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CCFNB BANCORP INC
Form 10-K
March 15, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year-ended December 31, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file Number: 0-19028

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

PENNSYLVANIA 23-2254643
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 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 past 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K 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.

Indicate by check mark whether the Registrant is an accelerated filer
(as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity
held by non-affiliates of the Registrant based on the average of the bid and
asked prices of \$29.00 at February 28, 2004, was \$37,030,506.

As of February 28, 2004, the Registrant had outstanding 1,276,914
shares of its common stock, par value \$1.25 per share.

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CCFNB BANCORP, INC.
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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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:

- possible changes in economic and business conditions that may affect the prevailing interest rates, the prevailing rates of inflation, or the amount of growth, stagnation, or recession in the global, U.S., and Northcentral Pennsylvania economies, the value of investments, collectibility of loans and the profitability of business entities;

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- possible changes in monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;
- the effects of easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, and changes evolving from the enactment of the Gramm-Leach-Bliley Act which became effective in 2000, and attendant changes in matters and effects of competition in the financial services industry;
- the cost and other effects of legal proceedings, claims, settlements and judgments; and
- our ability to achieve the expected operating results related to our operations which depends on a variety of factors, including the continued growth of the markets in which we operate consistent with recent historical experience, and our ability to expand into new markets and to maintain profit margins in the face of pricing pressures.

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.

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 subsidiary which is Columbia County Farmers National Bank or referred to as 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, 2003, we had approximately:

- \$233 million in total assets;
- \$148 million in loans;
- \$172 million in deposits; and
- \$ 28 million in stockholders' equity.

The Bank is a national banking association and member of the Federal Reserve System whose deposits are insured by the Bank 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 business in its Northcentral Pennsylvania market area. The Bank also operates a full-service trust department. A third-party brokerage is also resident in the Bank's office in Lightstreet, Pennsylvania. At December 31, 2003, the Bank had six branch banking offices which are located in the Pennsylvania county of Columbia.

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 system,
- customer bases, and
- regulatory oversight.

We have not operated any other reportable operating segments in the 3-year period ended December 31, 2003.

We hold a 50% interest in a local insurance agency. The name of this agency is Neighborhood Group, Inc. and trades under the fictitious name of Neighborhood Advisors (insurance agency). Through this joint venture, we sell insurance products and services.

As of December 31, 2003, we had 86 employees on a full-time equivalent basis. The Company and the Bank are not parties to any collective bargaining agreement and employee relations are considered to be good.

SUPERVISION AND REGULATION

The following discussion sets forth the material elements of the regulatory framework applicable to us and the Bank and provides certain specific information. This regulatory framework is primarily intended for the protection of investors in our common stock, depositors at the Bank and the Bank Insurance Fund that insures bank deposits. To the extent that the following information describes statutory and regulatory provisions, it is qualified by reference to those provisions. A change in the statutes, regulations or regulatory policies applicable to us or the Bank may have a material effect on our business.

INTERCOMPANY TRANSACTIONS

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and Regulation W of the Federal Reserve Board, limit borrowings by us from the Bank and also limit various other transactions between us and the Bank. For example, Section 23A of the Federal Reserve Act limits to no more than ten percent of its total capital the aggregate outstanding amount of the Bank's loans and other "covered transactions" with any particular non-bank affiliate (including a financial subsidiary) and limits to no more than 20 percent of its total capital the aggregate outstanding amount of the Bank's covered transactions with all of its affiliates (including financial subsidiaries). At December 31, 2003, approximately \$5 million was available for loans to us from the Bank. Section 23A of the Federal Reserve Act also generally requires that the Bank's loans to its non-bank affiliates (including financial subsidiaries) be secured, and Section 23B of the Federal Reserve Act generally requires that the Bank's transactions with its non-bank affiliates (including financial subsidiaries) be on arm's-length terms. Also, we, the Bank, and any financial subsidiary are prohibited from engaging in certain "tie-in" arrangements in connection with extensions of credit or provision of property or services.

SUPERVISORY AGENCIES

As a national bank and member of the Federal Reserve System, the Bank is subject to primary supervision, regulation, and examination by the Office of the

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Comptroller of the Currency and secondary regulation by the FDIC. The Bank is subject to extensive statutes and regulations that significantly affect its business and activities. The Bank must file reports with its regulators concerning its activities and financial condition and obtain regulatory approval to enter into certain transactions. The Bank is also subject to periodic examinations by its regulators to ascertain compliance with various regulatory requirements. Other applicable statutes and regulations relate to insurance of deposits, allowable investments, loans, leases, acceptance of deposits, trust activities, mergers, consolidations, payment of dividends, capital requirements, reserves against deposits, establishment of branches and certain other facilities, limitations on loans to one borrower and loans to affiliated persons, activities of subsidiaries and other aspects of the business of banks. Recent Federal legislation has instructed federal agencies to adopt standards or guidelines governing banks' internal controls, information systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation and benefits, asset quality, earnings and stock valuation, and other matters. Legislation adopted in 1994 gives the federal banking agencies greater flexibility in implementing standards on asset quality, earnings, and stock valuation. Regulatory authorities have broad flexibility to initiate proceedings designed to prohibit banks from engaging in unsafe and unsound banking practices.

We and the Bank are also affected by various other governmental requirements and regulations, general economic conditions, and the fiscal and monetary policies of the federal government and the Federal Reserve Board. The monetary policies of the Federal Reserve Board influence to a significant extent the overall growth of loans, leases, investments, deposits, interest rates charged on loans, and interest rates paid on deposits. The nature and impact of future changes in monetary policies are often not predictable.

We are subject to the jurisdiction of the SEC for matters relating to the offering and sale of our securities. We are also subject to the SEC's rules and regulations relating to periodic reporting, insider trader reports and proxy solicitation materials. Our common stock is not listed for quotation of prices on The NASDAQ Stock Market or any other nationally-recognized stock exchange. However, daily bid and asked price quotations are maintained on the interdealer electronic bulletin board system.

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SUPPORT OF THE BANK

Under current Federal Reserve Board policy, we are expected to act as a source of financial and managerial strength to the Bank by standing ready to use available resources to provide adequate capital funds to the Bank during periods of financial adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting the Bank. The support expected by the Federal Reserve Board may be required at times when we may not have the resources or inclination to provide it.

If a default occurred with respect to the Bank, any capital loans to the Bank from us would be subordinate in right of payment to payment of the Bank depositors and certain of its other obligations.

LIABILITY OF COMMONLY CONTROLLED BANKS

The Bank can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with:

- the default of a commonly controlled FDIC-insured depository

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institution or

- any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default.

"Default" generally is defined as the appointment of a conservator or receiver, and "in danger of default" generally is defined as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

DEPOSITOR PREFERENCE STATUTE

In the "liquidation or other resolution" of the Bank by any receiver, federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the Bank are afforded a priority over the general unsecured claims against the Bank, including federal funds and letters of credit.

ALLOWANCE FOR LOAN LOSSES

There are certain risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in our Northcentral Pennsylvania area economy, risks inherent in dealing with individual borrowers, and, in the case of a loan backed by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial loans and commercial real estate loans comprised 30.0% of our total consolidated loans as of December 31, 2003. 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, 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,
- 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,
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- 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 "Non-Performing Assets," "Allowance for Loan Losses and Related Provision," and "Summary of Loan Loss Experience," 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 passbook and statement 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, 2003, our deposits totaled \$172 million. Of the total deposit balance, \$10 million or 6%, represent Individual Retirement Accounts and \$27 million or 16% represent certificates of deposit in amounts of \$100,000 or more.

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 48% of total deposits at December 31, 2003 and 45% of total deposits at December 31, 2002.

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 and Borrowed Funds," as well as Note 7, Item 8 to this report.

CAPITAL REQUIREMENTS

We are subject to risk-based capital requirements and guidelines imposed by the Federal Reserve Board, which are substantially similar to the capital requirements and guidelines imposed by the Comptroller of the Currency on the

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Bank. For this purpose, a bank's or bank holding company's assets and certain specified off-balance sheet commitments are assigned to four risk categories, each weighted differently based on the level of credit risk that is ascribed to those assets or commitments. In addition, risk-weighted assets are adjusted for low-level recourse and market-risk equivalent assets. A bank's or bank holding company's capital, in turn, includes the following tiers:

- core ("Tier 1") capital, which includes common equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill, certain identifiable intangible assets, and certain other assets; and
- supplementary ("Tier 2") capital, which includes, among other items, perpetual preferred stock not meeting the Tier 1 definition, mandatory convertible securities, subordinated debt and allowances for loan and lease losses, subject to certain limitations, less certain required deductions.

We, like other bank holding companies, are required to maintain Tier 1 and "Total Capital" (the sum of Tier 1 and Tier 2 capital, less certain deductions) equal to at least four percent and eight percent of their total risk-weighted assets (including certain off-balance sheet items, such as unused lending commitments and standby letters of credit), respectively. At December 31, 2003, we met both requirements, with Tier 1 and Total Capital equal to 18.82 percent and 19.88 percent of total risk-weighted assets.

The Federal Reserve Board has adopted rules to incorporate market and interest rate risk components into their risk-based capital standards. Under these market-risk requirements, capital will be allocated to support the amount of market risk related to a financial institution's ongoing trading activities.

The Federal Reserve Board also requires bank holding companies to maintain a minimum "Leverage Ratio" (Tier 1 capital to adjusted total assets) of three percent if the bank holding company has the highest regulatory rating and meets certain other requirements, or of

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three percent plus an additional cushion of at least one to two percentage points if the bank holding company does not meet these requirements. At December 31, 2003, our leverage ratio was 11.79 percent.

The Federal Reserve Board may set capital requirements higher than the minimums noted above for holding companies whose circumstances warrant it. For example, bank holding companies experiencing or anticipating significant growth may be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve Board has indicated that it will consider a "Tangible Tier 1 Leverage Ratio" (deducting all intangibles) and other indications of capital strength in evaluating proposals for expansion or new activities, or when a bank holding company faces unusual or abnormal risk. The Federal Reserve Board has not advised us of any specific minimum leverage ratio applicable to us.

The Bank is subject to similar risk-based capital and leverage requirements adopted by the Comptroller of the Currency. The Bank was in compliance with the applicable minimum capital requirements as of December 31, 2003. The Comptroller of the Currency has not advised the Bank of any specific minimum leverage ratio

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applicable to the Bank.

Failure to meet capital requirements could subject the Bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. The Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), among other things, identifies five capital categories for insured banks - 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 banks that do not meet minimum capital requirements based on these categories. The FDICIA imposed progressively more restrictive constraints on operations, management, and capital distributions, depending on the category in which an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits, on "pass-through" insurance coverage for certain of its accounts, and on certain other aspects of its operations. FDICIA generally prohibits a bank from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized. An undercapitalized bank is subject to regulatory monitoring and may be required to divest itself of or liquidate subsidiaries. Holding companies of such institutions may be required to divest themselves of such institutions or divest themselves of or liquidate other affiliates. 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 five percent of the bank's assets at the time it became undercapitalized or the amount needed to comply with the plan. Critically undercapitalized institutions are prohibited from making payments of principal and interest on subordinated debt and are generally subject to the mandatory appointment of a conservator or receiver.

Rules adopted by the Comptroller of the Currency under FDICIA provide that a national bank is deemed to be well capitalized if the bank has a total risk-based capital ratio of ten percent or greater, a Tier 1 risk-based capital ratio of six percent or greater, and a leverage ratio of five percent or greater and the institution is not subject to a written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific level of any capital measure. As of December 31, 2003, the Bank was well-capitalized, based on the prompt corrective action ratios and guidelines described above. It should be noted, however, that a bank's capital category is determined solely for the purpose of applying the Comptroller of the Currency's prompt corrective action regulations, and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects.

BROKERED DEPOSITS

Under FDIC regulations, no FDIC-insured bank can accept brokered deposits unless it (1) is well capitalized, or (2) is adequately capitalized and receives a waiver from the FDIC. In addition, these regulations prohibit any bank that is not well capitalized from paying an interest rate on brokered deposits in excess of three-quarters of one percentage point over certain prevailing market rates. As of December 31, 2003, the Bank held no brokered deposits.

DIVIDEND RESTRICTIONS

We are a legal entity separate and distinct from the Bank. In general, under Pennsylvania law, we cannot pay a cash dividend if such payment would render us insolvent. Our revenues consist primarily of dividends paid by the Bank. The National Bank Act limits the amount of dividends the Bank can pay to us without regulatory approval. The Bank may declare and pay dividends to us to the lesser of:

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- the level of undivided profits, and
- absent regulatory approval, an amount not in excess of net income combined with retained net income for the preceding two years.

At December 31, 2003, approximately \$364 thousand was available for payment of dividends to us.

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In addition, federal bank regulatory authorities have authority to prohibit the Bank from engaging in an unsafe or unsound practice in conducting its business. Depending upon the financial condition of the bank in question, the payment of dividends could be deemed to constitute an unsafe or unsound practice. The ability of the Bank to pay dividends in the future is currently influenced, and could be further influenced, by bank regulatory policies and capital guidelines.

DEPOSIT INSURANCE ASSESSMENTS

The deposits of the Bank are insured up to regulatory limits by the FDIC and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund ("BIF") administered by the FDIC. The FDIC has adopted regulations establishing a permanent risk-related deposit insurance assessment system. Under this system, the FDIC places each insured bank in one of nine risk categories based on the bank's capitalization and supervisory evaluations provided to the FDIC by the institution's primary federal regulator. An insured bank's insurance assessment rate is then determined by the risk category in which it is classified by the FDIC.

In the light of the recent favorable financial situation of the federal deposit insurance funds and the recent low number of depository institution failures, the annual insurance premiums on bank deposits insured by the BIF vary between \$0.00 per \$100 of deposits for banks classified in the highest capital and supervisory evaluation categories to \$0.27 per \$100 of deposits for banks classified in the lowest capital and supervisory evaluation categories. BIF assessment rates are subject to semi-annual adjustment by the FDIC within a range of up to five basis points without public comment. The FDIC also possesses authority to impose special assessments from time to time.

The Deposit Insurance Funds Act provides for assessments to be imposed on insured depository institutions with respect to deposits insured by the BIF (in addition to assessments currently imposed on depository institutions with respect to BIF-insured deposits) to pay for the cost of Financing Corporation ("FICO") funding. The FICO assessments are adjusted periodically to reflect changes in the assessment bases of the FDIC insurance funds and do not vary depending upon a depository institution's capitalization or supervisory evaluations. In 2003, the Bank paid FICO assessments of \$27,019.

INTERSTATE BANKING AND BRANCHING

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act ("Riegle-Neal"), subject to certain concentration limits and other requirements:

- bank holding companies, such as we, are permitted to acquire banks and bank holding companies located in any state;
- any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans, and receive loan payments as an agent

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for any other depository institution subsidiary of that bank holding company; and

- banks are permitted 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.

The ability of banks to acquire branch offices through purchase or opening of other branches is contingent, however, on the host state having adopted legislation "opting in" to those provisions of Riegle-Neal. In addition, the ability of a bank to merge with a bank located in another state is contingent on the host state not having adopted legislation "opting out" of that provision of Riegle-Neal. Pennsylvania has opted in to all of these provisions upon the condition that another host state has similar or reciprocal requirements as in Pennsylvania.

As of the date of this report, we are not contemplating any interstate acquisitions of a bank or a branch office.

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 ten percent 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 we, 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 percent (five percent in the case of an acquirer that is a bank holding company) or more of any class of outstanding common stock of a bank holding company, such as we, or otherwise obtaining control or a "controlling influence" over that bank holding company.

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PERMITTED NON-BANKING ACTIVITIES

The Federal Reserve Board permits us or our subsidiaries to engage in nonbanking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. For a discussion of other activities that are financial in nature in which we can engage, see the caption that follows entitled "Financial Services Modernization."

The Federal Reserve Board requires us to serve as a source of financial and managerial strength to the Bank and not to conduct our operations in an unsafe and unsound manner. Whenever the Federal Reserve Board believes an activity that we are doing or our control of a nonbank subsidiary (other than a nonbank subsidiary of the Bank) constitutes a serious risk to the financial safety, soundness, or stability of the Bank and is inconsistent with sound banking principles or the purposes of the federal banking laws, the Federal Reserve Board may require us to terminate that activity or to terminate control of that subsidiary. While the types of permissible activities are subject to change by the Federal Reserve Board, the principal nonbanking activities that presently may be conducted by a bank holding company or its subsidiary without prior approval of the Federal Reserve Board are:

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- Servicing Activities. Furnishing services for, or establish or acquire a company that engages solely in servicing activities for:
 - us or the Bank in connection with activities authorized by law, such as commitments entered into by any subsidiary with third parties as long as we or our servicing company comply with published guidelines and do not act as a principal in dealing with third parties;
 - the internal operations of the Bank, such as:
 - accounting, auditing and appraising;
 - advertising and public relations;
 - data processing and transmission services, data bases or facilities;
 - personnel services;
 - courier services;
 - holding or operating property used by our subsidiaries or for their future use;
 - liquidating property acquired from the Bank; and
 - selling, purchasing or underwriting insurance, such as blanket bond insurance, group insurance for employees and property and casualty insurance.
- Safe deposit business. Conduct a safe deposit business or acquire voting securities of a company that conducts such business.
- Securities or property representing five percent or less of any company. Acquiring five percent or less of the outstanding voting securities of any company regardless of that company's activities.
- Extending credit and servicing loans. Making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit and accepting drafts) for the company's account or for the account of others.
- Activities related to extending credit. Any activity usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit, as determined by the Federal Reserve Board. The Federal Reserve Board has determined that the following activities are usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit:
 - Real estate and personal property appraising. Performing appraisals of real estate and tangible and intangible personal property, including securities.

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- Arranging commercial real estate equity financing. Acting as intermediary for the financing of commercial or industrial income-producing real estate by arranging for the transfer of the title, control, and risk of such a real estate project to one or more investors, if the bank holding company and its affiliates do not have an interest in, or participate in managing or developing, a real estate project for which it arranges equity financing, and do not promote or sponsor the development of the property.
- Check-guaranty services. Authorizing a subscribing merchant to accept personal checks tendered by the merchant's customers in payment for goods and services, and purchasing from the merchant validly authorized checks that are subsequently dishonored.

