

FNCB BANCORP, INC.

2019 ANNUAL REPORT



BUILDING RELATIONSHIPS

INVESTMENT PROFILE

ESTABLISHED

1910

LISTING

NASDAQ

CAPITAL MARKET®

TICKER SYMBOL

FNCB

MARKET CAP

\$170.4 MILLION

DECEMBER 31, 2019

DIVIDEND

\$0.20

2019

DIVIDEND YIELD

2.37%

BASED ON CLOSING PRICE OF
\$8.45 ON DECEMBER 31, 2019

TOTAL ASSETS

\$1.2 BILLION

TOTAL LOANS

\$0.8 BILLION

TOTAL DEPOSITS

\$1.0 BILLION

EMPLOYEES

224

FNCB PROFILE

FNCB Bancorp, Inc. is the holding company for FNCB Bank (collectively, "FNCB"). Locally-based for 110 years, FNCB Bank continues as a premier community bank based in Northeastern Pennsylvania – offering a full suite of personal, small business and commercial banking solutions with industry-leading mobile, online and in-branch products and services. FNCB Bank currently operates 17 community offices in Lackawanna, Luzerne and Wayne Counties and a limited purpose office in Lehigh County, and remains dedicated to making its customers' banking experience simply better.

1 YEAR
TOTAL RETURN

2.13%

INCLUDES REINVESTMENT
OF DIVIDENDS

3 YEAR
TOTAL RETURN

14.08%

INCLUDES REINVESTMENT
OF DIVIDENDS





FNCB Bank celebrated the official grand opening of its new full-service community office at 100 South Blakely St., Dunmore on Tuesday, November 12, 2019 with a ribbon cutting ceremony featuring Bank staff, board members, elected officials and community members.

TABLE OF CONTENTS

Shareholder Letter	2
2019 Financial Results	2
Strengthening the Shareholder Relationship	5
Cultivating Customer Relationships	6
Encouraging Internal Collaboration	9
Enhancing Delivery Channels	10
Fostering Community Relationships	14
Continuing to Build Customer Relationships in 2020	17
Financial Highlights	18
FNCB Bancorp Officers and Directors	20
FNCB Bank Executive Team	21
FNCB Bank Officers	22
Bank Locations	24

DEAR SHAREHOLDERS, CUSTOMERS AND FRIENDS

We are pleased to report to you that 2019 was a very successful year for FNCB. We achieved many accomplishments aimed at delivering a simply better banking experience to each customer and making a positive impact within the communities we serve, while at the same time creating long-term value for our shareholders.

2019 FINANCIAL RESULTS

Net income totaled \$11.1 million, or \$0.56 per basic and diluted share, in 2019. While this was a decrease of \$2.3 million, or 17.0%, compared to \$13.3 million, or \$0.79 per basic and diluted share, for 2018, the reduction was largely due to a \$4.2 million decrease in non-interest income. Included in non-interest income in 2018 was \$6.0 million in nonrecurring income related to an insurance recovery received in December 2018. Return on average assets and return on average shareholders' equity equaled 0.92% and 8.88%, respectively in 2019. Tangible book value per share improved \$0.84, or 14.5% to \$6.62 per share at December 31, 2019 from \$5.78 per share at December 31, 2018.

BOOK VALUE PER SHARE



Total assets decreased \$34.2 million, or 2.8%, to \$1.204 billion at December 31, 2019 from \$1.238 billion at December 31, 2018, as management continued to focus on strengthening FNCB's capital position and re-positioning our balance sheet. We were able to take advantage of market conditions to create efficiency within our balance sheet by shedding lower-yielding assets and replacing them with higher-yielding, higher-quality earning assets, while reducing our reliance on higher-costing wholesale funding. This strategy translated into consistent increases in earning asset yields and a meaningful improvement in our net interest margin throughout the year.



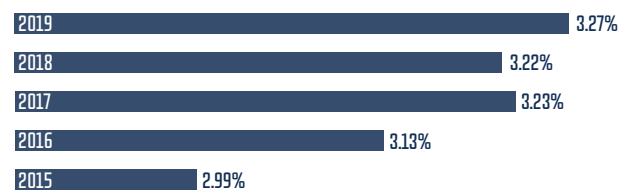
Members of the FNCB Bank Retail Banking Team
L-R: David A. Kapsick, Vice President, Retail Market
Manager; Richard D. Drust, Senior Vice President,
Retail Banking Officer; and Deborah J. Kennedy, Vice
President, Retail Market Manager.





Specifically, available-for-sale debt securities decreased \$23.2 million, or 7.8%, to \$272.8 million at December 31, 2019. We utilized proceeds from the sale of lower-yielding securities to reinvest back into the portfolio at higher yields or to supplement our deposit-gathering initiatives. As a result, the tax-equivalent yield on the investment portfolio improved 8 basis points to 2.90% in 2019 from 2.82% in 2018. Additionally, non-interest income levels benefitted, as we realized \$1.2 million in net gains on the sale of available-for-sale debt securities. Loans, net of net deferred loan costs and unearned income, contracted \$10.6 million, or 1.3%, to \$828.5 million at December 31, 2019, which primarily reflected the planned reduction in lower-yielding indirect automobile loans. The tax-equivalent yield on the loan portfolio improved 20 basis points to 4.61% in 2019 from 4.41% in 2018. Overall, the tax-equivalent yield on earning assets rose 18 basis points to 4.15% in 2019 from 3.97% in 2018. Total deposits decreased \$93.9 million, or 8.6%, to \$1.002 billion at December 31, 2019. Interest-bearing deposits decreased \$116.8 million, or 12.4%, to \$822.2 million, which was due largely to a \$75.8 million reduction in wholesale time deposits and higher-costing retail certificates of deposit. Non-interest-bearing demand deposits increased \$22.9 million, or 14.6%, to \$179.5 million at December 31, 2019. Higher short-term market interest rates throughout most of 2019 impacted our cost of funds, which increased 18 basis points to 1.08% in 2019 from 0.90% in 2018. Despite the increase in funding costs, we experienced solid improvement in our tax-equivalent net interest margin, which increased 5 basis points to 3.27% in 2019 from 3.22% in 2018.

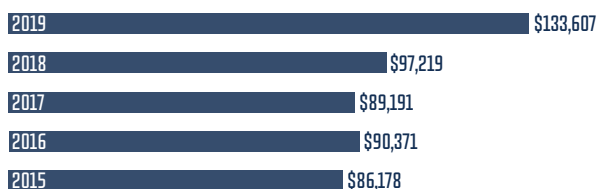
TAX-EQUIVALENT NET INTEREST MARGIN



STRENGTHENING THE SHAREHOLDER RELATIONSHIP

SHAREHOLDERS' EQUITY

(DOLLARS IN THOUSANDS)



5 YEAR CGAR = 9.17%

FNCB's capital position improved significantly, as total shareholders' equity increased \$36.4 million, or 37.4%, to \$133.6 million at December 31, 2019 from \$97.2 million at December 31, 2018. In February 2019, we successfully completed a public offering of our common stock, resulting in an increase in capital of \$21.3 million after offering expenses. Following the completion of the offering, FNCB made a capital investment in FNCB Bank of \$17.8 million, resulting in significant improvement in the Bank's risk-based capital ratios. FNCB Bank's total capital ratio improved to 14.77% at December 31, 2019 from 12.17% at December 31, 2018. Similarly, FNCB Bank's Tier I leverage ratio improved to 10.36% at December 31, 2019 from 8.27% at December 31, 2018. At December 31, 2019, FNCB Bank's capital ratios well exceeded the minimum ratios required by bank regulators to be considered well capitalized.

Additionally, effective July 1, 2019, FNCB was added as a member of the Russell 3000® Index. Russell indexes, which are reconstituted annually by FTSE Russell to capture and rank the 4,000 largest U.S. stocks by total market capitalization, are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies. We believe FNCB's inclusion in the Russell 3000® Index will result in greater visibility and liquidity of our common stock, as well as provide exposure to leading institutional investors.

Since re-instituting a regular quarterly dividend in 2016, we have been focused on increasing the return to our shareholders each year to be at a level aligned with our peers. In 2019, we increased total dividends paid to shareholders \$0.03 per share, or 17.6%, to \$0.20 per share. Dividends paid in 2019 equated to a dividend payout ratio of 36.4%, a notable increase as compared to a payout ratio of 21.4% in 2018. Additionally, total dividends declared and paid in 2019 resulted in a dividend yield of 2.37% based on the closing stock price of \$8.45 per share on December 31, 2019.

DIVIDENDS PER SHARE



CULTIVATING CUSTOMER RELATIONSHIPS

Research indicates that in 2020, the “customer experience” will overtake price and product as a differentiator in the banking industry. At FNCB, we believe cultivating relationships is the cornerstone to delivering a better banking experience. We understand and appreciate the uniqueness of each customer. As a community bank, FNCB takes great pride in getting to know each customer, understanding their specific financial needs and then tailoring our line of products and services to create a banking experience as unique as the customer.







L-R: Brian C. Mahlstedt, Executive Vice President, Chief Lending Officer; Lisa L. Kinney, Senior Vice President, Retail Lending Officer; R. Gregory Collins, Executive Vice President, Chief Banking Officer; and Richard D. Drust, Senior Vice President, Retail Banking Officer.



ENCOURAGING INTERNAL COLLABORATION

Throughout 2019, we focused on internal collaboration between our retail, commercial and operational units to be able to create and deliver a personalized experience to better serve every customer. At the end of 2018, we implemented a customer relationship management (CRM) system to drive internal collaboration bank-wide. In 2019, we continued to develop and enhance this tool to create and track pipelines, referrals and customer interactions, build automated onboarding campaigns and respond timely to service requests. This CRM system has allowed us to bridge the gap between our retail branch network, commercial unit and back office operations.

During 2019, we added a key position to our executive management team to help coordinate and oversee internal collaboration and promote business development across all sectors. In January, R. Gregory “Greg” Collins joined the Bank as Chief Banking Officer. Greg has extensive experience in market area management and oversees the Bank’s Commercial Lending, Retail Lending and Retail Banking units. His experience has proved beneficial in developing collaboration between members of the Retail and Commercial teams. With a focus on small business, these units work together to identify and develop mutually beneficial relationships that are designed to best meet our client’s financial needs.

**WE FOCUS ON INTERNAL COLLABORATION
BETWEEN OUR RETAIL, COMMERCIAL AND OPERATIONAL
UNITS TO BE ABLE TO CREATE AND DELIVER
A PERSONALIZED EXPERIENCE FOR EVERY CUSTOMER.**



**WE BELIEVE EACH CUSTOMER SHOULD
BE PROVIDED BANKING OPTIONS
TO BEST MEET THEIR SPECIFIC NEEDS.**

ENHANCING OUR DELIVERY CHANNELS

At FNCB, we believe each customer should be provided banking options to best meet their specific needs. We continually monitor our delivery channels, both in-branch as well as our electronic banking platforms and automated teller machine (ATM) network, to ensure we remain up-to-date on customer banking preferences, industry trends and security standards.

During the second quarter of 2019, we celebrated the grand opening of our full-service community office, the 17th in our network, in Mountain Top, Luzerne County, Pennsylvania. We also completed the construction and relocation of our main office into a new, state-of-the-art facility in Dunmore, Lackawanna County, Pennsylvania

located directly across the street from the former main location. The new offices feature the “personal banker” business model in a relaxed, café-like atmosphere designed to enhance our customer’s in-branch banking experience.

Additionally, we completed renovations and converted the former main branch into office space for our Commercial Lending and Retail Banking Units. We also are in the final stages of enhancements to our entire Dunmore Campus, including paving parking lots and installing drainage, lighting, landscaping and decorative fencing to make the campus an aesthetically pleasing space within the community.





FNCB Bank®

ATM

FNCB Bank



During 2019, we enhanced our ATM network by joining AllPoint®, a third-party network that provides our customers with access to more than 55,000 surcharge-free ATMs throughout the United States, Canada, Mexico and the United Kingdom. Additionally, with card-related fraud on the rise, the safety and security of our customer's financial information is of utmost importance to us. In order to safeguard our customers' bank accounts, we offer CardValet®, a mobile application that allows FNCB debit cardholders the ability to receive fraud and usage alert messages and manage when, where and how their debit card is used.

At FNCB, our goal is to provide our customers with powerful, user-friendly banking applications, while ensuring the safety and security of their confidential information. Electronic banking, including online and mobile capabilities, is continuing to evolve and increase in popularity. Customers are quickly adapting to advancements in technology, making electronic banking their preferred means of completing transactions.

The ability to transfer funds on a person-to-person basis is a trend that is becoming increasingly relevant as individuals use their phones as their wallets. Mobile payment applications have grown in popularity to make purchases as well as transferring funds to and from family and friends.





In 2019, we began offering several mobile wallet enhancements including Apple Pay®, Google Pay® and Samsung Pay®. Customers now have an easy and secure way to pay with their mobile devices at merchant payment terminals. Additionally, we plan to begin offering Zelle® as a mobile payment alternative in the second quarter 2020.



FOSTERING COMMUNITY RELATIONSHIPS

At FNCB Bank, we foster relationships within our communities through direct financial support and employee volunteerism through our Community Caring Volunteer Network. We strive to meet the needs of the communities we serve by supporting organizations that improve educational and economic opportunities of low-and-moderate income individuals, youth initiatives and programs that enhance the cultural and economic development of Northeastern Pennsylvania and the Lehigh Valley. In 2019, we contributed more than \$650,000 to many deserving organizations.

Across our footprint, our employees are involved, giving generously of their time and talent. Through community volunteerism, they are dedicated to helping others in a variety of activities. Specifically, through the Community Caring Network, FNCB encourages employees to volunteer their time. FNCB team members volunteered hundreds of hours in 2019 in support of local community organizations as part of this initiative.

500+

Volunteer Hours

FNCB employees volunteered their time at area not-for-profit agencies.

275+

Organizations

FNCB partners with local organizations to benefit the needs of our community.

\$650,000+

Donations

FNCB is proud to assist the area's charitable, not-for-profit, educational improvement and scholarship organizations.





 **FNCB Bank**
Simply better.



Members of the FNCB Bank Commercial Lending Team L-R: Joseph Moffitt, Commercial Associate; Patrick J. Barrett, Senior Vice President, Commercial Officer; Stephanie E. Abraham, Commercial Officer; and Brian C. Mahlstedt, Executive Vice President, Chief Lending Officer.

CONTINUING TO BUILD RELATIONSHIPS IN 2020

In 2020, FNCB Bank will be celebrating its 110th anniversary as a community bank. Recent developments related to the COVID-19 Pandemic have already begun to pose significant challenges on a global, national and local level. For the past 110 years, FNCB has been committed to helping build relationships within our community through good times and bad and our current challenges are no different.

CELEBRATING 110 YEARS



Our team will continue to work diligently to address the various issues related to the virus and its impact on our day-to-day bank operations, the well-being of our employees and the financial needs of our customers and the communities we serve. Our greatest concern during this difficult time remains the well-being and safety of our FNCB family. Rest assured, we believe our strong balance sheet and capital position will allow us to continue to serve the needs of our customers, employees and communities.

We sincerely appreciate your commitment as a shareholder and your business and stand ready to work together with you and our community to get through this uncertain time. Thank you for your continued trust in us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Louis A. DeNaples'.

Louis A. DeNaples
Chairman of the Board

A handwritten signature in black ink, appearing to read 'Gerard A. Champi'.

Gerard A. Champi
President and Chief Executive Officer



FINANCIAL HIGHLIGHTS

INCOME STATEMENT	2019	2018	2017	2016	2015
Net interest income	\$ 36,260	\$ 36,507	\$ 33,048	\$ 30,551	\$ 27,400
Non-interest income	7,620	11,790	7,225	6,203	7,800
Total revenue	43,880	48,297	40,273	36,754	35,200
Non-interest expense	29,682	29,327	28,069	27,545	28,464
Provision (credit) for loan & lease losses	797	2,550	769	1,153	(1,345)
Income tax expense (benefit)	2,326	3,071	11,288	1,747	(27,759)
Net income	\$ 11,075	\$ 13,349	\$ 147	\$ 6,309	\$ 35,840
Net interest margin	3.27%	3.22%	3.23%	3.13%	2.99%
Efficiency ratio (FNCB Bank only)	67.72%	58.48%	69.13%	72.76%	79.67%

NON-GAAP FINANCIAL MEASURE	2019	2018	2017	2016	2015
Net income	\$ 11,075	\$ 13,349	\$ 147	\$ 6,309	\$ 35,840
Adjustments for non-recurring items (1)	—	(4,761)	8,007	—	(29,981)
Adjusted net income	\$ 11,075	\$ 8,588	\$ 8,154	\$ 6,309	\$ 5,859


(1) Includes: non-recurring insurance recovery, net of taxes (2018); non-cash, non-recurring valuation adjustment to net deferred tax assets for change in statutory corporate income tax rate (2017); and adjustment to reverse valuation allowance for net deferred tax assets (2015).

PER SHARE DATA	2019	2018	2017	2016	2015
Net income per share (basic & diluted)	\$ 0.56	\$ 0.79	\$ 0.01	\$ 0.38	\$ 2.17
Adjusted net income per share (basic & diluted)	0.56	0.51	0.49	0.38	0.36
Cash dividends declared	0.20	0.17	0.13	0.09	—
Tangible book value	6.62	5.78	5.32	5.43	5.22
Closing stock price	\$ 8.45	\$ 8.44	\$ 7.30	\$ 6.05	\$ 5.25

BALANCE SHEET DATA	2019	2018	2017	2016	2015
Total assets	\$ 1,203,541	\$ 1,237,732	\$ 1,162,305	\$ 1,195,599	\$ 1,090,618
Total loans, gross	826,356	835,207	768,069	728,758	728,152
Total deposits	1,001,709	1,095,629	1,002,448	1,015,139	821,546
Shareholders' equity	\$ 133,607	\$ 97,219	\$ 89,191	\$ 90,371	\$ 86,178

ASSET QUALITY DATA	2019	2018	2017	2016	2015
Allowance for loan & lease losses/total loans	1.08%	1.13%	1.17%	1.15%	1.20%
Non-performing loans/total loans	1.10%	0.56%	0.34%	0.31%	0.52%
Allowance for loan & lease losses/non-performing loans	98.52%	202.70%	350.43%	376.86%	232.05%
Net charge-offs/average loans	0.16%	0.25%	0.02%	0.21%	0.20%



 **FNCB Bank** Simply better.™

EXIT

They had me at
Hello.
Relationship
checking
with interest...
benefits!


FNCB Bank
Simply better.™

BY FNCB | FNCB.COM | MEMBER FDIC

Members of the FNCB Bank Retail Lending Team: L-R: William Dantona Jr., Mortgage Loan Originator; Ted Kowalick, Mortgage Loan Originator; Modesto Hernandez, Mortgage Loan Originator; and Lisa L. Kinney, Senior Vice President, Retail Lending Officer.

FNCB BANCORP, INC. OFFICERS & DIRECTORS

FNCB BANCORP, INC. OFFICERS & DIRECTORS

FNCB BANCORP, INC. DIRECTORS

Louis A. DeNaples
Chairman of the Board

Louis A. DeNaples, Jr., M.D.
Vice Chairman of the Board

Gerard A. Champi
President and
Chief Executive Officer

Joseph Coccia
Secretary

William G. Bracey
Joseph L. DeNaples, Esq.
Vithalbhai D. Dhaduk, M.D.
Keith W. Eckel

Kathleen McCarthy Lambert, CPA
Thomas J. Melone, CPA
John P. Moses, Esq.

DIRECTOR EMERITUS
Dominick L. DeNaples

FNCB BANCORP, INC. CORPORATE OFFICERS

Gerard A. Champi
President and
Chief Executive Officer

James M. Bone, Jr., CPA
Executive Vice President and
Chief Financial Officer/Treasurer



Louis A.
DeNaples



Louis A.
DeNaples, Jr., M.D.



Gerard A.
Champi



Joseph
Coccia



William G.
Bracey



Joseph L.
DeNaples, Esq.



Vithalbhai D.
Dhaduk, M.D.



Keith W.
Eckel



Kathleen McCarthy
Lambert, CPA



Thomas J.
Melone, CPA



John P.
Moses, Esq.



Dominick L.
DeNaples





EXECUTIVE TEAM

Members of the Executive Team: Seated L-R: Ronald S. Honick, Jr.; Mary Ann Gardner, CRCM; Gerard A. Champi; Stephanie A. Westington, CPA; R. Gregory Collins; and Richard D. Drust. Standing L-R: James M. Bone Jr., CPA; Cathy J. Conrad; William A. McGuigan, CPA; Dawn D. Gronski; Aaron J. Cunningham; Lisa L. Kinney; Brian C. Mahlstedt; and Mary Griffin Cummings, Esq.

