CCFNB BANCORP INC
Form 10-K
February 28, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year-ended December 31, 2007

[ ] 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 registrant as specified in its charter)

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

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

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark 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 [X] 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ]
(Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant based on the average of the bid and asked prices of $24.81 at June 30, 2007, was $30,612,663.

As of February 25, 2008, the Registrant had outstanding 1,227,142 shares of its common stock, par value $1.25 per share.

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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;

- 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, 2007, we had approximately:

- $245 million in total assets;

- $161 million in loans;

- $171 million in deposits; and

- $32 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 businesses in its Northcentral Pennsylvania market area. The Bank also operates a full-service trust department. Third-party brokerage services are also resident in the Bank's office in Lightstreet, Pennsylvania. At December 31, 2007, the Bank had 8 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 systems,
- customer bases, and
- regulatory oversight.

We have not operated any other reportable operating segments in the 3-year period ended December 31, 2007. We have combined financial information for our third-party brokerage operation with our financial information, because this company does not meet the quantitative threshold for a reporting operating segment.

We hold a 50 percent 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. We account for this local insurance agency using the equity method of accounting.

As of December 31, 2007, we had 95 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, 2007, approximately $6.0 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 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. The federal banking agencies have great 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.

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 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

Commercial loans and commercial real estate loans comprised 37.9 percent of our total consolidated loans as of December 31, 2007. Commercial loans are typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial loans and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a loss of earnings from these loans and an increase in the provision for loan losses and loan charge-offs.

We maintain an allowance for loan losses to absorb any loan losses based on, among other things, our historical experience, an evaluation of economic conditions, and regular reviews of any delinquencies and loan portfolio quality. We cannot assure you that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. Additions to the allowance for loan losses would result in a decrease in our net income and, possibly, our capital.

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

- commercial,
- 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.

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

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

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

For a more in-depth presentation of our allowance for loan losses and the components of this allowance, please refer to Item 7 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "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 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, 2007, our deposits totaled $171 million. Of the total deposit balance, $9 million or 5.26 percent represent Individual Retirement Accounts and $30 million or 17.54 percent 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 48.5 percent of total deposits at December 31, 2006 and 46.26 percent of total deposits at December 31, 2007.

We are not dependent for deposits nor exposed by loan concentrations to a single customer, or to a small group of customers of which the loss of any

one or more of which would have a materially adverse effect on our financial condition.

For a further discussion of our deposits, please refer to Item 7 of this report under Management's Discussion and Analysis of Financial Condition and Results of Operations at "Deposits 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 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 our total risk-weighted assets (including certain off-balance sheet items, such as unused lending commitments and standby letters of credit), respectively. At December 31, 2007, we met both requirements, with Tier 1 and Total Capital equal to 18.10 percent and 18.93 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 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, 2007, our leverage ratio was 12.71 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, 2007. The Comptroller of the Currency has not advised the Bank of any specific minimum leverage ratio 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, 2007, 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, 2007, 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:

- 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, 2007, approximately $2,067,807 was available for payment of dividends to us.

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 REFORM LAWS

On February 8, 2006, the President signed the Federal Deposit Insurance Reform Act of 2005, and, on February 15, 2006, the President signed into law The Federal Deposit Insurance Reform Conforming Amendments of Act 2005 (collectively, the Reform Act).

According to the FDIC, the Reform Act provides for the following changes:

- Merging the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into a new fund, the Deposit Insurance Fund (DIF). This change was made effective March 31, 2006.
- Increasing the coverage limit for retirement accounts to $250,000 and indexing the coverage limit for retirement accounts to inflation as with the general deposit insurance coverage limit. This change was made effective April 1, 2006.
- Establishing a range of 1.15 percent to 1.50 percent within which the FDIC Board of Directors may set the Designated Reserve Ratio (DRR).
- Allowing the FDIC to manage the pace at which the reserve ratio varies within this range.

    1. If the reserve ratio falls below 1.15 percent - or

is expected to within six months - the FDIC must adopt a restoration plan that provides that the DIF will return to 1.15 percent generally within 5 years.

2. If the reserve ratio exceeds 1.35 percent, the FDIC must generally dividend to BIF members half of the amount above the amount necessary to maintain the DIF at 1.35 percent, unless the FDIC Board, considering statutory factors, suspends the dividends.

3. If the reserve ratio exceeds 1.5 percent, the FDIC must generally dividend to BIF members all amounts above the amount necessary to maintain the DIF at 1.5 percent.

- Eliminating the restrictions on premium rates based on the DRR and granting the FDIC Board the discretion to price deposit insurance according to risk for all insured institutions regardless of the level of the reserve ratio.

- Granting a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund.

Under the Reform Act, the Bank is a member of the DIF and received a one-time assessment credit of $182,912 in 2007 which offset the cost of higher deposit insurance premiums. At year end 2007 the remaining credit available to us was $117,437. We do not anticipate that these higher FDIC deposit insurance premiums will have a material adverse effect on our net income for 2008.

INTERSTATE BANKING AND BRANCHING

Bank holding companies (including bank holding companies that also are financial holding companies) are required to obtain the prior approval of the Federal Reserve Board before acquiring more than five percent of any class of voting stock of any non-affiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking and Branching Act"), a bank holding company may acquire banks located in states other than its home state without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10.0 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30.0 percent or such lesser or greater amount set by state law of such deposits in that state.

Subject to certain restrictions, the Interstate Banking and Branching Act also authorizes banks to merge across state lines to create interstate banks. The ability of banks to acquire branch offices through purchases or openings 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 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.