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- Collection agency services. Collecting overdue accounts receivable, either retail or commercial.
- Credit bureau services. Maintaining information related to the credit history of consumers and providing the information to a credit grantor who is considering a borrower's application for credit or who has extended credit to the borrower.
- Asset management, servicing, and collection activities. Engaging under contract with a third party in asset management, servicing, and collection of assets of a type that an insured depository institution may originate and own, if the company does not engage in real property management or real estate brokerage services as part of these services.
- Acquiring debt in default. Acquiring debt that is in default at the time of acquisition under certain conditions.
- Real estate settlement servicing. Providing real estate settlement services.
- Leasing personal or real property. Leasing personal or real property or acting as agent, broker, or adviser in leasing such property under certain conditions.
- Operating nonbank depository institutions:
 - Industrial banking. Owning, controlling, or

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- operating an industrial bank, Morris Plan bank, or industrial loan company, so long as the institution is not a bank.
- Operating savings association. Owning, controlling or operating a savings association, if the savings association engages only in deposit-taking activities, lending, and other activities that are permissible for bank holding companies.
- Trust company functions. Performing functions or activities that may be performed by a trust company (including activities of a fiduciary, agency, or custodial nature), in the manner authorized by federal or state law, so long as the company is not a bank for purposes of the Bank Holding Company Act.
- Financial and investment advisory activities. Acting as investment or financial advisor to any person, including (without, in any way, limiting the foregoing):
 - Serving as investment adviser (as defined in section 2(a)(20) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(a)(20)), to an investment company registered under that act, including sponsoring, organizing, and managing a closed-end investment company;
 - Furnishing general economic information and advice, general economic statistical forecasting services, and industry studies;
 - Providing advice in connection with mergers, acquisitions, divestitures, investments, joint ventures, leveraged buyouts, recapitalizations, capital structurings, financing transactions and similar transactions, and conducting financial feasibility studies;
 - Providing information, statistical forecasting, and advice with respect to any transaction in foreign exchange, swaps, and similar transactions, commodities, and any forward contract, option, future, option on a future, and similar instruments;
 - Providing educational courses, and instructional materials to consumers on individual financial management matters; and
 - Providing tax-planning and tax-preparation services to any person.
- Agency transactional services for customer investments:
 - Securities brokerage. Providing securities brokerage services (including securities clearing and/or securities execution services on an exchange), whether alone or in combination with investment advisory services, and incidental activities

(including related securities credit activities and custodial services), if the securities

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brokerage services are restricted to buying and selling securities solely as agent for the account of customers and do not include securities underwriting or dealing.

- Riskless principal transactions. Buying and selling in the secondary market all types of securities on the order of customers as a "riskless principal" to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer. This does not include:

(A) Selling bank-ineligible securities at the order of a customer that is the issuer of the securities, or selling bank-ineligible securities in any transaction where the company has a contractual agreement to place the securities as agent of the issuer; or

(B) Acting as a riskless principal in any transaction involving a bank-ineligible security for which the company or any of its affiliates acts as underwriter (during the period of the underwriting or for 30 days thereafter) or dealer.

- Private placement services. Acting as agent for the private placement of securities in accordance with the requirements of the Securities Act of 1933 ("1933 Act") and the rules of the Securities and Exchange Commission, if the company engaged in the activity does not purchase or repurchase for its own account the securities being placed, or hold in inventory unsold portions of issues of these securities.
- Futures commission merchant. Acting as a futures commission merchant ("FCM") for unaffiliated persons in the execution, clearance, or execution and clearance of any futures contract and option on a futures contract traded on an exchange in the United States or abroad under certain conditions.
- Other transactional services. Providing to customers as agent transactional services with respect to swaps and similar transactions.

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- Investment transactions as principal:
 - Underwriting and dealing in government obligations and money market instruments. Underwriting and dealing in obligations of the United States, general obligations of states and their political subdivisions, and other obligations that state member banks of the Federal Reserve System may be authorized to underwrite and deal in under 12 U.S.C. 24 and 335, including banker's acceptances and certificates of deposit, under the same limitations as would be applicable if the activity were performed by the bank holding company's subsidiary member banks or its subsidiary nonmember banks as if they were member banks.
 - Investing and trading activities. Engaging as principal in:
 - (A) Foreign exchange;
 - (B) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on any rate, price, financial asset (including gold, silver, platinum, palladium, copper, or any other metal approved by the Federal Reserve Board), nonfinancial asset, or group of assets, other than a bank-ineligible security under certain conditions.
 - (C) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on an index of a rate, a price, or the value of any financial asset, nonfinancial asset, or group of assets, if the contract requires such settlement.
 - Buying and selling bullion, and related activities. Buying, selling and storing bars, rounds, bullion, and coins of gold, silver, platinum, palladium, copper, and any other metal approved by the Federal Reserve Board, for the company's own account and the account of others, and providing incidental services such as arranging for storage, safe custody, assaying, and shipment.
 - Management consulting and counseling activities:
 - Management consulting. Providing management consulting advice under certain conditions.
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- Employee benefits consulting services. Providing consulting services to employee benefit, compensation and insurance plans, including designing plans, assisting in the

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implementation of plans, providing administrative services to plans, and developing employee communication programs for plans.

- Career counseling services. Providing career counseling services to:

(A) A financial organization and individuals currently employed by, or recently displaced from, a financial organization;

(B) Individuals who are seeking employment at a financial organization; and

(C) Individuals who are currently employed in or who seek positions in the finance, accounting, and audit departments of any company.

- Support services:

- Courier services. Providing courier services for:

(A) Checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) that are exchanged among banks and financial institutions; and

(B) Audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.

(ii) Printing and selling MICR-encoded items.

Printing and selling checks and related documents, including corporate image checks, cash tickets, voucher checks, deposit slips, savings withdrawal packages, and other forms that require Magnetic Ink Character Recognition ("MICR") encoding.

- Insurance agency and underwriting:

- Credit insurance. Acting as principal, agent, or broker for insurance (including home mortgage redemption insurance) that is:

(A) Directly related to an extension of credit by the bank holding company or any of its subsidiaries; and

(B) Limited to ensuring the repayment of the outstanding balance due on the extension of credit in the event of the death, disability, or involuntary unemployment of the debtor.

- Finance company subsidiary. Acting as agent or broker for insurance directly related to an extension of credit by a finance company that is a subsidiary of a bank holding company under certain conditions.

- Engaging in any general insurance agency activities.

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- Supervision of retail insurance agents. Supervising on behalf of insurance underwriters the activities of retail insurance agents who sell fidelity, property and casualty and group insurances for the operations and employees of the bank holding company or its subsidiaries.
- Community development activities:
 - Financing and investment activities. Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents.
 - Advisory activities. Providing advisory and related services for programs designed primarily to promote community welfare.
- Money orders, savings bonds, and traveler's checks. The issuance and sale at retail of money orders and similar consumer-type payment instruments; the sale of U.S. savings bonds; and the issuance and sale of traveler's checks.

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- Data processing. Providing data processing data transmission services, facilities (including data processing and data transmission hardware, software, documentation, or operating personnel), data bases, advice, and access to such services, facilities, or data bases by any technological means under certain conditions.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act of 1977, as amended (the "CRA"), and the regulations promulgated to implement the CRA are designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. CRA regulations establish tests for evaluating both small and large depository institutions' investment in the community. A "small bank" is defined as a bank which has total assets of less than \$250 million and is independent or is an affiliate of a holding company with less than \$1 billion in assets. There are streamlined procedures for evaluating small banks and the frequency of CRA examinations will occur less often based upon a bank's CRA rating. A large retail institution is one which does not meet the "small bank" definition. A large retail institution can be evaluated under one of two tests: (1) a three-part test evaluating the institution's lending, service and investment performance; or (2) a "strategic plan" designed by the institution with community involvement and approved by the appropriate federal bank regulator. A large institution must choose one of these options under which to be examined. In addition, the CRA regulations include separate rules regarding the manner in which "wholesale banks" and "limited purpose banks" will be evaluated for compliance.

For the purposes of the CRA regulations, the Bank is deemed to be a "small bank," based upon financial information as of December 31, 2003. The Bank will

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be examined under the streamlined procedures. The Bank received a "satisfactory" CRA rating in its last CRA examination which was held in 2003.

CONCENTRATION

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

FINANCIAL SERVICES MODERNIZATION

The Gramm-Leach-Bliley Act (the "GLB Act"), in general, took effect on March 11, 2000. The GLB Act contains some of the most far-reaching changes governing the operations of companies doing business in the financial services industry. The GLB Act eliminates the restrictions placed on the activities of banks and bank holding companies. By creating two new structures - financial holding companies and financial subsidiaries - we and the Bank will be allowed to provide a wider array of financial services and products that were reserved only for insurance companies and securities firms. In addition, we can now affiliate with an insurance company and a securities firm.

On December 19, 2000 we became a financial holding company. A financial holding company has authority to engage in activities referred to as "financial activities" that are not permitted to bank holding companies. A financial holding company may also affiliate with companies that are engaged in financial activities. A "financial activity" is an activity that does not pose a safety and soundness risk and is:

- financial in nature,
- incidental to an activity that is financial in nature, or
- complimentary to a financial activity.

The GLB Act lists certain activities as financial in nature:

- Lending, investing or safeguarding money or securities;
- Underwriting insurance or annuities, or acting as an insurance or annuity principal, agent or broker;
- Providing financial or investment advice;
- Issuing or selling interests in pools of assets that a bank could hold;
- Underwriting, dealing in or making markets in securities;
- Engaging in any activity that the Federal Reserve Board found before the GLB Act to be related closely to banking (See the section in this report entitled "Permitted Non-banking Activities");
- Engaging within the United States in any activity that a bank holding company could engage in outside of the country, if the Federal Reserve Board determined before the GLB Act that the activity was usual in connection with banking or other financial operations internationally;
- Merchant banking - acquiring or controlling ownership interests in an entity engaged in impermissible activities, if: the interests are not held by a depository institution;

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the interests are held by a securities affiliate or an investment advisory affiliate of an insurance company as part of underwriting, merchant or investment banking activity; the interests are held

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long enough to enable their sale in a manner consistent with the financial viability of such an activity; and we do not control the entity except to the extent necessary to obtain a reasonable return on the investment; or

- Insurance portfolio investing - acquiring or controlling ownership interests in an entity engaged in impermissible activities, if: the interests are not held by a depository institution; the interests are held by an insurance or annuity company; the interests represent investments made in the ordinary course of business in accordance with state law; and we do not control the entity except to the extent necessary to obtain a reasonable return on the investment.

The GLB Act instructs the Federal Reserve Board to adopt a regulation or order defining certain additional activities as financial in nature, to the extent they are consistent with the purposes of the GLB Act. These are:

- Lending, exchanging, transferring, investing for others or safeguarding financial assets other than money or securities;
- Providing any method of transferring financial assets; and
- Arranging, effecting or facilitating financial transactions for third parties.

Other activities also may be decided by the Federal Reserve Board to be financial in nature or incidental to a financial activity if they meet specified criteria. The Federal Reserve Board is instructed to consider the purposes of the GLB Act and the Bank Holding Company Act; changes in the market in which financial holding companies compete; changes in the technology used to deliver financial services; and whether the proposed activity is necessary or appropriate to allow a financial holding company and its affiliates to compete effectively, deliver services efficiently and offer services through the most advanced technological means available.

The GLB Act gives national banks authority to use "financial subsidiaries" to engage in financial activities. This authority has some limitations. A financial subsidiary of the Bank may not, as a principal:

- underwrite insurance or annuities;
- engage in real estate development or investment;
- engage in merchant banking; or
- engage in insurance portfolio investment activities.

A bank's investment in a financial subsidiary will affect the way it calculates its capital. The bank must deduct from its assets and stockholders' equity the total of its investments in financial subsidiaries. Moreover, a bank must present its financial information in two ways: in accordance with generally accepted accounting principles, and, separately, in a manner that reflects the

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segregation of the bank's investments in financial subsidiaries.

PRIVACY

Title V of the GLB Act creates a minimum federal standard of privacy by limiting the instances which we and the Bank may disclose nonpublic personal information about a consumer of our products or services to nonaffiliated third parties. A state, such as Pennsylvania, can impose a greater or more restrictive standard of privacy than the GLB Act. The GLB Act distinguishes "consumers" from "customers" for purposes of the notice requirements imposed by this Act. We are required to give a "consumer" a privacy notice only if we intend to disclose nonpublic personal information about the consumer to a nonaffiliated third party. However, by contrast, we are required to give a "customer" a notice of our privacy policy at the time of the establishment of a customer relationship and then annually, thereafter during the continuation of the customer relationship.

The term consumer is different from the term customer. A consumer means an individual who obtains or has obtained a financial product or service from the Bank that is to be used primarily for personal, family or household purposes or that individual's representative. A customer of the Bank is an individual with a continuous relationship with the Bank. The Office of the Comptroller of the Currency has regulations which give several examples of a consumer and customer relationship:

- An individual who applies to the Bank for credit for personal, family or household purposes is a consumer of a financial service, regardless of whether the credit is extended.
 - An individual who provides nonpublic personal information to the Bank in order to obtain a determination about whether he or she may qualify for a loan to be used primarily for personal, family, or household purposes is a consumer of a financial service, regardless of whether the loan is extended by the Bank or another financial institution.
 - An individual who provides nonpublic personal information to the Bank in connection with obtaining or seeking to obtain financial, investment or economic advisory services is a consumer regardless of whether the Bank establishes an ongoing advisory relationship.
 - An individual who negotiates a workout with the Bank for a loan that the Bank owns is a consumer regardless of whether the Bank originally extended the loan to the individual.
 - An individual who has a loan from the Bank is the Bank's consumer even if the Bank:
 - Hires an agent to collect on the loan;
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- Sells the rights to service the loan; or
 - Bought the loan from the financial institution that originated the loan.
 - An individual is not the Bank's consumer solely because the Bank processes information about the individual on

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behalf of a financial institution that extended the loan to the individual.

On the other hand, several examples of a customer follow:

- A customer has a continuing relationship with the Bank if the customer:
 - Has a deposit, loan, credit, trust or investment account with the Bank;
 - Purchases an insurance product from the Bank;
 - Holds an investment product through the Bank;
 - Enters into an agreement or understanding with the Bank whereby the Bank undertakes to arrange or broker a home mortgage loan for the customer;
 - Has a loan that the Bank services where the Bank owns the servicing rights;
 - Enters into a lease of personal property with the Bank; or
 - Obtains financial, investment, or economic advisory services from the Bank for a fee.
- A person does not, however, have a continuing relationship with the Bank and therefore is not a customer, if:
 - The person only obtains a financial product or service in an isolated transaction, such as withdrawing cash from the Bank's ATM or purchasing a cashier's check or money order;
 - The Bank sells the person's loan and does not retain the rights to service the loan; or
 - The Bank sells the person airline tickets, travel insurance or traveler's checks in an isolated transaction.

In general, the Bank cannot disclose to a nonaffiliated third party any nonpublic personal information of its customers and consumers unless the Bank provides its customer or consumer with a notice that includes:

- the policies and practices of the Bank with regard to:
 - disclosing nonpublic personal information to nonaffiliated third parties;
 - the categories of persons to whom the information is or may be disclosed; and
 - the policy for disclosure to former customers;
- categories of nonpublic personal information that are collected by the Bank;
- the policies that the Bank maintains to protect the confidentiality and security of nonpublic personal

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information;

- the disclosure, if required, under the Fair Credit Reporting Act; and
- in addition, the Bank must provide an opt out notice to each of its consumers and customers that explains accurately the right to opt out of any disclosure by the Bank of the customer's or consumer's nonpublic personal information and the means by which the customer or consumer may exercise the opt out right.

The GLB Act sets forth a new requirement that this notice to a consumer or customer must be in clear and conspicuous or "plain English" language and presentation. The regulations give several examples of the rules to follow in drafting these notices:

- The Bank makes its notice reasonably understandable if, the Bank:
 - Presents the information contained in the notice in clear, concise sentences, paragraphs and sections;
 - Uses short explanatory sentences and bullet lists, whenever possible;
 - Uses definite, concrete, everyday words and active voice, whenever possible;
 - Avoids multiple negatives;
 - Avoids legal and highly technical business terminology; and
 - Avoids boilerplate explanations that are imprecise and readily subject to different interpretations.
- The Bank designs its notice to call attention to the nature and significance of the information contained in the notice if, to the extent applicable, the Bank:
 - Uses a plain-language heading to call attention to the notice;
 - Uses a typeface and type size that are easy to read; and
 - Provides wide margins and ample line spacing.
- If the Bank provides a notice on the same form as another notice or other documents, the Bank designs its notice to call attention to the nature and significance of the information contained in the notice if the Bank uses:
 - Larger type size(s), boldface or italics in the text;
 - Wider margins and line spacing in the notice; or

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- Shading or sidebars to highlight the notice, whenever possible.

The GLB Act creates certain exceptions to the prohibition on disclosure of nonpublic personal information of customers and consumers. Some of these exceptions are:

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- with the consent of the customer or consumer;
- to effect, administer or enforce a transaction requested or authorized by the customer or consumer;
- the servicing or processing of a financial product or service requested or authorized by the customer or consumer;
- the maintaining or servicing of the customer's or consumer's account with the Bank or with another entity as part of a private label credit card program;
- disclosure to persons holding a legal or beneficial interest relating to the customer or consumer or to persons acting in a fiduciary or representative capacity on behalf of the customer or consumer;
- providing information to insurance rate advisory organizations, guaranty funds or agencies, rating agencies, persons assessing the Bank's compliance with industry standards and the Bank's attorneys, accountants and auditors; and
- disclosure permitted under other laws, such as the Right to Financial Privacy Act, to law enforcement agencies or under local and state laws.