Gerard A. Champi
President and
Chief Executive Officer

James M. Bone, Jr., CPA
Executive Vice President
Chief Financial Officer

R. Gregory Collins
Executive Vice President
Chief Banking Officer

Mary Griffin Cummings, Esq.
Executive Vice President
General Counsel

Brian C. Mahlstedt
Executive Vice President
Chief Lending Officer

Cathy J. Conrad
Senior Vice President
Credit Administration Officer

Aaron J. Cunningham
Senior Vice President
Chief Credit Officer

Richard D. Drust
Senior Vice President
Retail Banking Officer

Mary Ann Gardner, CRCM
Senior Vice President
Compliance, BSA & CRA Officer

Dawn D. Gronski
Senior Vice President
Human Resources Officer

Ronald S. Honick, Jr., CPA, CIA
Senior Vice President
Operations & Technology Services Officer

Lisa L. Kinney
Senior Vice President
Retail Lending Officer

William A. McGuigan, CPA
Senior Vice President
Audit Officer

Stephanie A. Westington, CPA
Senior Vice President
Controller

Advisory Board

Kate Daye; Neal DeAngelo III; Paul S. Falzone; Samuel A. Falcone, Jr., Esq.; Patrick J. Fricchione, MD; Francis J. Hoegen, Esq.; Linda L. Malinowski; Sean C. McGrath; Earl Marshall; Michael T. Nardone, CPA; Michelene Pagnotti; Robert S. Tamburro; Kenneth J. Temborski

FNCB BANK | BANK OFFICERS

COMMERCIAL BANKING

Patrick J. Barrett
Senior Vice President
Commercial Officer III

John M. Strellich
Senior Vice President
Commercial Officer IV

Michael N. Barrouk
Vice President
Commercial Officer III

Nancy A. Jeffers
Vice President
Commercial Officer III

Karen M. Smith
Vice President
Commercial Officer II

Stephanie E. Abraham
Banking Officer
Commercial Officer I

Tyler J. Serbin
Banking Officer
Commercial Officer I

RETAIL LENDING

Kelly Gulvas
Assistant Vice President
Indirect/Consumer
Lending Manager

Jenny J. Severs
Assistant Vice President
Retail Lending Training Specialist/
Compliance Coordinator

RETAIL BANKING

Michael S. Cummings, CFMP
Vice President
Marketing Manager

RETAIL BANKING (CONT'D)

David A. Kapsick
Vice President
Retail Market Manager

Deborah J. Kennedy
Vice President
Retail Market Manager

Madolyn A. MacArthur
Vice President
Community Office Manager III

Karen M. Weller
Vice President
Retail Banking Operations Manager

Victoria J. Bitman
Assistant Vice President
Community Office Manager II

Kimberly A. Cullen
Assistant Vice President
Community Office Manager II

Virginia Johnson
Assistant Vice President
Community Office Manager II

Nadine A. Limongelli
Assistant Vice President
Community Office Manager II

Sara L. Matusinski
Assistant Vice President
Retail Banking Training &
Technical Manager

Frank N. Mazzitelli
Assistant Vice President
Community Office Manager II

Ellen M. Pritchard
Assistant Vice President
Community Office Manager III

Dean Rosetti
Assistant Vice President
BankCard Relationship Manager

RETAIL BANKING (CONT'D)

Louise R. Balbach
Banking Officer
Community Office Manager II

Dawn Cole
Banking Officer
Community Office Manager II

Kelley Zionce
Banking Officer
Community Office Manager I

ADMINISTRATIVE

Paul S. Dunda
Senior Vice President
Application Services Manager

Thomas C. Lunney
Senior Vice President
Property Manager

Kirk S. Borchert
Vice President
Technology Services Officer

Amy M. Kelley, CPA
Vice President
Financial Performance Officer

Jason A. Bohenek, CFSA
Assistant Vice President
Audit Manager

Mark Gallagher
Assistant Vice President
Asset Recovery Manager

Walter M. Jurgiewicz,
MCSE, CBEH
Assistant Vice President
Systems & Desktop
Services Manager





FNCB Bank



ADMINISTRATIVE (CONT'D)

Frank J. Kost
Assistant Vice President
Deposit & Electronic Banking Manager

Jeffrey B. Mokylich
Assistant Vice President
Treasury Manager

Darlene A. Pusateri, CAMS
Assistant Vice President
Compliance Manager

Eileen A. Sennett
Assistant Vice President
Loan Operations Manager

Joyce Groza
Banking Officer
Accounting Manager

ADMINISTRATIVE (CONT'D)

Mary C. King
Banking Officer
Compensation / Benefits Specialist

Christopher P. Kunz
Banking Officer
Telecommunications Manager

Keehna M. Murphy
Banking Officer
Credit Analyst Supervisor

Pamela Phillips, CAMS
Banking Officer
BSA Supervisor

Mary Alice Washko
Banking Officer
Asset Quality Analyst

WEALTH MANAGEMENT

Peter J. Albano, AIF
Vice President
LPL Financial Advisor

James P. Chiaro, CMFC
LPL Financial Advisor



FNCB BANK LOCATIONS

Dunmore-Main

100 South Blakely Street
Dunmore, PA
570.348.6440

Back Mountain

196 North Main Street
Shavertown, PA
570.674.3622

Clarks Green

269 East Grove Street
Clarks Green, PA
570.586.3622

Daleville

Route 502 & 435
Daleville, PA
570.848.3622

Dickson City

934 Main Street
Dickson City, PA
570.489.8617

Dunmore-Wheeler

1219 Wheeler Avenue
Dunmore, PA
570.207.7300

Exeter

1625 Wyoming Avenue
Exeter, PA
570.603.1000

Hazleton

340 West Broad Street
Hazleton, PA
570.501.3622

Honesdale

1001 Main Street
Honesdale, PA
570.253.1096

Keyser Village

1743 North Keyser Avenue
Scranton, PA
570.348.4880

Kingston

754 Wyoming Avenue
Kingston, PA
570.283.3622

Mountain Top

360 South Mountain Blvd.
Mountain Top, PA
570.475.3050

Nanticoke

194 South Market Street
Nanticoke, PA
570.258.3622

Pittston

1700 North Twp. Blvd.
Pittston, PA
570.655.3622

Plains Rt. 315

1150 Route 315
Wilkes-Barre, PA
570.846.3652

Scranton

419-421 Spruce Street
Scranton, PA
570.343.6572

Wilkes-Barre

1 North Main Street
Wilkes-Barre, PA
570.831.1000

LENDING LOCATIONS

LPO Commercial Office

3500 Winchester Road
Suite 101

Allentown, PA
484.954.3652

FNCB Lending Centers

102-106 East Drinker Street
Dunmore, PA

1.877.TRY.FNCB

WEALTH MANAGEMENT

FNCB Wealth

Management Services

102 East Drinker Street
Dunmore, PA

570.348.4321

DOWNLOAD THE FREE FNCB
BANK MOBILE APP TODAY!



FOLLOW US! [f](#) [t](#) [@](#) [v](#)



**UNITED STATES
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, 2019

OR

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

For the transition period from _____ to _____

Commission File No. 001-38408

FNCB BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

(State or Other Jurisdiction of Incorporation or Organization)

23-2900790

(I.R.S. Employer Identification No.)

102 E. Drinker St., Dunmore, PA

(Address of Principal Executive Offices)

18512

(Zip Code)

Registrant's telephone number, including area code **(570) 346-7667**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock \$1.25 Par Value	FNCB	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common stock of the registrant, held by non-affiliates was \$131,946,706 at June 30, 2019.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 20,173,308 shares of common stock as of March 9, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 is incorporated by reference into Part III hereof from portions of the Proxy Statement for the registrant's 2020 Annual Meeting of Shareholders.

[This page intentionally left blank]

Contents

PART I	3
Item 1. Business	3
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	30
Item 2. Properties	31
Item 3. Legal Proceedings	32
Item 4. Mine Safety Disclosures	32
PART II	33
Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	33
Item 6. Selected Financial Data	34
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	62
Item 8. Financial Statements and Supplementary Data	65
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	114
Item 9A. Controls and Procedures	114
Item 9B. Other Information	114
PART III	115
Item 10. Directors, Executive Officers and Corporate Governance	115
Item 11. Executive Compensation	115
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	115
Item 13. Certain Relationships and Related Transactions, and Director Independence	115
Item 14. Principal Accounting Fees and Services	115
PART IV	116
Item 15. Exhibits and Financial Statement Schedules	116
Item 16. Form 10-K Summary	118

[This page intentionally left blank]

Cautionary Note Regarding Forward-Looking Statements.

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include statements relating to the outlook for which are subject to risks and uncertainties. These statements are based on assumptions and may describe future plans, strategies, financial conditions, results of operations and expectations of FNCB Bancorp, Inc. and its direct and indirect subsidiaries (collectively, "FNCB"). These forward-looking statements are generally identified by use of the words "may", "should", "will", "could", "believe," "expect," "intend," "anticipate," "estimate," "project", "plan", "future" or similar expressions. All statements in this report, other than statements of historical facts, are forward-looking statements.

These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond FNCB's control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements. Important factors that could cause actual results of FNCB to differ materially from those in the forward-looking statements include, but are not limited to:

- weakness in the economic environment, in general, and within FNCB's market area could pose significant challenges for FNCB and could adversely affect FNCB's financial condition and results of operations;
- FNCB's concentrations of loans, including those to insiders and related parties, may create a greater risk of loan defaults and losses;
- FNCB's financial condition and results of operations would be adversely affected if the allowance for loan and lease losses is not sufficient to absorb actual losses or if increases to the allowance for loan and lease losses were required;
- if management concludes that the decline in value of any of FNCB's investment securities is other-than-temporary, FNCB is required to write down the security to reflect credit-related impairments through a charge to earnings;
- changes in interest rates could reduce income, cash flows and asset values;
- FNCB may not be able to retain or grow its core deposit base, which could adversely impact its funding costs;
- FNCB is subject to credit risk, which could adversely affect its profitability;
- FNCB's risk management framework may not be effective in mitigating risks or losses to it;
- FNCB is dependent on the use of data and modeling in both its management's decision-making generally and in meeting regulatory expectations in particular;
- FNCB's portfolio of loans to small and mid-sized community-based businesses may increase its credit risk;
- new lines of business, products, product enhancements or services may subject FNCB to additional risk;
- the appraisals and other valuation techniques FNCB uses in evaluating and monitoring loans secured by real property and other real estate owned may not accurately reflect the net value of the asset;
- FNCB depends on information technology and telecommunications systems of third parties, and any systems failures or interruptions could adversely affect its operations and financial condition;
- FNCB may be adversely affected by the soundness of other financial institutions;
- FNCB may face risks with respect to future expansion of acquisition activity;
- FNCB depends on the accuracy and completeness of information provided by customers and counterparties;
- FNCB could be subject to environmental risks and associated costs on its foreclosed real estate assets;
- FNCB may not be able to successfully compete with others for business;
- changes in either FNCB's financial condition or in the general banking industry could result in a loss of depositor confidence;
- FNCB is a bank holding company and depend on dividends from its subsidiary, FNCB Bank, to operate;
- if FNCB loses access to wholesale funding sources, it may not be able to meet the cash flow requirements of its depositors, creditors, and borrowers, or have the operating cash needed to fund corporate expansion and other corporate activities;
- interruptions or security breaches of FNCB's information systems could negatively affect its financial performance, financial condition or reputation;
- FNCB is subject to cybersecurity risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents, and FNCB may experience harm to its reputation and liability exposure from security breaches;

- if FNCB's information technology is unable to keep pace with growth or industry developments or if technological developments result in higher costs or less advantageous pricing, financial performance may suffer;
- FNCB relies on management and other key personnel and the loss of any of them may adversely affect its operations;
- FNCB may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on its financial condition, results of operations and cash flows;
- the requirements of being a public company may strain FNCB's resources and divert management's attention;
- any deficiencies in FNCB's financial reporting or internal controls could materially and adversely affect its business and the market price of FNCB's common stock;
- FNCB's disclosure controls and procedures and internal controls over financial reporting may not achieve their intended objectives;
- federal and state regulators periodically examine FNCB's business and may require FNCB to remediate adverse examination findings or may take enforcement action against FNCB;
- FNCB may be required to act as a source of financial and managerial strength for FNCB Bank in times of stress;
- FNCB faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations;
- FNCB is subject to numerous "fair and responsible" banking laws designed to protect consumers, and failure to comply with these laws could lead to a wide variety of sanctions;
- FNCB is subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage FNCB's reputation and otherwise adversely affect FNCB's business;
- rulemaking changes implemented by the Consumer Financial Protection Bureau will result in higher regulatory and compliance costs that may adversely affect FNCB's business;
- potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect FNCB's ability to attract and retain its highest performing employees;
- FNCB Bank's FDIC deposit insurance premiums and assessments may increase;
- new or changed legislation or regulation and regulatory initiatives could adversely affect FNCB through increased regulation and increased costs of doing business;
- changes in accounting standards could impact FNCB's reported earnings;
- FNCB is subject to extensive government regulation, supervision and possible regulatory enforcement actions, which may subject FNCB to higher costs and lower shareholder returns;
- FNCB may need to raise additional capital in the future, but that capital may not be available when it is needed and on terms favorable to shareholders;
- damage to FNCB's reputation could significantly harm its businesses, competitive position and prospects for growth;
- short sellers of FNCB's stock may be manipulative and may drive down the market price of FNCB's common stock; and
- other factors and risks described in Part II, Item 1A of this Annual Report on Form 10-K under the caption "Risk Factors."

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. FNCB undertakes no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Overview

The Company

FNCB Bancorp, Inc. is a Pennsylvania business corporation and a registered bank holding company headquartered in Dunmore, Pennsylvania. FNCB Bancorp, Inc. incorporated in 1997 under its former name, First National Community Bancorp, Inc. and became an active bank holding company on July 1, 1998 when it acquired 100% ownership of FNCB Bank, formerly First National Community Bank. In this report, the terms “FNCB,” “the Company,” “we,” “us,” and “our” refer to FNCB Bancorp, Inc. and its subsidiaries, unless the context requires otherwise. In certain circumstances, however, FNCB Bancorp, Inc. uses the term “FNCB” to refer to itself.

FNCB’s primary activity consists of owning and operating the Bank, which provides substantially all of FNCB’s earnings as a result of its banking services.

FNCB had net income of \$11.1 million, \$13.3 million, and \$0.1 million in 2019, 2018 and 2017, respectively. Total assets were \$1.204 billion at December 31, 2019, \$1.238 billion at December 31, 2018 and \$1.162 billion at December 31, 2017.

The Bank

Established as a national banking association in 1910, as of December 31, 2019 the Bank operated 17 full-service branch offices within its primary market area, Northeastern Pennsylvania, and a Limited Purpose Banking Office (“LPO”) based in Allentown, Lehigh County, Pennsylvania.

Mission and Vision

FNCB’s mission is to make the banking experience of its customers, shareholders and employees simply better. FNCB strives to be a growing independent community bank, helping people, businesses and investors reach their financial goals.

Products and Services

Retail Banking

FNCB accomplishes its mission and vision by providing a wide variety of traditional banking products and services to individuals and businesses, including online, mobile and telephone banking, debit cards, check imaging and electronic statements. Deposit products include various checking, savings and certificate of deposit products, as well as a line of preferred products for higher-balance customers. The Bank is a member of the Promontory Interfinancial Network and participates in their Certificate of Deposit Account Registry (“CDARs”) and Insured Cash Sweep (“ICS”) programs, which provides customers with ability to secure Federal Deposit Insurance Corporation (“FDIC”) insurance on balances in excess of the standard limitations.

The Bank offers customers the convenience of 24-hour banking, seven days a week, through FNCB Online Banking (“FNCB Online”) and FNCB Business Online Banking via a secure website, <https://www.fncb.com>. FNCB’s online product suite includes bill payment, internal and external funds transfer and POP Money (person to person transfers), and Purchase Rewards. Through FNCB Online, customers can directly access their accounts, open new accounts and apply for a mortgage or obtain a pre-qualification approval through the Bank’s mortgage center. Customers can also access FNCB Online through the Bank’s mobile applications. Telephone banking (“Account Link”), a service that provides customers with the ability to access account information and perform related account transfers through the use of a touch tone telephone, is also available. FNCB’s mobile deposit, available to personal banking customers with access to FNCB Online and an eligible deposit account, allows customers to deposit checks, electronically from start to finish, from anywhere at any time. FNCB also offers its customers mobile payment solutions including Apple Pay[®], Samsung Pay[®] and Google Pay[®].

In addition, customers can access money from their deposit accounts by using their debit card to make purchases or withdraw cash from any automated teller machines (“ATMs”) including ATMs located in each of the Bank’s branch offices as well as additional locations. In 2019, FNCB became a member of AllPoint, the largest surcharge-free ATM network. AllPoint provides FNCB customers with access to over 55,000 ATMs, free of charge world wide, as well as a convenient mobile application to find the location of ATMs within the network. FNCB also provides its customers with CardValet[®], a mobile

application that allows FNCB debit cardholders the ability to receive fraud alert messages and manage when, where and how their debit card is used.

FNCB Business Online Banking is a menu driven product that provides the Bank's business customers direct access to their account information and the ability to perform internal and external account transfers, wire transfers and payments through ACH transactions, and process direct deposit payroll transactions for employees, 24 hours a day, 7 days a week, from their place of business.

The Bank also offers business customers remote deposit capture and merchant services, as well as business debit cards. Remote deposit capture provides business customers the ability to process daily check deposits to their accounts through an online image capture environment. The Bank offers business customers merchant payment processing solutions, including state-of-the-art credit card terminals, integrated payment systems and a dedicated account manager. Business customers can also access money from their deposit account by using their "business" debit card, providing a faster, more convenient way to make purchases, track business expenses and manage finances.

The Bank offers its retail and business customers several overdraft protection products including Bounce Protection, Instant Money and transfer from another FNCB checking or savings account, which provide customers with an added level of protection against unanticipated overdrafts due to cash flow emergencies and account reconciliation errors.

Lending Activities

FNCB offers a variety of loans, including residential real estate loans, construction, land acquisition and development loans, commercial real estate loans, commercial and industrial loans, loans to state and political subdivisions, and consumer loans, generally to individuals and businesses in its primary market area. These lending activities are described in further detail below.

Residential Mortgage Loans and Home Equity Term Loans

FNCB offers a variety of fixed-rate 1-4 family residential loans and home equity term loans. FNCB's suite of residential mortgage products include First Time Homebuyer mortgages, FHA and Home Possible[®] mortgages with low down payments to meet the home financing needs of customers. Home equity term loans have fixed interest rates with terms of up to 15 years. FNCB also offers a proprietary "WOW" mortgage, a first-lien, fixed-rate mortgage product with maturity terms ranging from 7.5 to 19.5 years. At December 31, 2019, 1-4 family residential mortgage loans totaled \$170.7 million, or 20.7%, of the total loan portfolio. Except for the WOW mortgage, 1-4 family mortgage loans are originated generally for sale in the secondary market. However, FNCB may hold in portfolio 1-4 family residential mortgage loans as deemed necessary according to current asset/liability management strategies. During the year ended December 31, 2019, the Bank sold \$9.6 million of 1-4 family mortgages. FNCB retains servicing rights on these mortgages.

Construction, Land Acquisition and Development Loans

FNCB offers interim construction financing secured by residential property for the purpose of constructing 1-4 family homes. FNCB also offers interim construction financing for the purpose of constructing residential developments and various commercial properties including shopping centers, office complexes and single purpose owner-occupied structures and for land acquisition. At December 31, 2019, construction, land acquisition and development loans amounted to \$47.5 million and represented 5.7% of the total loan portfolio.

Commercial Real Estate Loans

Commercial real estate loans represent the largest portion of FNCB's total loan portfolio and loans in this portfolio generally have larger loan balances. These loans are secured by a broad range of real estate, including but not limited to, office complexes, shopping centers, hotels, warehouses, gas stations, convenience markets, residential care facilities, nursing care facilities, restaurants, multifamily housing, farms and land subdivisions. At December 31, 2019, FNCB's commercial real estate loans totaled \$278.4 million, or 33.7%, of the total loan portfolio.

Commercial and Industrial Loans

FNCB generally offers commercial loans to sole proprietors and businesses located in its primary market area. The commercial loan portfolio includes, but is not limited to, lines of credit, dealer floor plan lines, equipment loans, vehicle loans and term loans. These loans are primarily secured by vehicles, machinery and equipment, inventory, accounts receivable,

marketable securities and deposit accounts. At December 31, 2019, FNCB's commercial and industrial loans totaled \$147.6 million, or 17.9%, of the total loan portfolio.

Consumer Loans

Consumer loans include indirect automobile loans originated through various auto dealers in the Bank's market area, secured and unsecured installment loans, direct new and used automobile financing, home equity and personal lines of credit and overdraft protection loans. Home equity lines of credit have adjustable interest rates based on the prime interest rate for the United States and are offered up to a maximum combined loan-to-value ratio of 90%, based on the property's appraised value. At December 31, 2019, FNCB's consumer loans totaled \$138.2 million, or 16.7%, of the total loan portfolio.

State and Political Subdivision Loans

FNCB originates state and political subdivision loans, including general obligation and tax anticipation notes, primarily to municipalities in the Bank's market area. At December 31, 2019, FNCB's state and political subdivision loans totaled \$43.9 million, or 5.3%, of the total loan portfolio.

See Note 2, "Summary of Significant Accounting Policies" and Note 5, "Loans" to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," to this Annual Report on Form 10-K for additional information regarding FNCB's loan portfolio and lending policies.

Wealth Management

FNCB offers customers wealth management services through a revenue share agreement with a third-party provider. Customers are able to access alternative deposit products such as mutual funds, annuities, stocks, and bonds directly for purchase from an outside provider. FNCB receives a percentage of the commission revenue generated from these transactions.

Deposit Activities

In general, deposits, borrowings and loan repayments are the major sources of funding for lending and other investment purposes. FNCB relies primarily on marketing, product innovation, technology and service to attract, grow and retain its deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of deposit accounts, management considers the interest rates offered by its competitors, the interest rates available on FHLB advances and other wholesale funding, its liquidity needs and customer preferences. Management regularly reviews FNCB's deposit mix and deposit pricing as part of its asset/liability management, taking into consideration rates offered by competitors in its market area and balance sheet interest-rate sensitivity.

Competition

The banking and financial services industries are highly competitive. FNCB faces direct competition in originating loans and in attracting deposits from a significant number of financial institutions operating in its market area, many with a statewide or regional presence, and in some cases, a national presence, as well as other financial and non-financial institutions outside of its market area through online loan and deposit product offerings. The competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies, internet-based financial technology ("FinTech") companies and, with respect to deposits, institutions offering investment alternatives, including money market funds and online deposit accounts. The increased competition has resulted from changes in the legal and regulatory guidelines, as well as from economic conditions. The cost of regulatory compliance remains high for community banks as compared to their larger competitors that are able to achieve economies of scale.

As a result of consolidation in the banking industry, some of the Bank's competitors and their respective affiliates are larger and may enjoy advantages such as greater financial resources, a wider geographic presence, a wider array of services, or more favorable pricing alternatives and lower origination and operating costs. FNCB considers its major competitors to be local commercial banks as well as other commercial banks with branches in its market area. Competitors may offer deposits at higher rates and loans with lower fixed rates, more attractive terms and less stringent credit structures than FNCB has been able to offer. The growth and profitability of FNCB depends on its continued ability to successfully compete. Management believes interest rates on deposits, especially money market and time deposits, and interest rates and fees charged on loans within FNCB's market area to be very competitive.

Supervision and Regulation

FNCB and the Bank operate in a highly regulated industry and is subject to a variety of statutes, regulations and policies, as well as ongoing regulatory supervision and review. Federal statutes that apply to FNCB and the Bank include the Gramm Leach Bliley Act (“GLB Act”), the Bank Holding Company Act (“BHCA”), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the USA Patriot Act, the Federal Reserve Act and the Federal Deposit Insurance Act. In general, these statutes, regulations promulgated in accordance with these statutes, and interpretations of the statutes and regulations by the banking regulatory agencies establish the eligible business activities of FNCB and the Bank, certain acquisition and merger restrictions, limitations on intercompany transactions, such as loans and dividends, and capital adequacy requirements, among other things. These laws, regulations and policies are subject to frequent change and FNCB takes measures to comply with applicable requirements. The following summarizes some of the more significant provisions of these laws as they relate to FNCB and the Bank.

