savings	$67,983	210	0.31 %	$63,223	237	0.37 %	$56,493	225	0.40 %
Now deposits	72,707	83	0.11 %	71,374	99	0.14 %	68,650	100	0.15 %
Money market deposits	45,947	212	0.46 %	42,460	319	0.75 %	43,906	452	1.03 %
Time deposits	220,032	4,053	1.84 %	234,812	5,154	2.19 %	228,005	6,701	2.94 %
Total deposits	406,669	4,558	1.12 %	411,869	5,809	1.41 %	397,054	7,478	1.88 %
Short-term borrowings	56,759	316	0.56 %	53,691	427	0.80 %	48,826	368	0.75 %
Long-term borrowings	6,121	159	2.60 %	9,252	349	3.77 %	12,492	640	5.12 %
Junior subordinate debentures	4,411	93	2.11 %	4,640	98	2.11 %	4,640	128	2.76 %
Total borrowings	67,291	568	0.84 %	67,583	874	1.29 %	65,958	1,136	1.72 %
Total interest-bearing liabilities	473,960	5,126	1.08 %	479,452	6,683	1.39 %	463,012	8,614	1.86 %
Demand deposits	73,012			59,013			51,908		
Other liabilities	2,782			5,096			4,359		
Stockholders' equity	69,966			67,425			63,526		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$619,720			$610,986			$582,805		
Interest rate spread (6)			3.34 %			3.47 %			3.54 %
Net interest income/margin (5)		$20,264	3.52 %		$20,795	3.68 %		$20,453	3.80 %

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(1) Average volume information was compared using daily averages for interest-earning and bearing accounts.
(2) Interest on loans includes loan fee income.
(3) Tax exempt interest revenue is shown on a tax-equivalent basis using a statutory federal income tax rate of 34 percent for 2011, 2010 and 2009.
(4) Nonaccrual loans have been included with loans for the purpose of analyzing net interest earnings.
(5) Net interest margin is computed by dividing annualized tax-equivalent net interest income by total interest earning assets.
(6) Interest rate spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities.

Reconcilement of Taxable Equivalent Net Interest Income

	For the Years Ended December 31,		
(In Thousands)	2011	2010	2009
Total interest income	$ 24,508	$ 26,776	$ 28,420
Total interest expense	5,126	6,683	8,614
Net interest income	19,382	20,093	19,806
Tax equivalent adjustment	882	702	647
Net interest income (fully taxable equivalent)	$ 20,264	$ 20,795	$ 20,453

Rate/Volume Analysis

To enhance the understanding of the effects of volumes (the average balance of earning assets and costing liabilities) and average interest rate fluctuations on the balance sheet as it pertains to net interest income, the table below reflects these changes for 2011 versus 2010, and 2010 versus 2009:

(In Thousands)	Year Ended December 31,					
	2011 vs 2010			2010 vs 2009		
	Increase (Decrease)			Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$309	$(41)	$268	$210	$(4)	$206
Loans	50	(1,158)	(1,108)	613	(876)	(263)
Taxable investment securities	(437)	(1,100)	(1,537)	311	(1,821)	(1,510)
Tax-exempt investment securities	318	(54)	264	(51)	3	(48)
Federal funds sold	-	-	-	(8)	-	(8)

Interest bearing deposits	22	3	25	35	(1)	34
Total interest-earning assets	262	(2,350)	(2,088)	1,110	(2,699)	(1,589)
Interest expense:						
Savings	17	(44)	(27)	26	(14)	12
NOW deposits	2	(18)	(16)	4	(5)	(1)
Money market deposits	24	(131)	(107)	(16)	(117)	(133)
Time deposits	(358)	(743)	(1,101)	195	(1,742)	(1,547)
Short-term borrowings	23	(134)	(111)	41	18	59
Long-term borrowings, FHLB	364	(554)	(190)	(2,588)	2,297	(291)
Junior subordinate debentures	(5)	-	(5)	-	(30)	(30)
Total interest-bearing liabilities	67	(1,624)	(1,557)	(2,338)	407	(1,931)
Change in net interest income	$195	$(726)	$(531)	$3,448	$(3,106)	$342

PROVISION FOR LOAN LOSSES

2011 vs. 2010

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

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2011, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Also, as part of the examination process, bank regulatory agencies periodically review the Bank's loan loss allowance. The bank regulators could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

The provision for loan losses amounted to $820,000 and $1,555,000 for the years ended December 31, 2011 and 2010, respectively. Management concluded the change in the provision was appropriate considering the gross loan growth experience of $10.4 million, minimal decreases in nonperforming assets, increased levels of commercial loans, and the sluggish recovery in the national economy. Utilizing the resources noted above, management concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

2010 vs. 2009

The provision for loan losses increased from $1,025,000 in 2009 to $1,555,000 in 2010.