The Bank cannot disclose an account number or similar form of access code for a credit card account, deposit account or transaction account of a customer or consumer to any non-affiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to the customer or consumer.

TERRORIST ACTIVITIES

The Office of Foreign Assets Control or OFAC of the Department of the Treasury has (and will) send our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds any name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications.

THE USA PATRIOT ACT

In the wake of the tragic events of September 11, 2002, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2002 was enacted. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced

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due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transactions;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identify of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, the Bank established anti-money laundering programs including a customer identification program. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- and independent audit function, in order to test these programs.

In addition, the USA PATRIOT Act authorized the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institutions complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

SUBPRIME AND PREDATORY LENDING PRACTICES

Our federal banking regulatory agencies have jointly issued expanded examination and supervision guidance relating to subprime lending activities. In the guidance, "subprime" lending generally refers to programs that target borrowers with weakened credit

histories or lower repayment capacity. The guidance principally applies to institutions with subprime lending programs with an aggregate credit exposure equal to or greater than 25 percent of an institution's Tier 1 capital. Such institutions would be subject to more stringent risk management standards and, in many cases, additional capital requirements. As a starting point, the

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guidance generally expects that such an institution would hold capital against subprime portfolios in an amount that is one and one-half to three times greater than the amount appropriate for similar types of non-subprime assets. The Bank does not engage in any subprime lending programs.

The Federal Reserve Board has issued regulations which would implement the Home Ownership and Equity Protection Act or HOEPA. This Act imposes additional disclosure requirements and certain substantive limitations on certain mortgage loans with rates or fees above specified levels. The proposed regulations would lower the rate levels that trigger the application of HOEPA and would include additional fees in the calculation of the fee amount that triggers HOEPA. The loans that the Bank currently makes are generally below the rate and fee levels that trigger HOEPA.

The Comptroller of the Currency issued a final rule, effective February 12, 2004, that specifies the types of state and local laws that do not apply to the Bank's lending and deposit taking activities and the types of state and local laws that generally do apply to the Bank. This final rule was partly enacted in response to state and local laws prohibiting what is commonly called "predatory lending" activities.

The Comptroller of the Currency adopted its own anti-predatory lending standard that focuses on consumer loans and permits the Bank to use a variety of reasonable methods to determine a borrower's ability to repay, including, for example, the borrower's current and expected income, current and expected cash flows, net worth, other relevant financial obligations, employment status, credit history or other relevant factors. In addition, the Bank shall not engage in unfair or deceptive practices within the meaning of Section 5 of the Federal Trade Commission Act, 15 U.S.C. 45(a)(1), and regulations made under the authority of this act in connection with consumer loans.

This final rule also preempts state and local laws that obstruct, impair or condition the Bank's ability to fully exercise its deposit-taking powers under federal law and to fully exercise its powers to conduct other activities under federal law.

The Bank may exercise its deposit-taking powers without regard to state and local law limitations concerning:

- Abandoned and dormant accounts;
- Checking accounts;
- Disclosure requirements;
- Funds availability;
- Savings account orders of withdrawal;
- State licensing or registration requirements (except for purposes of service of process); and
- Special purpose savings services.

State and local laws on the following subjects are not inconsistent with the lending, deposit-taking and activities powers of the Bank and apply to the Bank to the extent that they only incidentally affect the exercise of the Bank's powers:

- Contracts;
- Torts;

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- Criminal law;
- Rights to collect debts;
- Acquisition and transfer of property;
- Taxation;
- Zoning; and
- Any other law the effect of which the Comptroller of the Currency determines to be incidental to the operations of the Bank or otherwise consistent with the authority granted to the Bank to engage in lending, deposit-taking and other incidental activities.

SALES OF INSURANCE

Our federal banking regulatory agencies have issued their consumer protection rules with respect to the retail sale of insurance products by the Company, the Bank, or a subsidiary or joint venture of the Company or the Bank. These rules cover generally practices, solicitations, advertising or offers of any insurance product by a depository institution or any person that performs such activities at an office of, or on behalf of, the Company or the Bank. Moreover, these rules include specific provisions relating to sales practices, disclosures and advertising, the physical separation of banking and nonbanking activities, and domestic violence discrimination.

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THE BANK

The Bank's legal headquarters are located at 232 East Street, Bloomsburg, Columbia County, Pennsylvania 17815. The Bank is a locally-owned and 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 \$1.0 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 is Columbia County, a 484 square mile area located in Northcentral Pennsylvania with a population of approximately 64,157 based on 2000 census data. The Town of Bloomsburg is the County's largest municipality and its center of industry and commerce. Bloomsburg has a population of approximately 12,375 based on 2000 census data, and is the county seat. Berwick, located on the eastern boundary of the County, is the second largest municipality, with a 2000 population of approximately 10,774. The Bank currently serves its market area through six branch offices located in Bloomsburg, Benton, Lightstreet, Millville, Orangeville and South Centre,

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Columbia County.

The Bank competes with eight other depository institutions in Columbia County. The Bank's major competitors are: First National Bank of Berwick; PNC Bank, N.A., the largest commercial bank headquartered in Pennsylvania; and First Columbia Bank and Trust Company of Bloomsburg, Pennsylvania.

The Bank's extended market area includes the adjacent Pennsylvania counties of Luzerne, Montour, Northumberland, Schuylkill and Sullivan.

FUTURE LEGISLATION

Various legislation, including proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies, is from time to time introduced in the Congress. This legislation may change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We can not accurately predict whether any of this potential legislation will ultimately be enacted, and, if enacted, the ultimate effect that it, or implementing regulations, would have upon our financial condition or results of operations.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 232 East Street, Bloomsburg, Pennsylvania. We own this facility which has approximately 11,686 square feet. The Bank's legal or registered office is also at 232 East Street, Bloomsburg, Pennsylvania. Our remaining banking centers, all of which we own, are described as follows:

Location	Approximate Square Footage	Use
Orangeville, PA	2,259	Banking Services
Benton, PA	4,672	Banking Services
South Centre, PA	3,868	Banking Services
Scott Township, PA	16,500	Banking Services, Corporate, Credit and Operations
Millville, PA	2,520	Banking Services

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 parties to any legal proceedings that could have any significant effect upon our financial condition or income. In addition, we and

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the Bank are not parties to any legal proceedings under federal and state environmental laws.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We had 792 stockholders of record including individual participants in security position listings and 1,276,914 shares of common stock, par value of \$1.25 per share, the only authorized class of common stock, outstanding as of February 25, 2004. Our common stock trades under the symbol "CCFN." As of February 25, 2004, 4 firms were identified on the interdealer electronic bulletin board system as market makers in our common stock. The following information is reported by one of our market makers: Ferris, Baker Watts, Inc., Baltimore, MD. These quotations represent prices between buyers and sellers and do not include retail makeup, 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 2003 and 2002 are summarized in the following table.

2003: -----	High (\$) -----	Low (\$) -----	Dividends Declared (\$) -----
First quarter	24.20	23.20	.16
-----	-----	-----	-----
Second quarter	25.00	23.50	.16
-----	-----	-----	-----
Third quarter	26.00	24.40	.17
-----	-----	-----	-----
Fourth quarter	28.25	26.45	.17
-----	-----	-----	-----

2002: -----	High (\$) -----	Low (\$) -----	Dividends Declared (\$) -----
First quarter	23.45	21.12	.15
-----	-----	-----	-----
Second quarter	21.60	21.00	.16
-----	-----	-----	-----
Third quarter	24.00	20.36	.16
-----	-----	-----	-----
Fourth quarter	24.25	23.00	.16
-----	-----	-----	-----

We have paid cash dividends since 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, appropriate restrictions under applicable law and other factors relevant at the time the Board of Directors considers any declaration of dividends.

ITEM 6. SELECTED FINANCIAL DATA

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CCFNB BANCORP, INC. SELECTED CONSOLIDATED FINANCIAL SUMMARY AS OF DECEMBER 31,

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)	2003	2002	2001
INCOME STATEMENT DATA:			
Total interest income	\$ 11,221	\$ 12,780	\$ 13,600
Total interest expense	4,366	5,741	6,000
Net interest income	6,855	\$ 7,039	\$ 6,600
Provision for possible loan losses	200	309	1,000
Other operating income	1,508	1,210	1,500
Other operating expenses	5,409	5,479	5,500
Federal income taxes	591	539	500
Net income	\$ 2,163	\$ 1,922	\$ 2,100
PER SHARE DATA:			
Earnings per share (1)	\$ 1.69	\$ 1.47	\$ 1.50
Cash dividends declared per share	0.66	0.63	0.60
Book value per share	21.63	20.76	19.50
Average shares outstanding	1,281,265	1,309,084	1,338,000
BALANCE SHEET DATA:			
Total assets	\$ 232,914	\$ 229,032	\$ 214,000
Total loans	147,631	151,338	142,000
Total securities	62,775	53,538	57,000
Total deposits	171,786	172,127	155,000
FHLB advances - long-term	11,335	11,347	11,000
Total stockholders' equity	27,603	26,840	26,000
PERFORMANCE RATIOS:			
Return on average assets	0.94%	0.86%	0.80%
Return on average stockholders' equity	7.95%	7.22%	7.00%
Net interest margin (2)	3.38%	3.58%	3.50%
Total non-interest expense as a percentage of average assets	2.34%	2.45%	2.50%
ASSET QUALITY RATIOS:			
Allowance for possible loan losses as a percentage of loans, net	0.97%	0.87%	0.80%
Allowance for possible loan losses as a percentage of non-performing loans (3)	52.29%	57.95%	60.00%
Non-performing loans as a percentage of total loans, net (3)	1.85%	1.49%	1.50%
Non-performing assets as a percentage of total assets (3)	1.16%	0.98%	0.90%
Net charge-offs as a percentage of average net loans (4)	0.06%	0.03%	0.03%
LIQUIDITY AND CAPITAL RATIOS:			
Equity to assets	11.85%	11.72%	11.50%
Tier 1 Capital to risk -weighted assets (5)	18.82%	20.36%	19.50%
Leverage ratio (5)(6)	11.79%	11.77%	11.50%
Total capital to risk -weighted assets (5)	19.88%	18.53%	18.50%
Dividend payout ratio	39.02%	42.86%	40.00%

-
- (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) restructured loans. 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 Comptroller of the Currency.
 - (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

The following discussion and analysis should be read in conjunction with the detailed information and 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.

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FACTORS THAT MAY AFFECT FUTURE RESULTS

General. Banking is affected, directly and indirectly, by local, domestic and international economic and political conditions, and by government monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors beyond our control may adversely affect the future results of operations. We do not expect any one particular factor to affect our results of operations. A downward trend in several areas, however, including real estate, construction and consumer spending, could have an adverse impact on our ability to maintain or increase profitability. Therefore, there is no assurance that we will be able to continue our current rates of income and growth.

Interest Rates. Our earnings depend, to a large extent, upon net interest income, which is primarily influenced by the relationship between the cost of funds (deposits and borrowings) and the yield on interest-earning assets (loans and investments). This relationship, known as the net interest spread, is subject to fluctuation and is affected by regulatory, economic and competitive factors which influence interest rates, the volume, rate and mix of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. As part of our interest rate risk management strategy comprised of interest rate risk, mortgage risk, and deposit pricing risk components, we seek to control our exposure to interest rate changes by managing the maturity and repricing characteristics of interest-earning assets and

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interest-bearing liabilities.

As of December 31, 2003, total interest-earning assets maturing or repricing within one year were more than total interest-bearing liabilities maturing or repricing in the same period by \$14,642,000, representing a cumulative one-year interest rate sensitivity gap as a positive percentage of 6.77%. This condition suggests that the yield on the interest-earning assets should adjust to changes in market interest rates at a faster rate than the cost of the interest-bearing liabilities. Consequently, our net interest income could increase during periods of rising interest rates. See "Interest Rate Sensitivity".

Local Economic Conditions. Our success is dependent, to a certain extent, upon the general economic conditions in the geographic market in which we conduct our business. Although we expect that economic conditions will continue to be favorable in this market, no assurance can be given that these economic conditions will continue. Adverse changes in economic conditions in the geographic market that we serve would likely impair our ability to collect loans and could otherwise have a material adverse effect on our results of operations and financial condition.

Competition. The banking industry is highly competitive, with rapid changes in product delivery systems and in consolidation of service providers. Many of our competitors are bigger than us in terms of assets and have substantially greater technical, marketing and financial resources. Because of their size, many of these competitors can (and do) offer products and services that we do not offer. We are constantly striving to meet the convenience and needs of our customers and to enlarge our customer base. No assurance can be given that these efforts will be successful in maintaining and expanding our customer base.

RESULTS OF OPERATIONS

Our net income increased by 12.5% from \$1,922,000 in 2002 to \$2,163,000 in 2003. Earnings per share increased by 15.0% from \$1.47 in 2002 to \$1.69 in 2003. Our return on average assets (ROAA) increased to 0.94% in 2003, compared to 0.86% in 2002. Our return on average equity (ROAE) increased to 7.95% in 2003, compared to 7.22% in 2002. The primary reasons for these increases in our performance ratios were the repricing of interest bearing deposits and other income items, including , but not limited to, gains associated with mortgages originated and sold as well as increases in cash surrender value of bank owned life insurance. Other expenses were also tightly managed.

Loans decreased by 2.4% in 2003 to \$147,631,000 from \$151,338,000 in 2002. This decrease was in the real estate lending area.

We instituted, in 1995, a dividend reinvestment plan and an employees stock purchase plan. Moreover, in 1999, we commenced a strategy to purchase and cancel up to 10% of our outstanding shares of common stock through open market purchases. In 2003, we again filed with the Securities & Exchange Commission to purchase up to 100,000 shares of our outstanding shares. This repurchase program resulted in the purchase and cancellation of the following numbers of shares of our common stock for the years indicated: 23,988 shares (2003); 41,500 shares (2002); and 27,501 shares (2001). The net effect of the stock plans and the repurchase program resulted in weighted average shares of common stock outstanding as follows: 1,281,265 (2003); 1,309,084 (2002); and 1,338,007 (2001).

Tax-equivalent net interest income decreased 2.7% to \$7.3 million in 2003 from \$7.5 million in 2002. Average earning assets increased 3.4% from \$223.5 million in 2002 to \$231.0 million in 2003. Net interest income decreased 1.4% from \$7.0 million in 2002 to \$6.9 million in 2003. This decreased net

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interest income is a result of the long term debt portion of our liabilities being fixed at a high interest rate with all other areas adjusting downward.

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TABLE OF NON-INTEREST INCOME
(Dollars in Thousands)

	Years Ended December 31,		
	2003	2002	2001
	-----	-----	-----
Service charges and fees	\$ 692	\$ 649	\$ 606
Gain on sale of loans	190	2	0
Bank-owned life insurance income	247	28	0
Trust department income	148	215	238
Investment securities gains - net	8	137	99
Other	223	180	206
	-----	-----	-----
Total non-interest income	\$1,508	\$1,211	\$1,149
	-----	-----	-----

Total non-interest income increased during 2003 from \$1,211,000 in 2002 to \$1,508,000 in 2003. The decline in Trust income in the amount of \$67,000 was primarily due to the decline in market value of the accounts. Gain on sale of investment securities decreased from \$137,000 in 2002 to \$8,000 in 2003. Service fees and charges increased from \$649,000 in 2002 to \$692,000 in 2003 or 6.6%. Other income increased 23.9% from \$180,000 in 2002 to \$223,000 in 2003. During 2002, we began a fixed-rate mortgage sales program with the Federal Home Loan Bank of Pittsburgh (FHLB-Pgh), in which fixed-rate mortgages are sold to FHLB-Pgh with servicing rights maintained by us and some recourse retained by us. During 2003, 87 loans were placed on the books reflecting a gain in sale of these loans of \$190,000. Bank-owned life insurance income reflected an increase of \$219,000 from \$28,000 in 2002 to \$247,000 in 2003. In December 2002, we purchased \$3,000,000 of Bank-owned life insurance against the lives of senior officers. During May 2003, we purchased an additional \$2,000,000 in Bank-owned life insurance on the lives of 18 officers.

TABLE OF NON-INTEREST EXPENSE
(Dollars in Thousands)

	Years Ended December 31,		
	2003	2002	2001
	-----	-----	-----
Salaries and wages	\$2,199	\$2,137	\$2,024
Employee benefits	746	730	692
Net occupancy expense	379	355	366
Furniture and equipment expense	476	587	544
State shares tax	275	254	243
Other expense	1,334	1,416	1,235
	-----	-----	-----
Total non-interest expense	\$5,409	\$5,479	\$5,104

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Interest income	\$11,221	\$12,780	\$13,719
Interest expense	4,366	5,741	6,924
Net interest income	6,855	7,039	6,795
Tax-equivalent adjustment	427	490	495
Net interest income (fully taxable equivalent)	\$ 7,282	\$ 7,529	\$ 7,290

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 2003, 2002 and 2001.