PERMITTED NON-BANKING ACTIVITIES

The Federal Reserve Board permits us or our subsidiaries to engage in nonbanking activities that are so closely related to banking or managing or controlling banks as to be a proper incident thereto. 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 or unsound manner. Whenever the Federal Reserve Board believes an activity that we perform 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.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act of 1977, as amended ("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. The Bank received a "satisfactory" rating in its last CRA examination which was held in 2002.

FINANCIAL SERVICES MODERNIZATION

We must comply with the Gramm-Leach-Bliley Act of 1999 (the "GLB Act") in the conduct of our operations. The GLB Act eliminates the restrictions placed on the activities of banks and bank holding companies and creates two new structures, financial holding companies and financial subsidiaries. We and the Bank are now 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. We have elected to become 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.

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. 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.

TERRORIST ACTIVITIES

The Office of Foreign Assets Control ("OFAC") of the Department of the Treasury has, and will, send us and our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a 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 Federal Bureau of Investigation. 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

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001 was enacted by Congress as a result of the terrorist attack on the World Trade Center on September 11, 2001. The Congress is deliberating on amendments to the USA Patriot Act. None of these proposed amendments would have a substantial effect on our banking operations. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

SUBPRIME AND PREDATORY LENDING

The Federal Reserve Board has issued regulations which implement the Home Ownership and Equity Protection Act ("HOEPA"). This Act imposes additional disclosure requirements and certain substantive limitations on certain mortgage loans with rates or fees above specified levels. The regulations lower the rate levels that trigger the application of HOEPA and 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 Bank must also comply with a Pennsylvania law, Act 55 of 2001, the Mortgage Bankers and Brokers and Consumer Equity Protection Act. This Act addresses what is known as "predatory lending," among other things, and is applicable to the Bank's closed-end home equity mortgage loans, involving property located in Pennsylvania, in an amount less than $100.0 thousand made at a "high cost," which is generally the rate and point triggers in the HOEPA. Those HOEPA triggers are:

- An annual percentage rate exceeding 8.00 percentage points above comparable term U.S. Treasury securities for first-lien mortgages and 10 percent for subordinate-lien mortgages;

and/or

- Total points and fees payable by the consumer at or before closing that exceed the greater of 8.0 percent of the total loan amount or $561. The $561 is adjusted annually by the annual percentage change in the Consumer Price Index.

SALES OF INSURANCE

Our federal banking regulatory agencies have issued consumer protection rules with respect to the retail sale of insurance products by us, the Bank, or a subsidiary or joint venture of us or the Bank. These rules generally cover 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, us 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.

CORPORATE GOVERNANCE

The Sarbanes-Oxley Act of 2002 ("SOX") has substantially changed the manner in which public companies govern themselves and how the accounting profession performs its statutorily required audit function. SOX makes structural changes in the way public companies make disclosures and strengthens the independence of auditors and audit committees. SOX requires direct responsibility of senior corporate management, namely the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), for establishing and maintaining an adequate internal control structure and procedures for financial reporting and disclosure by public companies.

Under SOX, audit committees will be primarily responsible for the appointment, compensation and oversight of the work of their auditors. The independence of the members of the audit committee is assured by barring members who accept consulting fees from the company or are affiliated with the company other than in their capacity as members of the board of directors.

SOX prohibits insider trades during pension fund blackout periods and requires prompt disclosure of insider transactions in company stock, which must be reported by the second business day following an insider transaction. Furthermore, SOX established a new federal crime of securities fraud with substantial penalties.

As a result of SOX, the costs to enhance our corporate governance regime and financial reporting controls and procedures, were approximately $33,000 in 2005 paid to an outside consultant. In addition to these third party costs, an extensive amount of personnel time was applied to management of the project. There were no costs associated with SOX in 2006; however management time was applied to the project. In 2007 internal control over financial reporting was required to be tested. Cost of third party documenting and testing for SOX 404 requirement was $59,000.

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 64,151 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 census data population of approximately 10,774. The Bank currently serves its market area through eight branch offices located in Bloomsburg, Benton, Berwick, Buckhorn, Lightstreet, Millville, Orangeville and South Centre, Columbia County.

The Bank competes with other depository institutions in Columbia County. The Bank's major competitors are: First National Bank of Berwick; PNC Bank, M & T Bank and First Columbia Bank and Trust Company of Bloomsburg, Pennsylvania, as well as several credit unions.

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

AVAILABLE INFORMATION

We file reports, proxy, information statements and other information electronically with the SEC through the Electronic Data Gathering Analysis and Retrieval filing system. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room located at 450 5th Street, N.W., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The SEC's website address is http://www.sec.gov. Our website address is http://www.ccfnb.com. Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC may be obtained without charge by writing to CCFNB Bancorp, Inc., 232 East Street, Bloomsburg, PA 17815; Attn: Ms. Virginia D. Kocher, Treasurer.

ITEM 1A. RISK FACTORS

ADVERSE CHANGES IN THE ECONOMIC CONDITIONS IN OUR MARKET AREA COULD MATERIALLY AND NEGATIVELY AFFECT OUR BUSINESS.

Substantially all of our business is with consumers and small to mid-sized companies located within Columbia, Luzerne and Montour Counties, Pennsylvania. Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in

economic conditions, whether caused by national or local concerns, in particular an economic slowdown in northcentral Pennsylvania, could result in the following consequences, any of which could materially harm our business:

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

COMPETITIVE PRESSURES FROM FINANCIAL SERVICES COMPANIES AND OTHER COMPANIES OFFERING BANKING SERVICES COULD NEGATIVELY IMPACT OUR BUSINESS.