FNCB

FNCB is a bank holding company within the meaning of the BHCA and is registered with, and subject to regulation and examination by, the Board of Governors of the Federal Reserve System (“FRB”). FNCB is required to file annual and quarterly reports with the FRB and to provide the FRB with such additional information that they may require. BHCA and other federal laws subject bank holding companies to restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations and unsafe and unsound banking practices.

The BHCA requires approval of the FRB for, among other things, the acquisition of direct or indirect ownership or control of more than five percent (5%) of the voting securities or substantially all the assets of any bank or bank holding company, or before the merger or consolidation with another bank holding company.

With certain limited exceptions, a bank holding company is prohibited from acquiring control of any voting shares of any company which is not a bank or bank holding company and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or furnishing services to or performing services for its authorized subsidiaries. A bank holding company may, however, engage in, or acquire an interest in a company that engages in, activities that the FRB has determined by order or regulation to be so closely related to banking or managing or controlling banks as to be properly incidental thereto. In making such a determination, the FRB is required to consider whether the performance of such activities can reasonably be expected to produce benefits to the public, such as convenience, increased competition or gains in efficiency, which outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The FRB is also empowered to differentiate between activities commenced *de novo* and activities commenced by the acquisition, in whole or in part, of a going concern. Some of the activities that the FRB has determined by regulation to be closely related to banking include making or servicing loans, performing certain data processing services, acting as a fiduciary or investment or financial advisor, and making investments in corporations or projects designed primarily to promote community welfare.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or any of its subsidiaries, or investments in the stock or other securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. Further, a holding company and any subsidiary bank are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit.

The GLB Act allows a bank holding company or other company to certify status as a financial holding company, which allows such company to engage in activities that are financial in nature, that are incidental to such activities, or are complementary to such activities without further approval. The GLB Act enumerates certain activities that are deemed financial in nature, such as underwriting insurance or acting as an insurance principal, agent or broker, underwriting, dealing in or making markets in securities, and engaging in merchant banking under certain restrictions. The GLB Act also authorizes the FRB to determine by regulation what other activities are financial in nature, or incidental or complementary thereto. FNCB has not elected to be treated as a financial holding company.

FNCB also is subject to the periodic reporting requirements and anti-fraud regulations of the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and, in connection with the offer and sale of securities, including FNCB’s securities, the Securities Act of 1933, as amended.

FNCB’s shares of common stock began trading on the Nasdaq Capital Market on March 5, 2018 under the symbol “FNCB.” Accordingly, FNCB is subject to certain financial, liquidity and corporate governance requirements imposed by Nasdaq. Non-compliance of these requirements could subject FNCB to potential denial of listing, or additional conditions,

as necessary, to protect investors and the public interest. Prior to March 5, 2018, FNCB's shares of common stock traded on the OTCQX marketplace under the symbol "FNCB."

The Bank

Effective June 30, 2016, upon its conversion to a state charter, the Bank is regulated by the Pennsylvania Department of Banking and Securities ("PADOBS"). The Bank's deposit accounts are insured up to the maximum legal limit by the Deposit Insurance Fund of the FDIC and accordingly, the Bank is also regulated by the FDIC. The regulations of the PADOBS and the FDIC govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the Deposit Insurance Fund, and not to protect shareholders.

Branching and Interstate Banking. The federal banking agencies are generally authorized to approve interstate bank merger transactions.

The Dodd-Frank Act amended federal banking law to permit banks to establish *de novo* branches in other states to the same extent as a bank chartered by that state would be so permitted. The interstate banking and branching provisions of the federal banking laws would permit the Bank to merge with banks in other states and branch into other states and would also permit banks from other states to acquire banks in the Bank's market area and to establish *de novo* branches in the Bank's market area.

USA Patriot Act and the Bank Secrecy Act ("BSA"). Under the BSA, a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than \$10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and that the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA Patriot Act" or the "Patriot Act," financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum specified standards, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers.

Capital Adequacy Requirements. Federal banking agencies have adopted risk based capital adequacy and leverage capital adequacy requirements pursuant to which they assess the adequacy of capital in examining and supervising banks and bank holding companies and in analyzing bank regulatory applications. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items.

Financial institutions are subject to extensive and detailed capital requirements, which generally follow a framework of rules adopted by the Basel Committee on Banking Supervision commonly referred to as Basel III. Basel III calls for the following capital requirements:

- A minimum ratio of common equity tier I ("CET I") capital to risk-weighted assets of 4.5%.
- A minimum ratio of tier I capital to risk-weighted assets of 6%.
- A minimum ratio of total capital to risk-weighted assets of 8%.
- A minimum leverage ratio of 4%.

Basel III also establishes a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements for each of the CET I, tier I capital, and total capital ratios. The buffer must consist entirely of CET I capital. As a result, if a banking organization does not have a CET I, Tier I capital, and total capital ratios of at least 7.0%, 8.5% and 10.5%, respectively, its ability to make or commit to discretionary dividends and discretionary bonus payments to "executive officers" or engage in share repurchases or redemptions generally will be restricted in accordance with a pre-determined "maximum payout ratio." Under the maximum payout ratio formula, a banking organization with a capital conservation buffer of less than 2.5% of risk-weighted assets would become subject to increasingly restrictive limitations on covered distributions (as a percentage of eligible retained income) as the capital conservation buffer decreases.

Basel III also included, as part of the definition of CET I capital, a requirement that banking institutions include the amount of Accumulated Other Comprehensive Income (“AOCI”), which primarily consists of unrealized gains and losses, net of tax, on available-for-sale securities, that are not other than temporarily impaired (“OTTI”) in calculating regulatory capital, unless the institution made a timely, one-time opt-out election from this provision. FNCB and the Bank elected to exclude AOCI in calculating regulatory capital.

Basel III provides for new deductions from and adjustments to CET I. These include, for example, under current rules, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET I to the extent that any one such category exceeds 25.00% of CET I.

Basel III also imposed changes to methodologies for determining risk weighted assets, including revisions to recognition of credit risk mitigation, such as a greater recognition of financial collateral and a wider range of eligible guarantors, the risk weighting of equity exposures and past due loans, and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components.

As noted in the discussion below relating Economic Growth, Regulatory Relief, and Consumer Protection Act, the FRB, effective August 30, 2018, raised the threshold of its "Small Bank Holding Company" exemption to the application of consolidated capital requirements for qualifying small bank holding companies from \$1 billion to \$3 billion of consolidated assets. Consequently, bank holding companies having less than \$3 billion of consolidated assets are not subject to the consolidated capital requirements unless otherwise directed by the FRB.

Prompt Corrective Action. Under Section 38 of the Federal Deposit Insurance Act ("FDIA"), each federal banking agency is required to implement a system of prompt corrective action for an insured institution which it regulates. The federal banking agencies have promulgated substantially similar regulations, which integrate Basel III capital requirements, to implement the system of prompt corrective action established by Section 38 of the FDIA.

The following are the capital requirements under Basel III as integrated into the prompt corrective action category definitions. As of December 31, 2019, the following capital requirements were applicable to the Bank for purposes of Section 38 of the FDIA.

Capital Category	Total Risk-Based Capital Ratio	Tier I Risk-Based Capital Ratio	CET I Capital Ratio	Leverage Ratio	Tangible Equity to Assets
Well capitalized	>= 10.0%	>= 8.0%	>= 6.5%	>= 5.0%	N/A
Adequately capitalized with conservation buffer ...	>= 10.5%	>= 8.5%	>= 7.0%	>= 4.0%	N/A
Adequately capitalized.....	>= 8.0%	>= 6.0%	>= 4.5%	>= 4.0%	N/A
Undercapitalized	< 8.0%	< 6.0%	< 4.5%	< 4.0%	N/A
Significantly undercapitalized.....	< 6.0%	< 4.0%	< 3.0%	< 3.0%	N/A
Critically undercapitalized	N/A	N/A	N/A	N/A	Less than 2.0%

Overall, management believes that implementation of Basel III did not have a material adverse effect on FNCB’s or the Bank’s capital ratios, earnings, shareholder’s equity, or its ability to pay discretionary bonuses to executive officers. At December 31, 2019, the Bank was “well capitalized” under the applicable requirements with a CET I capital and Tier I capital to risk-weighted assets ratios (for the Bank only) of 13.70%, a total capital to risk-weighted assets ratio of 14.77% and a leverage ratio of 10.36%. Similarly, at December 31, 2018, FNCB exceeded capital requirements for an institution to be considered "well capitalized" with with CET I capital and Tier I capital to risk-weighted assets ratios of 11.11%, a total capital to risk-weighted assets ratio of 12.17% and a leverage ratio of 8.27%.

Regulatory Enforcement Authority. Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

The Bank and its “institution-affiliated parties,” including its management, employees, agents, independent contractors, consultants such as attorneys and accountants and others who participate in the conduct of the financial institution’s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a governmental agency. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and

institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance and cease-and-desist orders. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Under provisions of the federal securities laws, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation of permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets.

The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes.

The Dodd-Frank Act. The Dodd-Frank Act made significant changes to the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. To date, the following provisions of the Dodd-Frank Act are considered to be of the greatest significance to FNCB:

- expands the authority of the FRB to examine bank holding companies and their subsidiaries, including insured depository institutions;
- requires a bank holding company to be well capitalized and well managed to receive approval of an interstate bank acquisition;
- provides mortgage reform provisions regarding a customer's ability to pay and making more loans subject to provisions for higher-cost loans and new disclosures;
- creates the Consumer Financial Protection Bureau (the "CFPB") that has rulemaking authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws;
- creates the Financial Stability Oversight Council with authority to identify institutions and practices that might pose a systemic risk;
- introduces additional corporate governance and executive compensation requirements on companies subject to the Exchange Act;
- permits FDIC-insured banks to pay interest on business demand deposits;
- requires that holding companies and other companies that directly or indirectly control an insured depository institution serve as a source of financial strength;
- makes permanent the \$250 thousand limit for federal deposit insurance at all insured depository institutions; and
- permits national and state banks to establish interstate branches to the same extent as the branch host state allows establishment of in-state branches.

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

Ability to Repay and Qualified Mortgage Rule. Pursuant to the Dodd-Frank Act in 2014, the CFPB amended Regulation Z, implementing the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for certain mortgage loans has a reasonable ability to repay the loan according to its terms. In connection with certain mortgage loan transactions, lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision:

- current or reasonably expected income or assets;
- current employment status;
- the monthly payment on the covered transaction;
- the monthly payment on any simultaneous loan;
- the monthly payment for mortgage-related obligations;
- current debt obligations, alimony, and child support;
- the monthly debt-to-income ratio or residual income; and
- credit history.

Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Loans which meet these criteria will be considered qualified mortgages, and as a result generally protect lenders from fines or litigation in the event of foreclosure. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g. prime loans) are given a safe harbor of compliance. The rule did not have a material impact on our lending activities or our results of operations or financial condition.

TILA/RESPA Integrated Disclosures ("TRID"). In 2015, the CFPB implemented a rule combining the mortgage disclosures consumers previously received under TILA and RESPA. For more than 30 years, the TILA and RESPA mortgage disclosures had been administered separately by, respectively, the FRB and the U.S. Department of Housing and Urban Development. The rule requires lenders to provide applicants with the new Loan Estimate and Closing Disclosure and generally applies to most closed-end consumer mortgage loans.

The CFPB's rulemaking, examination and enforcement authority has and will continue to significantly affect financial institutions offering consumer financial products and services, including FNCB and the Bank. These regulatory activities may limit the types of financial services and products the Bank may offer, which in turn may reduce FNCB's revenues.

FDIC Insurance Premiums. Under the FDIC's risk-based assessment system, insured institutions were previously assigned one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depended largely on the category to which it was assigned, with institutions deemed less risky paying lower FDIC deposit insurance premiums. The Dodd-Frank Act required the FDIC to revise its procedures to base deposit insurance assessments on each insured institution's total assets less tangible equity instead of deposits and also mandated that the Deposit Insurance Fund achieve a reserve ratio of 1.35% of insured deposits by September 2020. Effective April 1, 2011, the range of possible base assessments was set between 2.5 and 45 basis points of total assets less tangible equity. Effective July 1, 2016, the FDIC eliminated the previously utilized risk categories and based assessments for most banks on certain financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure over three years, and also set maximum rates for institutions with composite CAMELS ratings of 1 or 2 and minimum rates for other institutions. In connection with the Deposit Insurance Fund reserve ratio achieving 1.5% in July 2016, the total base assessment range (after possible adjustments) was reduced for most banks to 1.5 basis points to 30 basis points. As of the September 2019 assessment date, when the Deposit Insurance Fund reserve ratio reached or exceeded 1.38%, banks with less than \$10 billion of total consolidated assets began receiving certain "small bank assessment credits" for the portion of their assessments that contributed to the growth in the FDIC's fund reserve ratio from 1.15% to 1.35%; credits will be applied so long as the Deposit Insurance Fund reserve ratio is at or above 1.35%.

At December 31, 2019, the Bank was considered in the lowest risk category, for deposit insurance assessments and paid an annual assessment rate ranging from 0.0005 basis points to 0.0006 basis points on the assessment base of average consolidated total assets less the average tangible equity during the assessment period.

Economic Growth, Regulatory Relief, and Consumer Protection Act. The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018 (the “Regulatory Relief Act”), amended certain provisions of the Dodd-Frank Act, as well as certain other statutes administered by the federal banking agencies. Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio as “qualified mortgages” for banks with less than \$10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than \$10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than \$10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from \$1 billion to \$5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans (HVCRE), which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under \$1 billion in assets to institutions with under \$3 billion in assets.

In September 2019, the federal banking agencies approved the final rule to implement the provisions of Section 201 of the Regulatory Relief Act. Under the new rule, which became effective January 1, 2020, a qualifying community banking organization is defined as a depository institution or depository institution holding company with less than \$10 billion in assets. A qualifying community banking organization has the option to elect the Community Bank Leverage Ratio (“CBLR”) framework if its CBLR is greater than 9%, it has off-balance sheet exposures of 25% or less of consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. The leverage ratio for purposes of the CBLR is calculated as Tier I capital divided by average total assets, consistent with the manner banking organizations calculate the leverage ratio under generally applicable capital rules. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies’ capital rules; (ii) the capital ratio requirements necessary to be considered “well capitalized” under the banking agencies’ prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements. For institutions that fall below the 9% capital requirement but remain above 8%, are allowed a two-quarter grace period to either meet the qualifying criteria again or to comply with the generally applicable capital rules. FNCB is still evaluating whether to elect to use the CBLR framework. FNCB does not believe that the changes resulting from the Regulatory Relief Act, including whether it elects to use the CBLR framework, will materially impact FNCB’s business, operations, or financial results.

Dividend Restrictions

FNCB is a legal entity separate and distinct from the Bank. FNCB’s revenues (on a parent company only basis) and its ability to pay dividends to its shareholders are almost entirely dependent upon the receipt of dividends from the Bank. The right of FNCB, and consequently the rights of its creditors and shareholders to participate in any distribution of the assets or earnings of any subsidiary through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the subsidiary (including depositors) except to the extent that claims of FNCB, in its capacity as a creditor, may be recognized. Additionally, the ability of the Bank to pay dividends to FNCB is subject to Pennsylvania state law and various regulatory restrictions.

The declaration of cash dividends on FNCB’s common stock is at the discretion of its board of directors, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements, notes and other contractual restrictions, Pennsylvania law, federal bank regulatory law, and other factors deemed relevant.

Employees

As of December 31, 2019, FNCB, including the Bank employed 224 persons, including 28 part-time employees.

Available Information

FNCB files reports, proxy and information statements and other information electronically with the SEC. 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 site address is <https://www.sec.gov>. FNCB makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available through

its website at <https://www.fncb.com>. The information contained on our website is not included as a part of, or incorporated by reference in, this Annual Report on Form 10-K. These reports may also be obtained free of charge as soon as practicable after filing or furnishing them to the SEC upon request by sending an email to corporatesecretary@fncb.com. Information may also be obtained via written request to FNCB Bancorp, Inc. Attention: Chief Financial Officer, 102 East Drinker Street, Dunmore, PA 18512.

Item 1A. Risk Factors

The operations and financial results of FNCB are subject to various risks and uncertainties, including those described below. The risks and uncertainties described below are not the only ones FNCB faces. Additional risks and uncertainties FNCB is unaware of, or currently believes are not material, may also become important factors affecting FNCB. If any of the following risks occur, FNCB's business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of the FNCB's common stock could decline.

Risks Related to FNCB's Business

FNCB is subject to credit risk, which could adversely affect its profitability.

FNCB's business depends on its ability to successfully measure and manage credit risk. As a lender, FNCB is exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover FNCB's outstanding exposure. In addition, FNCB is exposed to risks with respect to the period of time over which the loan may be repaid, risks relating to loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual loans and borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions. If the overall economic climate in the United States generally, or in the market areas specifically, experiences material disruption, FNCB's borrowers may experience difficulties in repaying their loans, the collateral FNCB holds may decrease in value or become illiquid, and FNCB's level of nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for loan losses.

FNCB's risk management practices, such as monitoring the concentrations of its loans and its credit approval, review and administrative practices, may not adequately reduce credit risk, and FNCB's credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting related customers and the quality of the loan portfolio. Many of FNCB's loans are made to small businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. Consequently, FNCB may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce, unemployment or death. A failure to effectively measure and limit the credit risk associated with FNCB's loan portfolio may result in loan defaults, foreclosures and additional charge-offs, and may necessitate that FNCB significantly increase FNCB's allowance for loan losses, each of which could adversely affect FNCB's net income. As a result, FNCB's inability to successfully manage credit risk could have a material adverse effect on its business, financial condition and results of operations.

Weakness in the economic environment, in general, and within FNCB's market area could pose significant challenges for FNCB and could adversely affect its financial condition and results of operations.

FNCB's success depends primarily on the general economic conditions in the Commonwealth of Pennsylvania and the specific local markets in which it operates. Unlike larger national or other regional banks that are more geographically diversified, FNCB provides banking and financial services to customers primarily in the Lackawanna, Luzerne, Lehigh and Wayne County markets. The local economic conditions in these areas have a significant impact on the demand for FNCB's products and services as well as the ability of customers to repay loans, the value of the collateral securing loans, and the stability of deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, severe weather or natural disasters, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these local economic conditions and, in turn, have a material adverse effect on FNCB's financial condition and results of operations. Specifically, weakness in economic conditions could result in one or more of the following:

- A decrease in the demand for FNCB's loans and other products and services;
- A decrease in customer savings generally and in the demand for FNCB's savings and other deposit products; and
- An increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations.

An increase in the number of delinquencies, bankruptcies, or defaults could result in a higher level of non-performing assets, net charge-offs, and provision for loan and lease losses. The markets FNCB serves are dependent on retail and service-related businesses and, thus, are particularly vulnerable to adverse changes in economic conditions affecting these sectors.

To the extent that economic conditions deteriorate, business and individual borrowers may be less able to meet their obligations to the Bank in full, in a timely manner, resulting in decreased earnings or losses to the Bank. To the extent that loans are secured by real estate, adverse conditions in the real estate market may reduce the ability of the borrowers to generate the necessary cash flow for repayment of the loan, and reduce the ability to collect the full amount of the loan upon a default. To the extent that the Bank makes fixed-rate loans, general increases in interest rates will tend to reduce its spread as the interest rates FNCB must pay for deposits would increase while interest income is flat. Economic conditions and interest rates may also adversely affect the value of property pledged as security for loans.

FNCB's loan portfolio contains a significant number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans.

As of December 31, 2019, approximately 39.4% of FNCB's loan portfolio consisted of commercial real estate loans and construction, land acquisition and development loans. These types of loans are generally viewed as having a higher risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because FNCB's loan portfolio contains a significant number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. All non-performing loans totaled \$9.1 million, or 1.10% of total gross loans, as of December 31, 2019, and \$4.7 million, or 0.56% of total gross loans, as of December 31, 2018. Additional increases in non-performing loans in the future could result in an increase in the provision for loan and lease losses and an increase in loan charge-offs, both of which could have a material adverse effect on FNCB's financial condition and results of operations. The lending activities in which the Bank engages carry the risk that the borrowers will be unable to perform on their obligations. As such, general economic conditions, nationally and in FNCB's primary market area, will have a significant impact on its results of operations.

FNCB's concentrations of loans, including those to insiders and related parties, may create a greater risk of loan defaults and losses.

A substantial portion of FNCB's loans are secured by real estate in the Northeastern Pennsylvania market, and substantially all of its loans are to borrowers in that area. FNCB also has a significant amount of commercial real estate, commercial and industrial, construction, land acquisition and development loans and land-related loans for residential and commercial developments. At December 31, 2019, \$513.7 million, or 62.2%, of gross loans were secured by real estate, primarily commercial real estate. Management has taken steps to mitigate commercial real estate concentration risk by diversification among the types and characteristics of real estate collateral properties, sound underwriting practices, and ongoing portfolio monitoring and market analysis. Of total gross loans, \$47.5 million, or 5.7%, were construction, land acquisition and development loans. Construction, land acquisition and development loans have the highest risk of uncollectability. An additional \$147.6 million, or 17.9%, of portfolio loans were commercial and industrial loans not secured by real estate. Historically, commercial and industrial loans generally have had a higher risk of default than other categories of loans, such as single family residential mortgage loans. The repayment of these loans often depends on the successful operation of a business and are more likely to be adversely affected by adverse economic conditions. While management believes that the loan portfolio is well diversified in terms of borrowers and industries, these concentrations expose FNCB to the risk that adverse developments in the real estate market, or in the general economic conditions in its general market area, could increase the levels of non-performing loans and charge-offs, and reduce loan demand. In that event, FNCB would likely experience lower earnings or losses. Additionally, if, for any reason, economic conditions in its market area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, FNCB's ability to develop business relationships may be diminished, the quality and collectability of its loans may be adversely affected, the value of collateral may decline and loan demand may be reduced.

Commercial real estate, commercial and industrial and construction, land acquisition and development loans tend to have larger balances than single family mortgage loans and other consumer loans. Because FNCB's loan portfolio contains a significant number of commercial and industrial loans, commercial real estate loans and construction, land acquisition and development loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in non-performing assets. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan and lease losses, or an increase in loan charge-offs, which could have an adverse impact on FNCB's results of operations and financial condition.