NON-INTEREST INCOME

2011 vs. 2010

Total non-interest income increased $217 thousand or 3.5 percent to $6.3 million for the year ended December 31, 2011. The service charges and fees decreased $118 thousand or 6.6 percent to $1.66 million for the year ended December 31, 2011. Gain on sale of loans decreased $242,000 or 21.7 percent from $1,113,000 in 2010 to $871,000 in 2011 primarily due to decreased volume of loans sold during 2011. Brokerage income decreased $41,000 or 12.6 percent from $325,000 in 2010 to $284,000 in 2011. Income from Trust services increased $108,000 or 16.3 percent from $663,000 in 2010 to $771,000 in 2011. During 2011, we recorded an other than temporary impairment loss on the equity security portfolio in the amount of $114,000 and a realized gain from sale of equity securities in the amount of $11,000. During 2010, we recorded an other than temporary impairment loss on the equity security portfolio in the amount of $42,000. Interchange fees increased $99,000 or 11.6 percent from $850,000 in 2010 to $949,000 in 2011 due to increased transactional volume. The Corporation recorded a gain on the sale of premises and equipment associated with the sale of the former Hazleton branch facility in the amount of $489,000 for the year ended December 31, 2011. Other income increased $60,000 from $945,000 in 2010 to $1,005,000 in 2011.

(In Thousands)	For The Year Ended					
	December 31, 2011		December 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	$1,660	26.2 %	$ 1,778	29.0 %	$(118)	(6.6)%
Gain on sale of loans	871	13.7	1,113	18.2	(242)	(21.7)
Earnings on bank-owned life insurance	414	6.5	444	7.3	(30)	(6.8)
Brokerage	284	4.5	325	5.3	(41)	(12.6)
Trust	771	12.1	663	10.8	108	16.3
Investment security losses	(103)	(1.6)	(42)	(0.7)	(61)	145.2
Gain on sale of premises and equipment	489	7.7	47	0.8	442	940.4
Interchange fees	949	15.0	850	13.9	99	11.6
Other	1,005	15.9	945	15.4	60	6.3
Total non-interest income	$6,340	100.0 %	$ 6,123	100.0 %	$217	3.5 %

2010 vs. 2009

Total non-interest income increased $1.1 million or 20.9 percent to $6.1 million for the year ended December 31, 2010. The service charges and fees increased $74,000 or 4.3 percent to $1,778,000 for the year ended December 31, 2010. Gain on sale of loans increased $496,000 or 80.4 percent from $617,000 in 2009 to $1,113,000 in 2010 primarily due to increased volume of loans sold during 2010. Brokerage income increased $44,000 or 15.7 percent from $281,000 in 2009 to $325,000 in 2010. Income from Trust services increased $8,000 or 1.2 percent from $655,000 in 2009 to $663,000 in 2010. During 2010, we recorded an other than temporary impairment loss on the equity security portfolio in the amount of $42,000. During 2009, we recorded an other than temporary impairment loss on the equity security portfolio in the amount of $69,000 and a realized loss from the sale of equity securities in the amount of $316,000. Interchange fees increased $107,000 or 14.4 percent from $743,000 in 2009 to $850,000 in 2010 due to increased transactional volume. Other income increased $57,000 from $888,000 in 2009 to $945,000 in 2010.

(In Thousands)	For The Year Ended					
	December 31, 2010		December 31, 2009		Change	
	Amount	% Total	Amount	% Total	Amount	%
Service charges and fees	$1,778	29.0 %	$ 1,704	33.6 %	$74	4.3 %
Gain on sale of loans	1,113	18.2	617	12.2	496	80.4
Earnings on bank-owned life insurance	444	7.3	445	8.8	(1)	(0.2)
Brokerage	325	5.3	281	5.5	44	15.7
Trust	663	10.8	655	12.9	8	1.2
Investment security losses	(42)	(0.7)	(385)	(7.6)	343	(89.1)
Gain on sale of premises and equipment	47	0.8	117	2.3	(70)	(59.8)
Interchange fees	850	13.9	743	14.7	107	14.4
Other	945	15.4	888	17.6	57	6.4
Total non-interest income	$6,123	100.0 %	$ 5,065	100.0 %	$1,058	20.9 %