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

CHANGES IN INTEREST RATES COULD REDUCE OUR INCOME AND CASH FLOWS.

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

SIGNIFICANT INCREASES IN INTEREST RATES MAY AFFECT CUSTOMER LOAN DEMAND AND PAYMENT HABITS.

Significant increases in market interest rates, or the perception that an increase may occur, could adversely impact the Bank's ability to

generate new loans. An increase in market interest rates may also adversely impact the ability of adjustable rate borrowers to meet repayment obligations, thereby causing nonperforming loans and loan charge-offs to increase in these mortgage products.

IF THE BANK'S LOAN GROWTH EXCEEDS THAT OF ITS DEPOSIT GROWTH, THEN THE BANK MAY BE REQUIRED TO OBTAIN HIGHER COST SOURCES OF FUNDS.

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

IF THE BANK'S ALLOWANCE FOR LOAN LOSSES IS NOT ADEQUATE TO COVER ACTUAL LOAN LOSSES, ITS EARNINGS MAY DECLINE.

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

ADVERSE CHANGES IN THE MARKET VALUE OF SECURITIES AND INVESTMENTS THAT WE MANAGE FOR OTHERS MAY NEGATIVELY IMPACT THE GROWTH LEVEL OF THE BANK'S NON-INTEREST INCOME.

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

THE BANK'S BRANCH LOCATIONS MAY BE NEGATIVELY AFFECTED BY CHANGES IN DEMOGRAPHICS.

We and the Bank have strategically selected locations for bank branches based upon regional demographics. Any changes in regional demographics may impact the Bank's ability to reach or maintain profitability at its branch locations. Changes in regional

demographics may also affect the perceived benefits of certain branch locations and management may be required to reduce the number of locations of its branches.

CHANGES IN THE REGULATORY ENVIRONMENT MAY ADVERSELY AFFECT THE BANK'S BUSINESS.

The banking industry is highly regulated and the Bank is subject to extensive state and federal regulation, supervision, and legislation. The Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission. These laws and regulations may change from time to time and may limit our ability to offer new products and services, obtain financing, attract deposits, and originate loans. Any changes to these laws and regulations may adversely affect loan demand, credit quality, consumer spending and saving habits, interest rate margins, FDIC assessments, and operating expenses. Therefore, our results of operations and financial condition may be materially negatively impacted by such changes.

TRAINING AND TECHNOLOGY COSTS, AS WELL AS PRODUCT DEVELOPMENT AND OPERATING COSTS, MAY EXCEED OUR EXPECTATIONS AND NEGATIVELY IMPACT OUR PROFITABILITY.

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

IF WE FAIL TO MAINTAIN AN EFFECTIVE SYSTEM OF INTERNAL CONTROLS, WE MAY NOT BE ABLE TO ACCURATELY REPORT OUR FINANCIAL RESULTS OR PREVENT FRAUD.

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

THE LOSS OF ONE OR MORE OF OUR KEY PERSONNEL MAY MATERIALLY AND ADVERSELY AFFECT OUR PROSPECTS.

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

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.

We own all of the banking centers except Buckhorn, which we lease.

The Buckhorn banking center is under a five year lease, begun in 2003, with two 5 year options with Wal-Mart. During 2007 we purchased the former Long John Silver's restaurant building in Scott Township for future expansion. This building and the remaining banking centers 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, Financial Planning, Marketing and Operations
Scott Township, PA Formerly Long John Silver's	2,500	Future Expansion
Millville, PA	2,520	Banking Services
Buckhorn, PA	693	Banking Services (In Wal-Mart Supercenter)
Berwick, PA	2,240	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 the Bank are not parties to any legal proceedings under federal and state environmental laws.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We had xxx stockholders of record not including individual participants in security position listings and 1,227,142 shares of common stock, par value of $1.25 per share, the only authorized class of common stock, outstanding as of February 25, 2008. Our common stock trades under the symbol "CCFN." As of February 25, 2008, 5 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 mark, 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 2007 and 2006 are summarized in the following table.

2007:	High ($)	Low ($)	Dividends Declared ($)
First quarter	29.00	27.55	.20
Second quarter	27.70	26.70	.20
Third quarter	27.08	26.63	.21
Fourth quarter	25.95	25.35	.21

2006:	High ($)	Low ($)	Dividends Declared ($)
First quarter	28.08	27.23	.19
Second quarter	28.05	27.63	.19
Third quarter	28.53	27.63	.20
Fourth quarter	29.30	28.33	.20

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.