AVERAGE BALANCE SHEET AND RATE ANALYSIS
THREE YEARS ENDED DECEMBER 31,
(Dollars in thousands)

	2003			2002		
	Average Balance	Interest Inc./Exp	Average Yd/Rate	Average Balance	Interest Inc./Exp	Ave Yd/
	(1)	(2)		(1)	(2)	
ASSETS:						
Interest Bearing Deposits With Other Financial Institutions	\$ 6,746	\$ 48	0.71%	\$ 5,309	\$ 65	1
Investment Securities:						
Taxable	44,890	1,314	2.93%	37,232	1,769	4
State and Municipal Obligations (3)	13,262	609	6.96%	16,965	799	7
Total Investment Securities	\$ 58,152	\$ 1,923	4.35%	\$ 54,197	\$ 2,568	4
Federal Funds Sold	1,290	43	3.33%	3,503	51	1
Loans:						
Taxable	144,611	8,987	6.21%	144,685	9,943	6
Tax Free (3)	4,874	220	6.84%	2,860	153	8
Total Loans	\$149,485	\$ 9,207	6.31%	\$147,545	\$10,096	6
Total Interest-Earning Assets	215,673	11,221	5.59%	210,554	12,780	6
Reserve for Loan Losses	(1,357)			(1,167)		
Cash and Due from Banks	6,156			5,328		
Other Assets	10,503			8,761		
Total Assets	\$230,975			\$223,476		
LIABILITIES AND CAPITAL:						
Total Interest-Bearing Deposits	\$155,681	\$ 3,401	2.18%	\$150,883	\$ 4,725	3
U.S. Treasury Short-Term Borrowings	701	3	0.43%	511	6	1
Short-Term Borrowings - Other	0	0	0.00%	0	0	0

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Long-Term Borrowings	11,341	679	5.99%	11,351	680	5
Repurchase Agreements	18,431	283	1.54%	17,494	330	1
	-----	-----		-----	-----	
Total Interest-Bearing Liabilities	\$186,154	\$ 4,366	2.35%	\$180,239	\$ 5,741	3
	-----	-----		-----	-----	
Demand Deposits	16,275			15,224		
Other Liabilities	1,323			1,398		
Stockholders' Equity	27,223			26,615		
	-----			-----		
Total Liabilities and Capital	\$230,975			\$223,476		
	=====			=====		
NET INTEREST INCOME/NET INTEREST MARGIN (4)		\$ 6,855	3.18%		\$ 7,039	3
		=====	=====		=====	
TAX-EQUIVALENT NET INTEREST INCOME/NET INTEREST MARGIN (5)		\$ 7,282	3.38%		\$ 7,529	3
		=====	=====		=====	

- (1) Average volume information was compared using daily (or monthly) averages.
- (2) Interest on loans includes fee income.
- (3) Yield on tax-exempt obligations has been computed on a tax-equivalent basis.
- (4) Net interest margin is computed by dividing net interest income by total interest-earning assets.
- (5) Interest and yield are presented on a tax-equivalent basis using 34% for 2003, 2002 & 2001.

COMPONENTS OF NET INTEREST INCOME

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 2003 versus 2002, 2002 versus 2001, and 2001 versus 2000:

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TABLE OF NET INTEREST INCOME COMPONENTS ON A TAX-EQUIVALENT BASIS
For the twelve months ended December 31, 2003
(Dollars in thousands)

	2003 Versus 2002			2002 Versus 2001		
	-----			-----		
	Increase (Decrease)			Increase (Decrease)		
	Due to Changes In			Due to Changes In		
	-----			-----		
	Average	Average	Total	Average	Average	Total
	Volume	Rate		Volume	Rate	
	-----	----	-----	-----	----	-----
Interest Income:						
Interest-Bearing Deposits with Other						

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Financial Institutions	\$ 18	\$ (27)	\$ (9)	\$ (52)	\$ (189)	\$ (2)
Taxable Securities	364	(678)	(314)	216	(329)	(1)
State and Municipal Obligations	(264)	(31)	(295)	(14)	(9)	(
Federal Funds Sold	(32)	66	34	65	(41)	(
Taxable Loans	(5)	(1,027)	(1,032)	609	(1,085)	(4
Tax Free Loans	163	(36)	127	(18)	8	(
	-----	-----	-----	-----	-----	-----
Total Earning Assets	\$ 244	\$ (1,733)	\$ (1,489)	\$ 806	\$ (1,645)	\$ (8
	-----	-----	-----	-----	-----	-----
Interest Expense:						
Total Interest Bearing Deposits	\$ 150	\$ (1,433)	\$ (1,283)	\$ 578	\$ (1,188)	\$ (6
U.S. Treasury - Short-Term Borrowings	2	(4)	(2)	1	(11)	(
Short-Term Borrowings - Other	0	0	0	0	0	(
Long-Term Borrowings	(1)	0	(1)	(50)	(1)	(
Repurchase Agreements	18	(61)	(43)	(54)	(343)	(3
	-----	-----	-----	-----	-----	-----
Total Interest-Bearing Deposits	\$ 169	\$ (1,498)	\$ (1,329)	\$ 475	\$ (1,543)	\$ (1,0
	-----	-----	-----	-----	-----	-----
NET INTEREST INCOME	\$ 75	\$ (235)	\$ (160)	\$ 331	\$ (102)	\$ 2
	=====	=====	=====	=====	=====	=====

(1) Includes non-accrual loans.

FINANCIAL CONDITION

Our consolidated assets at December 31, 2003 were \$233 million which represented an increase of \$4 million or 1.7% over \$229 million at December 31, 2002. The comparable increase for 2002 over 2001 was 6.9% or \$15 million.

Capital increased 3.0% from \$26.8 million in 2002 to \$27.6 million in 2003. The adjustment for the fair market value of securities was a positive \$537,000 for 2002 compared to a positive \$376,000 for 2003. Common stock and surplus decreased a net \$394,000 resulting from purchase and retirement of stock in the amount of \$588,000 and stock issued under Drip and Reinvestment plans in the amount of \$194,000.

Total average assets grew 3.4% from 2002 at \$223.5 million to 2003 at \$231.0 million. Average earning assets grew 2.4% from 2002 at \$210.6 million to 2003 at \$215.7 million.

Loans decrease 2.4% from \$151.3 million at December 31, 2002 to \$147.6 million at December 31, 2003.

Non-interest bearing deposits grew 13.8% to \$17.3 million at December 31, 2003 from \$15.2 million at December 31, 2002.

Interest bearing deposits decreased 1.4% from \$156.7 million in 2002 to \$154.5 million in 2003.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio decreased during 2003 to 85.9% compared to 87.9% during 2002.

It is our opinion that the balance sheet 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 Board's Asset/Liability Committee meets with the investment consultants quarterly.

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INVESTMENTS
(Dollars in thousands)

	2003	2002	2001
	----	----	----
Federal Agency Obligations	\$16,002	\$10,107	\$12,553
Mortgage-backed Securities	33,338	22,690	21,001
Obligations of State and Political Subdivisions	10,773	15,751	17,525
Corporate Securities	0	3,419	4,589
Marketable Equity Securities	1,341	363	327
Restricted Equity Securities	1,321	1,198	1,126
	-----	-----	-----
Total Investment Securities	\$62,775	\$53,528	\$57,121
	-----	-----	-----

All of our securities are available-for sale and are carried at estimated fair value. The following table sets forth the maturity distribution of the investments, the weighted average yield for each type and ranges of maturity at December 31,

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2003. Yields are presented on a tax-equivalent basis, are based upon carrying value and are weighted for the scheduled maturity. At December 31, 2003, our investment securities portfolio had an average maturity of approximately 4.65 years.

	(Dollars in Thousands)						
	Within		After One		After Five		A
	One Year		Year But		Years But		
Amount	Yield	Amount	Yield	Amount	Yield	Ten	
	-----	-----	-----	-----	-----	-----	-----
Federal Agency Obligations	\$6,407	5.00%	\$34,833	3.47%	\$ 8,100	3.59%	\$
Obligations of State and Political Subdivisions	0	0.00%	0	0.00%	3,865	7.04%	6,90
Marketable Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,34
Restricted Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,32
	-----	-----	-----	-----	-----	-----	-----
Total	\$6,407	5.00%	\$34,833	3.47%	\$11,965	4.74%	\$9,57
	-----	-----	-----	-----	-----	-----	-----

Available-for-sale securities are reported on the balance sheet at fair value. An adjustment to capital, net or deferred taxes, is the offset for this entry. The possibility of material price volatility in a falling interest rate environment is offset by the availability to us of restructuring the portfolio for gap positioning at any time through the securities classed as

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available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on December 31, 2003 of \$376,000 compared to an unrealized gain, net of tax, on December 31, 2002 of \$537,000.

The mix of securities in the portfolio is 78.6% Federal Agency Obligations, 17.2% Municipal Securities, and 4.2% Other. We do not engage in derivative investment products.

LOANS

LOAN PORTFOLIO LOANS OUTSTANDING (Dollars in thousands)

	2003 ----	2002 ----	2001 ----	2000 ----
Commercial	\$ 15,328	\$ 15,033	\$ 13,091	\$ 14,412
Tax-Exempt	6,214	3,535	1,947	2,869
Real Estate - Construction	2,505	1,185	2,538	1,648
Real Estate	118,129	123,746	115,716	106,604
Personal	5,410	7,902	9,962	12,317
	-----	-----	-----	-----
Total Gross Loans	\$ 147,586	\$ 151,401	\$ 143,254	\$ 137,850
Add (Deduct) Unearned discount	(64)	(139)	(279)	(486)
Unamortized loan costs, net of fees	109	76	15	(4)
	-----	-----	-----	-----
Loans, Net	\$ 147,631	\$ 151,338	\$ 142,990	\$ 137,360
	-----	-----	-----	-----

The loan portfolio decreased 2.4% from \$151.3 million in 2002 to \$147.6 million in 2003. The percentage distribution in the loan portfolio was 81.7% in real estate loans at \$120.6 million; 10.4% in commercial loans at \$15.3 million; 3.7% in consumer loans at \$5.5 million; and 4.2% in tax exempt loans at \$6.2 million. Variable rate real estate loans were comprised of 8.9% with 7-year adjustable rates, 3.9% with 5-year adjustable rates; 53.3% with 3-year adjustable rates; 20.1% with 1-year adjustable rates; and 13.8% with one-day to 3-month adjustable rates. Many adjustable rate loans have bi-weekly payments. The remaining 24.8% of real estate loans are fixed rates.

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

For the years ended December 31,

	2003 ----	2002 ----	2001 ----	2000 ----	1999 ----
Commercial	10.38%	9.93%	9.14%	10.45%	11.57%
Tax Exempt	4.21%	2.34%	1.36%	2.08%	1.71%
Real Estate-Construction	1.70%	0.78%	1.77%	1.20%	1.87%
Real Estate	80.04%	81.73%	80.78%	77.33%	75.94%
Personal	3.67%	5.22%	6.95%	8.94%	8.91%
	-----	-----	-----	-----	-----
Total Loans	100.00%	100.00%	100.00%	100.00%	100.00%
	=====	=====	=====	=====	=====

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The following table shows the maturity of loans in specified categories of CCFNB's loan portfolio at December 31, 2003, and the amount of such loans with predetermined fixed rates or with floating or adjustable rates:

	December 31, 2003			
	Maturing In One Year Or Less	Maturing After One Year Through Five Years	Maturing After Five Years Through Ten Years	Maturing After Ten Years
Amounts in Thousands				
Commercial, Tax Exempt, Real Estate and Personal Loans	\$ 60,942	\$ 61,489	\$ 18,379	\$ 4,271
Real Estate-Construction Loans	2,505	0	0	0
Total	\$ 63,447	\$ 61,489	\$ 18,379	\$ 4,271
Amount of Such Loans with:				
Predetermined Fixed Rates	\$ 8,729	\$ 20,273	\$ 12,667	\$ 4,271
Floating or Adjustable Rates	54,718	41,216	5,712	0
Total	\$ 63,447	\$ 61,489	\$ 18,379	\$ 4,271

DEPOSITS AND BORROWED FUNDS

TABLE OF DISTRIBUTION OF AVERAGE DEPOSITS
(Dollars in thousands)

	December 31,		
	2003	2002	2001
Demand deposits	\$ 43,106	\$ 39,799	\$ 36,210
Savings deposits	36,215	34,898	29,672
Time deposits	61,853	62,267	59,447
Time deposits, \$100,000 and over	30,782	29,143	24,272
Total	\$171,956	\$166,107	\$149,601

TABLE OF MATURITY DISTRIBUTION OF TIME DEPOSITS OVER \$100,000
(Dollars in thousands)

December 31,

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	2003 ----	2002 ----	2001 ----
Three months or less	\$ 7,571	\$ 9,236	\$ 6,446
Over three months to six months	2,099	5,769	4,225
Over six months to twelve months	6,990	8,123	7,493
Over twelve months	11,272	8,063	7,895
	-----	-----	-----
Total	\$27,932	\$31,191	\$26,059
	=====	=====	=====

Total average deposits increased by 3.6% from \$166.1 million at year-end 2002 to \$172.0 million at year-end 2003. Average savings deposits increased to \$36.2 million at year-end 2003 from \$34.9 million at year-end 2002. Average time deposits increased 1.3% from \$91.4 million at year-end 2002 to \$92.6 million at year-end 2003. Average non-interest bearing demand deposits increased to \$16.3 million for 2003 from \$15.2 million for 2002. Average interest bearing NOW accounts increased 8.9% from \$24.6 million for 2002 to \$26.8 million for 2003.

Short-term borrowings, securities sold under agreements to repurchase and day-to-day borrowings from the FHLB-Pgh increased 6.1% from \$18.0 million at year-end 2002 to \$19.1 million at year-end 2003. Treasury Tax and Loan deposits held by us for the U.S. Treasury averaged \$701,000 for 2003. One-day borrowings did not occur in 2003 and repurchase agreements averaged \$18.4 million for 2003. Long-term borrowings, namely borrowings from the FHLB-Pgh, averaged \$11.3 million for 2003.

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NON-PERFORMING ASSETS
PAST DUE AND NON-ACCRUAL LOANS
(Dollars in thousands)

2003 ----	Real Estate -----	Installment Loans -----	Commercial -----	Total -----
Days 30-89	\$ 438	\$ 66	\$ 81	\$ 585
Days 90 Plus	245	0	24	269
Non-accrual	1,208	3	641	1852
	-----	-----	-----	-----
Total	\$1,891	\$ 69	\$ 746	\$2,706
	=====	=====	=====	=====

2002 ----	Real Estate -----	Installment Loans -----	Commercial -----	Total -----
Days 30-89	\$1,216	\$ 112	\$ 513	\$1,841
Days 90 Plus	40	10	0	50
Non-accrual	1,279	6	837	2,122
	-----	-----	-----	-----
Total	\$2,535	\$ 128	\$1,350	\$4,013
	=====	=====	=====	=====

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2001	Real Estate	Installment Loans	Commercial	Total
----	-----	-----	-----	-----
Days 30-89	\$ 798	\$ 142	\$ 9	\$ 949
Days 90 Plus	915	28	26	969
Non-accrual	429	15	285	729
	-----	-----	-----	-----
Total	\$2,142	\$ 185	\$ 320	\$2,647
	=====	=====	=====	=====

At year-end 2003, loans 30-89 days past due totaled \$585,000 compared to \$1,841,000 at year-end 2002. Past due loans 90 days plus totaled \$269,000 at year-end 2003 compared to \$50,000 at year-end 2002. Non-accrual loans at year-end 2003 totaled \$1,852,000 compared to \$2,122,000 at year-end 2002. Overall, past due and non-accrual loans decreased 32.6% from \$4,013,000 at year-end 2002 to \$2,706,000 at year-end 2003. During this same period of time, the ratio of net charge offs during the period to average loans outstanding during the period was .06%. (See Summary of Loan Loss Experience). We do not consider these percentages to be significant or material.

Refer to the Loan section of footnote one to the Consolidated Financial Statements, Item 8.

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

	For Years Ended De		
	2003	2002	2001
	----	----	----
Loans Outstanding at End of Period	\$ 147,631	\$ 151,338	\$ 142,990
	=====	=====	=====
Average Loans Outstanding During the Period	\$ 149,485	\$ 147,545	\$ 139,219
	=====	=====	=====
Allowance for Loan Losses:			
Balance, Beginning of Period	\$ 1,298	\$ 1,028	\$ 1,008
	-----	-----	-----
Loans Charged Off:			
Commercial and Industrial	(52)	(29)	(94)
Real Estate Mortgages	0	(17)	(13)
Consumer	(76)	(54)	(82)
	-----	-----	-----
Total Loans Charged Off	(128)	(100)	(189)
Recoveries:			
Commercial and Industrial	12	19	14
Real Estate Mortgages	0	0	0
Credit Cards	0	0	3
Consumer	33	42	29

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Total Recoveries	45	61	46
Net Loans Charged Off	(83)	(39)	(143)
Provision for Loan Losses	200	390	163
Balance, End of Period	\$ 1,415	\$ 1,298	\$ 1,028
Ratio of net charge-offs during the year to average loans outstanding during year	0.06%	0.03%	0.10%

The following table presents an allocation of CCFNB's allowance for loan losses for specific categories as of the dates indicated:

	For Years Ended December 31,				
	2003	2002	2001	2000	1999
	----	----	----	----	----
Commercial	\$ 493	\$ 406	\$ 372	\$ 173	\$ 270
Real Estate Mortgages	696	723	464	318	341
Consumer	28	66	94	79	88
Unallocated	198	103	98	438	286
Total	\$1,415	\$1,298	\$1,028	\$1,008	\$ 985

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The following table presents a summary of CCFNB's nonaccrual, restructured and past due loans as of the dates indicated:

	For Years Ended December 31,			
	2003	2002	2001	2000
	----	----	----	----
Nonaccrual, Restructured and Past Due Loans:				
Nonaccrual Loans	\$ 1,336	\$ 2,112	\$ 729	\$ 312
Restructured Loans on Accrual Status	516	0	0	0
Accrual Loans Past Due 90 Days or More	269	50	969	344
Total Nonaccrual, Restructured and Past Due Loans	\$ 2,121	\$ 2,162	\$ 1,698	\$ 656
Other Real Estate	\$ 36	\$ 68	\$ 0	\$ 0
Interest Income That Would Have Been Recorded Under Original Terms	\$125,287	\$ 63,462	\$ 37,712	\$ 24,225
Interest Income Recorded During the Period	\$ 17,586	\$ 67,873	\$ 61,568	\$ 5,023

ALLOWANCE FOR LOAN LOSSES AND RELATED PROVISION
(Dollars in Thousands)

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	Outstanding Balance at December 31,				
	2003		2002		
	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount
	-----	-----	-----	-----	-----
Commercial	\$ 493	13.1%	\$ 406	13.0%	\$ 372
Real estate mortgages	696	81.7%	723	82.0%	464
Consumer	28	5.2%	66	5.0%	94
Unallocated	198	N/A	103	N/A	98
	-----	-----	-----	-----	-----
	\$1,415	100.0%	\$1,298	100.0%	\$1,028
	-----	-----	-----	-----	-----

The allowance for loan losses was \$1,415,000 at December 31, 2003, compared to \$1,298,000 at December 31, 2002. This allowance equaled .96% and .87% of total loans, net of unearned income, at the end of 2003 and 2002. This allowance was considered adequate based on delinquency trends and actual loans written as it relates to the loan portfolio.