NON-INTEREST EXPENSE

2011 vs. 2010

Total non-interest expense decreased $221 thousand or 1.4% from $16.0 million in 2010 to $15.8 million in 2011. Salaries and employee benefits decreased $44 thousand or 0.3 percent for the year ended December 31, 2011 primarily as a result of Hazleton branch sale and other staff attrition. FDIC assessments decreased $226 thousand from $610 thousand in 2010 to $384 thousand in 2011 due to the FDIC enacted changes to the assessment base and rate. Other non-interest expenses increased $153,000 primarily from a $100,000 donation divided between several Bloomsburg area charitable organizations that were instrumental in the September 2011 Tropical Storm Lee flood relief efforts.

One standard to measure non-interest expense is to express non-interest expense as a percentage of average total assets. In 2011 this percentage was 2.55 percent compared to 2.62 percent in 2010.

(In Thousands)	For The Years Ended					
	December 31, 2011		December 31, 2010		Change	
	Amount	% Total	Amount	% Total	Amount	%
Salaries	$6,508	41.2 %	$ 6,447	40.2 %	$61	0.9 %
Employee benefits	1,706	10.8	1,811	11.3	(105)	(5.8)
Occupancy	1,045	6.6	1,114	6.9	(69)	(6.2)
Furniture and equipment	1,271	8.0	1,330	8.3	(59)	(4.4)
State shares tax	596	3.8	561	3.5	35	6.2
Professional fees	618	3.9	595	3.7	23	3.9
Directors fees	263	1.7	274	1.7	(11)	(4.0)

FDIC assessments	384	2.4	610	3.8	(226)	(37.0)
Telecommunications	284	1.8	385	2.4	(101)	(26.2)
Amortization of core deposit intangible	554	3.5	576	3.6	(22)	(3.8)
Automated teller machine and interchange	660	4.2	560	3.5	100	17.9
Other	1,921	12.1	1,768	11.1	153	8.7
Total non-interest expense	$15,810	100.0 %	$16,031	100.0 %	$(221)	(1.4)%

2010 vs. 2009

Total non-interest expense increased $117 thousand or 0.7% from $15.9 million in 2009 to $16.0 million in 2010. Salaries and employee benefits increased $339 thousand or 4.3 percent for the year ended December 31, 2010 primarily as a result of increased health insurance premiums. FDIC assessments decreased $310 thousand from $920 thousand in 2009 to $610 thousand in 2010 due to the 2009 special assessment and a decrease in assessment rate.

One standard to measure non-interest expense is to express non-interest expense as a percentage of average total assets. In 2010 this percentage was 2.62 percent compared to 2.73 percent in 2009.

(In Thousands)	For The Years Ended								
	December 31, 2010			December 31, 2009			Change		
	Amount	% Total		Amount	% Total		Amount	%	
Salaries	$6,447	40.2	%	$6,314	39.7	%	$133	2.1	%
Employee benefits	1,811	11.3		1,605	10.1		206	12.8	
Occupancy	1,114	6.9		1,062	6.7		52	4.9	
Furniture and equipment	1,330	8.3		1,272	8.0		58	4.6	
State shares tax	561	3.5		529	3.3		32	6.0	
Professional fees	595	3.7		587	3.7		8	1.4	
Directors fees	274	1.7		284	1.8		(10)	(3.5)	
FDIC assessments	610	3.8		920	5.8		(310)	(33.7)	
Telecommunications	385	2.4		347	2.2		38	11.0	
Amortization of core deposit intangible	576	3.6		643	4.0		(67)	-	
Automated teller machine and interchange	560	3.5		509	3.2		51	10.0	
Other	1,768	11.1		1,842	11.5		(74)	(4.0)	
Total non-interest expense	$16,031	100.0	%	$15,914	100.0	%	$117	0.7	%

FINANCIAL CONDITION

Our consolidated assets at December 31, 2011 were $624.7 million which represented an increase of $10.4 million or 1.7 percent from $614.3 million at December 31, 2010.

Capital increased 5.2 percent from $67.9 million in 2010 to $71.4 million in 2011, after an adjustment for the fair market value of securities which was an increase in capital of $39 thousand for 2011. Common stock and surplus increased a net $474 thousand resulting primarily from issuance of 14,056 shares of stock under our Employee Stock Purchase Plan and the Dividend Reinvestment Plan. During the year ended December 31, 2011, the Corporation purchased 27,900 shares under the announced stock buyback program. The treasury stock shares were purchased at a cost of $973,000.