The following table presents information on the shares of our common stock that we repurchased during the fourth quarter of 2007:

CCFNB BANCORP, INC.
ISSUER PURCHASES OF EQUITY SECURITIES

MONTH	NUMBER OF SHARES PURCHASED	AVG PRICE PAID PER SHARE	NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM	NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
10/01/07 - 10/31/07	2,000	$27.25	2,000	20,000
11/01/07 - 11/30/07	2,000	$26.00	2,000	18,000
12/01/07 - 12/31/07	2,000	$26.00	2000	16,000
TOTAL	6,000		6,000	

ITEM 6. SELECTED FINANCIAL DATA

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)

	2007	2006	2005

INCOME STATEMENT DATA:			
Total interest income	$ 14,483	$ 13,202	$ 11,442
Total interest expense	6,185	5,301	4,131
Net interest income	8,298	7,901	7,311
Provision for possible loan losses	30	175	90
Other operating income	2,305	1,900	1,713
Other operating expenses	7,038	6,437	6,077
Federal income taxes	888	777	631
Net income	$ 2,647	$ 2,412	$ 2,226
PER SHARE DATA:			
Earnings per share (1)	$ 2.15	$ 1.93	$ 1.76
Cash dividends declared per share	0.82	0.78	0.74
Book value per share	25.79	24.36	23.06
Average annual shares outstanding	1,233,339	1,249,844	1,262,171
BALANCE SHEET DATA:			
Total assets	$ 245,324	$ 241,920	$ 231,218
Total loans	161,460	160,641	154,271
Total securities	57,686	53,486	53,919
Total deposits	170,938	169,285	164,847
FHLB advances - long - term	11,137	11,297	11,311
Total stockholders' equity	31,627	30,249	29,012
PERFORMANCE RATIOS:			
Return on average assets	1.07%	1.02%	0.97%
Return on average stockholders' equity	8.54%	8.13%	7.73%
Net interest margin (2)	3.74%	3.74%	3.65%
Total non-interest expense as a percentage of average assets	2.83%	2.72%	2.64%
ASSET QUALITY RATIOS:			
Allowance for possible loan losses as a percentage of loans, net	0.90%	0.91%	1.02
Allowance for possible loan losses as a percentage of non-performing loans (3)	1026.43%	921.52%	185.54
Non-performing loans as a percentage of total loans, net (3)	0.09%	0.10%	0.55%
Non-performing assets as a percentage of total assets (3)	0.06%	0.07%	0.36%
Net charge-offs as a percentage of average net loans (4)	(0.03)%	(0.17)%	0.05%
LIQUIDITY AND CAPITAL RATIOS:			
Equity to assets	12.89%	12.50%	12.55%
Tier 1 capital to risk-weighted assets (5)	18.10%	19.25%	19.24%
Leverage ratios (5)(6)	12.71%	12.71%	12.74%
Total capital to risk-weighted assets (5)	18.93%	20.29%	20.32%
Dividend payout ratio	38.15%	40.39%	41.92%

(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 consolidated financial statements, including notes thereto, included elsewhere in this Annual Report. Our consolidated financial condition and results of operations are essentially those of our subsidiary, the Bank. Therefore, the analysis that follows is directed to the performance of the Bank.

RESULTS OF OPERATIONS

Our net income increased by 9.74 percent from $2,412,000 in 2006 to $2,647,000 in 2007. Earnings per share increased by 11.14 percent from $1.93 in 2006 to $2.15 in 2007. Our return on average assets (ROAA) increased to 1.07 percent in 2007, compared to 1.02 percent in 2006. Our return on average equity (ROAE) increased to 8.54 percent in 2007, compared to 7.97 percent in 2006.

Loans increased by 0.51 percent in 2007 to $161,460,000 from $160,641,000 in 2006. This increase was mainly in the tax exempt area.

We instituted, in 1995, a dividend reinvestment plan and an employee stock purchase plan. Moreover, in 1999, we commenced a strategy to purchase and cancel up to 10 percent of our outstanding shares of common stock through open market purchases. In 2003, we again filed with the SEC to purchase up to 100,000 shares of our outstanding shares. These repurchase programs resulted in the purchase and cancellation of the following numbers of shares of our common stock for the years indicated: 24,000 shares (2007); 24,000 shares (2006); and 18,000 shares (2005). The net effect of the stock plans and the repurchase program resulted in weighted average shares of common stock outstanding as follows: 1,233,339 (2007); 1,249,844 (2006); and 1,262,171 (2005).

Tax-equivalent net interest income increased 4.82 percent to $8.7 million in 2007 from $8.3 million in 2006. Average earning assets were $231.7 million in 2007 and $220.6 million in 2006. Net interest income increased 5.06 percent from $7.9 million in 2006 to $8.3 million in 2007. This increase in net interest income is a result of the pricing and mix of our loans and deposits.

TABLE OF NON-INTEREST INCOME
(Dollars in Thousands)

	Years Ended December 31,		
	2007	2006	2005

Service charges and fees	$ 942	$ 846	$ 828
Gain on sale of loans	182	45	40
Bank-owned life insurance income	285	253	247
Trust department income	196	191	157
Investment center income	399	219	118
Investment securities gains - net	0	0	34
Other	301	346	289
Total non-interest income	$2,305	$1,900	$1,713

Total non-interest income increased 21.32 percent during 2007 from $1,900,000 in 2006 to $2,305,000 in 2007. Service fees and charges increased from $846,000 in 2006 to $942,000 in 2007 or 11.35 percent. "Overdraft Privilege" was instrumental in this increase. Gain on sale of loans increased 304.44% from $45,000 in 2006 to $182,000 in 2007. Management and employees participated in an incentive program to market these fixed rate loans and the program was very successful. Investment center income showed a dramatic 82.19% increase from $219,000 in 2006 to $399,000 in 2007. The bank has added another broker to its financial services department which should help continue success in the future. Other income decreased $45,000 from $346,000 in 2006 to $301,000 in 2007.