The loan loss reserve is analyzed quarterly and reviewed by the Bank's Board of Directors. The assessment of the loan policies and procedures during 2003 revealed no anticipated loss on any loans considered "significant". No concentration or apparent deterioration in classes of loans or pledged collateral was evident. Monthly loan meetings with the Bank Board's Credit Administration Committee reviewed new loans, delinquent loans and loan exceptions to determine compliance with policies.

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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 "Factors That May Affect Future Results" and refer to consolidated Statements of Cash Flows.

CAPITAL RESOURCES

Capital continues to be a strength for us. 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. We are subject to various regulatory capital requirements administered by the federal

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banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material impact on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by federal banking regulation are to ensure capital adequacy require that we maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined).

As of December 31, 2003, the most recent notification from the Comptroller of the Currency, the Bank's primary federal regulator, categorized the Bank 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 as set forth in the Table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts are ratios in the following table:

	Actual		For Capital Adequacy Purposes		To be Capitalized Prompt Corrective Action Pr
	Amount	Ratio	Amount	Ratio	Amount
As of December 31, 2003:					
Total Risk Based Capital					
(To risk-weighted assets)	\$28,752	19.88%	\$11,570	8.00%	\$14,463
Tier I Capital					
(To risk-weighted assets)	\$27,220	18.82%	\$ 5,785	4.00%	\$ 8,678
Tier I Capital					
(To average assets)	\$26,303	11.79%	\$ 8,924	4.00%	\$11,155
As of December 31, 2002:					
Total Risk Based Capital					
(To risk-weighted assets)	\$27,615	19.46%	\$11,352	8.00%	\$14,191
Tier I Capital					
(To risk-weighted assets)	\$26,303	18.53%	\$ 5,682	4.00%	\$ 8,524
Tier I Capital					
(To average assets)	\$26,303	11.77%	\$ 8,939	4.00%	\$11,174

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

Dividend payouts are restricted by the Pennsylvania Business Corporation Law of 1988, as amended (the BCL). The BCL operates generally to preclude dividend payments if the effect thereof would render us unable to meet our obligations as they become due. As a practical matter, our payment of dividends is contingent upon our ability to obtain funding in the form of dividends from the Bank. Payment of dividends to us by the Bank is subject

to the restrictions set forth in the National Bank Act. Generally, the National Bank Act would permit the Bank to declare dividends in 2004 of approximately \$364,186 plus additional amounts equal to the net income earned in 2004 for the period January 1, 2004 through the date of declaration, less any dividends which may be paid in 2004.

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 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 rate changes.

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 the net interest spread.

STATEMENT OF INTEREST SENSITIVITY GAP
 (Dollars in thousands)
 DECEMBER 31, 2003

	> 90 Days	
90 Days	But	1 to 5
Or Less	<1 Year	Years
-----	-----	-----

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Short-term investments	\$ 6,003	\$ 0	\$ 0
Securities Available-for-Sale (1)	7,978	20,525	29,929
Loans (1)	33,887	37,734	65,100
	-----	-----	-----
Rate Sensitive Assets	47,868	58,259	95,029
	-----	-----	-----
Deposits:			
Interest-bearing demand deposits (2)	\$ 4,312	\$ 4,014	\$ 21,410
Savings (2)	5,626	5,887	24,747
Time	25,260	23,856	39,360
Borrowed funds	20,689	301	0
Long-term debt	3	9	2,191
Shareholders' equity	382	1,146	6,112
	-----	-----	-----
Rate Sensitive Liabilities and Shareholders' Equity	56,272	35,213	93,820
	-----	-----	-----
Interest Sensitivity Gap	(8,404)	23,046	1,209
Cumulative Gap	\$ (8,404)	\$ 14,642	\$ 15,851

(1) Investments and loans are included at the earlier of repricing or maturity 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, 2003, our cumulative gap positions and the potential earnings change resulting from a 200 basis point change in rates were within the internal risk management guidelines.

Upon reviewing the current interest sensitivity scenario, declining interest rates could negatively affect net income because the Bank is asset-sensitive. In an increasing interest rate environment, net income could be positively affected because more assets than liabilities will reprice during a given period.

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

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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 following table provides information about our financial instruments. The table presents the financial instruments including the expected cash flow over the next five years. In addition the average interest rate is shown for each period presented. The table also includes the fair market value

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for each category of financial instruments as of December 31, 2003. This presentation differs from the above gap report primarily due to presenting the financial instruments based on a contractual maturity as opposed to a repricing scenario as reflected in the above gap report.

PRINCIPAL / NOTIONAL AMOUNTS ESTIMATED TO MATURE IN: (Dollars in thousands)

	2004 ----	2005 ----	2006 ----	2007 ----	2008 ----	There Aft ----
Rate sensitive assets:						
Fixed interest loans (1)	\$ 7,485	\$ 6,115	\$ 5,014	\$ 4,563	\$ 3,978	\$15,
Average interest rate	7.19%	6.89%	6.78%	6.67%	6.43%	6
Variable interest rate loans (2)	\$ 55,565	\$16,350	\$20,117	\$ 1,136	\$ 1,845	\$ 9,
Average interest rate	5.20%	5.86%	5.50%	5.97%	6.01%	6
Fixed interest rate securities (1)	\$ 6,407	\$ 7,019	\$ 2,873	\$14,495	\$ 920	\$ 8,
Average interest rate	4.95%	4.16%	3.43%	3.63%	4.87%	5
Variable interest rate securities (1)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,000	\$21,
Average interest rate	0.00%	0.00%	0.00%	0.00%	3.00%	3
Other interest-bearing assets	\$ 6,003	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,
Average interest rate	1.04%	0.00%	0.00%	0.00%	0.00%	4
Rate sensitive liabilities:						
Non-interest-bearing checking (2)	\$ 6,925	\$ 2,597	\$ 2,597	\$ 2,597	\$ 2,597	\$
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0
Savings & interest-bearing checking (2)	\$ 10,462	\$ 3,923	\$ 3,923	\$ 3,923	\$ 3,923	\$
Average interest rate	0.61%	0.61%	0.61%	0.61%	0.61%	0
Money market accounts (2)	\$ 4,042	\$ 1,516	\$ 1,516	\$ 1,516	\$ 1,516	\$
Average interest rate	0.91%	0.91%	0.91%	0.91%	0.91%	0
Time deposits (under \$100,000)	\$ 31,598	\$14,246	\$ 3,137	\$ 4,213	\$ 7,350	\$
Average interest rate	2.42%	3.59%	3.41%	4.59%	3.87%	0
Time deposits (over 100,000)	\$ 17,585	\$ 5,399	\$ 1,008	\$ 1,133	\$ 2,807	\$
Average interest rate	2.65%	5.03%	4.77%	5.13%	4.05%	0
Fixed interest rate borrowings	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	5
Variable interest rate borrowings	\$ 20,990	\$ 0	\$ 0	\$ 0	\$11,000	\$
Average interest rate	1.54%	0.00%	0.00%	0.00%	5.99%	0

(1) Investments and loans are included at contractual maturity.

(2) Non interest-bearing checking, interest-bearing checking, savings and money market accounts are presented reflecting historical experience and management's judgment about the duration of these deposits.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item can be found at Item 7 of this Annual Report 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

CONSOLIDATED FINANCIAL STATEMENTS AND FOOTNOTES FOR THE FISCAL YEAR-ENDED DECEMBER 31, 2003

CCFNB BANCORP, INC. AND SUBSIDIARY

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CCFNB Bancorp, Inc. (the "Corporation") is a registered bank holding company and organized under the Pennsylvania business corporation law. The assets are primarily those of its wholly owned subsidiary, the Columbia County Farmers National Bank.

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The Columbia County Farmers National Bank is a full service nationally-chartered financial institution serving customers from six locations in Columbia County; namely Orangeville, Bloomsburg, Benton, South Centre, Millville and Lightstreet. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation to the maximum extent provided by law.

CONSOLIDATED SELECTED FINANCIAL DATA

(In thousands of dollars, except per share data and ratios)

	2003 ----	2002 ----	2001 ----
EARNINGS			
Interest income	\$ 11,221	\$ 12,780	\$ 13,719
Interest expense	4,366	5,741	6,924
Provision for loan losses	200	309	163
Investment securities gains	8	137	99
Net income	2,163	1,922	2,057
PER SHARE			
Net income	\$ 1.69	\$ 1.47	\$ 1.54
Cash dividends	.66	.63	.59
BALANCES AT DECEMBER 31			
Assets	\$232,914	\$229,032	\$214,238
Investment securities	62,775	53,528	57,121
Net loans	146,215	150,040	141,962
Deposits	171,786	172,127	155,666
Stockholders' equity	27,603	26,840	26,042
RATIOS			
Return on average assets	.94%	.86%	.99%
Return on average equity	7.95%	7.22%	7.92%
Dividend payout ratio	39.02%	42.86%	38.31%

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CCFNB BANCORP, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2003 AND 2002

	2003 ----	2002 ----
ASSETS		
Cash and due from banks	\$ 6,358,541	\$ 5,952,976
Interest-bearing deposits with other banks	5,480,177	8,010,927
Federal funds sold	523,336	2,056,774

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Investment securities available-for-sale	62,774,590	53,527,510
Loans, net of unearned income	147,630,702	151,338,411
Allowance for loan losses	1,415,431	1,298,406
	-----	-----
Net loans	\$146,215,271	\$150,040,005
Premises and equipment, net	4,282,457	4,414,686
Other real estate owned	35,696	67,900
Cash surrender value of bank-owned life insurance	5,907,940	3,626,606
Accrued interest receivable	810,912	894,234
Other assets	525,401	440,773
	-----	-----
TOTAL ASSETS	\$232,914,321	\$229,032,391
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 17,313,192	\$ 15,238,044
Interest bearing	154,472,449	156,889,067
	-----	-----
Total Deposits	\$171,785,641	\$172,127,111
Short-term borrowings	20,990,219	17,274,252
Long-term borrowings	11,335,477	11,346,815
Accrued interest and other expenses	1,186,968	1,332,584
Other liabilities	12,618	111,630
	-----	-----
TOTAL LIABILITIES	\$205,310,923	\$202,192,392
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share; authorized		
5,000,000 shares; issued and outstanding 1,276,445		
shares 2003, 1,292,724 shares 2002	\$ 1,595,556	\$ 1,615,905
Surplus	3,634,608	4,008,665
Retained earnings	21,997,539	20,678,631
Accumulated other comprehensive income	375,695	536,798
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$ 27,603,398	\$ 26,839,999
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$232,914,321	\$229,032,391
	-----	-----

The accompanying notes are an integral part of these consolidated financial statements.

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	2002	
	----	----	
INTEREST INCOME			
Interest and fees on loans	\$ 9,206,892	\$10,096,412	\$10

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Interest and dividends on investment securities:			
Taxable	1,252,973	1,710,258	1
Tax-exempt	609,478	798,663	
Dividends	60,934	58,792	
Federal funds sold	42,562	51,224	
Deposits in other banks	48,487	64,872	
	-----	-----	-----
TOTAL INTEREST INCOME	\$11,221,326	\$12,780,221	\$13
	-----	-----	-----
INTEREST EXPENSE			
Deposits	\$ 3,400,449	\$ 4,724,904	\$ 5
Short-term borrowings	286,216	336,364	
Long-term borrowings	679,277	679,936	
	-----	-----	-----
TOTAL INTEREST EXPENSE	\$ 4,365,942	\$ 5,741,204	\$ 6
	-----	-----	-----
Net interest income	\$ 6,855,384	\$ 7,039,017	\$ 6
Provision for loan losses	200,000	309,000	
	-----	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	\$ 6,655,384	\$ 6,730,017	\$ 6
	-----	-----	-----
NON-INTEREST INCOME			
Service charges and fees	\$ 691,332	\$ 649,071	\$
Gain on sale of loans	190,382	1,435	
Bank-owned life insurance income	247,334	27,968	
Trust department	147,436	215,145	
Other	222,969	180,059	
Investment securities gains, net	8,369	136,892	
	-----	-----	-----
TOTAL NON-INTEREST INCOME	\$ 1,507,822	\$ 1,210,570	\$ 1
	-----	-----	-----
NON-INTEREST EXPENSE			
Salaries	\$ 2,199,135	\$ 2,136,784	\$ 2
Pensions and other employee benefits	746,350	729,689	
Occupancy, net	378,867	354,643	
Equipment	476,233	587,168	
State shares tax	275,093	254,208	
Other	1,333,524	1,416,680	1
	-----	-----	-----
TOTAL NON-INTEREST EXPENSE	\$ 5,409,202	\$ 5,479,172	\$ 5
	-----	-----	-----
Income before income taxes	\$ 2,754,004	\$ 2,461,415	\$ 2
Income tax expense	591,107	539,157	
	-----	-----	-----
NET INCOME	\$ 2,162,897	\$ 1,922,258	\$ 2
	-----	-----	-----
PER SHARE DATA			
Net income	\$ 1.69	\$ 1.47	\$
Cash dividends	.66	.63	
	-----	-----	-----
Weighted average shares outstanding	1,281,265	1,309,084	1

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Common Stock -----	Surplus -----	Comprehensive Income -----	Retained Earnings -----
BALANCE AT DECEMBER 31, 2000	\$1,682,910	\$5,146,061		\$18,310,262
Comprehensive income :				
Net income	0	0	\$2,056,587	2,056,597
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	0	0	164,555	0
Total comprehensive income			----- \$2,221,142 =====	
Issuance of 7,345 shares of common stock under dividend reinvestment and stock purchase plans	9,181	139,112		0
Purchase of 27,501 shares of treasury stock	0	0		0
Retirement of 27,501 shares of treasury stock	(34,376)	(555,171)		0
Cash dividends \$.59 per share	0	0		(787,878)
BALANCE AT DECEMBER 31, 2001	\$1,657,715	\$4,730,002		\$19,578,971
Comprehensive income:				
Net income	0	0	\$ 1,922,258	1,922,258
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	0	0	461,471	0
Total comprehensive income			----- \$2,383,729 =====	
Issuance of 8,052 shares of common stock under dividend reinvestment and stock purchase plans	10,065	167,188		0
Purchase of 41,500 shares of treasury stock	0	0		0
Retirement of 41,500 shares of treasury stock	(51,875)	(888,525)		0
Cash dividends \$.63 per share	0	0		(822,598)
BALANCE AT DECEMBER 31, 2002	\$1,615,905	\$4,008,665		\$20,678,631
Comprehensive income:				
Net income	0	0	\$2,162,897	\$2,162,897

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Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	0	0	(161,103)	0
Total comprehensive income			<u>\$2,001,794</u>	
Issuance of 7,709 shares of common stock under dividend reinvestment and stock purchase plans	9,636	184,159		0
Purchase of 23,988 shares of treasury stock	0	0		0
Retirement of 23,988 shares of treasury stock	(29,985)	(558,216)		0
Cash dividends \$.66 per share	0	0		(843,989)
BALANCE AT DECEMBER 31, 2003	<u>\$1,595,556</u>	<u>\$ 3,634,608</u>		<u>\$21,997,539</u>

	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	\$ (89,228)	\$ 0	\$ 25,050,005
Comprehensive income :			
Net income	0	0	2,056,587
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	164,555	0	164,555
Total comprehensive income			
Issuance of 7,345 shares of common stock under dividend reinvestment and stock purchase plans	0	0	148,293
Purchase of 27,501 shares of treasury stock	0	(589,547)	(589,547)
Retirement of 27,501 shares of treasury stock	0	589,547	0
Cash dividends \$.59 per share	0	0	(787,878)
BALANCE AT DECEMBER 31, 2001	<u>\$ 75,327</u>	<u>\$ 0</u>	<u>\$ 26,042,015</u>
Comprehensive income:			
Net income	0	0	1,922,258
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	461,471	0	461,471
Total comprehensive income			

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Issuance of 8,052 shares of common stock under dividend reinvestment and stock purchase plans	0	0	177,253
Purchase of 41,500 shares of treasury stock	0	(940,400)	(940,400)
Retirement of 41,500 shares of treasury stock	0	940,400	0
Cash dividends \$.63 per share	0	0	(822,598)
	-----	-----	-----
BALANCE AT DECEMBER 31, 2002	\$ 536,798	\$ 0	\$ 26,839,999
	-----	-----	-----
Comprehensive income:			
Net income	0	0	\$ 2,162,897
Change in net unrealized gain on investment securities available-for-sale, net of reclassification adjustment and tax effects	(161,103)	0	(161,103)
Total comprehensive income			
Issuance of 7,709 shares of common stock under dividend reinvestment and stock purchase plans	0	0	193,795
Purchase of 23,988 shares of treasury stock	0	(588,201)	(588,201)
Retirement of 23,988 shares of treasury stock	0	588,201	0
Cash dividends \$.66 per share	0	0	(843,989)
	-----	-----	-----
BALANCE AT DECEMBER 31, 2003	\$ 375,695	\$ 0	\$ 27,603,398
	=====	=====	=====

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CCFNB BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003

OPERATING ACTIVITIES	
Net income	\$ 2,162,897
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	200,000
Depreciation and amortization	379,733
Premium amortization on investment securities	542,740
Discount accretion on investment securities	(27,920)
Deferred income taxes (benefit)	(57,240)
(Gain) on sales of investment securities available-for-sale	(8,360)
(Gain) on sale of mortgage loans	(190,380)
Proceeds from sale of mortgage loans	9,156,600
Originations of mortgage loans for resale	(8,966,220)
Gain on sales of other real estate owned	(30,160)

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(Gain) loss from investment in insurance agency	(4,86
Decrease in accrued interest receivable	83,32
Increase in other assets - net	(17,67
Net increase in cash surrender value of bank owned life insurance	(281,33
Increase (decrease) in accrued interest and other expenses	(145,61
Increase (decrease) in other liabilities - net	(43,14

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,752,35

 INVESTING ACTIVITIES	
Purchase of investment securities available-for-sale	\$ (50,383,67
Proceeds from sales, maturities and redemption of investment securities available-for-sale	40,408,33
Proceeds from sales of other real estate owned	98,06
Net (increase) decrease in loans	3,589,03
Purchases of premises and equipment	(247,50
Acquisition of interest in insurance agency	
Purchase of bank owned life insurance policies	(2,000,00

NET CASH USED IN INVESTING ACTIVITIES	\$ (8,535,74

 FINANCING ACTIVITIES	
Net increase (decrease) in deposits	\$ (341,47
Net increase (decrease) in short-term borrowings	3,715,96
Repayment of long-term borrowings	(11,33
Acquisition of treasury stock	(588,20
Proceeds from issuance of common stock	193,79
Cash dividends paid	(843,98

NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 2,124,76

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (3,658,62

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,020,67

CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,362,05
	=====
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	\$ 4,535,60
Income taxes	\$ 624,52

The accompanying notes are an integral part of these consolidated financial statements.