Guidance adopted by federal banking regulators provides that banks having concentrations in construction, land development or commercial real estate loans are expected to have and maintain higher levels of risk management and, potentially, higher levels of capital, which may adversely affect shareholder returns, or require FNCB to obtain additional capital sooner than it otherwise would. Excluded from the scope of this guidance are loans secured by non-farm nonresidential properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

Outstanding loans and line of credit balances to directors, officers and their related parties totaled \$77.9 million as of December 31, 2019. At December 31, 2019, there were no loans to directors, officers and their related parties that were categorized as criticized loans within the Bank's risk rating system, meaning they are not considered to present a higher risk of collection than other loans. See Note 11, "Related Party Transactions" to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" and Item 13, "Certain Relationships and Related Transactions, and Director Independence" to this Annual Report on Form 10-K for more information regarding loans to officers and directors and/or their related parties.

FNCB's financial condition and results of operations would be adversely affected if the ALLL is not sufficient to absorb actual losses or if increases to the ALLL were required.

The lending activities in which the Bank engages carry the risk that the borrowers will be unable to perform on their obligations, and that the collateral securing the payment of their obligations may be insufficient to assure repayment. FNCB may experience significant credit losses, which could have a material adverse effect on its operating results. Management makes various assumptions and judgments about the collectability of FNCB's loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of its loans, which it uses as a basis to estimate and establish its reserves for losses. In determining the amount of the ALLL, management reviews loans, loss and delinquency experience, and evaluates current economic conditions. If these assumptions prove to be incorrect, the ALLL may not cover inherent losses in FNCB's loan portfolio at the date of its financial statements. Material additions to FNCB's allowance or extensive charge-offs would materially decrease its net income. At December 31, 2019, the ALLL totaled \$9.0 million, representing 1.08% of total loans.

Although management believes FNCB's underwriting standards are adequate to manage normal lending risks, it is difficult to assess the future performance of its loan portfolio due to the ongoing economic environment and the state of the real estate market. The assessment of future performance of the loan portfolio is inherently uncertain. FNCB can give no assurance that non-performing loans will not increase or that non-performing or delinquent loans will not adversely affect its future performance.

In addition, federal and state regulators periodically review the ALLL and may require increases to the ALLL or further loan charge-offs. Any increase in ALLL or loan charge-offs as required by these regulatory agencies could have a material adverse effect on FNCB's results of operations and financial condition.

If management concludes that the decline in value of any of FNCB's investment securities is other-than-temporary, FNCB is required to write down the security to reflect credit-related impairments through a charge to earnings.

Management reviews FNCB's investment securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of FNCB's debt investment securities has declined below its carrying value, management is required to assess whether the decline represents an OTTI. If management concludes that the decline is other-than-temporary, it is required to write down the value of that security to reflect the credit-related impairments through a charge to earnings. Changes in the expected cash flows of securities in FNCB's portfolio and/or prolonged price declines in future periods may result in OTTI, which would require a charge to earnings. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, any impairment disclosed may not accurately reflect the actual impairment in the future. In addition, to the extent that the value of any of FNCB's investment securities is sensitive to fluctuations in interest rates, any increase in interest rates may result in a decline in the value of such investment securities.

FNCB held approximately \$3.8 million in capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") as of December 31, 2019. FNCB must own such capital stock to qualify for membership in the Federal Home Loan Bank system which enables it to borrow funds under the FHLB advance program. If the FHLB were to cease operations, FNCB's business, financial condition, liquidity, capital and results of operations may be materially and adversely affected.

FNCB's risk management framework may not be effective in mitigating risks or losses.

FNCB's risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which FNCB is subject, including, among others, credit, market, liquidity, interest rate and compliance. FNCB's framework also includes financial or other modeling methodologies that involve management assumptions and judgment. FNCB's risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to FNCB. If FNCB's risk management framework is not effective, FNCB could suffer unexpected losses and its business, financial condition, results of operations or growth prospects could be materially and adversely affected. FNCB may also be subject to potentially adverse regulatory consequences.

FNCB's portfolio of loans to small and mid-sized community-based businesses may increase its credit risk.

Many of FNCB's commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the market area in which FNCB operates negatively impact this important customer sector, FNCB's results of operations and financial condition may be adversely affected. Moreover, a portion of these loans have been made by FNCB in recent years and the borrowers may not have experienced a complete business or economic cycle. The deterioration of FNCB's borrowers' businesses may hinder their ability to repay their loans with FNCB, which could have a material adverse effect on FNCB's financial condition and results of operations.

FNCB is subject to interest rate risk, which could adversely affect its profitability.

FNCB's profitability, like that of most financial institutions, depends to a large extent on its net interest income, which is the difference between its interest income on interest-earning assets, such as loans and investment securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings.

Interest rates are highly sensitive to many factors that are beyond FNCB's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System, or the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest FNCB receives on loans and securities and the interest FNCB pays on deposits and borrowings, but such changes could affect FNCB's ability to originate loans and obtain deposits, the fair value of FNCB's financial assets and liabilities, and the average duration of FNCB's assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, FNCB's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse impact on FNCB's business, financial condition and results of operations.

FNCB uses simulation analysis to model net interest income for various interest rate scenarios over a five-year time horizon. Based on the simulation analysis, FNCB's interest sensitivity profile at December 31, 2019 displayed liability sensitivity in the near term, next 12-15 months, moving to an asset sensitivity position in the later years of the model. Accordingly, based on its interest sensitivity profile, FNCB would expect a decrease in net interest income if interest rates rise over the next 12 months. However, net interest income is projected to trend upwards over the life of the simulation due primarily to higher replacement rates on loans and securities exceeding funding cost increases quarter over quarter. Conversely, FNCB would expect an increase in net interest income if interest rates decrease over the next 12 months, with net interest income projected to trend downward over the life of the simulation due primarily to lower replacement rates on loans and securities exceeding funding cost decreases quarter over quarter. These simulations are based on numerous assumptions, including but not limited to: the nature and timing of interest rate levels, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment of asset and liability cash flows, customer behavior in a rising rate environment and other factors. When short-term interest rates rise, the rate of interest FNCB pays on its interest-bearing liabilities may rise more quickly than the rate of interest that FNCB receives on its interest-earning assets, which may cause FNCB's net interest income to decrease.

Additionally, a shrinking yield premium between short-term and long-term market interest rates, a pattern usually indicative of investors' waning expectations of future growth and inflation, commonly referred to as a flattening of the yield curve, typically reduces FNCB's profit margin as FNCB borrows at shorter terms than the terms at which FNCB lends and invests.

In addition, an increase in interest rates could also have a negative impact on FNCB's results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also reduce collateral values and necessitate further increases to the allowance for loan losses, which could have a material adverse effect on FNCB's business, financial condition and results of operations.

Changes in interest rates could reduce income, cash flows and asset values.

FNCB's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond FNCB's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest FNCB receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) FNCB's ability to originate loans and obtain deposits, (ii) the fair value of FNCB's financial assets and liabilities, and (iii) the average duration of FNCB's mortgage-backed securities portfolio.

If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investments, FNCB's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on FNCB's financial condition and results of operations.

Uncertainty relating to the expected phase-out of the London Interbank Offered Rate ("LIBOR") in 2021 may adversely affect FNCB.

LIBOR has been used extensively in the United States as a reference rate for various financial contracts, including adjustable-rate loans, asset-backed securities, and interest rate swaps. In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that the Financial Conduct Authority ("FCA") will not compel panel banks to submit rates for the calculation of LIBOR after 2021. The announcement means that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR, and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based variable rate loans and other securities or financial arrangements, given LIBOR's current role in determining market interest rates globally. The uncertainty as to the nature and effect of such reforms and actions relating to the discontinuance of LIBOR may adversely affect the value of and return on certain of our financial assets and liabilities that are based on or are linked to LIBOR, which may adversely affect FNCB's results of operations or financial condition. In addition, LIBOR-related reforms may also require changes to the agreements that govern these LIBOR-based products, as well as FNCB's internal systems and processes.

FNCB may not be able to successfully compete with others for business.

FNCB competes for loans, deposits and investment dollars with numerous regional and national banks and other community banking institutions, online divisions of banks located in other markets as well as other kinds of financial institutions and enterprises, such as securities firms, insurance companies, savings associations, credit unions, mortgage brokers, private lenders and Fintech companies. There is also competition for banking business from competitors outside of its market area. As noted above, FNCB and the Bank are subject to extensive regulations and supervision, including, in many cases, regulations that limit the type and scope of activities. Many competitors have substantially greater resources and may offer certain services that FNCB and the Bank does not provide, and operate under less stringent regulatory environments. The differences in available resources and applicable regulations may make it harder for FNCB to compete profitably, reduce the rates that it can earn on loans and investments, increase the rates it must offer on deposits and other funds, and adversely affect its overall financial condition and earnings. Refer to the section entitled "Business – Competition" included in Item 1, "Business" to this Annual Report on Form 10-K for an additional discussion of FNCB's competitive environment.

Changes in either FNCB's financial condition or in the general banking industry could result in a loss of depositor confidence.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The Bank uses its liquidity to extend credit and to repay liabilities as they become due or as demanded by customers. The Board of Directors establishes liquidity policies, including contingency funding plans, and limits and management establishes operating guidelines for liquidity. FNCB's primary source of liquidity is customer deposits. The continued availability of this funding source depends on customer willingness to maintain deposit balances with banks in general and FNCB in particular. The availability of deposits

can also be impacted by regulatory changes (e.g. changes in FDIC insurance, the liquidity coverage ratio, etc.), changes in the financial condition of FNCB, or the banking industry in general, and other events which can impact the perceived safety and soundness or economic benefits of bank deposits. While FNCB makes significant efforts to consider and plan for hypothetical disruptions in FNCB's deposit funding through the use of liquidity stress testing, market related, geopolitical, or other events could impact the liquidity derived from deposits.

FNCB may not be able to retain or grow its core deposit base, which could adversely impact its funding costs.

Like many financial institutions, FNCB relies on customer deposits as its primary source of funding for its lending activities, and FNCB continues to seek customer deposits to maintain this funding base. FNCB's future growth will largely depend on its ability to retain and grow its deposit base. As of December 31, 2019, FNCB had \$1.002 billion in deposits. FNCB's deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of its control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, customer perceptions of its financial health and general reputation, and a loss of confidence by customers in FNCB or the banking sector generally, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits. Any such loss of funds could result in lower loan originations, which could have a material adverse effect on FNCB's business, financial condition and results of operations.

FNCB is a bank holding company and depends on dividends from its subsidiary, FNCB Bank, to operate.

FNCB is an entity separate and distinct from the Bank. The Bank conducts most of FNCB's operations and FNCB depends upon dividends from the Bank to service FNCB's debt, pay FNCB's expenses and to pay dividends to FNCB's shareholders. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition including liquidity and capital adequacy of the Bank and other factors, that the Bank's regulators could limit the payment of dividends or other payments to FNCB by the Bank. In the event that the Bank was unable to pay dividends, FNCB in turn would likely have to reduce or stop paying dividends to its shareholders. Failure to pay dividends to FNCB shareholders could have a material adverse effect on the market price of FNCB's Common Stock. For additional information regarding dividend restrictions, refer to the section entitled "Regulatory Matters" included in Item 1 of this Annual Report on Form 10-K.

If FNCB loses access to wholesale funding sources, it may not be able to meet the cash flow requirements of its depositors, creditors, and borrowers, or have the operating cash needed to fund corporate expansion and other corporate activities.

Wholesale funding sources include brokered deposits, one-way CDARS and ICS deposits, federal funds lines of credit, securities sold under repurchase agreements, non-core deposits, and long-term debt. The Bank is also a member of the Federal Home Loan Bank of Pittsburgh, which provides members access to funding through advances collateralized with certain qualifying assets within the Bank's loan portfolio. In addition, FNCB's available-for-sale securities provide an additional source of liquidity. Disruptions in availability of wholesale funding can directly impact the liquidity of FNCB and the Bank. The inability to access capital markets funding sources as needed could adversely impact FNCB's financial condition, results of operations, cash flows, and level of regulatory-qualifying capital.

Interruptions or security breaches of FNCB's information systems could negatively affect its financial performance or reputation.

In conducting its business, FNCB relies heavily on its information systems. FNCB collects and stores sensitive data, including proprietary business information and personally identifiable information of its customers and employees, in its data centers and on its networks. The secure processing, maintenance and transmission of this information is critical to FNCB's operations and business strategy. Maintaining and protecting those systems is difficult and expensive, as is dealing with any failure, interruption or breach of those systems. Despite security measures, FNCB's information technology and infrastructure may be vulnerable to security breaches, cyber-attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any damage, failure or breach could cause an interruption in operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through FNCB's computer systems and network infrastructure. The occurrence of any failures, interruptions or breaches could damage FNCB's reputation, disrupt operations and the services provided to customers, cause a loss of confidence in the products and the services provided, cause FNCB to incur additional expenses, result in a loss of customer business and data, result in legal claims or proceedings, result in liability under laws that protect the privacy of personal information, result in regulatory penalties, or expose FNCB to other liability, any of which could have a material adverse effect on its business, financial condition and results of operations and competitive position.

FNCB depends on information technology and telecommunications systems of third parties, and any systems failures or interruptions could adversely affect FNCB's operations and financial condition.

FNCB's business depends on the successful and uninterrupted functioning of its information technology and telecommunications systems. FNCB outsources many of its major systems, such as data processing, deposit processing, loan origination, email and anti-money laundering monitoring systems. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt FNCB's operations, and FNCB could experience difficulty in implementing replacement solutions. In many cases, FNCB's operations rely heavily on secured processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. Because FNCB's information technology and telecommunications systems interface with and depend on third party systems, FNCB could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise FNCB's ability to operate effectively, damage FNCB's reputation, result in a loss of customer business and subject FNCB to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on FNCB's business, financial condition and results of operations. In addition, failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt FNCB's operations or adversely affect FNCB's reputation.

FNCB is subject to cybersecurity risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents, and FNCB may experience harm to its reputation and liability exposure from security breaches.

FNCB's business involves the storage and transmission of customers' proprietary information and security breaches could expose FNCB to a risk of loss or misuse of this information, litigation and potential liability. While FNCB has not incurred a material cyber-attack or security breach to date, a number of other financial services and other companies have disclosed cyber-attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at FNCB, its customers or both. Although FNCB devotes significant resources to maintain, regularly update and backup its systems and processes that are designed to protect the security of FNCB's computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to FNCB or its customers, its security measures may not be effective against all potential cyber-attacks or security breaches. Despite FNCB's efforts to ensure the integrity of its systems, it is possible that FNCB may not be able to anticipate, or implement effective preventive measures against, all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. These risks may increase in the future as FNCB continues to increase FNCB's internet-based product offerings and expand its internal usage of web-based products and applications. If an actual or perceived security breach occurs, customer perception of the effectiveness of FNCB's security measures could be harmed and could result in the loss of customers.

A successful penetration or circumvention of the security of FNCB's systems, including those of third party providers or other financial institutions, or the failure to meet regulatory requirements for security of its systems, could cause serious negative consequences, including significant disruption of FNCB's operations, misappropriation of FNCB's confidential information or that of FNCB's customers, or damage to FNCB's computers or systems or those of FNCB's customers or counterparties, significant increases in compliance costs (such as repairing systems or adding new personnel or protection technologies), and could result in violations of applicable privacy and other laws, financial loss to FNCB or to its customers, loss of confidence in its security measures, customer dissatisfaction, significant litigation and regulatory exposure, and harm to FNCB's reputation, all of which could have a material adverse effect on FNCB's business, financial condition and results of operations.

If FNCB's information technology is unable to keep pace with growth or industry developments or if technological developments result in higher costs or less advantageous pricing, financial performance may suffer.

Effective and competitive delivery of FNCB's products and services increasingly depends on information technology resources and processes, both those provided internally as well as those provided through third party vendors. In addition to better serving customers, the effective use of technology can improve efficiency and help reduce costs. FNCB's future success will depend, in part, upon its ability to address the needs of its customers by using technology to provide products and services to enhance customer convenience, as well as to create efficiencies in its operations. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and non-interest income from fee-based products and services. In addition, the widespread adoption of new technologies could require FNCB to make substantial capital

expenditures to modify or adapt existing products and services or develop new products and services. FNCB may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. Many of FNCB's competitors have greater resources to invest in technological improvements. Additionally, as technology in the financial services industry changes and evolves, keeping pace becomes increasingly complex and expensive. There can be no assurance that FNCB will be able to effectively implement new technology-driven products and services, which could reduce its ability to compete effectively. As a result, FNCB could lose business, be forced to price products and services on less advantageous terms to retain or attract customers, or be subject to cost increases.

FNCB relies on management and other key personnel and the loss of any of them may adversely affect its operations.

FNCB believes each member of the executive management team is important to its success and the unexpected loss of any of these persons could impair day-to-day operations as well as its strategic direction.

FNCB's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by FNCB can be intense and it may not be able to hire people or retain them. The unexpected loss of services of one or more of FNCB's key personnel could have a material adverse impact on its business due to the loss of their skills, knowledge of its market, years of industry experience and to the difficulty of promptly finding qualified replacement personnel.

FNCB is dependent on the use of data and modeling in both its management's decision-making generally and in meeting regulatory expectations in particular.

The use of statistical and quantitative models and other quantitatively-based analyses is endemic to bank decision-making and regulatory compliance processes, and the employment of such analyses is becoming increasingly widespread in FNCB's operations. Liquidity stress testing, interest rate sensitivity analysis, allowance for loan loss measurement, portfolio stress testing and the identification of possible violations of anti-money laundering regulations are examples of areas in which FNCB is dependent on models and the data that underlies them. FNCB anticipates that model-derived insights will be used more widely in FNCB's decision-making in the future. While these quantitative techniques and approaches improve FNCB's decision-making, they also create the possibility that faulty data or flawed quantitative approaches could yield adverse outcomes or regulatory scrutiny. Secondly, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision making, which could have a material adverse effect on FNCB's business, financial condition and results of operations.

New lines of business, products, product enhancements or services may subject FNCB to additional risk.

From time to time, FNCB may implement new lines of business or offer new products and product enhancements as well as new services within FNCB's existing lines of business. There are substantial risks and uncertainties associated with these efforts. In developing, implementing or marketing new lines of business, products, product enhancements or services, FNCB may invest significant time and resources. FNCB may underestimate the appropriate level of resources or expertise necessary to make new lines of business or products successful to realize their expected benefits. FNCB may not achieve the milestones set in initial timetables for the development and introduction of new lines of business, products, product enhancements or services, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offering of new products, product enhancements or services. Any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of FNCB's system of internal controls. FNCB may also decide to discontinue business or products, due to lack of customer acceptance or unprofitability. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on FNCB's business, financial condition and results of operations.

The appraisals and other valuation techniques FNCB uses in evaluating and monitoring loans secured by real property and other real estate owned may not accurately reflect the net value of the asset.

In considering whether to make a loan secured by real property, FNCB generally requires an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately reflect the net value of the collateral after the loan is made. As a result, FNCB may not be able to realize the full amount of any remaining indebtedness when FNCB forecloses on and sells the relevant property. In addition, FNCB relies on appraisals and other valuation techniques to establish the value of other real estate owned

(“OREO”), that FNCB acquires through foreclosure proceedings and to determine loan impairments. If any of these valuations are inaccurate, FNCB’s financial statements may not reflect the correct value of FNCB’s OREO, if any, and FNCB’s allowance for loan losses may not reflect accurate loan impairments. Inaccurate valuation of OREO or inaccurate provisioning for loan losses could have a material adverse effect on FNCB’s business, financial condition and results of operations.

FNCB may be adversely affected by the soundness of other financial institutions.

FNCB’s ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by FNCB or other institutions. These losses could have a material adverse effect on FNCB’s business, financial condition and results of operations.

Damage to FNCB’s reputation could significantly harm its businesses, competitive position and prospects for growth.

FNCB’s ability to attract and retain investors, customers, clients, and employees could be adversely affected by damage to its reputation resulting from various sources, including employee misconduct, litigation, or regulatory outcomes; failure to deliver minimum standards of service and quality; compliance failures; unethical behavior; unintended breach of confidential information; and the activities of FNCB’s clients, customers, or counterparties. Actions by the financial services industry in general, or by certain entities or individuals within it, also could have a significantly adverse impact on FNCB’s reputation.

FNCB’s actual or perceived failure to identify and address various issues, including failure to properly address operational risks, could also give rise to reputation risk that could negatively impact business prospects. These issues include legal and regulatory requirements; consumer protection, fair lending, and privacy issues; properly maintaining customer and associated personal information; record keeping; protecting against money laundering; sales and trading practices; and ethical issues.

FNCB may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on its financial condition, results of operations and cash flows.

FNCB has been and may continue to be involved from time to time in a variety of litigation matters arising out of its business. An increased number of lawsuits, including purported class action lawsuits and other consumer driven litigation, have been filed and will likely continue to be filed against financial institutions, which may involve substantial compensatory and/or punitive damages. Management believes the risk of litigation generally increases during downturns in the national and local economies. FNCB’s insurance may not cover all claims that may be asserted against it, and any claims asserted against it, regardless of merit or eventual outcome, may harm its reputation and may cause it to incur significant expense. Should the ultimate judgments or settlements in any litigation exceed insurance coverage, they could have a material adverse effect on its financial condition, results of operations and cash flows. In addition, FNCB may not be able to obtain appropriate types or levels of insurance in the future, nor may it be able to obtain adequate replacement policies with acceptable terms, if at all. Refer to Item 3, “Legal Proceedings” to this Annual Report on Form 10-K for an additional discussion of FNCB’s current legal matters.

FNCB depends on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, FNCB may rely on information furnished by or on behalf of customers and counterparties, including financial information. FNCB may also rely on representations of customers and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, FNCB may rely upon customers’ representations that their financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. FNCB also may rely on customer representations and certifications, or audit or accountants’ reports, with respect to the business and financial condition of its customers. FNCB’s financial condition, results of operations, financial reporting and reputation could be negatively affected if FNCB relies on materially misleading, false, inaccurate or fraudulent information.

FNCB may face risks with respect to future expansion or acquisition activity.