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TABLE OF OTHER NON-INTEREST EXPENSE
(Dollars in Thousands)

	Years Ended December 31,		
	2007	2006	2005
Salaries	$ 3,001	$ 2,615	$ 2,324
Employee benefits	896	837	791
Occupancy, net	491	458	457
Equipment	485	494	518
State shares tax	313	304	282
Professional services	315	229	259
Directors' fees	188	171	190
Stationery and supplies	159	137	130
Other	1,190	1,192	1,127
Total non-interest expense	$ 7,038	$ 6,437	$ 6,078

Total non-interest expense increased 9.34 percent to $7,038,000 in 2007 from $6,437,000 in 2006. A 12.89 percent increase in salaries and benefits was attributable to commissions and bonuses paid, specifically to Investment center personnel and normal merit increases of employees. State shares tax increased 2.96 percent or $9,000 for 2007 as compared to 2006. Professional services increased $86,000 from $229,000 in 2006 to $315,000 in 2007. A major factor in this increase was the installation and training of staff on the new branch capture system which does away with costly hardware and maintenance involved with it. Other expense decreased slightly.

One standard to measure non-interest expense is to express non-interest expense as a percentage of average total assets. In 2007 this percentage was 2.83 percent compared to 2.72 percent in 2006.

Loan delinquencies decreased 22.49 percent from $796,000 in 2006 to $617,000 in 2007. The decrease in these delinquencies was across the 30 - 89 day past due category and the non - accrual category. The 90 days plus category increased slightly. Our management has been diligent in its efforts to reduce these delinquencies and has increased monitoring and review of current loans to foresee future delinquency occurrences and react to them quickly. The Bank continues to utilize a centralized credit analysis department to analyze new loan requests. The provision for loan losses decreased from $175,000 in 2006 to $30,000 in 2007 as loans increased by $819 thousand, still reflecting the allowance for loan losses as a percentage of loans at 0.90 percent in 2007 from 0.91 percent in 2006.

NET INTEREST INCOME

Tax-equivalent net interest income for 2007 equaled $8,655,000 compared to $8,256,000 in 2006, an increase of 4.83 percent. The decrease in the overall net interest margin from 3.90 percent in 2006 to 3.89 percent in 2007 is a result of interest rate changes in the loan and deposit products. These rates were monitored and adjusted which contributed to the overall increased performance of the Bank. Interest received on interest bearing deposits with other financial institutions increased from an average of 5.07 percent for 2006 to an average of 5.15 percent for 2007. he cost of long-term debt averaged 5.99 percent for the year which will continue to have a negative impact on our net interest margin, until rates would rise enough to allow us to pay off this debt. We will continue to use the following strategies to mitigate this period of pressure on our net interest margin: pricing of deposits will continue to be monitored to meet current market conditions; large deposits over $100,000 will continue to be priced conservatively; and in this low interest rate environment, the majority of new investments will be kept short-term in anticipation of rising rates.

TAX-EQUIVALENT NET INTEREST INCOME
(Dollars in Thousands)

	Years End
	2007
Interest income	$ 14,483
Interest expense	6,185
Net interest income	8,298
Tax-equivalent adjustment	357
Net interest income (fully taxable equivalent)	$ 8,655

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 2007, 2006 and 2005.

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

	2007			2006		
	Average Balance (1)	Interest Inc./Exp (2)	Average Yd/Rate	Average Balance (1)	Interest Inc./Exp (2)	Avera Yd/Ra
ASSETS:						
Interest Bearing Deposits With Other Financial Institutions	$ 2,754	$ 145	5.27%	$ 750	$ 39	5.
Investment Securities:						
Taxable	54,353	2,546	4.68%	47,857	1,850	3.
State and Municipal Obligations (3)	4,200	186	6.71%	5,846	268	6.
Total Investment Securities	58,553	2,732	5.08%	53,703	2,118	4.
Federal Funds Sold	10,013	512	5.11%	7,621	385	5.
Loans:						
Taxable	148,959	10,585	7.11%	149,121	10,239	6.
Tax Free (3)	11,389	509	6.77%	9,433	421	6.
Total Loans	160,348	11,094	7.08%	158,554	10,660	6.
Total Interest-Earning Assets	231,668	14,483	6.41%	220,628	13,202	6.
Reserve for Loan Losses	(1,504)			(1,481)		
Cash and Due from Banks	4,555			3,608		
Other Assets	13,757			13,814		
Total Assets	248,476			236,569		
LIABILITIES AND CAPITAL:						
Total Interest-Bearing Deposits	153,192	4,058	2.65%	148,756	3,463	2.
U.S. Treasury Short-Term Borrowings	377	18	4.77%	318	15	4.
Short-Term Borrowings - Other	0	0	0	19	1	5.
Long-Term Borrowings	11,188	670	5.99%	11,303	677	5.
Repurchase Agreements	31,205	1,439	4.61%	25,036	1,145	4.
Total Interest-Bearing Liabilities	195,962	6,185	3.16%	185,432	5,301	2.
Demand Deposits	19,611			18,268		
Other Liabilities	1,900			2,620		
Stockholders' Equity	31,003			30,249		
Total Liabilities and Capital	$248,476			$236,569		
NET INTEREST INCOME/NET INTEREST MARGIN (4)		$ 8,298	3.58%		$ 7,901	3.
TAX-EQUIVALENT NET INTEREST INCOME/NET INTEREST MARGIN (5)		$ 8,655	3.74%		$ 8,256	3.

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(1) Average volume information was compared using daily (or monthly) averages for interest earning and bearing accounts. Certain balance sheet items utilized quarter end balances for 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 percent for 2007, 2006 and 2005.