CCFNB BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

NATURE OF OPERATIONS & LINES OF BUSINESS

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

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

On December 19, 2000, the Corporation became a Financial Holding Company by having filed an election to do so with the Federal Reserve Board. The Financial Holding Company status was required in order to acquire an interest in a local insurance agency that occurred during January 2001.

SEGMENT REPORTING

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

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

USE OF ESTIMATES

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

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from those estimates.

INVESTMENT SECURITIES

The Corporation classifies its investment securities as either "held-to-maturity" or "available-for-sale" at the time of purchase. Debt securities are classified as held-to-maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment securities held-to-maturity are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity.

Debt securities not classified as held-to-maturity and equity securities included in the available-for-sale category, are carried at fair value, and the amount of any unrealized gain or loss net of the effect of deferred income taxes is reported as other comprehensive income in the Consolidated Statement of Stockholders' Equity. Management's decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

The cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, as well as interest and dividends, is included in interest income

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from investments. Realized gains and losses are included in net investment securities gains. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

LOANS

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

Real estate mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. These loans are sold with limited recourse to the Corporation.

Past Due Loans - Generally, a loan is considered past due when a payment is in arrears for a period of 10 or 15 days, depending on the type of loan. Delinquent notices are issued at this point and collection efforts will continue on loans past due beyond 60 days which have not been satisfied. Past due loans are continually evaluated with determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

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

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

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

A factor in estimating the allowance for loan losses is the measurement of impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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

In addition, an allowance is provided for possible credit losses on off-balance sheet credit exposures. The allowance is estimated by management and is classified in other liabilities.

DERIVATIVES

The Bank has outstanding loan commitments that relate to the origination of mortgage loans that will be held for resale. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and the guidance contained in the Derivatives Implementation Group Statement 133 Implementation Issue No. C 13, the Bank has accounted for such loan commitments as derivative instruments. The effective date of the implementation guidance is the first day of the first fiscal quarter beginning after April 10, 2002. The outstanding loan commitments in this category did not give rise to any losses for the year-ended December 31, 2003, as the fair market value of each outstanding loan commitment exceeded the Bank's cost basis in each loan commitment.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation computed principally on the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

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MORTGAGE SERVICING RIGHTS

The Corporation originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Corporation retains the right to service these loans. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in

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proportion to, and over the period of, estimated net servicing income. The unamortized cost is included in other assets in the accompanying consolidated balance sheet. The servicing rights are periodically evaluated for impairment based on their relative fair value.

OTHER REAL ESTATE OWNED

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense.

BANK OWNED LIFE INSURANCE

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

INVESTMENT IN INSURANCE AGENCY

On January 2, 2001, the Corporation acquired a 50% interest in a local insurance agency, a corporation organized under the laws of the Commonwealth of Pennsylvania. The income or loss from this investment is accounted for under the equity method of accounting. The carrying value of this investment as of December 31, 2003 and 2002 is \$170,296, and \$165,430, respectively, and is carried in other assets in the accompanying consolidated balance sheets.

INCOME TAXES

The provision for income taxes is based on the results of operations, adjusted primarily for tax-exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and income tax basis of assets and liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset or liability from period to period.

PER SHARE DATA

Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", requires dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share is calculated by increasing the denominator for the

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assumed conversion of all potentially dilutive securities. The Corporation does not have any securities which have or will have a dilutive effect, accordingly, basic and diluted per share data is the same.

CASH FLOW INFORMATION

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

TRUST ASSETS AND INCOME

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

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation expands the disclosures to be made by a guarantor about its obligations under certain guarantees and requires the guarantor to recognize a liability in its financial statements for the obligation assumed under a guarantee. In general, FIN 45 applies to contracts of indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this Interpretation, while other guarantees are subject to just the disclosure requirements of FIN 45 but not to the recognition provisions. The disclosure requirements of FIN 45 were effective for the corporation as of December 31, 2002 and require disclosure of the nature of the guarantee, the maximum potential amount of future payments the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are applied prospectively to guarantees issued or modified after December 31, 2002. This standard did not have any impact on the corporation's consolidated financial condition or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123," which generally effective for financial

statements for fiscal years and interim periods beginning after December 31, 2002. The statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS NO. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the

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effect of the method used on reported results. The Corporation does not have any stock-based compensation, therefore the standard has no impact on the Corporation's consolidated financial condition or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 149, "Amendments to SFAS 133 on Derivative Instruments and Hedging Activities" is generally effective for contracts entered into after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." The changes in this statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. The changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. This standard does not have any impact on the Corporation's consolidated financial position or results of operations.

In January 2003, the FASB issued FIN 46, which provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE are to be included in an entity's consolidated financial statements. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics include the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights. The obligations to absorb the expected losses of an entity if they occur, or the right to receive the expected residual returns of the entity if they occur. This standard did not have any impact on the Corporation's consolidated financial positions or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" is generally effective for financial instruments entered into or modified after May 31, 2003 and for contracts in existence at the start of the first interim period beginning after June 15, 2003. This Statement establishes new standards for classification, measurement and disclosure of certain types of financial instruments having characteristics of both liabilities and equity, including instruments that are mandatory redeemable and that embody obligations requiring or permitting settlement by transferring assets or by issuing an entity's own shares. In December 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS 150 to noncontrolling interest that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent's financial statements under SFAS 150. The deferral is limited to mandatory redeemable noncontrolling interests associated with finite-lived subsidiaries. This standard does not have any impact on the Corporation's consolidated financial position or results of operations.

In December 2003, the Emerging Issuance Task Force Issue (EITF) issued no. 03-01 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" is generally effective for fiscal years ending after December 15, 2003, and addresses how to define an "other-than-temporary impairment" as well as its application to investments classified as either "available-for-sale" and "held-to-maturity" under SFAS 115. The EITF requires disclosure of securities in a continuous unrealized loss position to be stratified based on length of time those securities were carried in such a position (less than 12 months, and 12 months or more). Additional information is required to be disclosed to include the nature of the investment, the cause of the decline in value and the evidence considered in reaching the conclusion that the investment is not other than temporarily impaired. The disclosure is required for fiscal years ending after December 15, 2003. Comparative

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information for earlier periods is not required.

ADVERTISING COSTS

It is the Corporation's policy to expense advertising costs in the period in which they are incurred. Advertising expense for the years ended December 31, 2003, 2002 and 2001, was approximately \$75,434, \$71,923, and \$73,192, respectively.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform with presentations used in the 2003 consolidated financial statements. Such reclassifications had no effect on the Corporation's consolidated financial condition or net income.

2. RESTRICTED CASH BALANCES

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. The amount required at December 31, 2003 was \$1,287,000 and was satisfied by vault cash. Additionally, as compensation for check clearing and other services, compensating balances are required to be maintained with the Federal Reserve Bank and other correspondent banks. At December 31, 2003, these balances were \$1,617,000.

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3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The amortized cost, related estimated fair value, and unrealized gains and losses for investment securities were as follows at December 31, 2003 and 2002:

December 31, 2003:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
-----	----	-----	-----
Obligations of U.S. Government Corporations and Agencies:			
Mortgage-backed	\$33,299,509	\$ 211,830	\$
Other	16,000,924	33,998	
Obligations of state and political subdivisions	10,474,524	298,152	
Marketable equity securities	1,083,786	20,330	
Restricted equity securities	1,321,300	0	
	-----	-----	-----
Total	\$62,180,043	\$ 814,310	\$
	-----	-----	-----

December 31, 2002:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
-----	----	-----	-----
Obligations of U.S. Government Corporations and			

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Agencies:			
Mortgage-backed	\$22,266,089	\$ 440,491	\$
Other	10,082,530	43,029	
Obligations of state and political subdivisions	15,336,744	420,898	
Corporate securities	3,495,029	9,179	
Marketable equity securities	332,456	57,384	
Restricted equity securities	1,198,300	0	
	-----	-----	-----
Total	\$52,711,148	\$ 970,981	\$
	-----	-----	-----

Securities available-for-sale with an aggregate fair value of \$38,434,252 in 2003 and \$33,456,382 in 2002, respectively, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and other balances of \$27,696,640 in 2003 and \$25,430,978 in 2002, respectively, as required by law.

The amortized cost and estimated fair value of debt securities, by expected maturity, are shown below at December 31, 2003. Expected maturities will differ from contractual maturities, because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Other securities, marketable equity securities and restricted equity securities are not considered to have defined maturities and are included in the "Due after ten years" category:

	Amortized Cost ----	Estimated Fair Value -----	Weighted Average Yield -----
Due in one year or less	\$ 6,379,256	\$ 6,407,199	5.00%
Due after one year through five years	34,799,465	34,832,996	3.47%
Due after five years through ten years	11,854,944	11,963,808	4.74%
Due after ten years	9,146,378	9,570,587	6.05%
	-----	-----	
Total	\$62,180,043	\$62,774,590	4.24%
	-----	-----	

Restricted equity securities consist of stock in the Federal Home Loan Bank of Pittsburgh (FHLB), Federal Reserve Bank (FRB) and Atlantic Central Bankers Bank (ACBB) and do not have a readily determinable fair value for purposes of SFAS No. 115, because their ownership is restricted, and they can be sold back only to the FHLB, FRB, ACBB or to another member institution. Therefore, these securities are classified as restricted equity investment securities, carried at cost, and evaluated for impairment.

There were no aggregate investments with a single issuer (excluding the U. S. Government and its Agencies) which exceeded ten percent of consolidated stockholders' equity at December 31, 2003. The quality rating of all obligations of state and political subdivisions were "A" or higher, as rated by Moody's or Standard and Poors. The only exceptions were local issues which were not rated, but were secured by the full faith and credit obligations of the communities that issued these securities. All of the state and political subdivision investments were actively traded in a liquid market.

Proceeds from sales, maturities and redemptions of investments in debt and equity securities classified as available-for-sale during 2003, 2002 and 2001 were \$41,449,375, \$35,899,741, and \$33,318,256, respectively. Gross gains

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realized on these sales were \$8,369, \$136,892, and \$98,895, respectively. There were no gross losses on the 2003, 2002, and 2001 sales.

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In accordance with disclosures required by EITF NO. 03-1, the summary below shows the gross unrealized losses and fair value, aggregated by investment category that individual securities have been in a continuous unrealized loss position for less than or more than 12 months as of December 31, 2003:

Description of Security	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Government Corporations and Agencies				
Mortgage backed	\$14,229,090	\$ 159,831	\$ 1,131,042	\$ 13,510
Other	7,466,710	33,291	0	
Marketable Equity Securities	54,000	274	31,341	12,840
Total	\$21,749,800	\$ 193,396	\$ 1,162,383	\$ 26,350

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

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

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

4. LOANS

Major classifications of loans at December 31, 2003 and 2002 consisted of:

	2003	2002
Commercial	\$ 15,327,951	\$ 15,033,479
Tax-exempt	3,912,476	1,290,478
Municipal leases	2,301,615	2,244,397
Real estate - construction	2,504,905	1,185,530

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Real estate	118,128,511	123,745,716
Personal	5,410,169	7,901,766
	-----	-----
Total gross loans	\$ 147,585,627	151,401,366
Add (Deduct): Unearned discount	(64,246)	(139,153)
Unamortized loan costs, net of fees	109,321	76,198
	-----	-----
Loans, net of unearned income	\$ 147,630,702	151,338,411
	=====	=====

Non-accrual loans at December 31, 2003, 2002 and 2001 were \$1,851,686, \$2,122,074, and \$729,084, respectively. The gross interest that would have been recorded if these loans had been current in accordance with their original terms and the amounts actually recorded in income were as follows:

	2003	2002	2001
	----	----	----
Gross interest due under terms	\$142,873	\$131,335	\$ 99,280
Amount included in income	17,586	67,873	61,568
	-----	-----	-----
Interest income not recognized	\$125,287	\$ 63,462	\$ 37,712
	=====	=====	=====

At December 31, 2003, 2002 and 2001 the recorded investment in loans that are considered to be impaired as defined by SFAS No. 114 was \$192,409, \$149,278, and \$58,424, respectively. No additional charge to operations was required to provide for the impaired loans since the total allowance for loan losses is estimated by management to be adequate to provide for the loan loss allowance required by SFAS No. 114 along with any other potential losses. The average recorded investment in impaired loans during the years ended December 31, 2003, 2002 and 2001 was approximately \$232,031, \$86,566, \$47,339, respectively.

Loans past due 90 days or more and still accruing interest amounted to \$369,000 at December 31, 2003 and \$49,532 at December 31, 2002, as presented in accordance with AICPA Statement of Position 01-06 "Accounting by Certain Entities (Including Entities with Trade Receivables) that Lend to or Finance the Activities of Others," effective for fiscal years beginning after December 15, 2001.

At December 31, 2003, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

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Changes in the allowance for loan losses for the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
	----	----	----
Balance, beginning of year	\$ 1,298,406	\$ 1,027,805	\$ 1,008,301
Provision charged to operations	200,000	309,000	162,500

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Loans charged-off	(128,452)	(99,707)	(189,186)
Recoveries	45,477	61,308	46,190
	-----	-----	-----
Balance, end of year	\$ 1,415,431	\$ 1,298,406	\$ 1,027,805
	=====	=====	=====

5. MORTGAGE SERVICING RIGHTS

The Corporation commenced selling real estate mortgages during the last quarter of 2002. The mortgage loans sold serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of mortgage loans serviced for others were \$8,956,268 and \$143,500 at December 31, 2003 and 2002, respectively. The balances of amortized mortgage servicing rights included in other assets at December 31, 2003 and 2002 were \$75,097 and \$1,429, respectively. Valuation allowances were not provided since fair values were determined to exceed carrying values. Fair values were determined using a discount rate of 6% and average lives of 3 to 8 years depending on loan rate.

The following summarizes mortgage servicing rights capitalized and amortized.

	2003	2002
	----	----
Balances, January 1	\$ 1,429	\$ 0
Servicing asset additions	89,662	1,435
Amortization	(15,994)	(6)
	-----	-----
Balance, December 31	\$ 75,097	\$ 1,429
	=====	=====

The Bank does not require custodial escrow accounts in connection with the forgoing loan servicing.

6. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2003 and 2002 follows:

	2003	2002
	----	----
Land	\$ 567,939	\$ 567,939
Buildings and improvements	4,546,704	4,539,204
Furniture and equipment	4,033,088	3,810,259
	-----	-----
	\$9,147,731	\$8,917,402
Less: Accumulated depreciation	4,865,274	4,502,716
	-----	-----
	\$4,282,457	\$4,414,686
	=====	=====

Depreciation amounted to \$379,733, \$479,529 and \$441,033 in 2003, 2002 and 2001 respectively..

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7. DEPOSITS

Major classifications of deposits at December 31, 2003 and 2002 consisted of:

	2003 ----	2002 ----
Demand - non-interest bearing	\$ 17,313,192	\$ 15,238,044
Demand - interest bearing	29,736,472	27,785,333
Savings	36,259,730	35,000,853
Time \$100,000 and over	27,931,828	31,190,539
Other time	60,544,419	62,912,342
	-----	-----
	\$171,785,641	\$172,127,111
	=====	=====

The following is a schedule reflecting remaining maturities of time deposits of \$100,000 and over at December 31, 2003:

2004	\$16,658,793
2005	5,613,410
2006	1,007,820
2007	1,132,594
2008 and thereafter	3,519,211

Total	\$27,931,828
	=====

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Interest expense related to time deposits of \$100,000 or more was \$1,208,973 in 2003, \$1,419,337 in 2002 and \$1,493,072 in 2001.