Total average assets increased 1.4 percent from $611.0 million at December 31, 2010 to $619.8 million at December 31, 2011. Average earning assets were $575.0 million in 2011 and $565.8 million in 2010.

Loans increased 3.0 percent to $350.8 million at December 31, 2011 from $340.5 million at December 31, 2010.

Interest bearing deposits decreased 3.4 percent to $397.0 million at December 31, 2011 from $410.9 million at December 31, 2010. Noninterest-bearing deposits increased 35.7 percent from $62.9 million in 2010 to $85.3 million in 2011.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio increased during 2011 to 72.7 percent compared to 71.9 percent during 2010.

It is our opinion that the asset/liability mix and the interest rate risk associated with the balance sheet is within manageable parameters. Constant monitoring using asset/liability reports and interest rate risk scenarios are in place along with quarterly asset/liability management meetings on the committee level by the Bank's Board of Directors. Additionally, the Bank's Asset/Liability Committee meets quarterly with an investment consultant.

INVESTMENT SECURITIES AVAILABLE-FOR-SALE

	For the Years Ended December 31,		
(In Thousands)	2011	2010	2009
Federal Agency Obligations	$74,161	$58,903	$68,339
Mortgage-backed Securities	99,493	132,515	138,856
Obligations of State and Political Subdivisions	20,849	13,671	11,374
Marketable Equity Securities	1,842	2,084	1,697
Total	$196,345	$207,173	$220,266

All of our securities are available-for-sale and are carried at estimated fair value. The following table shows the maturities of investment securities, at amortized cost, at December 31, 2011 and the weighted average yields (for tax-exempt obligations on a fully taxable basis at 34 percent tax rate) of such:

(In Thousands)	Within One Year Amount	Yield	After One Year But Within Five Years Amount	Yield	After Five Year But Within Ten Years Amount	Yield	After Ten Years Amount	Yield	Total Amount	Yield
Federal Agency Obligations	$2,093	0.66 %	$61,708	1.02 %	$17,569	3.07 %	$89,483	3.31 %	$170,853	2.44 %
Obligations of State and Political Subdivisions	-	0.00 %	2,410	3.77 %	11,383	4.96 %	6,257	5.83 %	20,050	5.06 %
	$2,093		$64,118		$28,952		$95,740		190,903	
Marketable Equity Securities									2,018	
Total Investment Securities									$192,921	

Available-for-sale securities are reported on the consolidated balance sheet at fair value with an offsetting adjustment to deferred taxes. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the bank of restructuring the portfolio for gap positioning at any time through the securities classed as available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on December 31, 2011 of $2,260,000 compared to an unrealized gain, net of tax, on December 31, 2010 of $2,221,000, which represents an unrealized gain, net of tax, of $39,000 for 2011.

The mix of securities in the portfolio at December 31, 2011 was 88.4 percent Federal Agency Obligations, 10.6 percent Municipal Securities, and 1.0 percent Other. We did not trade in derivative investment products during 2011.

LOANS

The loan portfolio increased 3.0 percent from $340.5 million in 2010 to $350.8 million in 2011. The percentage distribution in the loan portfolio was 78.4 percent in real estate loans at $275.0 million; 11.8 percent in commercial loans at $41.5 million; 2.1 percent in consumer loans at $7.2 million; and 7.7 percent in tax exempt loans at $27.1 million.

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

(In Thousands)	For the Years Ended December 31, 2011	2010	2009	2008	2007

Commercial, financial and agricultural	$41,487	$33,819	$37,642	$27,165	$8,074
Tax-exempt	27,145	25,180	18,055	16,762	13,108
Real estate	257,777	262,355	253,463	262,539	132,453
Real estate construction	17,239	11,689	13,526	5,307	3,698
Installment loans to individuals	6,959	7,232	7,725	8,202	4,059
Add (deduct): Unearned discount	(1)	(6)	(15)	(24)	(23)
Unamortized loan costs, net of fees	232	184	93	117	91
Gross loans	$350,838	$340,453	$330,489	$320,068	$161,460

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

	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
Commercial, financial and agricultural	11.8 %	9.9 %	11.4 %	8.5 %	5.0
Tax-exempt	7.7	7.4	5.5	5.2	8.1
Real estate	73.5	77.1	76.7	82.1	82.1
Real estate construction	4.9	3.4	4.1	1.7	2.3
Installment loans to individuals	2.1	2.2	2.3	2.5	2.5
Gross loans	100.0%	100.0%	100.0%	100.0%	100.0

The following table shows the actual maturity of loans in specified categories of the Bank's loan portfolio at December 31, 2011, and the amount of such loans with predetermined fixed rates or with floating or adjustable rates. The table does not include any estimate of prepayments which significantly shortens the average useful life of all loans and may cause our actual repayment experience to differ from that shown below.