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 2007 versus 2006, 2006 versus 2005, and 2005 versus 2004:

TABLE OF NET INTEREST INCOME COMPONENTS ON A TAX-EQUIVALENT BASIS
For the twelve months ended December 31, 2007
(Dollars in thousands)

	2007 Versus 2006			2006 Versus 2005		
	Increase (Decrease) Due to Changes In			Increase (Decrease) Due to Changes In		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Tot
Interest Income:						
Interest-Bearing Deposits with Other Financial Institutions	$ 104	$ 1	$ 105	$ (30)	$ 35	$
Taxable Securities	251	388	639	34	225	
State and Municipal Obligations	(114)	(13)	(127)	(152)	11	(
Federal Funds Sold	121	5	126	59	103	
Taxable Loans	(11)	358	347	548	828	1,
Tax Free Loans	132	0	132	(17)	(5)	
Total Earning Assets	$ 483	$ 739	$ 1,222	$ 442	$ 1,197	$ 1,
Interest Expense:						
Total Interest-Bearing Deposits	$ 103	$ 476	$ 579	$ (29)	$ 676	$
U.S. Treasury - Short-Term Borrowings	2	0	2	1	5	
Long-Term Borrowings	(7)	0	(7)	(1)	0	
Repurchase Agreements	282	10	292	131	330	
Total Interest-Bearing Liabilities:	$ 380	$ 486	$ 866	$ 102	$ 1,011	$ 1,

NET INTEREST INCOME	$ 103	$ 253	$ 356	$ 340	$ 186	$

FINANCIAL CONDITION

Our consolidated assets at December 31, 2007 were $245.3 million which represented an increase of $3.4 million or 1.41 percent over $241.9 million at December 31, 2006. The increase for 2006 from 2005 was 4.63 percent or $10.7 million.

Capital increased 4.64 percent from $30.2 million in 2006 to $31.6 million in 2007, after an adjustment for the fair market value of securities which was an increase in capital of $143,700 for 2007 compared to a decrease in capital of $29,900 for 2006. This was a result of an increase in the net realized gain in securities in 2007 of $173,600. Common stock and surplus decreased a net $420,000 resulting primarily from the purchase and retirement of stock in the amount of $658,000 and stock issued under our stock plans in the amount of $236,000. A cumulative effect of an accounting change for split dollar deferred compensation plans resulted in a decrease of $12,000 to retained earnings.

Total average assets increased 5.03 percent from $236.6 million at December 31, 2006 to $248.5 million at December 31, 2007. Average earning assets were $220.6 million in 2006 and $231.7 million in 2007.

Loans increased 0.51 percent from $160.6 million at December 31, 2006 to $161.5 million at December 31, 2007.

Non-interest bearing deposits increased 0.52 percent to $19.4 million at December 31, 2007 from $19.3 million at December 31, 2006. Interest bearing deposits increased 1.00 percent from $150.0 million in 2006 to $151.5 million in 2007.

The loan-to-deposit ratio is a key measurement of liquidity. Our loan-to-deposit ratio decreased during 2007 to 94.46 percent compared to 94.89 percent during 2006.

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

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INVESTMENTS
(Dollars in thousands)

	2007	2006	2005
Federal Agency Obligations	$27,547	$25,066	$21,157
Mortgage-backed Securities	23,781	21,147	22,564
Obligations of State and Political Subdivisions	4,046	4,703	7,782
Marketable Equity Securities	1,037	1,341	1,265
Restricted Equity Securities	1,275	1,229	1,151

Total Investment Securities	$57,686	$53,486	$53,919

All of our securities are available-for sale and are carried at estimated fair value. The following table sets forth the estimated maturity distribution of the investments, the weighted average yield for each type and ranges of maturity at December 31, 2007. Yields are presented on a tax-equivalent basis, are based upon carrying value and are weighted for the scheduled maturity. At December 31, 2007 our investment securities portfolio had an average maturity of approximately 3.88 years.

(Dollars in Thousands)

	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amo
Federal Agency Obligations	$ 10,325	4.22%	$ 30,455	5.30%	$ 10,548	5.51%	$
Obligations of State and Political Subdivisions	0	0.00%	200	6.57%	2,507	6.67%	1,
Marketable Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,
Restricted Equity Securities	0	0.00%	0	0.00%	0	0.00%	1,
Total	$ 10,325	4.22%	$ 30,655	5.31%	$ 13,055	5.73%	$ 3,

Available-for-sale securities are reported on the consolidated balance sheet at fair value with an offsetting adjustment to deferred taxes. The possibility of material price volatility in a changing interest rate environment is offset by the availability to the bank of restructuring the portfolio for gap positioning at any time through the securities classed as available-for-sale. The impact of the fair value accounting was an unrealized gain, net of tax, on December 31, 2007 of $144,000 compared to an unrealized loss, net of tax, on December 31, 2006 of $30,000, which represents an unrealized gain, net of tax, of $174,000 for 2007.

The mix of securities in the portfolio at December 31, 2007 was 88.98 percent Federal Agency Obligations, 7.01 percent Municipal Securities, and 4.01 percent Other. We did not trade in derivative investment products during 2007.