8. SHORT TERM BORROWINGS

Securities sold under agreements to repurchase and Federal Home Loan Bank advances generally represented overnight or less than 30-day borrowings. U.S. Treasury tax and loan notes for collections made by the Bank were payable on demand. Short-term borrowings consisted of the following at December 31, 2003 and 2002:

	2003 ----				
	Ending Balance -----	Weighted Average Balance -----	Maximum Month End Balance -----	Average Rate ----	Ending Balance -----
Securities sold under agreements to repurchase	\$20,588,977	\$16,767,306	\$20,588,977	1.69%	\$16,274,315
U.S. Treasury tax and loan notes	401,242	349,214	1,000,000	.92%	1,000,000
	-----	-----	-----		-----

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Total	\$20,990,219	\$17,116,520	\$21,588,977	1.67%	\$17,274,252
	=====	=====	=====		=====

9. LONG-TERM BORROWINGS

Long-term borrowings consist of advances due Federal Home Loan Bank. Under terms of a blanket agreement, the loans were secured by certain qualifying assets of the Bank which consisted principally of first mortgage loans and certain investment securities. The carrying value of these collateralized items was \$116,612,000 at December 31, 2003. The Bank has lines of credit with Atlantic Central Bankers Bank and Federal Home Loan Bank in the aggregate amount of \$98,833,000 at December 31, 2003. The unused portion of these lines of credit were \$5,000,000 and \$82,497,000, respectively at December 31, 2003. Long-term borrowings consisted of the following at December 31, 2003 and 2002:

- Loan dated November 28, 1997 in the original amount of \$225,000 for a 10 year term requiring monthly payments of \$1,627 including interest at 6.12%, maturing in 2007 with a final payment due of \$146,690. Principal balances outstanding
- Loan dated February 18, 1998 in the original amount of \$2,000,000 for a 10 year term with a 5 year put. Interest only is payable monthly at 5.48% with a floating rate option, at the discretion of FHLB, at the end of 5 years. Principal balances outstanding
- Loan dated June 25, 1998 in the original amount of \$72,000 for a 30 year term requiring monthly payments of \$425 including interest at 5.856%. Principal balances outstanding
- Loan dated February 23, 1999 in the original amount of \$29,160 for a 20 year term requiring monthly payments of \$179 including interest at 5.50%. Principal balances outstanding
- Loan dated August 20, 1999 in the original amount of \$32,400 for a 20 year term requiring monthly payments of \$199 including interest at 5.50%. Principal balances outstanding
- Loan dated January 27, 2000 in the original amount of \$5,000,000 for a 10 year term with a 1 year conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2003 the interest rate was 6.00%. Principal balances outstanding
- Loan dated August 16, 2000 in the original amount of \$2,000,000 for a 10 year term with a 6 month conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2003 the interest rate was 5.925%. Principal balances outstanding
- Loan dated September 20, 2000 in the original amount of \$2,000,000 for a 10 year term with a 3 year conversion date, at the discretion of FHLB, and a 3 month conversion frequency thereafter. At December 31, 2003 the interest rate was 6.10%. Principal balances outstanding
- Loan December 13, 2000 in the original amount of \$32,092 for a 20 year term requiring monthly payments of \$197 including interest at 5.50%. Principal balances outstanding

Total

At December 31, 2003 the annual maturities of long-term debt were as follows: \$12,034 in 2004, \$12,774 in 2005, \$13,559 in 2006, \$160,202 in 2007, \$2,004,366 in 2008 and \$9,132,542 thereafter.

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10. COMPREHENSIVE INCOME

The components of the change in other comprehensive income and related tax effects are as follows:

	2003	Years Ended ----- 2002
Unrealized holding gains (losses) on available-for-sale investment		
Securities	\$ (230,183)	\$ 840
Less reclassification adjustment for gains realized in income	8,369	136
	-----	-----
Net unrealized gains (losses)	\$ (221,814)	\$ 703
Tax effects	60,711	(241)
	-----	-----
Net of tax amount	\$ (161,103)	\$ 461
	=====	=====

11. STOCKHOLDERS' EQUITY AND STOCK PURCHASE PLANS

The Amended Articles of Incorporation contain a provision that permits the Corporation to issue warrants for the purchase of shares of common stock, par value \$1.25 per share (the "Common Stock"), at below market prices in the event any person or entity acquires 25% or more of the Common Stock.

The Corporation offers employees a stock purchase plan. The maximum number of shares of the Common Stock to be issued under this plan shall be 20,000. In addition, the Corporation may choose to purchase shares on the open market to facilitate this plan. A participating employee may annually elect deductions of at least 1% of base pay, but not more than 10% of base pay, to cover purchases of shares under this plan. A participating employee shall be deemed to have been granted an option to purchase a number of shares of the Common Stock equal to the annual aggregate amount of payroll deductions elected by the employee divided by 90% of the fair market value of Common Stock on the first day of January in each year. Stock issued to participating employees under the plan for the most recent three year period was:

Date Issued -----	Number of Shares -----	Employees' Purchase Price -----	Per Share ----- Market Value Of Shares -----
2003	641	\$21.22	\$23.58
2002	590	\$20.92	\$23.25
2001	839	\$15.07	\$16.75

The Corporation also offers to its stockholders a Dividend Reinvestment and Stock Purchase Plan. Under the plan, the Corporation registered with the Securities and Exchange Commission 500,000 shares of the Common Stock to be sold pursuant to the plan. The price per share for purchases under this plan is determined at each quarterly dividend payment date by the reported average mean

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between the bid and asked prices for the shares at the close of trading in the over-the-counter market on the trading day immediately preceding the quarterly dividend payment date. Participation in this plan by Shareholders began in June 1995. Shares issued under this plan for the most recent three year period was:

Year ----	Number of Shares -----	Total Proceeds -----
2003	7,068	\$180,193
2002	7,462	\$164,906
2001	6,506	\$135,649

12. INCOME TAXES

The provision for income tax expense consisted of the following components:

	2003 ----	2002 ----	2001 ----
Federal			
Current	\$ 648,349	\$ 678,526	\$ 663,669
Deferred (benefit)	(57,728)	(139,377)	(42,549)
	-----	-----	-----
	\$ 590,621	\$ 539,149	\$ 621,120
	-----	-----	-----
46			
State			
Current	\$ 0	\$ 0	\$ 0
Deferred (benefit)	486	8	(192)
	-----	-----	-----
TOTAL PROVISION FOR TAXES	\$ 591,107	\$ 539,157	\$ 620,928
	=====	=====	=====

A reconciliation of the actual provision for federal income tax expense and the amounts which would have been recorded based upon the statutory rate of 34% follows:

	2003 ----		2002 ----	
	Amount -----	Rate ----	Amount -----	Rate ----
Provision at statutory rate	\$ 936,361	34.0%	\$ 836,811	34.0
Tax-exempt income	(282,067)	(10.2)	(323,811)	(13.2)
Non-deductible expenses	26,314	.9	38,296	1.6

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Bank owned life insurance income - net	(84,094)	(3.1)	(9,509)	(.4)
Other, net	(5,893)	(.2)	(2,638)	(.1)
	-----	----	-----	-----
Actual federal income tax and rate	\$ 590,621	21.4%	\$ 539,149	21.9
	=====	====	=====	=====

Income taxes applicable to realized security gains included in the provision for income taxes totaled \$2,845 in 2003, \$48,110 in 2002, and \$33,624 in 2001.

The net deferred tax asset (liability) recorded by the Corporation consisted of the following tax effects of temporary timing differences at December 31, 2003, 2002 and 2001:

	2003	2002	2001
	----	----	----
Deferred tax assets:			
Allowance for loan losses	\$ 379,485	\$ 339,696	\$ 247,699
Allowance for off balance sheet losses	1,530	0	
Deferred compensation and director's fees	201,611	185,430	151,322
Non-accrual loan interest	33,260	16,800	11,299
Mortgage Servicing Rights	3,463	0	
Contributions	0	5,588	
Investment in insurance agency	0	746	77
	-----	-----	-----
TOTAL	\$ 619,349	\$ 548,260	\$ 411,088
	=====	=====	=====
Deferred tax liabilities:			
Loan fees and costs	\$ (76,689)	\$ (74,104)	\$ (64,033)
Accretion	(986)	(2,516)	(2,022)
Unrealized investment securities gains	(218,852)	(279,563)	(37,744)
Depreciation	(259,504)	(247,944)	(260,700)
Investment in insurance agency	(1,232)	0	
	-----	-----	-----
TOTAL	\$ (557,263)	\$ (604,127)	\$ (364,499)
	-----	-----	-----
Net deferred tax asset (liability)	\$ 62,086	\$ (55,867)	\$ 46,589
	=====	=====	=====

The above net deferred asset (liability) is included in other assets or other liabilities on the consolidated balance sheets. It is anticipated that all tax assets shown above will be realized, accordingly, no valuation allowance was provided.

The Corporation and its subsidiary file a consolidated federal income tax return. The Parent Company is also required to file a separate state income tax return and has available state operating loss carryforwards totaling \$571,228. The losses expire through 2023. The related deferred state tax asset in the amount of \$57,066 has been fully reserved and is not reflected in the net tax asset (liability) since management is of the opinion that such assets will not be realized in the foreseeable future.

13. BENEFIT AND DEFERRED COMPENSATION PLANS

The Bank maintains a 401K salary deferred profit sharing plan for the benefit of its employees. Under the salary deferral component, employees may

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elect to contribute up to 10% of their compensation with the possibility that the Bank may make matching contributions to the plan. Under the profit sharing component, contributions are made at the discretion of the Board of Directors.

Matching contributions amounted to \$64,088, \$24,927, and \$23,446 for 2003, 2002 and 2001, respectively. Discretionary contributions amounted to \$0, \$92,312, and \$99,317 in 2003, 2002 and 2001, respectively.

DIRECTORS

During 1990, the Bank entered into agreements with two directors to establish non-qualified deferred compensation plans for each of these directors. In 1994, additional plans were established for these two directors plus another director. These plans are

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limited to four-year terms. The Bank may, however, enter into subsequent similar plans with its directors. Each of the participating directors is deferring the payment to himself of certain directors fees to which he is entitled. Each director's future payment is based upon the cumulative amount of deferred fees together with interest currently accruing thereon at the rate of 8% per annum, subject to change by the Board of Directors. The Bank has obtained life insurance (designating the Bank as the beneficiary) on the lives of certain directors in face amounts which are intended to cover the Bank's obligations and related costs under the Director's Deferred Compensation Plan. As of December 31, 2003 and 2002, the net cash value of insurance policies was \$368,924 and \$331,095, respectively, and the total accrued liability was \$214,418 and \$216,039, respectively, relating to these directors' deferred compensation agreements.

During 2003, the directors were given the option of receiving or deferring their directors' fees under a non-qualified deferred compensation plan which allows the director to defer such fees until the year following the expiration of the directors term. Payments are then made over specified terms under these arrangements up to a ten year period. Interest is to accrue on these deferred fees at the five year certificate of deposit rate, which was 4% in 2003. Two directors have elected to participate in this program and the total accrued liability at December 31, 2003 was \$13,317.

EXECUTIVE OFFICERS

In 1992, the Bank entered into agreements with two executive officers to establish non-qualified deferred compensation plans. Each officer deferred compensation in order to participate in this Deferred Compensation Plan. If the officer continues to serve as an officer of the Bank until he attains sixty-five (65) years of age, the Bank has agreed to pay him 120 guaranteed consecutive monthly payments commencing on the first day of the month following the officer's 65th birthday. Each officer's guaranteed monthly payment is based upon the future value of life insurance purchased with the compensation the officer has deferred. The Bank has obtained life insurance (designating the Bank as the beneficiary) on the life of each participating officer in an amount which is intended to cover the Bank's obligations under the Deferred Compensation Plan, based upon certain actuarial assumptions.

During 2002, the agreements with the two executive officers were modified. Under one agreement, the executive officer will receive \$225,000 payable monthly over a 10 year period commencing in February 2003. Under another agreement, another executive officer will receive \$175,000 payable

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monthly over a 10 year period commencing in April 2003. This second agreement will also provide post employment health care benefits to the executive officer until the attainment of age 65. As of December 31, 2003 and 2002, the net cash value of insurance policies was \$318,119 and \$292,515 respectively, and the total accrued liability, equal to the present value of these obligations, was \$295,674 and \$314,674, respectively, relating to these executive officers' and directors' deferred compensation agreements, and the accrued liability related to the post employment health care benefit was \$14,336 and \$14,668 as of December 31, 2003 and December 31, 2002, respectively.

In April 2003, the Bank entered into non-qualified deferred compensation agreements with three executive officers to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to these agreements for the year ended December 31, 2003 and the total accrual liability as of December 31, 2003 was \$55,131.

14. LEASE COMMITMENTS AND CONTINGENCIES

At December 31, 2003 the Bank was leasing some minor office equipment under operating leases.

Rental expense under operating leases for the years ended December 31, 2003, 2002 and 2001 were \$2,778, \$4,976, and \$4,874, respectively.

In the normal course of business, there were various pending legal actions and proceedings which were not reflected in the consolidated financial statements. In the opinion of management, the consolidated financial statements have not and will not be affected materially by the outcome of such actions and proceedings.

15. RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Bank, as well as companies in which they are principal owners (i.e., at least 10% ownership), were indebted to the Bank at December 31, 2003 and 2002. These loans were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. These loans did not present more than the normal risk of collectibility nor present other unfavorable features.

A summary of the activity on the related party loans, comprised of seven directors, six executive officers and their related companies, consisted of the following:

	2003 ----	2002 ----
Balance, beginning of year	\$2,004,160	\$2,364,768
Additions	654,404	901,660
Deductions	969,585	1,262,268
	-----	-----
Balance, end of year	\$1,688,979 =====	\$2,004,160 =====

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The above loans represent funds drawn and outstanding at the date of the accompanying consolidated financial statement. Commitments by the Bank to related parties on lines of credit for 2003 and 2002 presented an additional off-balance sheet risk to the extent of undisbursed funds in the amount of \$410,768 and \$437,955, respectively, on the above loans.

16. REGULATORY MATTERS

Dividends are paid by the Corporation to shareholders from its assets which are mainly provided by dividends from the Bank. However, national banking laws place certain restrictions on the amount of cash dividends allowed to be paid by the Bank to the Corporation. Generally, the limitation provides that dividend payments may not exceed the Bank's current year's retained income plus retained net income for the preceding two years. Accordingly, in 2004, without prior regulatory approval, the Bank may declare dividends to the Corporation in the amount of \$364,186 plus additional amounts equal to the net income earned in 2004 for the period January 1, 2004, through the date of declaration, less any dividends which may have already been paid in 2004. Regulations also limit the amount of loans and advances from the Bank to the Corporation to 10% of consolidated net assets.

The Corporation is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes, as of December 31, 2003 and 2002, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined).

As of December 31, 2003, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank 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 as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are presented in the following table:

		Actual	For Capital Adequacy Purposes	
		-----	-----	
Amount	Ratio		Amount	Ratio
-----	-----		-----	-----

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As of December 31, 2003:

Total Risk Based Capital				
(To risk-weighted assets)	\$28,752	19.88%	\$11,570	8.00%
Tier I Capital				
(To risk-weighted assets)	27,220	18.82%	5,785	4.00%
Tier I Capital				
(To average assets)	26,303	11.79%	8,924	4.00%

As of December 31, 2002:

Total Risk Based Capital				
(To risk-weighted assets)	\$27,615	19.46%	\$11,352	8.00%
Tier I Capital				
(To risk-weighted assets)	\$26,303	18.53%	\$ 5,682	4.00%
Tier I Capital				
(To average assets)	\$26,303	11.77%	\$ 8,939	4.00%

The Corporation's capital ratios are not materially different from those of the Bank.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at December 31, 2003 and 2002 were as follows:

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	2003	

Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$13,105,609	\$11
Financial standby letters of credit	1,812,748	1
Performance standby letters of credit	842,808	
Dealer floor plans	1,412,279	1

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is

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based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2003 varied from 0 percent to 100 percent; the average amount collateralized was 83.3 percent.

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

The Corporation granted commercial, consumer and residential loans to customers within Pennsylvania. Of the total loan portfolio 82.2% was for real estate loans, principally residential. It was the opinion of management that the high concentration did not pose an adverse credit risk. Further, it was management's opinion that the remainder of the loan portfolio was balanced and diversified to the extent necessary to avoid any significant concentration of credit.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not required to be recognized in the consolidated balance sheet, for which it is practicable to estimate such value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Fair value estimates derived through these techniques cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

CASH AND OTHER SHORT-TERM INSTRUMENTS

Cash and due from banks, interest bearing deposits with other banks, and Federal Funds sold had carrying values which were a reasonable estimate of fair value. Accordingly, fair values regarding these instruments were provided by reference to carrying values reflected on the consolidated balance sheets.

INVESTMENT SECURITIES

The fair value of investment securities which included mortgage backed securities were estimated based on bid prices published in financial newspapers or bid quotations received from securities

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dealers.

LOANS

Fair values were estimated for categories of loans with similar financial characteristics. Loans were segregated by type such as commercial, tax-exempt, real estate mortgages and consumer. For estimation purposes, each loan category was further segmented into fixed and adjustable rate interest terms and also into performing and non-performing classifications.

The fair value of each category of performing loans was calculated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Fair value for non-performing loans was based on management's estimate of future cash flows discounted using a rate commensurate with the risk associated with the estimated future cash flows. The assumptions used by management were judgmentally determined using specific borrower information.

CASH SURRENDER VALUE OF BANK OWNED LIFE INSURANCE

The fair values are equal to the current carrying value.

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DEPOSITS

Under SFAS No. 107, the fair value of deposits with no stated maturity, such as Demand Deposits, Savings Accounts, and Money Market Accounts, was equal to the amount payable on demand at December 31, 2003 and 2002.

Fair values for fixed rate Certificates of Deposit were estimated using a discounted cash flow calculation that applied interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

SHORT-TERM BORROWINGS

The carrying amounts of federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings approximated their fair values.

LONG-TERM BORROWINGS

The fair values of long-term borrowings, other than capitalized leases, are estimated using discounted cash flow analyses based on the Corporation's incremental borrowing rate for similar instruments. The carrying amounts of capitalized leases approximated their fair values, because the incremental borrowing rate used in the carrying amount calculation was at the market rate.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

Management estimated that there were no material differences between the notional amount and the estimated fair value of those off-balance sheet items, because they were primarily composed of

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unfunded loan commitments which were generally priced at market value at the time of funding.