FNCB may selectively seek to expand its banking operations through limited *de novo* branching or opportunistic acquisition activities. FNCB cannot be certain that any expansion activity, through *de novo* branching, acquisition of branches of another financial institution or a whole institution, or the establishment or acquisition of nonbanking financial service companies, will prove profitable or will increase shareholder value. The success of any acquisition will depend, in part, on FNCB’s

ability to realize the estimated cost savings and revenue enhancements from combining its business and that of the target company. FNCB's ability to realize increases in revenue will depend, in part, on its ability to retain customers and employees, and to capitalize on existing relationships for the provision of additional products and services. If FNCB estimates turn out to be incorrect or FNCB is not able to successfully combine companies, the anticipated cost savings and increased revenues may not be realized fully or at all, or may take longer to realize than expected. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business, diversion of management attention, or inconsistencies in standards, controls, procedures and policies that adversely affect FNCB's ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. As with any combination of banking institutions, there also may be disruptions that cause FNCB to lose customers or cause customers to withdraw their deposits. Customers may not readily accept changes to their banking arrangements that FNCB makes as part of, or following, an acquisition. Additionally, the value of an acquisition to FNCB is dependent on its ability to successfully identify and estimate the magnitude of any asset quality issues of acquired companies.

FNCB may not be successful in overcoming these risks or other problems encountered in connection with potential acquisitions or other expansion activity. FNCB's inability to overcome these risks could have an adverse effect on FNCB's ability to implement its business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on FNCB's business, financial condition or results of operations. Additionally, if FNCB records goodwill in connection with any acquisition, FNCB's financial condition and results of operation may be adversely affected if that goodwill is determined to be impaired, which would require FNCB to take an impairment charge.

FNCB could be subject to environmental risks and associated costs on its foreclosed real estate assets.

A substantial portion of FNCB's loan portfolio is secured by real property. During the ordinary course of business, FNCB may foreclose on and take title to properties securing loans. There is a risk that hazardous or toxic substances could be found on these properties and that FNCB could be liable for remediation costs, as well as personal injury and property damage. Environmental laws may require FNCB to incur substantial expenses and may materially reduce the affected property's value or limit FNCB's ability to sell the affected property. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on FNCB's business, financial condition and results of operations.

The outbreak of the recent coronavirus ("COVID-19"), or an outbreak of another highly infectious or contagious disease, could adversely affect FNCB's business, financial condition and results of operations.

FNCB's business is dependent upon the willingness and ability of its customers to conduct banking and other financial transactions. The spread of a highly infectious or contagious disease, such as COVID-19, could cause severe disruptions in the U.S. economy, which could in turn disrupt the business, activities, and operations of FNCB's customers, as well the business and operations of FNCB. Moreover, since the beginning of January 2020, the coronavirus outbreak has caused significant disruption in the financial markets both globally and in the United States. The spread of COVID-19, or an outbreak of another highly infectious or contagious disease, may result in a significant decrease in business and/or cause FNCB's customers to be unable to meet existing payment or other obligations to FNCB, particularly in the event of a spread of COVID-19 or an outbreak of an infectious disease in FNCB's market area. Although FNCB maintains contingency plans for pandemic outbreaks, a spread of COVID-19, or an outbreak of another contagious disease, could also negatively impact the availability of key personnel of FNCB necessary to conduct the business of FNCB. Such a spread or outbreak could also negatively impact the business and operations of third party service providers who perform critical services for FNCB's business. If COVID-19, or another highly infectious or contagious disease, spreads or the response to contain COVID-19 is unsuccessful, FNCB could experience a material adverse effect on its business, financial condition, and results of operations.

Risks Related to FNCB's Industry

Federal and state regulators periodically examine FNCB's business and may require FNCB to remediate adverse examination findings or may take enforcement action against FNCB.

The Federal Reserve, the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking and Securities ("PADOBS"), periodically examine FNCB's business, including its compliance with laws and regulations. If, as a result of an examination, the Federal Reserve, FDIC or PADOBS were to determine that FNCB's financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of FNCB's operations had become unsatisfactory, or that FNCB were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to require FNCB to remediate any such adverse examination findings.

In addition, these agencies have the power to take enforcement action against FNCB to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation of law or regulation or unsafe or unsound practice, to issue an administrative order that can be judicially enforced, to direct an increase in FNCB's capital, to direct the sale of subsidiaries or other assets, to limit dividends and distributions, to restrict FNCB's growth, to assess civil money penalties against FNCB or its officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is imminent risk of loss to depositors, to terminate FNCB's deposit insurance and place the Bank into receivership or conservatorship. Any regulatory enforcement action against FNCB could have a material adverse effect on its business, financial condition and results of operations.

FNCB may be required to act as a source of financial and managerial strength for the Bank in times of stress.

FNCB, as a bank holding company, is required to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank if necessary. FNCB may be required to commit additional resources to the Bank at times when FNCB may not be in a financial position to provide such resources or when it may not be in FNCB's, or its shareholders' or creditors', best interests to do so. A requirement to provide such support is more likely during times of financial stress for FNCB and the Bank, which may make any capital FNCB is required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans FNCB makes to the Bank are subordinate in right of repayment to deposit liabilities of the Bank.

FNCB is subject to extensive government regulation, supervision and possible regulatory enforcement actions, which may subject it to higher costs and lower shareholder returns.

The banking industry is subject to extensive regulation and supervision that govern almost all aspects of its operations. The extensive regulatory framework is primarily intended to protect the federal deposit insurance fund and depositors, not shareholders. Compliance with applicable laws and regulations can be difficult and costly and, in some instances, may put banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies, leasing companies and internet-based Fintech companies. FNCB's regulatory authorities have extensive discretion in their supervisory and enforcement activities, including with respect to the imposition of restrictions on the operation of a bank or a bank holding company, the imposition of significant fines, the ability to delay or deny merger or other regulatory applications, the classification of assets by a bank, and the adequacy of a bank's allowance for loan losses, among other matters. If they deem FNCB to be operating in a manner inconsistent with safe and sound banking practices, these regulatory authorities can require the entry into informal and formal supervisory agreements, including board resolutions, memorandum of understanding, settlement agreements and consent or cease and desist orders, pursuant to which FNCB would be required to implement identified corrective actions to address cited concerns and/or to refrain from taking certain actions in the form of injunctive relief. In recent years, the banking industry has faced increased regulation and scrutiny; for instance, areas such as BSA compliance (including BSA and related anti-money laundering regulations) and real estate-secured consumer lending (such as Truth-in-Lending regulations, changes in Real Estate Settlement Procedures Act regulations, implementation of licensing and registration requirements for mortgage originators and more recently, heightened regulatory attention to mortgage and foreclosure-related activities and exposures) are being confronted with escalating regulatory expectations and scrutiny. Non-compliance with laws and regulations such as these, even in cases of inadvertent non-compliance, could result in litigation, significant fines and/or sanctions. Any failure to comply with, or any change in, any applicable regulation and supervisory requirement, or change in regulation or enforcement by such authorities, whether in the form of policies, regulations, legislation, rules, orders, enforcement actions, or decisions, could have a material impact on FNCB, the Bank and other affiliates, and its operations. Federal economic and monetary policy may also affect FNCB's ability to attract deposits and other funding sources, make loans and investments, and achieve satisfactory interest spreads. Any failure to comply with such regulation or supervision could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on FNCB's business, financial condition and results of operations. In addition, compliance with any such action could distract management's attention from FNCB's operations, cause it to incur significant expenses, restrict it from engaging in potentially profitable activities and limit its ability to raise capital.

New or changed legislation or regulation and regulatory initiatives could adversely affect FNCB through increased regulation and increased costs of doing business.

Changes in federal and state legislation and regulation may affect FNCB's operations. New and modified regulations, such as the Dodd-Frank Act and Basel III, may have unforeseen or unintended consequences on the banking industry. The Dodd-Frank Act has implemented significant changes to the U.S. financial system, including the creation of new regulatory agencies (such as the Financial Stability Oversight Council to oversee systemic risk and the CFPB to develop and enforce rules for consumer financial products), changes in retail banking regulations, and changes to deposit insurance assessments. For example, the Dodd-Frank Act has implemented new requirements with respect to "qualified mortgages" and new mortgage

servicing standards have, and may continue to, increase costs associated with this business. Refer to the section entitled “Business – The Bank – *Consumer Financial Protection Bureau*” included in Item 1, “Business” to this Annual Report on Form 10-K for a more detailed description of new or changed legislation or regulation and regulatory initiatives.

Additionally, final rules to implement Basel III adopted in July 2013 revise risk-based and leverage capital requirements and limit capital distributions and certain discretionary bonuses if a banking organization does not hold the required “capital conservation buffer.” The rule became effective for FNCB on January 1, 2015, with some additional transition periods. This additional regulation could increase compliance costs and otherwise adversely affect operations. Refer to the description in Item 1, “Business” to this Annual Report on Form 10-K under the heading “Capital Adequacy Requirements” for a more detailed description of the final rules. The potential also exists for additional federal or state laws or regulations, or changes in policy or interpretations, affecting many of FNCB’s operations, including capital levels, lending and funding practices, insurance assessments, and liquidity standards. The effect of any such changes and their interpretation and application by regulatory authorities cannot be predicted, may increase FNCB’s cost of doing business and otherwise affect FNCB’s operations, may significantly affect the markets in which it does business, and could have a materially adverse effect on FNCB.

FNCB is also subject to the guidelines under the GLB Act. The GLB Act guidelines require, among other things, that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities and the sensitivity of any customer information at issue. In recent years there also has been increasing enforcement activity in the areas of privacy, information security and data protection in the United States, including at the federal level. Compliance with these laws, rules and regulations regarding the privacy, security and protection of customer and employee data could result in higher compliance and technology costs. In addition, non-compliance could result in potentially significant fines, penalties and damage to FNCB’s reputation and brand.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing significant internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. FNCB’s regulatory capital ratios currently are in excess of the levels established for “well capitalized” institutions. Future regulatory change could impose higher capital standards.

In September 2019, the federal banking agencies approved the final rule to implement the provisions of Section 201 of the Regulatory Relief Act. Under the new rule, which became effective on January 1, 2020, a qualifying community banking organization is defined as a depository institution or depository institution holding company with less than \$10.0 billion in assets. A qualifying community banking organization has the option to elect the CBLR framework if its CBLR is greater than 9.0% and it has off-balance sheet exposures of 25.0% or less of consolidated assets, and trading assets and liabilities of 5.0% or less of total consolidated assets. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies’ capital rules; (ii) the capital ratio requirements necessary to be considered “well capitalized” under the banking agencies’ prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements. This simplified capital regime, can provide no assurance that satisfaction of the CBLR will provide adequate capital for FNCB’s operations and growth, or an adequate cushion against increase levels of nonperforming assets or weakened economic conditions.

Any new or revised standards adopted in the future may require us to maintain materially more capital, with common equity as a more predominant component, or manage the configuration of our assets and liabilities to comply with formulaic liquidity requirements. We may not be able to raise additional capital at all, or on terms acceptable to us. Failure to maintain capital to meet current or future regulatory requirements could have a significant material adverse effect on our business, financial condition and results of operations.

FNCB faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. FNCB is required to comply with these and other anti-money laundering requirements. FNCB’s federal and state banking regulators, the Financial Crimes Enforcement Network (“FinCEN”), and other government agencies are authorized to impose significant civil money penalties for violations of anti-money laundering requirements. FNCB is also subject to increased scrutiny of compliance with the regulations issued and

enforced by the Office of Foreign Assets Control (“OFAC”). If FNCB’s program is deemed deficient, FNCB could be subject to liability, including fines, civil money penalties and other regulatory actions, which may include restrictions on FNCB’s business operations and its ability to pay dividends, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have significant consequences to FNCB’s reputation. Any of these circumstances could have a material adverse effect on FNCB’s business, financial condition or results of operations.

FNCB is subject to numerous "fair and responsible banking" laws designed to protect consumers, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations, including state laws and regulations, prohibit discriminatory lending practices by financial institutions. The Federal Trade Commission Act and the Dodd-Frank Act prohibit unfair, deceptive, or abusive acts or practices by financial institutions. The U.S. Department of Justice, or DOJ, federal banking agencies, and other federal and state agencies are responsible for enforcing these fair and responsible banking laws and regulations. A challenge to an institution’s compliance with fair and responsible banking laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on FNCB’s reputation, business, financial condition and results of operations.

FNCB is subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage FNCB’s reputation and otherwise adversely affect FNCB’s business.

FNCB’s business requires the collection and retention of large volumes of customer data, including personally identifiable information (“PII”), in various information systems that FNCB maintains and in those maintained by third party service providers. FNCB also maintains important internal company data such as PII about its employees and information relating to its operations. FNCB is subject to complex and evolving laws and regulations governing the privacy and protection of PII of individuals (including customers, employees and other third parties). For example, FNCB’s business is subject to the Gramm-Leach-Bliley Act, or the GLB Act, which, among other things: (i) imposes certain limitations on FNCB’s ability to share nonpublic PII about FNCB’s customers with nonaffiliated third parties; (ii) requires that FNCB provides certain disclosures to customers about its information collection, sharing and security practices and afford customers the right to “opt out” of any information sharing by FNCB with nonaffiliated third parties (with certain exceptions); and (iii) requires that FNCB develops, implements and maintains a written comprehensive information security program containing appropriate safeguards based on FNCB’s size and complexity, the nature and scope of its activities, and the sensitivity of customer information FNCB processes, as well as plans for responding to data security breaches. Various federal and state banking regulators and states have also enacted data breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in the event of a security breach. Ensuring that FNCB’s collection, use, transfer and storage of PII complies with all applicable laws and regulations can increase FNCB’s costs. Furthermore, FNCB may not be able to ensure that customers and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with FNCB, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), FNCB could be exposed to litigation or regulatory sanctions under privacy and data protection laws and regulations. Concerns regarding the effectiveness of FNCB’s measures to safeguard PII, or even the perception that such measures are inadequate, could cause FNCB to lose customers or potential customers and thereby reduce FNCB’s revenues. Accordingly, any failure, or perceived failure, to comply with applicable privacy or data protection laws and regulations may subject FNCB to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage FNCB’s reputation and otherwise adversely affect FNCB’s operations, financial condition and results of operations.

Rulemaking changes implemented by the Consumer Financial Protection Bureau may result in higher regulatory and compliance costs that may adversely affect FNCB’s business.

The Dodd-Frank Act created a new, independent federal agency, the Consumer Financial Protection Bureau, or CFPB, which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations issued by the CFPB have created a more intense and complex environment for consumer

finance regulation. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination. These changes could have a material adverse effect on FNCB's business, financial condition and results of operations.

Potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect FNCB's ability to attract and retain its highest performing employees.

The Federal Reserve, other federal banking agencies and the SEC have jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with \$1 billion or more in consolidated assets. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will substantially affect the manner in which FNCB structures compensation for its executives and other employees. Depending on the nature and application of the final rules, FNCB may not be able to successfully compete with financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees.

The Bank's FDIC deposit insurance premiums and assessments may increase.

The Bank's deposits are insured by the FDIC up to legal limits and, accordingly, the Bank is subject to insurance assessments based on the Bank's average consolidated total assets less its average tangible equity. The Bank's regular assessments are determined by its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses. Numerous bank failures during the financial crisis and increases in the statutory deposit insurance limits increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and the reserve ratios of the Deposit Insurance Fund required by statute and FDIC estimates of projected requirements, the FDIC has the power to increase deposit insurance assessment rates and impose special assessments on all FDIC-insured financial institutions. Any future increases or special assessments could reduce FNCB's profitability and could have a material adverse effect on FNCB's business, financial condition and results of operations.

Risks Related to FNCB's Common Stock

The price of FNCB's common stock may fluctuate significantly, which may make it difficult for shareholders to resell shares of common stock at a time or price they find attractive.

FNCB's stock price may fluctuate significantly as a result of a variety of factors, many of which are beyond its control. These factors include, among others:

- actual or anticipated quarterly fluctuations in operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to FNCB or other financial institutions;
- speculation in the press or investment community generally or relating to FNCB's reputation or the financial services industry;
- failure to declare dividends on FNCB's common stock from time to time;
- failure to meet analysts' revenue or earnings estimates;
- failure to integrate any future acquisitions or realize anticipated benefits from any future acquisitions;
- strategic actions by FNCB or its competitors, such as acquisitions, restructurings, dispositions or financings;
- fluctuations in the stock price and operating results of FNCB's competitors or other companies that investors deem comparable to FNCB;
- future sales of FNCB's equity or equity-related securities;
- proposed or adopted regulatory changes or developments;
- anticipated or pending audits or litigation that involve or affect FNCB;
- any future investigations or proceedings that involve or affect FNCB;
- adverse weather conditions, including floods, tornadoes and hurricanes;
- geopolitical conditions such as acts or threats of terrorism or military conflicts;
- domestic and international economic factors unrelated to FNCB's performance; and
- general market conditions and, in particular, developments related to market conditions for the financial services industry.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect FNCB's stock price, notwithstanding its operating results. FNCB expects that the market price of its common stock will continue to fluctuate and there can be no assurances about the levels of the market prices for its common stock.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause FNCB's stock price to decrease regardless of operating results.

An active public market for FNCB's common stock does not currently exist. As a result, shareholders may not be able to quickly and easily sell their shares of common stock.

Until March 5, 2018, FNCB's shares of common stock were quoted on the OTCQX. An average of 5,669 shares of FNCB's common stock traded on the OTCQX during 2017 on a daily basis. On March 5, 2018, FNCB's shares of common stock began trading on The Nasdaq Capital Market[®]. An active, liquid market for FNCB's shares of common stock did not previously exist; there can be no assurance that an active and liquid market will develop, or if one does develop, if it can be maintained. The absence of an active trading market may make it difficult for FNCB shareholders to sell FNCB's shares of common stock at the prevailing price when desired or at all, particularly in large quantities. For a further discussion, see Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities" to this Annual Report on Form 10-K.

The rights of holders of FNCB's common stock to receive liquidation payments and dividend payments are junior to FNCB's existing and future indebtedness and to any senior securities FNCB may issue in the future, and FNCB's ability to declare dividends on the common stock may become limited.

Shares of the common stock are equity interests in FNCB and do not constitute indebtedness. As such, shares of FNCB's common stock rank junior to all current and future indebtedness and other non-equity claims on FNCB with respect to assets available to satisfy claims on FNCB, including in a liquidation of FNCB. FNCB may, and the Bank and FNCB's other subsidiaries may also, incur additional indebtedness from time to time and may increase FNCB's aggregate level of outstanding indebtedness.

FNCB's board of directors is authorized to cause FNCB to issue additional classes or series of preferred stock without any action on the part of the shareholders. If FNCB issues preferred shares in the future that have a preference over its common stock with respect to the payment of dividends or upon liquidation, or if FNCB issues preferred shares with voting rights that dilute the voting power of the common stock, then the rights of holders of FNCB's common stock or the market price of FNCB's common stock could be adversely affected.

FNCB's ability to pay dividends may become limited by regulatory restrictions. In addition, the ability of the Bank to pay dividends to FNCB is limited by the Bank's obligations to maintain sufficient accumulated net earnings and by other general restrictions on dividends that are applicable to state nonmember banks.

Holders of FNCB's common stock are only entitled to receive the dividends that FNCB's board of directors may declare out of funds legally available for those payments. Although FNCB has historically paid cash dividends on its common stock, FNCB is not required to do so. FNCB cannot assure shareholders that it will continue paying dividends in the future. This could adversely affect the market price of FNCB's common stock. Also, as discussed above, FNCB is a bank holding company and its ability to declare and pay dividends depends in part on federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

FNCB may need to raise additional capital in the future, but that capital may not be available when it is needed and on terms favorable to current shareholders.

Laws, regulations and banking regulators require FNCB and the Bank to maintain adequate levels of capital to support their operations. In addition, capital levels are determined by FNCB's management and Board of Directors based on capital levels that they believe are necessary to support business operations. Management regularly evaluates its present and future capital requirements and needs and analyzes capital raising alternatives and options. Although FNCB succeeded in meeting its current regulatory capital requirements, it may need to raise additional capital in the future to support growth, possible loan losses or potential OTTI during future periods, to meet future regulatory capital requirements or for other reasons.

The Board of Directors may determine from time to time that FNCB needs to raise additional capital by issuing additional shares of common stock or other securities. FNCB is not restricted from issuing additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. Because FNCB's decision to issue securities in any future offering will depend on market conditions and other factors beyond its control, FNCB cannot predict or estimate the amount, timing or nature of any future offerings, or the prices at which such offerings may be affected. Such offerings will likely be dilutive to common shareholders from ownership, earnings and book value perspectives. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, its then current common shareholders. Additionally, if FNCB raises additional capital by making additional offerings of debt or preferred equity securities, upon liquidation, holders of its debt securities and shares of preferred shares, and lenders with respect to other borrowings, will receive distributions of available assets prior to the holders of common stock. Additional equity offerings may dilute the holdings of existing shareholders or reduce the market price of FNCB's common stock, or both. Holders of FNCB's common stock are not entitled to preemptive rights or other protections against dilution.

FNCB cannot provide any assurance that additional capital will be available on acceptable terms or at all. Any occurrence that may limit access to the capital markets may adversely affect FNCB's capital costs and its ability to raise capital and, in turn, its liquidity. Moreover, if FNCB needs to raise capital, it may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on FNCB's business, financial condition and results of operations.

An investment in FNCB's common stock is not an insured deposit.

FNCB's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in FNCB's common stock is inherently risky for the reasons described in this "Risk Factors" section, and elsewhere in FNCB's reports filed with the SEC, including under heading "Risk Factors" in this Annual Report on Form 10-K, or any subsequent report filed by FNCB. Investment in FNCB's common stock is also subject to the market forces that affect the price of common stock in any company. As a result, shareholders may lose some or all of their investment in FNCB's common stock.

Shareholders may not receive dividends on FNCB's common stock.

Although FNCB has historically declared quarterly cash dividends on its common stock, FNCB is not required to do so and may reduce or cease to pay common stock dividends in the future. If FNCB reduces or ceases to pay common stock dividends, the market price of its common stock could be adversely affected.

The principal source of funds from which FNCB pays cash dividends are the dividends received from the Bank. Banking laws and regulations of the Commonwealth of Pennsylvania restrict the amount of dividends and loans a bank may make to its parent company. In addition, under The Federal Deposit Insurance Corporation Improvement Act of 1991, banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized.

If FNCB fails to pay dividends, capital appreciation, if any, of its common stock may be the sole opportunity for gains on an investment in its common stock. In addition, in the event the Bank becomes unable to pay dividends to FNCB, FNCB may not be able to service its debt or pay its other obligations or pay dividends on its common stock and preferred stock. Accordingly, FNCB's inability to receive dividends from the Bank could also have a material adverse effect on its business, financial condition and results of operations and the value of a shareholder's investment in FNCB's common stock.