(In Thousands)	In One Year or Less	One Year Through Five Years	Over Five Years	Total
Commercial, Tax exempt, Real estate and Personal loans	$ 23,754	$ 39,019	$ 270,829	$ 333,602
Real estate construction	17,236	-	-	17,236
	$ 40,990	$ 39,019	$ 270,829	$ 350,838
Amounts of Such Loans with:				
Predetermined Fixed Rates	$ 10,531	$ 30,829	$ 84,019	$ 125,379
Floating or Adjustable Rates	30,459	8,190	186,810	225,459
	$ 40,990	$ 39,019	$ 270,829	$ 350,838

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was $5.4 million at December 31, 2011, compared to $4.8 million at December 31, 2010. This allowance equaled 1.53 percent and 1.41 percent of total loans, net of unearned income, at the end of 2011 and 2010, respectively. During 2008, an increase of $1.7 million resulted from the acquisition of CFC. The loan loss reserve was analyzed quarterly and reviewed by the Bank’s Board of Directors. No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Regular loan meetings with the Bank’s Director Loan Committee reviewed new loans. Delinquent loans, loan exceptions and certain large loans are addressed by the full Board no less than monthly to determine compliance with policies. Allowance for loan losses was considered adequate based on delinquency trends and actual loans written as it relates to the loan portfolio.

The following table presents an allocation of the Bank’s allowance for loan losses for specific categories:

	For the Years Ended December 31,				
(In Thousands)	2011	2010	2009	2008	2007
Commercial, financial, and agricultural	$ 959	$ 752	$ 567	$ 402	$ 104
Real estate mortgages	3,336	3,529	3,132	2,461	700
Installment loans to indiviuals	131	106	149	158	28
Unallocated	957	414	362	737	605
	$ 5,383	$ 4,801	$ 4,210	$ 3,758	$ 1,437

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

(In Thousands)	For the Years Ended December 31, 2011	2010	2009	2008	2007
Average Loans Outstanding during the period	$345,218	$339,411	$327,077	$235,071	$160,348
Balance, beginning of year	$4,801	$4,210	$3,758	$1,437	$1,456
Provision charged to operations	820	1,555	1,025	750	30
Allowance acquired	-	-	-	1,683	-
Loans charged off:					
Commercial, financial, and agricultural	(38)	(5)	(116)	-	-
Real estate mortgages	(187)	(994)	(407)	(42)	(29)
Installment loans to indiviuals	(53)	(37)	(76)	(106)	(56)
Recoveries:					
Commercial, financial, and agricultural	1	34	1	4	-
Real estate mortgages	11	14	10	2	1
Installment loans to indiviuals	28	24	15	30	35
Balance, end of year	$5,383	$4,801	$4,210	$3,758	$1,437
Net charge-offs to average loans outstanding during the period	-0.07 %	-0.28 %	-0.18 %	-0.05 %	-0.03 %

NON-PERFORMING LOANS

In 2011, loans 30-89 days past due totaled $1.2 million compared to $3.2 million in 2010. There were no 90-days past due loans that were not classified as non-accrual at December 31, 2011 or 2010. Non-accrual loans at December 31, 2011 totaled $4.5 million as compared to $3.8 million in 2010. Overall, past due and non-accrual loans totaled $5.7 million and $7.0 million at December 31, 2011 and 2010, respectively. For the year ended December 31, 2011 and 2010, the ratio of net charge-offs during the period to average loans outstanding during the period was (0.07) percent and (0.28) percent, respectively (See Summary of Allowance for Loan Losses). Refer to the Loan section of Note 1 and Note 4– Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K filing.