At December 31, 2003 and 2002, the carrying values and estimated fair values of financial instruments are presented in the table below:

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	Carrying Amount -----	2003 ----- Estimated Fair Value -----
Financial Assets:		
Cash and short-term investments	\$ 12,362,418	\$ 12,362,418
Investment securities	62,774,590	62,774,590
Loans:		
Commercial	14,686,854	\$ 15,370,057
Tax-exempt	6,214,091	5,638,217
Real estate - construction	2,504,905	2,499,842
Real estate	118,772,883	118,173,859
Personal	5,406,894	5,952,930
	-----	-----
Gross loans	\$ 147,585,627	\$ 147,634,905
Add (Deduct): Unearned discount	(64,246)	0
Unamortized loan fees, net of costs	109,321	0
	-----	-----
Loans, net of unearned income	\$ 147,630,702	\$ 147,634,905
Allowance for losses	1,415,431	0
	-----	-----
Net loans	\$ 146,215,271	\$ 147,634,905
	=====	=====
Cash surrender value of bank owned life insurance	\$ 5,907,940	\$ 5,907,940
Financial Liabilities:		
Deposits:		
Demand - non-interest bearing	\$ 17,313,192	\$ 17,313,192
Demand - interest bearing	29,736,472	29,736,472
Savings	36,259,730	36,259,730
Time - \$100,000 and over	27,931,828	28,428,248
Other time	60,544,419	61,740,215
	-----	-----
Total Deposits	\$ 171,785,641	\$ 173,477,857
	=====	=====
Short-Term Borrowings	\$ 20,990,219	\$ 20,990,219
Long-Term Borrowings	11,335,477	13,756,414
Off-Balance Sheet Assets (Liabilities):		
Commitments to extend credit		\$ 13,027,609
Standby letters of credit		1,812,748
Performance standby letters of credit		842,608
Dealer floor plans		1,412,279

19. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for CCFNB Bancorp, Inc. (Parent Company only) was as follows:

	December 31,	
	2003	2002
	----	----
BALANCE SHEETS		
Assets		
Cash	\$ 367,924	\$ 153,103
Investment in subsidiary	25,797,196	26,214,740
Investment in other equity securities	1,326,234	351,870
Prepayments and other assets	180,946	199,905
Receivable from subsidiary	35,181	0
	-----	-----
Total Assets	\$27,707,481	\$26,919,618
	=====	=====
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	\$ 104,083	\$ 59,535
Payable to subsidiary	0	20,084
	-----	-----
Total Liabilities	\$ 104,083	\$ 79,619
	-----	-----
Stockholders' Equity		
Common stock	\$ 1,595,556	\$ 1,615,905
Surplus	3,634,608	4,008,665
Retained earnings	21,997,539	20,678,631
Accumulated other comprehensive income	375,695	536,798
	-----	-----
Total Stockholders' Equity	\$27,603,398	\$26,839,999
	-----	-----
Total Liabilities and Stockholders' Equity	\$27,707,481	\$26,919,618
	=====	=====

	Years En	
	2003	-----
	----	-----
STATEMENTS OF INCOME		
Income		
Dividends from subsidiary bank	\$ 2,312,406	\$
Dividends - other	23,432	\$
Securities gains	2,804	\$
Interest	2,597	\$
	-----	-----
Total Income	\$ 2,341,239	\$
Operating Expenses	80,396	\$
	-----	-----

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Income Before Taxes and Equity in Undistributed		
Net Income of Subsidiary	\$ 2,260,843	\$
Applicable income tax (benefit)	(21,133)	
	-----	---
Income Before Equity in Undistributed Net Income		
of Subsidiary and Equity in Income (Loss) from Insurance Agency	\$ 2,281,976	\$
Equity in (Excess of) undistributed income of subsidiary	(123,944)	
Income (Loss) from investment in insurance agency	4,865	
	-----	---
Net Income	\$ 2,162,897	\$
	=====	==
 STATEMENTS OF CASH FLOWS		
Operating Activities		
Net Income	\$ 2,162,897	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Securities Gains	(2,804)	
Distributions in Excess of (Equity in Undistributed)		
Net Income of Subsidiary	123,944	
(Income) loss from investment in an insurance agency	(4,865)	
(Increase) decrease in prepayments and other assets	23,823	
(Increase) decrease in receivable from subsidiary	(35,181)	
Increase (decrease) in payable to subsidiary	(20,084)	
Deferred income taxed (benefit)	1,975	
Increase (decrease) in income taxes and accrued expenses Payable	(47,963)	
	-----	---
Net Cash Provided By Operating Activities	\$ 2,201,742	\$
	-----	---
Investing Activities		
Purchase of equity securities	\$ (783,217)	\$
Proceeds from sale of equity securities	34,691	
Acquisition of interest in an insurance agency	0	
	-----	---
Net Cash Used in Investing Activities	\$ (748,526)	\$
	-----	---
Financing Activities		
Acquisition of treasury stock	\$ (588,201)	\$
Proceeds from issuance of common stock	193,795	
Cash dividends	(843,989)	
	-----	---
Net Cash (Used in) Financing Activities	\$ (1,238,395)	\$ (
	-----	---
Increase (Decrease) in Cash and Cash Equivalents	\$ 214,821	\$
Cash and Cash Equivalents at Beginning of Year	153,103	
	-----	---
Cash and Cash Equivalents at End of Year	\$ 367,924	\$
	=====	==

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders of CCFNB Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each

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of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CCFNB Bancorp, Inc. and Subsidiary as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

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

J. H. Williams & Co., LLP
Kingston, Pennsylvania
January 13, 2004

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ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF OUR DISCLOSURE CONTROLS AND INTERNAL CONTROLS. Within the 90-day period prior to the date of this report on Form 10-K, we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (Disclosure Controls), and our "internal controls and procedures for financial reporting" (Internal Controls). This evaluation (the Controls Evaluation) was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (Treasurer). Rules adopted by the SEC require that, in this section of this report, we present the conclusions of the CEO and the Treasurer about the effectiveness of our Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

CEO AND CFO CERTIFICATIONS. Appearing at Exhibits 31.1, 31.2, 32.1 and 32.2 of this report are two separate forms of "Certifications" for each of the CEO and the Treasurer. This section of this report which you are currently reading is the information concerning the Controls Evaluation referred to in the Section 302 Certification and this information should be read in conjunction with the Section 302 Certification for a more complete understanding of the topics presented.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS. Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (Exchange Act), such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and Treasurer, as appropriate, to allow timely decisions regarding required

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disclosure.

The Corporation has created a disclosure committee. The committee consists of ten key management personnel. The purpose of the committee is to verify that all internal controls and procedures are in place in each area of authority. Whistle Blowing procedures have been put in place and communicated to all directors and employees. The disclosure committee meets quarterly before each quarter end.

We design Internal Controls procedures with the objective of providing reasonable assurance that: (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principals.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS. Our management, including the CEO and Treasurer, does not expect that our Disclosure Controls or our Internal Controls will prevent all error or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits or controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company and the Bank have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

SCOPE OF THE CONTROLS EVALUATION. The CEO and Treasurer evaluation of our Disclosure Controls and Internal Controls included a review of the controls' objectives and design, the control's implementation by us and the Bank and the effect of the controls on the information generated for use in this report. In the course of the Controls Evaluation, we sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Our Internal Controls are also evaluated on an ongoing basis by our Outside Internal Auditors, by other personnel in the Bank and by our external independent auditors in connection with their audit and review activities. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and Internal Controls and to make modifications as necessary. Our intent in this regard is that

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the Disclosure Controls and Internal Controls will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were

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any "significant deficiencies" or "material weaknesses" in our and the Bank's Internal Controls, or whether we had identified any acts of fraud involving personnel who have a significant role in our and the Bank's Internal Controls. This information was important both for the Controls Evaluation generally and because items 5 and 6 in the Section 302 Certifications of the CEO and Treasurer require that the CEO and Treasurer disclose that information to our Board's Audit Committee and to our independent auditors and to report on related matters in this section of our Annual Report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; these are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. In addition, we sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accord with our on-going procedures.

In accord with SEC requirements, the CEO and Treasurer note that, since the date of the Controls Evaluation (Evaluation Date) to the date of this Annual Report, there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

CONCLUSIONS. Based upon the Controls Evaluation, our CEO and Treasurer have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that material information relating to CCFNB Bancorp, Inc. and its consolidated subsidiaries is made known to management, including the CEO and Treasurer, particularly during the period when our Exchange Act periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

At February 28, 2004, we had nine directors.

Our directors are divided into three classes: three directors are in Class 1; three directors are in Class 2; and three directors are in Class 3. Each director holds office for a three-year term. The terms of the classes are staggered, so that the term of office of one class expires each year.

The following information includes the age of each of our current directors, a recently-resigned director, and those persons who have been nominated to become a director upon their election at our 2004 annual meeting of stockholders. All directors of the Corporation are also directors of the Bank.

CLASS 1 DIRECTORS WHOSE TERM EXPIRES IN 2005

ROBERT M. BREWINGTON, JR., 53
Director since 1996. Owner of Sutliff Motors and Brewington Transportation (sales and service of cars and trucks; school bus contractor).

WILLARD H. KILE, JR., D.M.D., 49
Director since 2000. Partner of Kile & Robinson LLC (dentists); Partner of Kile & Kile Real Estate.

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CHARLES E. LONG, 68
 Director since 1993. Retired. Former President of Long Supply Co., Inc.
 (a wholesaler and retailer of hardware and masonry products).

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CLASS 2 DIRECTORS WHOSE TERM EXPIRES IN 2004 AND NOMINEES FOR CLASS 2 DIRECTORS
 WHOSE TERM WILL EXPIRE IN 2007

LANCE O. DIEHL, 38
 Director since 2003. President and Chief Executive Officer of the
 Corporation and the bank.

WILLIAM F. HESS, 70
 Director since 1983. Former Chairman of the Corporation and the bank.
 Dairy farmer.

PAUL E. REICHART, 66
 Director since 1983. Chairman and former Vice Chairman of the
 Corporation and the bank. Former President and Chief Executive Officer
 of the Corporation and the bank.

CLASS 3 DIRECTORS WHOSE TERM EXPIRES IN 2006

DON E. BANGS, 72
 Director since 1985. Secretary of the Corporation and the bank. Former
 owner of Bangs Insurance Agency and former agent for The Thrush
 Insurance Agency.

EDWARD L. CAMPBELL, 65
 Director since 1985. President of ELC Enterprises, Inc. and the sole
 proprietor of Heritage Acres Christmas tree sales.

ELWOOD R. HARDING, JR., 57
 Director since 1984. Vice Chairman of the Corporation and the Bank.
 Attorney at law and President of Premier Real Estate Settlement
 Services, Inc. (title insurance).

PRINCIPAL OFFICERS

Our principal officers are appointed by the Board of Directors and serve at the
 will of the Board of Directors, subject to certain change in control agreements
 discussed later in this report. The following information is presented for those
 persons who were principal officers at December 31, 2003:

NAME & POSITION	HELD SINCE	EMPLOYEE SINCE	AGE
Paul E. Reichart, Chairman	2003	1960	66
Don E. Bangs, Secretary	1993	*	72
Elwood R. Harding, Jr., Vice Chairman	2003	*	57

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Lance O. Diehl, President and Chief Executive Officer	2003	1995	38
Virginia D. Kocher Treasurer and Assistant Secretary	1991	1972	56

* Not an employee of the Company and the Bank.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Executive officers and directors and "beneficial owners" of more than ten percent of our common stock must file initial reports of ownership and reports of changes in ownership with the SEC pursuant to Section 16(a).

We have reviewed the reports and written representations from the executive officers and directors. The Corporation believes that all filing requirements were met during 2003 with the exception of the second quarter filings for Lance O. Diehl, Robert M. Brewington, Jr. and retired Chief Operating Officer, J. Jan Girton. These Form 4 filings were submitted via paper format rather than electronically due to a misinterpretation of the new regulation effective on June 30, 2003. Mr. Diehl's and Mr. Brewington's filings were corrected by submitting them electronically on July 14, 2003. Mr. Girton's form was submitted electronically on July 17, 2003.

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CODE OF ETHICS

We adopted a Code of Ethics that applies to all employees, including the Chief Executive Officer and the Chief Financial Officer. A copy of the code of Ethics is filed as Exhibit 14 to this report.

We will provide to any person, without charge, upon request, a copy of our Code of Ethics, by writing to Ms. Virginia D. Kocher, Vice President, Columbia County Farmers National Bank, 232 East Street, Bloomsburg, PA 17815.

ITEM 11. EXECUTIVE COMPENSATION

This section of the report contains charts that show the amount of compensation earned by our executive officers whose salary and bonus exceeded \$100,000 for 2003. It also contains the performance graph comparing our performance relative to a peer group and the report of our human resource committee explaining the compensation philosophy for our most highly paid officers.

SUMMARY COMPENSATION TABLE(1)

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION		
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)
Lance O. Diehl	2003	100,000	1,883(2)	13,048(3)
President and Chief Executive Officer	2002	72,424	2,796(5)	1,130(6)
	2001	67,547	2,350(8)	1,048(9)

- (1) From January 1, 2001 through December 31, 2003, the Corporation did not pay any long-term compensation in the form of stock options, stock appreciation rights, restricted stock or any other long-term compensation, nor did it make any long-term incentive plan payments. Accordingly, no such information is presented in the summary compensation table set forth above. No such arrangements are currently in effect.
- (2) Represents a cash bonus representing 21/2% of 2002 base salary.
- (3) Includes \$8,925 as the payment of directors' fees and \$4,123 representing the year 2003, 100% up to 3% and 50% up to the next 2% matching contribution to Mr. Diehl's 401K plan.
- (4) Includes \$11,099 as a payment for a deferred compensation plan; \$711 representing car expense; \$420 representing cell phone expense; \$661 representing cafeteria plan benefits and \$227 as annual term insurance premium payments on the life of Mr. Diehl.
- (5) Represents a cash bonus representing 4% of 2001 base salary.
- (6) Represents the year 2002, 50% up to 3% matching contribution to Mr. Diehl's 401K plan.
- (7) Includes \$3,411 as a contribution to the bank's profit sharing plan; \$420 representing cell phone expense; \$3,680 representing cafeteria plan benefits and \$268 as annual term insurance premium payments on the life of Mr. Diehl.
- (8) Represents a cash bonus representing 31/2% of 2000 base salary.
- (9) Represents the year 2001, 50% up to 3% matching contribution to Mr. Diehl's 401K plan.
- (10) Includes \$3,647 as a contribution to the bank's profit sharing plan; \$420 representing cell phone expense; \$4,172 representing cafeteria plan benefits and \$216 as annual term insurance premium payments on the life of Mr. Diehl.

EXECUTIVE COMPENSATION

HUMAN RESOURCE COMMITTEE REPORT

Executive compensation for the officers of the Corporation and the bank is determined by the Human Resource Committee of the Corporation's Board of Directors. Salaries and bonuses for the executive officers are reviewed annually. All executive compensation is paid by the bank to the applicable executive.

COMPENSATION PHILOSOPHY

The Corporation's executive compensation philosophy is designed to attract, retain, and motivate the best managerial talent available in line with three central themes: alignment, accountability, and attraction.

- Alignment with the long-term interests of our stockholders;
- Accountability for results by linking executives to the Corporation and individual performance; and

- Attraction, motivation and retention of critical talent.

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The Human Resource Committee annually conducts a full review of the performance of the Corporation and its executives in determining compensation levels. For 2003, the Human Resource Committee considered various qualitative and quantitative indicators of the Corporation and individual performance in determining the level of compensation for the Corporation's President and Chief Executive Officer and its other executive officers. The review included an evaluation of the Corporation's performance both on a short and long-term basis. This review included an analysis of quantitative measures, such as Return on Equity. The Human Resource Committee considered also qualitative measures such as leadership, experience, strategic direction, community representation and social responsibility. The Human Resource Committee has been sensitive to management's maintaining a balance between actions that foster long-term value creation and short-term performance. In addition, the Human Resource Committee evaluates total executive compensation in light of the operational and financial performance and compensation practices of the commercial banking industry in the Pennsylvania region.

Base salaries are reviewed each year and generally adjusted relative to individual performance and competitive salaries with the commercial banking industry in the Pennsylvania region.

A base salary average decrease of 26.62% was made to all executives in 2003. Actual salaries will continue to be set according to the scope of the responsibilities of each executive officer's position.

DEFERRED COMPENSATION AGREEMENTS FOR EXECUTIVE OFFICERS

In 1992, the bank entered into agreements with two executive officers to establish non-qualified deferred compensation plans. Each officer deferred compensation in order to participate in this Deferred Compensation Plan. If the officer continues to serve as an officer of the bank until he attains sixty-five (65) years of age, the bank has agreed to pay him 120 guaranteed consecutive monthly payments commencing on the first day of the month following the officer's 65th birthday. Each officer's guaranteed monthly payment is based upon the future value of life insurance purchased with the compensation the officer has deferred. The bank has obtained life insurance (designating the bank as the beneficiary) on the life of each participating officer in an amount which is intended to cover the bank's obligations under the deferred compensation plan, based upon certain actuarial assumptions.

During 2002, the agreements with the two executive officers were modified. Under one agreement, the executive officer will receive \$225,000 payable monthly over a 10 year period commencing in February 2003. Under another agreement, another executive officer will receive \$175,000 payable monthly over a 10 year period commencing in April 2003. This second agreement will also provide post employment health care benefits to the executive officer until the attainment of age 65. As of December 31, 2003 and 2002, the net cash value of insurance policies was \$318,119 and \$292,515, respectively, and the total accrued liability, equal to the present value of these obligations, was \$295,674 and \$314,674, respectively, relating to these executive officers' and directors' deferred compensation agreements, and the accrued liability related to the post employment health care benefit was \$14,336 and \$14,668 as of December 31, 2003 and December 31, 2002, respectively.

In April 2003, the bank entered into non-qualified deferred compensation

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agreements with three executive officers to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to these agreements for the year ended December 31, 2003 and the total accrued liability as of December 31, 2003 was \$55,131.

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FIVE-YEAR PERFORMANCE GRAPH

The following graph and table compare the cumulative total stockholder return on the Corporation's Common Stock during the five-year period ending on December 31, 2003, with (i) the cumulative total return on the SNL Securities Corporate Performance Index (1) for 35 publicly-traded banks with under \$250 million in total assets in the United States of America, and (ii) the cumulative total return for all United States stocks traded on the NASDAQ Stock Market. The comparison assumes the value of the investment in the Corporation Common Stock and each index was \$100 on December 31, 1998, and assumes further the reinvestment of dividends into the applicable securities. The stockholder return shown on the graph and table below is not necessarily indicative of future performance.

CCFNB BANCORP, INCORPORATED

[PERFORMANCE GRAPH]

INDEX	PERIOD ENDING				
	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
CCFNB Bancorp, Incorporated	100.00	79.63	67.97	97.63	127.63
NASDAQ - Total US	100.00	185.95	113.19	89.65	127.63
SNL					