LOANS

LOAN PORTFOLIO
LOANS OUTSTANDING
(Dollars in thousands)

	2007	2006	2005	2004
Commercial	$ 8,074	$ 9,574	$ 12,097	$ 12,1

Tax-Exempt	13,108	9,621	9,019	10,0
Real Estate - Construction	3,698	2,231	1,548	7
Real Estate	132,453	135,009	127,170	122,1
Personal	4,059	4,118	4,348	4,7
Total Gross Loans	$ 161,392	$ 160,553	$ 154,182	$ 149,8
Add (Deduct) Unearned discount	(22)	(19)	(30)	(
Unamortized loan costs, net of fees	90	107	119	1
Loans, Net	$ 161,460	$ 160,641	$ 154,271	$ 149,9

The loan portfolio increased 0.51 percent from $160.6 million in 2006 to $161.5 million in 2007. The percentage distribution in the loan portfolio was 84.36 percent in real estate loans at $136.2 million; 5.00 percent in commercial loans at $8.1 million; 2.52 percent in consumer loans at $4.1 million; and 8.12 percent in tax exempt loans at $13.1 million.

Real Estate loans were comprised of 4.72 percent with 5/5-year adjustable rates, 4.23 percent with 7/3-year adjustable rates, .43 percent with 5/3-year adjustable rates, 3.90 percent with 5-year adjustable rates; 43.00 percent with 3-year adjustable rates; 8.99

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percent with 1-year adjustable rates; and 5.56 percent with one-day to 3-month adjustable rates. Many adjustable rate loans have bi-weekly payments. The remaining 29.17 percent of real estate loans were fixed rates.

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

	For the years ended December 31,			
	2007 (%)	2006 (%)	2005 (%)	2004 (%)
Commercial	5.00	5.96	7.85	8.13
Tax Exempt	8.12	5.99	5.85	6.71
Real Estate-Construction	2.29	1.39	1.00	.49
Real Estate	82.07	84.10	82.48	81.54
Personal	2.52	2.56	2.82	3.13
Total Loans	100.00	100.00	100.00	100.00

The following table shows the maturity or repricing of loans in specified categories of the Bank's loan portfolio at December 31, 2007, and the amount of such loans with predetermined fixed rates or with floating or adjustable rates. Expected payments are included in the table.

December 31, 2007

	In One Year Or Less	One Year Through Five Years	Five Years Through Ten Years	Af T Ye
Dollars in Thousands				
Commercial, Tax Exempt, Real Estate and Personal Loans	$ 53,427	$ 96,325	$ 7,832	$
Real Estate-Construction Loans	3,698	0	0	
	$ 57,125	$ 96,325	$ 7,832	$
Amount of Such Loans with:				
Predetermined Fixed Rates	$ 13,386	$ 37,931	$ 7,175	$
Floating or Adjustable Rates	43,739	58,394	657	
Total	$ 57,125	$ 96,325	$ 7,832	$

DEPOSITS AND BORROWED FUNDS

TABLE OF DISTRIBUTION OF AVERAGE DEPOSITS
(Dollars in thousands)

	December 31,		
	2007	2006	2005
Demand deposits	$ 48,933	$ 47,297	$ 46,307
Savings deposits	33,496	35,465	37,539
Time deposits	60,578	57,319	58,380
Time deposits, $100,000 and over	29,796	26,943	25,586
Total	$ 172,803	$ 167,024	$ 167,812

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

	December 31,		
	2007	2006	2005
Three months or less	$ 8,932	$ 6,942	$ 5,803
Over three months to six months	7,662	3,502	1,267
Over six months to twelve months	5,799	6,952	5,736
Over twelve months	8,248	11,475	12,822
Total	$ 30,641	$ 28,871	$ 25,628

Total average deposits increased by 3.47 percent from $167.0 million in 2006 to $172.8 million in 2007. Average savings deposits decreased 5.55 percent to $33.5 million in 2007 from $35.5 million in 2006. Average time deposits increased 7.25 percent from $84.3 million in 2006 to $90.4 million in 2007. Average non-interest bearing demand deposits increased to $48.9 million in 2007 from $47.3 million in 2006. Average interest bearing NOW accounts increased 1.01 percent from $29.0 million in 2006 to $29.3 million in 2007.

Short-term borrowings, securities sold under agreements to repurchase and day-to-day borrowings increased 24.41 percent from $25.4 million in 2006 to $31.6 million in 2007. Treasury Tax and Loan deposits held by us for the U.S. Treasury averaged $376,000 in 2007. One-day borrowings averaged $0 in 2007 and repurchase agreements increased from an average $25.0 million in 2006 to $31.2 million in 2007. Long-term borrowings, namely borrowings from the FHLB-Pittsburgh, averaged $11.2 million in 2007 and $11.3 million in 2006.

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

2007	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$ 259	$ 33	$ 168	$ 460
Days 90 Plus	70	10	0	80
Non-accrual	77	0	0	77
Total	$ 406	$ 43	$ 168	$ 617

2006	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$ 598	$ 40	$ 0	$ 638
Days 90 Plus	67	0	0	67
Non-accrual	91	0	0	91
Total	$ 756	$ 40	$ 0	$ 796

2005	Real Estate	Installment Loans	Commercial	Total
Days 30-89	$1,152	$ 65	$ 12	$ 1,229
Days 90 Plus	128	2	0	130
Non-accrual	518	0	189	707
Total	$1,798	$ 67	$ 201	$ 2,066

In 2007, loans 30-89 days past due totaled $460,000 compared to $638,000 in 2006. Past due loans 90 days plus totaled $80,000 in 2007, compared to $67,000 in 2006. Non-accrual loans in 2007 totaled $77,000 compared to $91,000 in 2006. Overall, past due and non-accrual loans decreased 22.49 percent from $796,000 in 2006 to $617,000 in 2007 With loans increasing by more than $.8 million this 22.49 percent decrease overall is a result of our diligence to loan quality, underwriting and collection practices, as well as reflective of local economic conditions. The amount and percent of past due loans is the lowest in over 21 years. During this past year, the ratio of net charge offs during the period to average loans outstanding during the period was (0.03) percent. (See Summary of Loan Loss Experience).