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

	For the Years Ended December 31,				
(In Thousands)	2011	2010	2009	2008	2007
Commercial, financial and agricultural					
Days 30-89	$115	$244	$14	$61	$168
Days 90 plus	-	-	-	-	-
Non-accrual	718	224	145	581	-
Real estate					
Days 30-89	1,106	2,880	1,632	1,528	259
Days 90 plus	-	-	-	-	70
Non-accrual	3,750	3,604	4,216	3,780	77
Installment loans to individuals					
Days 30-89	6	32	49	9	33
Days 90 plus	-	-	-	-	10
Non-accrual	15	-	-	92	-
	$5,710	$6,984	$6,056	$6,051	$617
Days 30-89	$1,227	$3,156	$1,695	$1,598	$460
Days 90 plus	-	-	-	-	80
Non-accrual	4,483	3,828	4,361	4,453	77
	$5,710	$6,984	$6,056	$6,051	$617
Troubled debt restructurings in compliance	$754	$319	$323	$58	$1,018
Other real estate owned	$3	$-	$29	$373	$-
Interest income that would have been recorded under original terms	$253	$224	$285	$320	$10
Interest income recorded during the year	$216	$187	$241	$116	$4

DEPOSITS

Total average deposits increased by 1.9 percent from $470.9 million in 2010 to $479.7 million in 2011. Average savings deposits increased 7.5 percent to $68.0 million in 2011 from $63.2 million in 2010. Average time deposits decreased 6.3 percent from $234.8 million in 2010 to $220.0 million in 2011. Average non-interest bearing demand deposits increased to $73.0 million in 2011 from $59.0 million in 2010. Average interest bearing NOW accounts increased 1.9 percent from $71.4 million in 2010 to $72.7 million in 2011.

Total average deposits increased by 4.9 percent from $449.0 million in 2009 to $470.9 million in 2010. Average savings deposits increased 11.9 percent to $63.2 million in 2010 from $56.5 million in 2009. Average time deposits increased 3.0 percent from $228.0 million in 2009 to $234.8 million in 2010. Average non-interest bearing demand deposits increased to $59.0 million in 2010 from $51.9 million in 2009. Average interest bearing NOW accounts increased 4.0 percent from $68.7 million in 2009 to $71.4 million in 2010

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

(In Thousands)	2011 Average Balance	Rate	2010 Average Balance	Rate	2009 Average Balance	Rate
Non-interest bearing	$73,012	- %	$59,013	- %	$51,908	- %
Savings	67,983	0.31	63,223	0.37	56,493	0.40
Now deposits	72,707	0.11	71,374	0.14	68,650	0.15
Money market deposits	45,947	0.46	42,460	0.75	43,906	1.03
Time deposits	220,032	1.84	234,812	2.19	228,005	2.94
Total deposits	$479,681	0.95%	$470,882	1.23%	$448,962	1.67%

The remaining maturities of certificates of deposit of $100,000 or more are as follows:

(In Thousands)	For the Years Ended 2011	2010	2009
Three months or less	$6,412	$6,543	$8,346
Three months to six months	5,876	4,035	8,666
Six months to twelve months	18,266	12,504	20,805
Over twelve months	38,683	56,596	33,903
Total	$69,237	$79,678	$71,720
As a percentage of total average time deposits	31.5 %	33.9 %	31.5 %

BORROWED FUNDS

The average balance of short-term borrowings, including securities sold under agreements to repurchase and day-to-day FHLB - Pittsburgh borrowings increased $3.1 million or 5.7 percent from $53.7 million in 2010 to $56.8 million in 2011. Actual short-term borrowings amounted to 12.6 percent of total interest-bearing liabilities as of December 31, 2011 as compared to 11.2 percent in 2010. Long-term borrowings, namely borrowings from the FHLB-Pittsburgh, averaged $6.1 million in 2011 and $9.3 million in 2010. As part of the 2008 acquisition of CFC, we assumed the junior subordinate debentures which amounted to $4.6 million at December 31, 2010 and 2009. The junior subordinate debentures were called and repaid by the Corporation on December 15, 2011.

The average balances of other borrowed funds are summarized as follows:

(In Thousands)	December 31, 2011		December 31, 2010		December 31, 2009	
	Amount	% Total	Amount	% Total	Amount	% Total
Short-term borrowings:						
Securities sold under agreement to repurchase	$ 56,127	83.4 %	$ 52,315	77.4 %	$ 47,873	72.6 %
Other short-term borrowings, FHLB	-	-	603	0.9	352	0.5
U.S. Treasury tax and loan notes	632	0.9	773	1.1	601	0.9
Total short-term borrowings	56,759	84.3 %	53,691	79.4 %	48,826	74.0 %
Long-term borrowings, FHLB	6,121	9.1	9,252	13.7	12,492	19.0
Junior subordinate debentures	4,411	6.6	4,640	6.9	4,640	7.0
Total borrowed funds	$ 67,291	100.0 %	$ 67,583	100.0 %	$ 65,958	100.0 %

CAPITAL RESOURCES

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

As of December 31, 2011, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios.