An entity holding as little as a 5% interest in FNCB's outstanding securities could, under certain circumstances, be subject to regulation as a "bank holding company."

Any entity, including a "group" composed of natural persons, owning or controlling with the power to vote 25% or more of FNCB's outstanding securities, or 5% or more if the holder otherwise exercises a "controlling influence" over FNCB, may be subject to regulation as a "bank holding company" in accordance with the Bank Holding Company Act of 1956, as amended, or the BHC Act. In addition, (a) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the Federal Reserve under the BHC Act to acquire or retain 5% or more of FNCB's outstanding securities and (b) any person not otherwise defined as a company by the BHC Act and its implementing regulations may be required to obtain the approval of the Federal Reserve under the Change in Bank Control Act to acquire or retain 10% or more of FNCB's outstanding securities. Becoming a bank holding company imposes statutory and regulatory restrictions and obligations, such as providing managerial and financial strength for its bank subsidiaries. Regulation as a bank holding company could require the holder to divest all or a portion of the holder's investment in FNCB's securities or those

nonbanking investments that may be deemed impermissible or incompatible with bank holding company status, such as a material investment in a company unrelated to banking.

The requirements of being a public company may strain FNCB's resources and divert management's attention.

FNCB is a public company, subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and applicable securities rules and regulations. Under FDIC regulations, the Sarbanes-Oxley Act and regulations increase the scope, complexity and cost of corporate governance, reporting and disclosure practices over those of non-public or non-reporting companies. Among other things, the Exchange Act requires that FNCB file annual, quarterly and current reports with respect to its business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. As a Nasdaq listed company, FNCB is also required to prepare and file proxy materials which meet the requirements of the Exchange Act and the SEC's proxy rules. Compliance with these rules and regulations increase FNCB's legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on FNCB's systems and resources, particularly if FNCB becomes ineligible to report as a "smaller reporting company" as defined in the SEC's regulations. In order to maintain, appropriately document and, if required, improve FNCB's disclosure controls and procedures and internal control over financial reporting to meet the standards required by the Sarbanes-Oxley Act, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm FNCB's business and operating results. Additionally, any failure by FNCB to file its periodic reports with the SEC in a timely manner could, among other things, harm its reputation, cause its investors and potential investors to lose confidence in FNCB, restrict trading in or reduce the market price of FNCB's common stock, and potentially limit its ability to access the capital markets.

As a public company, FNCB incurs significant legal, accounting, insurance, compliance and other expenses. Any deficiencies in FNCB's financial reporting or internal controls could materially and adversely affect its business and the market price of FNCB's common stock.

As a public company, FNCB incurs significant legal, accounting, insurance and other expenses. These costs and compliance with the rules of the SEC and the rules of Nasdaq increase FNCB's legal and financial compliance costs and make some activities more time consuming and costly. SEC rules require that FNCB's Chief Executive Officer and Chief Financial Officer periodically certify the existence and effectiveness of its internal control over financial reporting. In addition, FNCB is required to engage an independent registered public accounting firm to audit and opine on the design and operating effectiveness of its internal control over financial reporting. This process requires significant documentation of policies, procedures and systems, and review of that documentation and testing of FNCB's internal control over financial reporting by its internal auditing and accounting staff and an independent registered public accounting firm. This process requires considerable time and attention from management, which could prevent FNCB from successfully implementing its business initiatives and improving its business, financial condition and results of operations, which may strain FNCB's internal resources, and may increase its operating costs. FNCB may experience higher than anticipated operating expenses and outside auditor fees during the implementation of these changes and thereafter.

During the course of FNCB's testing it may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of FNCB's internal control over financial reporting. A material weakness is defined by the standards issued by the PCAOB as a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of FNCB's annual or interim financial statements will not be prevented or detected on a timely basis. As a consequence, FNCB would have to disclose in periodic reports it files with the SEC any material weakness in its internal control over financial reporting. The existence of a material weakness would preclude management from concluding that FNCB's internal control over financial reporting is effective and would preclude its independent auditors from expressing an unqualified opinion on the effectiveness of its internal control over financial reporting. In addition, disclosures of deficiencies of this type in FNCB's SEC reports could cause investors to lose confidence in its financial reporting, and may negatively affect the market price of its common stock, and could result in the delisting of its securities from the securities exchanges on which they trade. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If FNCB has deficiencies in its disclosure controls and procedures or internal control over financial reporting, it may materially and adversely affect FNCB.

FNCB's disclosure controls and procedures and internal controls over financial reporting may not achieve their intended objectives.

FNCB maintains disclosure controls and procedures designed to ensure the timely filing of reports as specified in the rules and forms of the Securities and Exchange Commission. FNCB also maintains a system of internal control over financial reporting. These controls may not achieve their intended objectives. Control processes that involve human diligence and compliance, such as its disclosure controls and procedures and internal controls over financial reporting, are subject to lapses

in judgment and breakdowns resulting from human failures. Controls can also be circumvented by collusion or improper management override. Because of such limitations, there are risks that material misstatements due to error or fraud may not be prevented or detected and that information may not be reported on a timely basis. If FNCB's controls are not effective, it could have a material adverse effect on its financial condition, results of operations, and market for its common stock, and could subject it to additional regulatory scrutiny.

Changes in accounting standards could impact reported earnings.

From time to time there are changes in the financial accounting and reporting standards that govern the preparation of financial statements. These changes can materially impact how FNCB records and reports its financial condition and results of operations. In some instances, FNCB could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

Changes which have been approved for future implementation, or which are currently proposed or expected to be proposed or adopted include requirements that we: (i) calculate the allowance for loan losses on the basis of the current expected credit losses over the lifetime of our loans, referred to as the CECL model, which is expected to be applicable to us beginning in 2023; and (ii) record the value of and liabilities relating to operating leases on our balance sheet, which was implemented in the beginning of 2019. These changes could adversely affect our capital, regulatory capital ratios, ability to make larger loans, earnings and performance metrics. Any such changes could have a material adverse effect on our business, financial condition and results of operations.

Under the CECL model, banks will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses, and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of the allowance for loan losses. If we are required to materially increase the level of the allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations. We are evaluating the impact the CECL accounting model will have on our accounting, but expect to recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations.

Anti-takeover provisions in FNCB's charter documents could discourage, delay or prevent a change of control of FNCB's company and diminish the value of FNCB's common stock.

Some of the provisions of FNCB's amended and restated articles of incorporation, as amended, and amended and restated bylaws, as amended, could make it difficult for its shareholders to change the composition of its board of directors, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that FNCB's shareholders may consider favorable. These provisions include:

- classifying FNCB's board of directors into three classes of directors with staggered three-year terms;
- authorizing FNCB's board of directors to issue preferred shares without shareholder approval;
- prohibiting cumulative voting in the election of directors;
- requiring the approval of 75% of FNCB's shareholders to approve any merger or sale of all, or substantially all, unless approval of such proposed transaction is recommended by at least a majority of FNCB's entire board of directors;
- authorizing FNCB's board of directors to, if it deems advisable, oppose a tender or other offer for FNCB's securities; and
- requiring the approval of 75% of FNCB's shareholders to amend certain provisions relating to business combinations not approved by the board of directors.

In addition, pursuant to the Pennsylvania Business Corporation Law (the "PBCL"), in the case of a merger or share exchange, with some exceptions, FNCB's board of directors must submit the plan of merger or share exchange to the shareholders for approval, and the approval of the plan of merger or share exchange generally requires the approval of the shareholders at a meeting at which a quorum consisting of at least a majority of the shares entitled to vote on the plan exists.

Provisions of the PBCL, applicable to FNCB provide, among other things, that:

- FNCB may not engage in a business combination with an “interested shareholder,” generally defined as a holder of 20% of a corporation’s voting stock, during the five-year period after the interested shareholder became such except under certain specified circumstances;
- holders of FNCB’s common stock may object to a “control transaction” involving FNCB (a control transaction is defined as the acquisition by a person or group of persons acting in concert of at least 20% of the outstanding voting stock of a corporation), and demand that they be paid a cash payment for the “fair value” of their shares from the “controlling person or group”;
- holders of “control shares” will not be entitled to voting rights with respect to any shares in excess of specified thresholds, including 20% voting control, until the voting rights associated with such shares are restored by the affirmative vote of a majority of disinterested shares and the outstanding voting shares of the Company; and
- any “profit,” as defined in the PBCL, realized by any person or group who is or was a “controlling person or group” with respect to FNCB from the disposition of any equity securities of within 18 months after the person or group became a “controlling person or group” shall belong to and be recoverable by FNCB.

These anti-takeover provisions could impede the ability of FNCB’s common shareholders to benefit from a change of control and, as a result, could have a material adverse effect on the market price of FNCB’s common stock and shareholders’ ability to realize any potential change-in-control premium.

Short sellers of FNCB’s stock may be manipulative and may drive down the market price of FNCB’s common stock.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the stock to decline, some short sellers publish, or arrange for the publication of, opinions or characterizations regarding the relevant issuer, its business practices and prospects and similar matters calculated to or which may create negative market momentum, which may permit them to obtain profits for themselves as a result of selling the stock short. Issuers whose securities have historically had limited trading volumes or have been susceptible to relatively high volatility levels can be particularly vulnerable to such short seller attacks. The publication of any such commentary regarding FNCB in the future may bring about a temporary, or possibly long-term, decline in the market price of FNCB’s common stock. No assurances can be made that declines in the market price of FNCB’s common stock will not occur in the future, in connection with such commentary by short sellers or otherwise. When the market price of a company's stock drops significantly, it is not unusual for stockholder lawsuits to be filed or threatened against the company and its board of directors and for a company to suffer reputational damage. Such lawsuits could cause FNCB to incur substantial costs and divert the time and attention of FNCB’s board and management. In addition, reputational damage may affect FNCB’s ability to attract and retain deposits and may cause FNCB’s deposit costs to increase, which could adversely affect its liquidity and earnings. Reputational damage may also affect FNCB’s ability to attract and retain loan customers and maintain and develop other business relationships, which could likewise adversely affect FNCB’s earnings. Negative reports issued by short sellers could also negatively impact FNCB’s ability to attract and retain employees.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

FNCB currently conducts business from its headquarters located at 102 E. Drinker Street, Dunmore, Pennsylvania, which now also houses the Bank's Commercial Lending and Retail Banking Units. The Bank's new main office is located at 100 S. Blakely Street, Dunmore, Pennsylvania, 18512. At December 31, 2019, FNCB also operated sixteen additional community banking offices located throughout Lackawanna, Luzerne and Wayne counties, an LPO located in Allentown, Lehigh County, Pennsylvania, two administrative offices and another lending center located in Dunmore, Lackawanna County, Pennsylvania. Eight of the offices, as well as the LPO are leased and the balance are owned by the Bank. Except for potential remodeling of certain facilities to provide for the efficient use of work space and/or to maintain an appropriate appearance, each property is considered reasonably suitable and adequate for current and immediate future purposes except as discussed below.

As part of its responsibilities, management regularly evaluates FNCB's delivery system and facilities including analyzing each office's operating efficiency, location, foot traffic, structure and design. FNCB and the Bank have an ongoing comprehensive branch network improvement program that focuses on strengthening, better positioning and expanding its market coverage by developing new state-of-the-art customer facilities, as well as relocating and consolidating select locations. Initiatives FNCB executed under the branch network improvement program during the years ended December 31, 2019 and 2018 include:

- On January 12, 2018, FNCB purchased a building that houses administrative offices located at 200 S. Blakely Street, Dunmore, Pennsylvania, for \$2.15 million. FNCB had been leasing this property since 1994;
- On May 30, 2018, FNCB completed the relocation and consolidation of three branches located in Luzerne County, Pennsylvania into a new state-of-the-art branch office. The three branches that were relocated are: the Hanover Township Branch located at 734 San Souci Parkway, Hanover Township, Pennsylvania; the Plains Township Branch located at 27 North River Street, Plains, Pennsylvania; and the Route 315 Branch located at 3 Old Boston Road, Pittston, Pennsylvania. The new branch office is located in the Richland 315 Development at 1150 Route 315, Wilkes-Barre (Plains Township), Luzerne County, Pennsylvania. FNCB leased the three relocated branches and leases the new Luzerne County facility. The Hanover Township Branch lease expired October 1, 2018. The Plains Township lease expires on October 31, 2020. FNCB currently operates an offsite, remote ATM at this location. Upon relocation, FNCB transferred the leasehold improvements for the Route 315 Branch to OREO at their fair value less cost to sell based upon a signed sales agreement from a third party. The sale was completed during 2019;
- On June 14, 2018, FNCB purchased the real property, improvements and fixtures located at 196 N. Main Street, Shavertown, Luzerne County, Pennsylvania for \$750 thousand to relocate its Back Mountain Branch located at 1919 Memorial Highway, Shavertown, Luzerne County, Pennsylvania. The new location facilitates accessibility for customers and provides FNCB with improved retail and commercial visibility. The relocation was completed on December 19, 2018. FNCB was under an operating lease for the former location, which expired on February 28, 2019;
- At the end of the second quarter of 2019, FNCB completed the construction and re-location of its former main office located at 102 E. Drinker Street, Lackawanna County, Pennsylvania, into a new state-of-the-art office that was constructed directly across the street at 100 S. Blakely Street, Dunmore, Lackawanna, County, Pennsylvania. The property is owned by the Bank and housed a separate drive-thru location, as well as a drive-thru and a walk-up ATM. FNCB abandoned the existing drive-thru location and recorded an abandonment charge of \$148 thousand, which was included in other losses in the consolidated statement of income for the year ended December 31, 2018. The project amounted to approximately \$2.0 million in costs that were funded by cash generated through normal operations. The relocation has created operating efficiencies, enhanced customer service and improved accessibility;
- Also in the second quarter of 2019 the Bank opened a new branch in Mountain Top, Pennsylvania. FNCB had purchased the real property, improvements and fixtures on December 14, 2018, which is located at 360 South Mountain Boulevard, Mountain Top, Luzerne County, Pennsylvania for \$550 thousand. The deed contained a restriction under which FNCB had to agree not to operate, sell, or lease the property for a period of six months from the recording of the deed.

See Note 6, "Bank Premises and Equipment" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K for additional information about FNCB's properties.

Item 3. Legal Proceedings

FNCB has been subject to tax audits, and is also a party to routine litigation involving various aspects of its business, such as employment practice claims, workers compensation claims, claims to enforce liens, condemnation proceedings on properties in which FNCB holds security interests, claims involving the making and servicing of real property loans and other issues incident to its business, none of which has or is expected to have a material adverse impact on the consolidated financial condition, results of operations or liquidity of FNCB.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Market Prices of Stock and Dividends Paid

Effective with the market opening on Monday, March 5, 2018, FNCB’s common shares began trading on The Nasdaq Stock Market LLC ("Nasdaq") under the symbol "FNCB." Prior to the market opening on March 5, 2018, FNCB's common shares were quoted on the OTCQX under the symbol "FNCB."

On January 28, 2019, FNCB announced that it had commenced a public offering of its shares of common stock in a firm commitment underwritten offering. On February 8, 2019, FNCB announced the closing of the public offering of 3,285,550 shares of its common stock, which includes 428,550 shares of common stock issued upon the exercise in full of the option to purchase additional shares granted to the underwriters, at a public offering price of \$7.00 per share, less an underwriting discount of \$0.35 per share. FNCB received net proceeds after deducting underwriting discounts and offering expenses of \$21.3 million.

Following the close of the U.S. Stock Market on June 28, 2019, FNCB was added as member of the Russell 3000[®] index, when FTSE Russell reconstituted its comprehensive set of U.S. global equity indexes. The annual Russell indexes reconstitution captures the 4,000 largest U.S. stocks and ranks them by total market capitalization. Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies. As such, management believes that inclusion in Russell 3000[®] Index will continue to increase the visibility and liquidity of FNCB's common stock, as well as provide exposure to leading institutional investors.

Holders

As of February 28, 2020, there were approximately 1,703 holders of record of FNCB’s common shares. Because many of FNCB’s shares are held by brokers and other institutions on behalf of shareholders, FNCB is unable to estimate the total number of shareholders represented by these record holders.

Dividends

Dividends declared and paid were \$4.0 million, or \$0.20 per share, in 2019 and \$2.9 million, or \$0.17 per share, in 2018. The dividend payout ratio was 36.4% for the year ended December 31, 2019 and 21.4% for the year ended December 31, 2018. It is the present intent of the Board of Directors to continue paying quarterly dividends going forward. However, FNCB’s ability to declare and pay future dividends is dependent upon earnings, financial position, appropriate restrictions under applicable laws, legal and regulatory restrictions and other factors relevant at the time FNCB’s Board of Directors considers any declaration of any dividends. For a further discussion of FNCB’s and the Bank’s dividend restrictions, refer to Note 14, “Regulatory Matters/Subsequent Events” in the notes to consolidated financial statements in this Annual Report on Form 10-K.

On January 22, 2020, the Board of Directors declared a dividend of \$0.055 per share for the first quarter of 2020. The dividend is payable on March 16, 2020 to shareholders of record as of March 2, 2020.

Equity Compensation Plans

For more information regarding FNCB’s equity compensation plans, see Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in this Annual Report on Form 10-K.

Recent Sales of Unregistered Securities

None.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data

The selected consolidated financial and other data and management's discussion and analysis of financial condition and results of operations set forth below and in Item 7 hereof is derived in part from, and should be read in conjunction with, FNCB's consolidated financial statements and notes thereto contained elsewhere herein. Certain reclassifications have been made to prior years' consolidated financial statements to conform to the current year's presentation. Those reclassifications did not impact net income.

(dollars in thousands, except per share data)	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data:					
Total assets	\$1,203,541	\$1,237,732	\$1,162,305	\$1,195,599	\$1,090,618
Available-for-sale debt securities	272,839	296,032	290,387	276,015	257,042
Net loans	819,529	829,581	761,609	722,860	721,926
Total deposits	1,001,709	1,095,629	1,002,448	1,015,139	821,546
Borrowed funds	57,219	34,240	60,278	78,847	160,112
Shareholders' equity	133,607	97,219	89,191	90,371	86,178
Income Statement Data:					
Interest income	\$ 46,056	\$ 45,085	\$ 37,848	\$ 34,748	\$ 32,201
Interest expense	9,796	8,578	4,800	4,197	4,801
Net interest income before provision (credit) for loan and lease losses	36,260	36,507	33,048	30,551	27,400
Provision (credit) for loan and lease losses	797	2,550	769	1,153	(1,345)
Non-interest income	7,620	11,790	7,225	6,203	7,800
Non-interest expense	29,682	29,327	28,069	27,545	28,464
Income before income taxes	13,401	16,420	11,435	8,056	8,081
Income tax expense (benefit)	2,326	3,071	11,288	1,747	(27,759)
Net income	11,075	13,349	147	6,309	35,840
Earnings per share, basic and diluted	0.56	0.79	0.01	0.38	2.17
Capital and Related Ratios:					
Cash dividends declared per share	\$ 0.20	\$ 0.17	\$ 0.13	\$ 0.09	\$ -
Book value per share	6.62	5.78	5.32	5.43	5.22
Tier I leverage ratio (FNCB Bank only)	10.36%	8.27%	8.24%	8.63%	9.79%
Total risk-based capital to risk-adjusted assets (FNCB Bank only)	13.70%	12.17%	12.49%	12.81%	13.83%
Average equity to average total assets (1)	10.32%	7.10%	8.36%	8.42%	5.64%
Tangible equity to tangible assets	11.10%	7.85%	7.67%	7.56%	7.89%
Selected Performance Ratios:					
Return on average assets (1)	0.92%	1.09%	0.01%	0.57%	3.57%
Return on average equity (1)	8.88%	15.38%	0.15%	6.82%	63.24%
Net interest margin (2)	3.27%	3.22%	3.23%	3.13%	2.99%
Noninterest income/operating income (2)	17.19%	20.56%	15.79%	14.88%	18.73%
Asset Quality Ratios:					
Allowance for loan and lease losses/total loans	1.08%	1.13%	1.17%	1.15%	1.20%
Nonperforming loans/total loans	1.10%	0.56%	0.34%	0.31%	0.52%
Allowance for loan and lease losses/nonperforming loans	98.53%	202.7%	350.43%	376.86%	232.05%
Net charge-offs/average loans	0.16%	0.25%	0.02%	0.21%	0.20%
Loan loss provision/net charge-offs	58.35%	123.49%	499.35%	75.66%	***

*** Ratio is not meaningful for 2015.

(1) Average balances were calculated using average daily balances. Average balances for loans include non-accrual loans.

(2) Tax-equivalent adjustments were calculated using rates of 21.0 percent for 2019 & 2018 and 34.0 percent for prior years.

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

Management’s discussion and analysis (“MD&A”) represents an overview of the financial condition and results of operations of FNCB and should be read in conjunction with our consolidated financial statements and notes thereto included in Item 8, “Financial Statements and Supplementary Data” and Item 1A, “Risk Factors” of Part I to this Annual Report on Form 10-K.

FNCB is in the business of providing customary retail and commercial banking services to individuals, businesses and local governments and municipalities through its wholly-owned subsidiary, FNCB Bank’s 17 full-service branch offices within its primary market area, Northeastern Pennsylvania, and a LPO based in Allentown, Lehigh County, Pennsylvania.

FORWARD-LOOKING STATEMENTS

FNCB may from time to time make written or oral “forward-looking statements,” including statements contained in our filings with the SEC, in our reports to shareholders, and in our other communications, which are made in good faith by us pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to FNCB’s beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond our control). The words “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “project,” “future” and similar expressions are intended to identify forward-looking statements.

Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumption that are difficult to predict, including those under “Part I, Item 1A. Risk Factors,” and elsewhere in this Annual Report on Form 10-K. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are also cautioned not to place undue reliance on any forward-looking statements, which reflect management’s analysis only as of the date of this report, even if subsequently made available by FNCB on its website or otherwise. FNCB does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of FNCB to reflect events or circumstances occurring after the date of this report.

CRITICAL ACCOUNTING POLICIES

In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of condition and results of operations for the periods indicated. Actual results could differ significantly from those estimates.

FNCB’s accounting policies are fundamental to understanding management’s discussion and analysis of its financial condition and results of operations. Management has identified the policies on the determination of the allowance for loan and lease losses (“ALLL”), securities’ valuation and impairment evaluation, the valuation of other real estate owned (“OREO”) and income taxes to be critical, as management is required to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available.

The judgments used by management in applying the critical accounting policies discussed below may be affected by changes and/or deterioration in the economic environment, which may impact future financial results. Specifically, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the ALLL in future periods, and the inability to collect on outstanding loans could result in increased loan losses. In addition, the valuation of certain securities in FNCB’s investment portfolio could be negatively impacted by illiquidity or dislocation in marketplaces resulting in significantly depressed market prices thus leading to impairment losses.