Refer to the Loan section of footnote 1 and footnote 4 - Loans to the Consolidated Financial Statements, Item 8.

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

	For Years Ended December 31,			
	2007	2006	2005	2004
Loans Outstanding at End of Period	$ 161,460	$ 160,641	$ 154,271	$ 149,
Average Loans Outstanding during the Period	$ 160,348	$ 158,554	$ 150,065	$ 147,
Balance of Loan Losses and Loan Loss Activity:				
Balance, Beginning of Period	$ 1,456	$ 1,553	$ 1,392	$ 1,
Loans Charged Off:				
Commercial and Industrial	0	(185)	0	(
Real Estate Mortgages	(29)	(65)	0	
Consumer	(56)	(50)	(54)	
Total Loans Charged Off	(85)	(300)	(54)	(
Recoveries:				
Commercial and Industrial	0	8	79	
Real Estate Mortgages	1	0	0	
Consumer	35	20	46	
Total Recoveries	36	28	125	
Net Loans Charged Off	(49)	(272)	71	(
Provision for Loan Losses	30	175	90	
Balance, End of Period	$ 1,437	$ 1,456	$ 1,553	$ 1,
Ratio of net charge-offs during the year to average loans outstanding during year	(0.03)%	(0.17)%	0.05%	(0

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

	For Years Ended December 31,				
Dollars in Thousands	2007	2006	2005	2004	2003
Commercial	$ 104	$ 101	$ 208	$ 349	$ 493
Real Estate Mortgages	700	659	694	755	696
Consumer	28	27	32	24	28
Unallocated	605	669	619	264	198
Total	$1,437	$1,456	$1,553	$1,392	$1,415

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The following table presents a summary of the Bank's non-accrual, restructured and past due loans as of the dates indicated:

	For Years Ended December 31,				
Dollars in thousands	2007	2006	2005	2004	2003
Nonaccrual, Restructured and Past Due Loans:					
Nonaccrual Loans	$ 77	$ 91	$ 707	$ 1,241	$ 1,33
Restructured Loans on Accrual Status	1,243	54	0	0	51
Accrual Loans Past Due 90 Days or More	80	67	130	20	36
Total Nonaccrual, Restructured and Past Due Loans	$ 1,400	$ 212	$ 837	$ 1,261	$ 2,22
Other Real Estate	$ 0	$ 14	$ 0	$ 0	$ 3
Interest Income That Would Have Been Recorded Under Original Terms	$49,358	$130,183	$ 8,715	$129,182	$142,87
Interest Income Recorded During the Period	$ 3,857	$ 90,173	$28,215	$ 86,834	$ 17,58

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

Outstanding Balance at December 31,					
2007		2006		2005	
	% of Loans in Category to Total		% of Loans in Category to Total		% of Lo in Categ to Tot

	Amount	Loans	Amount	Loans	Amount	Loan
Commercial	$ 104	13.1%	$ 101	12.0%	$ 208	13.7%
Real estate mortgages	700	84.4%	659	85.5%	694	83.5%
Consumer	28	2.5%	27	2.5%	32	2.8%
Unallocated	605	N/A	669	N/A	619	N/A
	$ 1,437	100.0%	$ 1,456	100.0%	$ 1,553	100.0%

The allowance for loan losses was $1,437, 000 at December 31, 2007, compared to $1,456,000 at December 31, 2006. This allowance equaled .90 percent and .91 percent of total loans, net of unearned income, at the end of 2007 and 2006, respectively. Allowance was considered adequate based on delinquency trends and actual loans written as it relates to the loan portfolio.

The loan loss reserve was analyzed quarterly and reviewed by the Bank's Board of Directors. The assessment of the loan policies and procedures during 2007 revealed no anticipated loss on any loans considered "significant". No concentration or apparent deterioration in classes of loans or pledged collateral was evident, although slight concentrations existed in one to four family residential loans and in municipal loans. Monthly loan meetings with the Bank's Credit Administration Committee reviewed new loans, delinquent loans and loan exceptions to determine compliance with policies.

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 Item 1A - Risk Factors and refer to consolidated Statements of Cash Flows.

CAPITAL RESOURCES

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

As of December 31, 2007, 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.

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

	Actual		For Capit Adequacy Pu
	Amount	Ratio(%)	Amount
As of December 31, 2007:			
Total Risk Based Capital (To risk-weighted assets)	$32,930	18.93%	$13,917
Tier I Capital (To risk-weighted assets)	$31,483	18.10%	$ 6,958
Tier I Capital (To average assets)	$31,483	12.71%	$ 9,908
As of December 31, 2006:			
Total Risk Based Capital (To risk-weighted assets)	$31,685	20.29%	$12,493
Tier I Capital (To risk-weighted assets)	$30,063	19.25%	$ 6,247
Tier I Capital (To average assets)	$30,063	12.71%	$ 9,461

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 2008 to the Corporation of approximately $2,067,807 plus additional amounts equal to the net income earned in 2008 for the period January 1, 2008 through the date of declaration, less any dividends which may be paid in 2008.

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 our net interest spread.

STATEMENT OF INTEREST SENSITIVITY GAP
(Dollars in thousands)
December 31, 2007

	90 Days Or Less	>90 Days But	1 to 5	5 to 10