Our actual consolidated capital amounts and ratios are in the following table:

(In Thousands)	2011		2010	
	Amount	Ratio	Amount	Ratio
Total Capital				
(to Risk-weighted Assets)				
Actual	$63,880	18.1 %	$64,476	18.5 %
For Capital Adequacy Purposes	28,177	8.0	27,884	8.0
To Be Well-Capitalized	35,222	10.0	34,855	10.0
Tier I Capital				
(to Risk-weighted Assets)				
Actual	$59,464	16.9 %	$60,114	17.3 %
For Capital Adequacy Purposes	14,089	4.0	13,942	4.0
To Be Well-Capitalized	21,133	6.0	20,913	6.0
Tier I Capital				
(to Average Assets)				
Actual	$59,464	9.7 %	$60,114	10.0 %
For Capital Adequacy Purposes	24,488	4.0	24,034	4.0
To Be Well-Capitalized	30,610	5.0	30,043	5.0

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

Dividends paid by the Corporation are generally provided from dividends paid to it by the Bank. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid by the Bank from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank’s surplus or excess of capital be equal to the amount of capital stock. The Bank carries capital in excess of capital requirements. The Bank has a balance of $20.8 million in its retained earnings at December 31, 2011, which is fully available for the payout of cash dividends. In order for the Corporation to maintain its financial holding company status, all banking subsidiaries must maintain a well capitalized status. The Corporation’s balance of retained earnings at December 31, 2011 is $40.4 million and would be available for the payout of cash dividends, although payment of dividends to such extent would not be prudent or likely. In 2009 the Federal Reserve Board notified all bank holding companies that dividends should be eliminated, deferred or significantly reduced if the bank holding company’s net income for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends; the bank holding company’s prospective rate of earnings retention is not consistent with the bank holding company’s capital needs and overall, current and prospective financial condition; or the bank holding company will not meet or is in danger of meeting its minimum regulatory capital adequacy ratios.

LIQUIDITY

Liquidity management is required to ensure that adequate funds will be available to meet anticipated and unanticipated deposit withdrawals, debt service payments, investment commitments, commercial and consumer loan demand, and ongoing operating expenses. Funding sources include principal repayments on loans, sales of assets, growth in core deposits, short and long-term borrowings, investment securities coming due, loan prepayments and repurchase agreements. Regular loan payments are a dependable source of funds, while the sale of investment securities, deposit growth and loan prepayments are significantly influenced by general economic conditions and the level of interest rates.

We manage liquidity on a daily basis. We believe that our liquidity is sufficient to meet present and future financial obligations and commitments on a timely basis. However, see potential liquidity risk factors at Item 1A – Risk Factors and refer to Consolidated Statements of Cash Flows at Item 8 in this Form 10-K.

INTEREST RATE RISK MANAGEMENT

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

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

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

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

STATEMENT OF INTEREST SENSITIVITY GAP

December 31, 2011

(In Thousands)	90 Days Or Less	> 90 Days But < 1 Year	1 to 5 Years	5 to 10 Years	> 10 Years	Total
Interest-bearing deposits at banks	$28,544	$ -	$-	$-	$-	$28,544
Investment securities (1)	16,248	46,153	103,147	22,766	10,931	199,245
Loans (1)	55,202	64,278	149,837	50,284	31,237	350,838
Rate Sensitive Assets	99,994	110,431	252,984	73,050	42,168	578,627
Deposits:						
Interest-bearing demand deposits (2)	-	-	59,849	14,962	-	74,811
Savings (2)	6,121	18,991	77,283	14,574	-	116,969
Time	29,390	75,606	99,881	388	-	205,265
Borrowed funds	54,316	2,878	1,094	-	-	58,288
Long-term debt	1	2,004	4,025	51	37	6,118
Junior Subordinated Debentures	-	-	-	-	-	0
Rate Sensitive Liabilities	89,828	99,479	242,132	29,975	37	461,451
Interest Sensitivity Gap	$10,166	$ 10,952	$10,852	$43,075	$42,131	$117,176
Cumulative Gap	$10,166	$ 21,118	$31,970	$75,045	$117,176	$-

(1) Investments and loans are included at the earlier of repricing or maturity and adjusted for the effects of prepayments.

(2) Interest bearing demand and savings accounts are included based on historical experience and managements' judgment about the behavior of these deposits in changing interest rate environments.