Allowance for Loan and Lease Losses

Management evaluates the credit quality of FNCB’s loan portfolio on an ongoing basis, and performs a formal review of the adequacy of the ALLL on a quarterly basis. The ALLL is established through a provision for loan losses charged to earnings and is maintained at a level management considers adequate to absorb estimated probable losses inherent in the loan portfolio as of the evaluation date. Loans, or portions of loans, determined by management to be uncollectible are charged off against the ALLL, while recoveries of amounts previously charged off are credited to the ALLL.

Determining the amount of the ALLL is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, qualitative factors, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Banking regulators, as an integral part of their examination of FNCB, also review the ALLL, and may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the ALLL. Additionally, the ALLL is determined, in part, by the composition and size of the loan portfolio.

The ALLL consists primarily of two components, a specific component and a general component. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted by qualitative factors. The general reserve component of the ALLL is based on pools of unimpaired loans segregated by loan segment and risk rating categories of “Pass”, “Special Mention” or “Substandard and Accruing.” Historical loss factors and various qualitative factors are applied based on the risk profile in each risk rating category to determine the appropriate reserve related to those loans. Substandard loans on non-accrual status above the \$100 thousand loan relationship threshold and all loans considered troubled debt restructurings (“TDRs”) are classified as impaired. Based on its evaluations, management may establish an unallocated component that is used to cover any inherent losses that exist as of the evaluation date, but which may not have been identified under the methodology.

See Note 2, “Summary of Significant Accounting Policies” and Note 5, “Loans” of the notes to consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” to this Annual Report on Form 10-K for additional information about the ALLL.

Securities Valuation and Evaluation for Impairment

Management utilizes various inputs to determine the fair value of its investment portfolio. To the extent they exist, unadjusted quoted market prices in active markets (Level 1) or quoted prices for similar assets or models using inputs that are observable, either directly or indirectly (Level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of observable inputs or if markets are illiquid, valuation techniques are used to determine fair value of any investments that require inputs that are both unobservable and significant to the fair value measurement (Level 3). For Level 3 inputs, valuation techniques are based on various assumptions, including, but not limited to, cash flows, discount rates, adjustments for nonperformance and liquidity, and liquidation values. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on FNCB’s financial condition or results of operations. See Note 4, “Securities” and Note 15, “Fair Value Measurements” of the notes to consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” to this Annual Report on Form 10-K for additional information about FNCB’s securities valuation techniques.

On a quarterly basis, management evaluates individual investment securities in an unrealized loss position for other than temporary impairment (“OTTI”). The evaluation for OTTI requires the use of various assumptions, including but not limited to, the length of time an investment’s fair value is less than book value, the severity of the investment’s decline, any credit deterioration of the issuer, whether management intends to sell the security, and whether it is more-likely-than-not that FNCB will be required to sell the security prior to recovery of its amortized cost basis. Debt investment securities deemed to have OTTI are written down by the impairment related to the estimated credit loss, and the non-credit related impairment loss is recognized in other comprehensive income. FNCB did not recognize any OTTI charges on investment securities for years ended December 31, 2019 and 2018 within the consolidated statements of income.

See Note 2, “Summary of Significant Accounting Policies” and Note 4, “Securities” of the notes to consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” to this Annual Report on Form 10-K for additional information about valuation of securities and management’s evaluation for OTTI.

Other Real Estate Owned

OREO consists of property acquired by foreclosure, abandonment or conveyance of deed in-lieu of foreclosure of a loan, and bank premises that are no longer used for operation or for future expansion. OREO is held for sale and is initially recorded at fair value less estimated costs to sell at the date of acquisition or transfer, which establishes a new cost basis. Upon acquisition of the property through foreclosure, or deed-in-lieu of foreclosure, any adjustment to fair value less estimated selling costs is recorded to the ALLL. The determination is made on an individual asset basis. Bank premises no longer used for operations or future expansion are transferred to OREO at fair value less estimated selling costs with any related write-down included in non-interest expense. Subsequent to acquisition, valuations are periodically performed and the assets are

carried at the lower of cost or fair value less estimated cost to sell. Fair value is determined through external appraisals, current letters of intent, broker price opinions or executed agreements of sale, unless management determines that conditions exist that warrant an adjustment to the value. Costs relating to the development and improvement of the OREO properties may be capitalized; holding period costs and any subsequent changes to the valuation allowance are charged to expense as incurred.

Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in FNCB's consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact our consolidated financial condition or results of operations.

FNCB records an income tax provision or benefit based on the amount of tax currently payable or receivable and the change in deferred tax assets and liabilities. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. Management conducts quarterly assessments of all available positive and negative evidence to determine the amount of deferred tax assets that will more likely than not be realized. FNCB establishes a valuation allowance for deferred tax assets and records a charge to income if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, management considers past operating results, estimates of future taxable income based on approved business plans, future capital requirements and ongoing tax planning strategies. This evaluation process involves significant management judgment about assumptions that are subject to change from period to period depending on the related circumstances. The recognition of deferred tax assets requires management to make significant assumptions and judgments about future earnings, the periods in which items will impact taxable income, future corporate tax rates, and the application of inherently complex tax laws. The use of different estimates can result in changes in the amounts of deferred tax items recognized, which may result in equity and earnings volatility because such changes are reported in current period earnings. Management's evaluation as of December 31, 2019 and 2018 concluded that no valuation allowance was necessary for net deferred tax assets.

In connection with determining the income tax provision or benefit, management considers maintaining liabilities for uncertain tax positions and tax strategies that it believes contain an element of uncertainty. Periodically, management evaluates each of FNCB's tax positions and strategies to determine whether a liability for uncertain tax benefits is required. As of December 31, 2019 and 2018, management determined that FNCB did not have any uncertain tax positions or tax strategies and that no liability was required to be recorded.

See Note 2, "Summary of Significant Accounting Policies" and Note 10, "Income Taxes" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K for additional information about the accounting for income taxes.

New Authoritative Accounting Guidance and Accounting Guidance to be Adopted in Future Periods

For information regarding new authoritative accounting guidance adopted by FNCB during the year ended December 31, 2019 and accounting guidance that FNCB will adopt in future periods, see Note 2, "Summary of Significant Accounting Policies" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K.

EXECUTIVE OVERVIEW

The following overview should be read in conjunction with this MD&A in its entirety.

Public Offering

FNCB successfully completed a public offering of its common stock on February 8, 2019. The offering, which commenced on January 28, 2019, was a firm commitment underwritten offering. Upon the close of the offering, FNCB issued 3,285,550 shares of its common stock, including 428,550 shares issued upon the full exercise of the option granted to underwriters to purchase additional shares, at an offering price of \$7.00 per share, less an underwriting discount of \$0.35 per share. FNCB received net proceeds after deducting underwriting discounts and offering expenses of \$21.3 million. Following the receipt of the proceeds, FNCB made a capital investment in FNCB Bank, its wholly-owned subsidiary of \$17.8 million in the first quarter of 2019. Additionally, FNCB accelerated the final \$5.0 million principal payment on the Subordinated debentures, which was originally due and payable on September 1, 2019 to February 8, 2019. Accelerating the principal payment resulted in interest cost savings of approximately \$126 thousand in 2019.

Results of Operations

FNCB reported earnings in 2019 of \$11.1 million, or \$0.56 per diluted common share, a decrease of \$2.2 million, or 17.0%, compared to \$13.3 million, or \$0.79 per diluted common share, in 2018. The decrease in 2019 net income compared to 2018 was primarily attributable to decreases in non-interest income and net interest income and an increase in non-interest expense, partially offset by reductions in the provision for loan and lease losses and income tax expense. Non-interest income decreased \$4.2 million, or 35.6%, to \$7.6 million in 2019 from \$11.8 million in 2018. FNCB received an insurance recovery of \$6.0 million in the fourth quarter of 2018, which was the primary contributor to the elevated level of non-interest income for that year. However, non-interest income in 2019 was positively impacted by net gains realized on the sale of available-for-sale securities of \$1.2 million, compared to a net loss of \$4 thousand realized on the sale of available-for-sale securities in 2018. Higher funding costs, coupled with reductions in earning asset volumes overshadowed an improvement in earning asset yields and reduced reliance on wholesale funding, which led to a slight decrease in net interest income of \$0.2 million, or 4.4%, to \$36.3 million in 2019 from \$36.5 million in 2018. Non-interest expense increased by a modest \$0.4 million, or 1.2%, to \$29.7 million in 2019 from \$29.3 million, which primarily reflected higher salaries and employee benefits, data processing costs and other operating expenses, partially offset by declines in regulatory assessments and other losses. The provision for loan and lease losses decreased \$1.8 million to \$0.8 million in 2019, from \$2.6 million in 2018, which was caused largely by a decrease in the amount of net loans charged off and lower loan balances. Income tax expense decreased \$0.8 million, or 24.3%, to \$2.3 million in 2019 as compared to \$3.1 million in 2018.

Return on average assets and return on average shareholders' equity equaled 0.92% and 8.88%, respectively, in 2019, compared to 1.09% and 15.38%, respectively, in 2018. FNCB paid dividends to holders of common stock of \$0.20 per share in 2019, an increase of \$0.03 per share, or 17.6%, compared to \$0.17 per share in 2018. Total dividends declared and paid in 2019 equated to a dividend yield of approximately 2.37% based on the closing stock price of \$8.45 per share on December 31, 2019. The dividend payout ratio increased to 36.4% in 2019 from 21.4% in 2018.

Balance Sheet Profile

Total assets decreased \$34.2 million, or 2.8%, to \$1.204 billion at December 31, 2019 from \$1.238 billion at December 31, 2018. The decrease in total assets primarily reflected a decline in interest-earning assets. Specifically, loans, net of net deferred costs and unearned income, decreased \$10.6 million, or 1.3%, to \$828.5 million at December 31, 2019 from \$839.1 million at December 31, 2018. In addition, available-for-sale debt securities decreased \$23.2 million, or 7.8%, to \$272.8 million at December 31, 2019 from \$296.0 million at December 31, 2018. Total deposits declined by \$93.9 million, or 8.6%, to \$1.002 billion at December 31, 2019 from \$1.096 billion at December 31, 2018. The decrease in deposits was primarily attributable to decreases in retail and wholesale time deposits, partially offset by an increase in non-interest bearing demand deposits. Borrowed funds amounted to \$57.2 million at December 31, 2019, an increase of \$23.0 million, or 67.1%, compared to \$34.2 million at December 31, 2018. Specifically, Federal Home Loan Bank of Pittsburgh advances increased \$28.0 million, or 147.8%, to \$46.9 million at December 31, 2019 from \$18.9 million at December 31, 2018, which was partially offset by the final \$5.0 million principal repayment on the subordinated debentures.

Total shareholders' equity increased \$36.4 million, or 37.4%, to \$133.6 million at December 31, 2019 from \$97.2 million at the end of 2018, which was largely due to the completion of the public offering. Also factoring in to the capital improvement was net income in 2019 of \$11.1 million and a \$7.6 million increase in accumulated other comprehensive income related to appreciation in the fair value of available-for-sale debt securities, net of deferred taxes, partially offset by year-to-date dividends declared of \$4.0 million. At December 31, 2019, FNCB Bank's total risk-based capital ratio and the Tier 1 leverage

ratio were 14.77% and 10.36%, respectively, which exceeded the 10.00% and 5.00% required to be well capitalized under the prompt corrective action provisions of the Basel III capital framework for U.S. banking organizations.

Management's Focus in 2019

During 2019, management developed strategies and initiatives aimed at delivering its mission of bettering the banking experience for customers, while creating long-term value for shareholders. Initiatives to improve the customer experience included branch network expansion and modernization, as well as expanding and enhancing FNCB's electronic and traditional product and service offerings. With regard to creating long-term shareholder value, management has been focused on strategic business market opportunities to drive FNCB's financial performance through balance sheet repositioning, net interest margin enhancement, growth and diversification of non-interest revenue streams, as well as enhancing the marketability and liquidity of FNCB's stock. In order to assist in these initiatives, in 2019, FNCB appointed a Chief Banking Officer and a Chief Business Development Officer to its Executive Management Team. The Chief Banking Officer, who has extensive retail financial sales and managerial experience oversees, FNCB's commercial lending, retail lending and retail banking units. The Chief Business Development Officer brings years of banking industry experience and will work to identify and develop business opportunities in new and existing markets.

As previously mentioned, FNCB successfully completed a public offering of its common stock in February 2019, which resulted in a net increase to capital after offering expenses of \$21.3 million. Following the close of the U.S. Stock Market on June 28, 2019, FNCB was added as a member of the Russell 3000® Index, when FTSE Russell reconstituted its comprehensive set of U.S. and global equity indexes. The annual Russell indexes reconstitution captures the 4,000 largest U.S. stocks and ranks them by total market capitalization. Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies. As such, management believes that inclusion in Russell 3000® index will continue to increase the visibility and liquidity of FNCB's common stock, as well as provide exposure to leading institutional investors.

To facilitate loan and deposit growth initiatives, enhance efficiency, and improve the customer experience, during the second quarter of 2019, FNCB opened a de novo branch in Mountain Top, Luzerne County, Pennsylvania in a facility that was purchased in the fourth quarter of 2018. Also in the second quarter of 2019, FNCB completed the construction and relocation of its main office into a new state-of-the-art facility. The new main office is located directly across the street from the former main office at 100 S. Blakely Street, Dunmore, Lackawanna County, Pennsylvania. The cost of the main office relocation project was approximately \$2.0 million, which was funded by cash generated from operations in 2019. Both new branches feature the personal banker model and a relaxed, cafe-like atmosphere designed to enhance the customer's in-branch banking experience. The former main office has been renovated and now houses members of FNCB's Commercial Lending and Retail Banking Units. Additionally, FNCB is in the process of renovating several existing branch offices and making aesthetic enhancements to its Dunmore, Pennsylvania campus including installing drainage, lighting, landscaping and decorative fencing and paving several parking lots.

In addition to its brick and mortar locations, management evaluates all of FNCB's delivery channels on an ongoing basis as part of its comprehensive network improvement plan and has executed the following initiatives:

- During 2019, FNCB continued to make enhancements to its entire automated teller machine ("ATM") network which included the replacement of all existing machines with the newest generation machines. This initiative better safeguards sensitive customer information and creates internal efficiency as the new machines are equipped with anti-fraud and anti-skimming technology and provides for the direct imaging of all deposit transactions;
- On October 4, 2019, FNCB joined AllPoint®, a third party ATM network that provides customers with access to approximately 55,000 surcharge-free ATMs throughout the United States, Canada, Mexico and the United Kingdom;
- In the fourth quarter of 2019, FNCB began offering several electronic payment alternatives to customers, including Apple Pay, Samsung Pay and Google Pay, and plans to offer electronic money transfer through Zelle® in the first half of 2020; and
- Also in the fourth quarter of 2019, FNCB launched a fresh and more user-friendly re-design of its website, www.fncb.com.

During the third quarter of 2019, management engaged an independent third party consultant under a revenue share agreement to conduct an evaluation of FNCB's non-interest revenue streams and fee structure to identify opportunities for enhancement. Recommendations have been provided to and approved by management. Implementation of the approved recommendations were rolled out in the fourth quarter of 2019.

Focus for 2020

Looking ahead to 2020, management will complete renovations and enhancements to FNCB's branch infrastructure as well as certain administrative facilities. Additionally, management will continue to evaluate opportunities to expand FNCB's presence within the Lehigh Valley market area, as well as other opportunities for both organic and inorganic growth that may be presented.

SUMMARY OF FINANCIAL PERFORMANCE

Net Interest Income

Net interest income is the difference between (i) interest income, interest and fees on interest-earning assets, and (ii) interest expense, interest paid on deposits and borrowed funds. Net interest income represents the largest component of FNCB's operating income and, as such, is the primary determinant of profitability. Net interest income is impacted by variations in the volume, rate and composition of earning assets and interest-bearing liabilities, changes in general market rates and the level of non-performing assets. Interest income is shown on a fully tax-equivalent basis using the corporate statutory tax rate of 21.0% in 2019 and 2018 and 34.0% in 2017.

Over the past year, the Federal Open Market Committee ("FOMC") decreased the target rate a total of 75 basis points through three 25-basis point actions, occurring on August 1, 2019, September 19, 2019 and October 31, 2019. These actions resulted in corresponding decreases in the national prime rate to 4.75% at December 31, 2019 from 5.50% at December 31, 2018. FNCB experienced an increase in loan yields throughout 2019, despite variable- and adjustable-rate loans repricing downward and new loans originating at slightly lower interest rates in the later part of the year, compared to 2018. Throughout 2019, although there was a decrease in market interest rates the Bank remained competitive in rate offerings and experienced a slight increase in funding costs across interest-bearing deposits and borrowed funds.

Tax-equivalent net interest income declined slightly in 2019, decreasing \$0.3 million to \$36.7 million compared to \$37.0 million in 2018. The decrease in tax-equivalent net interest income primarily reflected a \$1.2 million increase in interest expense, which was partially offset by a \$0.9 million increase in tax-equivalent interest income. The increase in interest expense reflected higher funding costs in the rates paid on interest-bearing demand deposits, time deposits, and borrowed funds, coupled with a slight increase in the volume of time deposits, which was partially offset by the decline in borrowed funds, as management was focused on reducing FNCB's reliance on wholesale funding. As a result average borrowed funds decreased \$56.0 million, or 46.7% to \$63.6 million in 2019 from \$119.6 million in 2018. Tax-equivalent interest income in 2019 was positively impacted by higher rates on average earning assets, despite a decline in the overall volume of average earning assets.

Despite the slight decline in tax-equivalent net interest income, FNCB's tax-equivalent interest margin increased 5 basis points to 3.27% in 2019 from 3.22% in 2018. Tax-equivalent net interest margin, a key measurement used in the banking industry to measure income from earning assets relative to the cost to fund those assets, is calculated by dividing tax-equivalent net interest income by average interest-earning assets. Additionally, rate spread, the difference between the average yield on interest-earning assets shown on a fully tax-equivalent basis and the average cost of interest-bearing liabilities, was stable at 3.07% for the years ended December 31, 2019 and 2018.

An increase in funding costs was the driving factor leading to the increase in interest expense of \$1.2 million, or 14.2%, to \$9.8 million in 2019 from \$8.6 million in 2018. Rates paid on interest-bearing deposits increased 25 basis points to 0.96% in 2019 from 0.71% in 2018. The increase in deposit rates was concentrated in interest-bearing demand deposits, which increased 24 basis points to 0.81% in 2019 as compared to 0.57% in 2018, and time deposits, which increased 37 basis points to 1.60% in 2019 as compared to 1.23% in 2018. The increases in rates on interest-bearing demand and time deposits contributed \$1.2 million and \$0.9 million, respectively, to the increase in interest expense. The rate paid on savings deposits remained steady at 0.13% for both 2019 and 2018. Additionally, the rate paid on borrowed funds increased 44 basis points to 2.66% in 2019 from 2.22% in 2018, contributing \$0.5 million to the overall increase in interest expense. Partially offsetting the increase to interest expense due to the increase in funding costs was a decrease in volumes of interest-bearing liabilities. Average interest-bearing liabilities decreased \$49.2 million, or 5.1%, to \$908.4 million in 2019 from \$957.6 million in 2018 and resulted in a \$1.3 million decrease in interest expense. Specifically, a \$56.0 million, or 46.8%, decrease in average borrowed funds to \$63.6 million in 2019 as compared to \$119.6 million in 2018 was the primary contributor to the decrease

in interest expense. This was slightly offset by an increase in average interest-bearing demand deposits of \$10.6 million, or 2.1% to \$513.5 million in 2019 from \$503.0 million in 2018. Average balances of interest-bearing time deposits remained fairly steady when comparing 2019 and 2018, increasing by only \$2.0 million or 0.8%, while average savings deposits declined \$5.8 million, or 5.8%, comparing the same time periods.

The increase in interest expense was partially mitigated by an increase in tax-equivalent interest income of \$1.0 million, or 2.0%, to \$46.5 million in 2019 from \$45.5 million in 2018, which reflected higher earning asset yields partially offset by a reduction in volumes of average earning assets. The tax-equivalent yield on average earning assets increased 18 basis points to 4.15% in 2019 from 3.97% in 2018. Comparing 2019 and 2018, the tax-equivalent yield earned on the loan portfolio increased 20 basis points, while the tax-equivalent yield earned on the investment portfolio increased 8 basis points, contributing \$1.6 million and \$0.2 million, respectively, to the improvement in tax-equivalent interest income. With regard to the decline in earning asset volumes, average investments decreased \$27.1 million, or 8.9%, to \$279.4 million in 2019 from \$306.5 million in 2018, resulting in a decrease to tax-equivalent interest income of \$0.8 million. In addition, average loans decreased \$6.3 million, or 0.8%, to \$829.4 million in 2019 from \$835.7 million in 2018, resulting in a decrease to tax-equivalent interest income of \$0.3 million. Meanwhile, average interest-bearing deposits increased \$8.0 million, or 172.2%, to \$12.7 million in 2019 from \$4.7 million in 2018, resulting in an increase to tax-equivalent interest income of \$0.1 million.

Non-accrual loans

The interest income that would have been earned on non-accrual and restructured loans outstanding at December 31, 2019 and 2018 in accordance with their original terms approximated \$381 thousand and \$218 thousand, respectively. Interest income on impaired loans of \$398 thousand and \$417 thousand was recognized based on payments received in 2019 and 2018, respectively.