At December 31, 2011, our cumulative gap positions and the potential earnings change resulting from a 300 basis point change in rates were within the internal risk management guidelines.

Upon reviewing the current interest sensitivity scenario at the one year through ten year intervals an increasing interest rate environment would positively affect net income because more assets than liabilities would reprice.

Certain shortcomings are inherent in the method of analysis presented in the above table. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features which restrict changes in interest rates on a

short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

In addition to gap analysis, the Bank uses earnings simulation to assist in measuring and controlling interest rate risk. The Bank also simulates the impact on net interest income of plus and minus 100, 200 and 300 basis point rate shocks. The results of these theoretical rate shocks provide an additional tool to help manage the Bank's interest rate risk.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information called for by this item can be found at Item 7 of this report on Form 10-K under the caption "Interest Rate Risk Management" and is incorporated in its entirety by reference under this Item 7A.

Item 8. Financial Statements and Supplementary Data

CCFNB Bancorp, Inc.

Consolidated Balance Sheets

(In Thousands)	December 31,	
	2011	2010
ASSETS		
Cash and due from banks	$9,632	$7,263
Interest-bearing deposits in other banks	26,699	18,683
Federal funds sold	1,845	1,649
Total cash and cash equivalents	38,176	27,595
Investment securities, available for sale, at fair value	196,345	207,173
Restricted securities, at cost	2,900	3,012
Loans held for sale	5,164	2,005
Loans, net of unearned income	345,674	338,448
Less: Allowance for loan losses	5,383	4,801
Loans, net	340,291	333,647
Premises and equipment, net	11,740	11,992
Accrued interest receivable	1,328	1,632
Cash surrender value of bank-owned life insurance	14,413	11,942
Investment in limited partnerships	1,455	1,607
Intangible Assets:		
Core deposit	1,639	2,192
Goodwill	7,937	7,937
Prepaid FDIC assessment	1,146	1,490
Other assets	2,143	2,075
TOTAL ASSETS	$624,677	$614,299
LIABILITIES		
Interest-bearing deposits	$397,045	$410,915
Noninterest-bearing deposits	85,334	62,877
Total deposits	482,379	473,792
Short-term borrowings	58,288	58,759
Long-term borrowings	6,118	6,123
Junior subordinate debentures	-	4,640
Accrued interest payable	497	652
Other liabilities	5,980	2,479
TOTAL LIABILITIES	553,262	546,445
STOCKHOLDERS' EQUITY		
	2,876	2,859

Common stock, par value $1.25 per share; authorized 15,000,000 shares, issued 2,300,987 shares in 2011; authorized 5,000,000 shares, issued 2,286,931 shares in 2010		
Surplus	28,421	27,964
Retained earnings	40,418	36,397
Accumulated other comprehensive income	2,260	2,221
Treasury stock, at cost; 88,900 shares in 2011 and 61,000 shares in 2010	(2,560)	(1,587)
TOTAL STOCKHOLDERS' EQUITY	71,415	67,854
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$624,677	$614,299

See accompanying notes to consolidated financial statements.

CCFNB Bancorp, Inc.

Consolidated Statements of Income

(In Thousands, Except Per Share Data)	For the Years Ended December 31,		
	2011	2010	2009
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans:			
Taxable	$ 17,554	$ 18,662	$ 18,925
Tax-exempt	1,141	963	828
Interest and dividends on investment securities:			
Taxable	5,121	6,668	8,162
Tax-exempt	571	397	429
Dividend and other interest income	52	42	58
Federal funds sold	1	2	10
Deposits in other banks	68	42	8
TOTAL INTEREST AND DIVIDEND INCOME	24,508	26,776	28,420
INTEREST EXPENSE			
Deposits	4,558	5,809	7,478
Short-term borrowings	316	427	368
Long-term borrowings	159	349	640
Junior subordinate debentures	93	98	128
TOTAL INTEREST EXPENSE	5,126	6,683	8,614
NET INTEREST INCOME	19,382	20,093	19,806
PROVISION FOR LOAN LOSSES	820	1,555	1,025
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,562	18,538	18,781
NON-INTEREST INCOME			
Service charges and fees	1,660	1,778	1,704
Gain on sale of loans	871	1,113	617
Earnings on bank-owned life insurance	414	444	445
Brokerage	284	325	281
Trust	771	663	655
Investment security losses	(103)	(42)	(385)
Gain on sale of premises and equipment	489	47	117
Interchange fees	949	850	743
Other	1,005	945	888
TOTAL NON-INTEREST INCOME	6,340	6,123	