The following table presents the components of net interest income for the three years ended December 31, 2019, 2018 and 2017:

Summary of Net Interest Income

(dollars in thousands)	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets:									
Earning assets (2)(3)									
Loans-taxable (4)	\$ 784,124	\$ 36,332	4.63%	\$ 783,438	\$ 34,714	4.43%	\$ 697,377	\$ 28,519	4.09%
Loans-tax free (4).....	45,246	1,881	4.16%	52,251	2,110	4.04%	40,903	1,973	4.82%
Total loans (1)(2)	829,370	38,213	4.61%	835,689	36,824	4.41%	738,280	30,492	4.13%
Securities-taxable.....	274,739	7,901	2.88%	302,418	8,483	2.81%	288,823	7,798	2.70%
Securities-tax free	4,618	189	4.09%	4,087	168	4.11%	1,212	74	6.11%
Total securities (1)(5).....	279,357	8,090	2.90%	306,505	8,651	2.82%	290,035	7,872	2.71%
Interest-bearing deposits in other banks	12,704	188	1.48%	4,667	88	1.89%	17,874	180	1.01%
Total earning assets	1,121,431	46,491	4.15%	11,146,861	45,563	3.97%	1,046,189	38,544	3.68%
Non-earning assets	96,479			84,283			99,993		
Allowance for loan and lease losses	(9,359)			(9,584)			(8,626)		
Total assets.....	<u>\$ 1,208,551</u>			<u>\$ 1,221,560</u>			<u>\$ 1,137,556</u>		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities									
Interest-bearing demand									
deposits	\$ 513,542	4,167	0.81%	\$ 502,978	2,881	0.57%	\$ 502,170	1,800	0.36%
Savings deposits.....	93,114	124	0.13%	98,927	133	0.13%	101,952	136	0.13%
Time deposits	238,145	3,810	1.60%	236,162	2,911	1.23%	198,143	1,585	0.80%
Total interest-bearing deposits.....	844,801	8,101	0.96%	838,067	5,925	0.71%	802,265	3,521	0.44%
Borrowed funds and other interest-bearing liabilities	63,640	1,695	2.66%	119,573	2,653	2.22%	72,795	1,279	1.76%
Total interest-bearing liabilities.....	908,441	9,796	1.08%	957,640	8,578	0.90%	875,060	4,800	0.55%
Demand deposits	164,035			168,313			156,670		
Other liabilities.....	11,395			8,831			10,770		
Shareholders' equity	124,680			86,776			95,056		
Total liabilities and shareholders' equity.....	<u>\$ 1,208,551</u>			<u>\$ 1,221,560</u>			<u>\$ 1,137,556</u>		
Net interest income/interest rate spread (6).....		36,695	3.07%		36,985	3.07%		33,744	3.13%
Tax equivalent adjustment ..		(435)			(478)			(696)	
Net interest income as reported		<u>\$ 36,260</u>			<u>\$ 36,507</u>			<u>\$ 33,048</u>	
Net interest margin (7)			<u>3.27%</u>			<u>3.22%</u>			<u>3.23%</u>

(1) Interest income is presented on a tax-equivalent basis using a 21% rate for 2019 and 2018, and a 34% rate for 2017.

(2) Loans are stated net of unearned income.

(3) Non-accrual loans are included in loans within earning assets.

(4) Loan fees included in interest income are not significant.

(5) The yields for securities that are classified as available for sale are based on the average historical amortized cost.

(6) Interest rate spread represents the difference between the average yield on interest earning assets and the cost of average interest bearing liabilities and is presented on a tax equivalent basis.

(7) Net interest income as a percentage of total average interest earning assets.

The most significant impact on net income between periods is derived from the interaction of changes in the volume and rates earned or paid on interest-earning assets and interest-bearing liabilities. The volume of earning assets, specifically loans and investments, compared to the volume of interest-bearing liabilities represented by deposits and borrowings, combined with the spread, produces the changes in net interest income between periods.

The following table summarizes the effect that changes in volumes of earning assets and interest-bearing liabilities and the interest rates earned and paid on these assets and liabilities have on net interest income. The net change or mix component attributable to the combined impact of rate and volume changes has been allocated proportionately to the change due to volume and the change due to rate.

Rate Volume Analysis

(in thousands)	For the Year Ended December 31,					
	2019 vs. 2018			2018 vs. 2017		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in			Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans - taxable	\$ 30	\$ 1,588	\$ 1,618	\$ 3,695	\$ 2,500	\$ 6,195
Loans - tax free	(290)	61	(229)	491	(354)	137
Total loans.....	(260)	1,649	1,389	4,186	2,146	6,332
Securities - taxable	(792)	210	(582)	375	310	685
Securities - tax free	22	(1)	21	125	(31)	94
Total securities.....	(770)	209	(561)	500	279	779
Interest-bearing deposits in other banks.....	123	(23)	100	(186)	94	(92)
Total interest income	(908)	1,836	928	4,500	2,519	7,019
Interest expense:						
Interest-bearing demand deposits.....	62	1,224	1,286	3	1,078	1,081
Savings deposits.....	(8)	(1)	(9)	(4)	1	(3)
Time deposits	25	874	899	347	979	1,326
Total interest-bearing deposits.....	79	2,097	2,176	346	2,058	2,404
Borrowed funds and other interest-bearing liabilities	(1,415)	457	(958)	975	399	1,374
Total interest expense	(1,336)	2,554	1,218	1,321	2,457	3,778
Net interest income	\$ 428	\$ (718)	\$ (290)	\$ 3,179	\$ 62	\$ 3,241

Provision for Loan and Lease Losses

The provision for loan and lease losses is an expense charged against net interest income to provide for probable losses attributable to uncollectible loans and is based on management's analysis of the adequacy of the ALLL. A credit to loan and lease losses reflects the reversal of amounts previously charged to the ALLL. Management closely monitors the loan portfolio and the adequacy of the ALLL by considering the underlying financial performance of the borrower, collateral values and associated credit risks. Future material adjustments may be necessary to the provision for loan and lease losses and the ALLL if economic conditions or loan performance differ substantially from the assumptions management considered in its evaluation of the ALLL.

FNCB recorded a provision for loan and lease losses of \$0.8 million for the year ended December 31, 2019, a decrease of \$1.8 million compared to \$2.6 million for the year ended December 31, 2018. The decrease in the provision for loan and lease losses was due largely to a \$0.7 million, or 33.9%, decrease in net charge-offs to \$1.4 million in 2019 compared to \$2.1 million in 2018, coupled with an \$8.8 million, or 1.1%, reduction in total loans, gross to \$826.4 million at December 31, 2019 from \$835.2 million at December 31, 2018.

Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2019 and 2018:

Components of Non-Interest Income

(in thousands)	Year Ended December 31,	
	2019	2018
Deposit service charges.....	\$ 3,035	\$ 2,885
Net gain (loss) on the sale of available-for-sale securities	1,227	(4)
Net gain (loss) on equity securities	29	(27)
Net gain on the sale of mortgage loans held for sale.....	253	210
Net gain on the sale of SBA guaranteed loans	-	322
Net gain on the sale of other real estate owned.....	20	31
Loan-related fees.....	378	390
Income from bank-owned life insurance.....	520	555
Insurance recovery	-	6,027
Loan referral fees	703	-
Other.....	1,455	1,401
Total non-interest income.....	<u>\$ 7,620</u>	<u>\$ 11,790</u>

For the year ended December 31, 2019, non-interest income decreased \$4.2 million, or 35.4%, to \$7.6 million compared to \$11.8 million for the year ended December 31, 2018. The decrease in non-interest income was primarily due to an insurance recovery, net of related expenses, of \$6.0 million received in the fourth quarter of 2018 after FNCFB, the Bank and Fidelity Deposit Company of Maryland resolved a dispute by entering into a mutual release of all claims. Also contributing to the decline in non-interest income was a decrease in net gains on the sale of guaranteed principal balances of loans guaranteed by the SBA; no gains were recognized in 2019 compared to \$322 thousand recorded in 2018.

Partially offsetting the decreases to non-interest income were net gains realized on the sale of available-for-sale debt securities, coupled with an unrealized net gain on equity securities and increases in deposit service charges and other non-interest income. FNCFB recognized net gains of \$1.2 million on the sale of available-for-sale securities in 2019 compared to a net loss of \$4 thousand recorded during 2018. FNCFB also recorded a net gain on equity securities of \$29 thousand in 2019 compared to a net loss of \$27 thousand during 2018. Deposit service charges increased \$150 thousand to \$3.0 million in 2019 from \$2.9 million in 2018, which primarily reflected increases in ATM-related fees and commissions received on debit card usage. Additionally FNCFB recorded \$703 thousand in loan referral fees received from a third party correspondent bank related to an off-balance sheet commercial loan interest-rate hedge program and a \$114 thousand BOLI death benefit claim, included in other non-interest income, in 2019. There were no loan referral fees or BOLI death benefit claims in 2018.

Non-Interest Expense

The following table presents the major components of non-interest expense for the years ended December 31, 2019 and 2018:

Components of Non-Interest Expense

(in thousands)	Year Ended December 31,	
	2019	2018
Salaries and employee benefits.....	\$ 15,518	\$ 14,780
Occupancy expense.....	1,948	2,191
Equipment expense	1,319	1,254
Advertising expense.....	738	699
Data processing expense	3,113	2,799
Regulatory assessments.....	306	861
Bank shares tax	566	636
Professional fees.....	1,056	1,028
Other losses.....	156	598
Other operating expenses	4,962	4,481
Total non-interest expense.....	<u>\$ 29,682</u>	<u>\$ 29,327</u>

Non-interest expense totaled \$29.7 million in 2019, an increase of \$0.4 million, or 1.2%, from \$29.3 million in 2018. The increase resulted primarily from increases in salaries and employee benefits, data processing expense and other operating expenses. Partially mitigating these increases were decreases in occupancy costs, other losses and regulatory assessments.

Salaries and employee benefits increased by \$0.7 million, or 4.9%, to \$15.5 million in 2019 from \$14.8 million in 2018, which reflected recent staff additions and annual salary and wage performance adjustments. Data processing expenses increased \$0.3 million, or 11.2%, to \$3.1 million in 2019 as compared to \$2.8 million in 2018, as the Bank continues to invest in technology.

Other operating expenses increased \$0.5 million, or 10.7%, to \$5.0 million in 2019 from \$4.5 million in 2018. The increase in other operating expenses was largely due to an increase in the provision for off-balance sheet commitments and directors fees, partially offset by reductions in lending-related expenses. FNCB recorded a provision for off-balance sheet commitments of \$0.4 million in 2019 compared to a credit of \$0.1 million in 2018. The increase reflected a significant increase in off-balance sheet commitments related to outstanding availability on commercial construction loans at December 31, 2019. Additionally, director fees increased \$0.2 million comparing 2019 and 2018. On July 1, 2019, under FNCB's Long-term Incentive Plan ("LTIP"), 1,956 shares of FNCB's common stock were granted to each of the Bank's non-employee directors for a total of 19,560 shares. The fair value on July 1, 2019, the grant date, was \$7.67 per share, resulting in \$150 thousand in additional directors fees recorded in 2019. Lending-related expenses include primarily costs to obtain credit reports and appraisals, satisfaction fees, costs to service purchased loans and transaction costs for procuring credit applications from third-party automobile dealerships. Lending-related expenses decreased \$0.1 million to \$0.2 million in 2019 from \$0.3 million in 2018. The decrease was largely due to costs to procure indirect automobile loans due to a decline in FNCB's appetite for this product in 2019.

Occupancy costs decreased \$0.3 million, or 11.1%, to \$1.9 million in 2019 from \$2.2 million in 2018, which reflected cost savings in rent expense, depreciation on leasehold improvements and various operating expenses following branch consolidations in Luzerne and Wayne Counties during 2018. Other losses decreased \$0.4 million, or 73.9%, to \$0.2 million in 2019 from \$0.6 million in 2018, which was due largely to a reduction in fraud-related charges. Additionally, in 2018, FNCB incurred abandonment charges totaling \$0.2 million related to the Wayne County branch consolidation and main office relocation project.

Regulatory assessments include FDIC insurance assessments and fees imposed by the Pennsylvania Department of Banking and Securities. Regulatory assessments decreased \$0.6 million, or 64.5%, to \$0.3 million in 2019 compared to \$0.9 million in 2018, which was primarily due to the small bank assessment credit, coupled with a reduction in the FDIC deposit insurance assessment rate resulting from FNCB's improved capital position.

Provision for Income Taxes

FNCB recorded income tax expense of \$2.3 million in 2019, a decrease of \$0.8 million, or 24.3%, compared to \$3.1 million in 2018. The decrease in income tax expense was due to lower taxable income in 2019 as compared to 2018.

Management evaluates the carrying amount of its deferred tax assets on a quarterly basis, or more frequently, as necessary, in accordance with guidance set forth in ASC Topic 740 "Income Taxes," and applies the criteria in the guidance to determine whether it is more likely than not that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management determines based on available evidence, both positive and negative, that it is more likely than not that some portion or all of the deferred tax asset will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and depend upon management's estimates and judgments used in their evaluation of both positive and negative evidence.

In evaluating available evidence, management considers, among other factors, historical financial performance, expectation of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing of reversals of temporary differences. In assessing the need for a valuation allowance, management carefully weighs both positive and negative evidence currently available.

Management performed an evaluation of FNCB's deferred tax assets at December 31, 2019 taking into consideration both positive and negative evidence as of that date. Based on this evaluation, management believes that FNCB's future taxable income will be sufficient to utilize deferred tax assets. Accordingly, management concluded that no valuation allowance for deferred tax assets was required at December 31, 2019 or 2018.

FINANCIAL CONDITION

Total assets were \$1.204 billion at December 31, 2019, a decrease of \$34.2 million, or 2.8%, from \$1.238 billion at December 31, 2018. The decrease in total assets resulted from the decline in interest-earning assets, specifically a decrease in available-for-sale debt securities of \$23.2 million, or 7.8%, to \$272.8 million at December 31, 2019 from \$296.0 million at December 31, 2018. Loans, net of the allowance for loan and lease losses, also declined by \$10.1 million, or 8.9%, to \$819.5 million at December 31, 2019 from \$829.6 million at December 31, 2018. In addition, total deposits decreased \$93.9 million, or 8.6%, to \$1.002 billion at December 31, 2019 from \$1.096 billion at December 31, 2018. The decrease in deposits was primarily attributable to the decline in retail and wholesale time deposits. Borrowings from the Federal Home Loan Bank of Pittsburgh increased \$28.0 million, or 147.8% to \$46.9 million at December 31, 2019 from \$18.9 million at December 31, 2018.

Total shareholders' equity increased \$36.4 million, or 37.4%, to \$133.6 million at December 31, 2019 from \$97.2 million at the end of 2018. FNCB successfully completed a public offering of its common stock in February 2019, which resulted in a net increase to capital after offering expenses of \$21.3 million. Also contributing to the increase was net income in 2019 of \$11.1 million, a \$7.6 million increase in accumulated other comprehensive income related to appreciation in the fair value of available-for-sale debt securities, net of deferred taxes, which was partially offset by year-to-date dividends declared of \$4.0 million. Dividends declared and paid by FNCB on its common stock totaled \$0.20 per share in 2019, an increase of \$0.03 per share, or 17.6%, compared to \$0.17 per share in 2018. On January 22, 2020, the Board of Directors of FNCB declared a \$0.055 per share dividend for the first quarter of 2020, a 10.0% increase over the \$0.05 per share dividend declared for the same quarter of 2019. The first quarter 2020 dividend is payable on March 16, 2020 to shareholders of record on March 2, 2020.

Securities

FNCB's investment securities portfolio provides a source of liquidity needed to meet expected loan demand and interest income to increase profitability. Additionally, the investment securities portfolio is used to meet pledging requirements to secure public deposits and for other purposes. Debt securities are classified as either held-to-maturity or available-for-sale at the time of purchase based on management's intent. Held-to-maturity securities are carried at amortized cost, while available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a component of shareholders' equity in accumulated other comprehensive income (loss), net of tax. At December 31, 2019 and 2018, all debt securities were classified as available-for-sale. Equity securities with readily determinable fair values are carried at fair value, with gains and losses due to fluctuations in market value included in the consolidated statements of income. Securities with limited marketability and/or restrictions, such as FHLB of Pittsburgh stock, are carried at cost. Decisions to purchase or sell investment securities are based upon management's current assessment of long- and short-term economic and financial conditions, including the interest rate environment and asset/liability management, liquidity and tax-planning strategies.

At December 31, 2019, the investment portfolio was comprised principally of fixed-rate securities issued by U.S. government or U.S. government-sponsored agencies, which include mortgage-backed securities and residential and commercial CMOs, fixed-rate taxable obligations of state and political subdivisions, private CMOs and corporate debt securities. Except for U.S. government and government-sponsored agencies, there were no securities of any individual issuer that exceeded 10.0% of shareholders' equity as of December 31, 2019.

Because of the predominantly fixed-rate nature of the portfolio, FNCB's debt securities are inherently subject to interest rate risk, defined as the risk that an investment's value will change due to a change in interest rates, in the spread between two rates and in the shape of the yield curve. A security's value is usually affected inversely by changes in rates. During 2019, short-term U.S. Treasury rates decreased steadily over the course of the year. In addition, spreads between short- and long-term rates narrowed even further, resulting in an even flatter yield curve, before widening slightly at the end 2019. The 2-year Treasury rate, which was 2.48% at December 31, 2018, fell 98 basis points to a low of 1.50% at August 31, 2019 before rebounding 8 basis points to 1.58% at December 31, 2019. Similarly, the 10-year Treasury rate, which was 2.69% at December 31, 2018, dropped 119 basis points to 1.50% at August 31, 2019 prior to increasing 42 basis points to close 2019 at 1.92%. The spread between the 2-year and 10-year U.S. Treasury rate, which was 21 basis points at December 31, 2018 compressed to 0 basis points at August 31, 2019 before widening to 34 basis points at December 31, 2019. FNCB reported a net unrealized holding gain on its investment portfolio of \$3.1 million, net of income taxes of \$0.8 million at December 31, 2019, compared to an unrealized holding loss of \$4.5 million, net of income taxes of \$1.2 million, at December 31, 2018. However, any increase in interest rates could result in depreciation in the fair value of FNCB's securities portfolio and capital position.

The following table presents the carrying value of available-for-sale debt securities, all of which were classified as available-for-sale and carried at fair value at December 31, 2019, 2018 and 2017:

Composition of the Investment Portfolio

(in thousands)	December 31,		
	2019	2018	2017
Available-for-sale debt securities			
Obligations of state and political subdivisions	\$ 117,763	\$ 152,187	\$ 145,999
U.S. government/government-sponsored agencies:			
Collateralized mortgage obligations - residential	80,294	34,207	35,657
Collateralized mortgage obligations - commercial	17,723	73,640	75,418
Mortgage-backed securities	18,485	23,934	22,311
Private collateralized mortgage obligations	25,075	2,913	-
Corporate debt securities	7,182	4,936	4,058
Asset-backed securities	5,621	1,802	3,086
Negotiable certificates of deposit	696	2,413	2,930
Total available-for-sale debt securities	<u>\$ 272,839</u>	<u>\$ 296,032</u>	<u>\$ 289,459</u>

Management monitors the investment portfolio regularly and adjusts the investment strategy to reflect changes in liquidity needs, asset/liability strategy and tax-planning requirements. FNCB currently has \$20.7 million in net operating loss (“NOL”) carryovers, which it uses to offset any taxable income. Because of this tax position, there is no benefit from holding tax-exempt obligations of state and political subdivisions. Accordingly, management’s actions during recent periods with regard to managing the investment portfolio have reflected current tax-planning initiatives focused on generating sustained taxable income to be able to reduce NOL carryovers.

Market conditions allowed management to sell lower-yielding securities at a gain and reinvest a portion of the proceeds into higher yielding securities within FNCB's risk tolerance. FNCB sold available-for-sale securities in 2019 with an aggregate amortized cost of \$127.0 million. Gross proceeds received totaled \$128.2 million, with net gains of \$1.2 million realized upon the sales and included in non-interest income. The securities sold had a weighted-average yield of 2.43%.

Securities purchased during the year ended December 31, 2019 totaled \$106.0 million, including \$55.1 million in CMOs of U.S. government-sponsored agencies, \$23.9 million in private CMOs, \$19.7 million in obligations of state and political subdivisions, \$5.3 million in asset-backed securities, and \$2.0 million in corporate debt securities. Securities purchased during 2019 had a weighted-average yield of 2.88%.

The following table presents the maturities of available-for-sale debt securities, based on carrying value at December 31, 2019, and the weighted average yields of such securities calculated on the basis of the amortized cost and effective yields weighted for the scheduled maturity of each security. The yields on tax-exempt obligations of states and political subdivisions are presented on a tax-equivalent basis using the federal corporate income tax rate of 21.0%. Because residential, commercial and private collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary.

Maturity Distribution of the Investment Portfolio

December 31, 2019							
(dollars in thousands)	Within One Year	> 1 – 5 Years	6-10 Years	Over 10 Years	Collateralized Mortgage Obligations, Mortgage- Backed and Asset-Backed Securities	No Fixed Maturity	Total
Available-for-sale debt securities							
Obligations of state and political subdivisions	\$ 1,505	\$ 50,936	\$ 45,343	\$ 19,979	\$ -	\$ -	\$ 117,763
Yield.....	2.30%	2.80%	2.94%	2.87%			2.86%
U.S. government/government-sponsored agencies:							
Collateralized mortgage obligations - residential	-	-	-	-	80,294	-	80,294
Yield					2.68%		2.68%
Collateralized mortgage obligations - commercial	-	-	-	-	17,723	-	17,723
Yield					2.51%		2.51%
Mortgage-backed securities	-	-	-	-	18,485	-	18,485
Yield					3.08%		3.08%
Private collateralized mortgage obligations.....	-	-	-	-	25,075	-	25,075
Yield.....					2.94%		2.94%
Corporate debt securities.....	-	-	7,182	-	-	-	7,182
Yield.....			6.27%				6.27%
Asset-backed securities	-	-	-	-	5,621	-	5,621
Yield.....					2.89%		2.89%
Negotiable certificates of deposit....	696	-	-	-	-	-	696
Yield.....	2.31%	-	-	-			2.31%
Total available-for-sale maturities	<u>\$ 2,201</u>	<u>\$ 50,936</u>	<u>\$ 52,525</u>	<u>\$ 19,979</u>	<u>\$ 147,198</u>	<u>\$ -</u>	<u>\$ 272,839</u>
Weighted average yield	<u>2.30%</u>	<u>2.80%</u>	<u>3.40%</u>	<u>2.87%</u>	<u>2.76%</u>	<u>-%</u>	<u>2.90%</u>

OTTI Evaluation

There was no OTTI recognized during the years ended December 31, 2019 and 2018. For additional information regarding management's evaluation of securities for OTTI, see Note 4, "Securities" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K.

The following table presents FNCB's investment in restricted securities at December 31, 2019, 2018 and 2017. Restricted securities have limited marketability and are carried at cost.

(in thousands)	December 31,		
	2019	2018	2017
Stock in Federal Home Loan Bank of Pittsburgh.....	\$ 3,794	\$ 3,113	\$ 2,753
Stock in Atlantic Community Bankers Bank	10	10	10
Total restricted securities, at cost	<u>\$ 3,804</u>	<u>\$ 3,123</u>	<u>\$ 2,763</u>

Management noted no indicators of impairment for the FHLB of Pittsburgh or Atlantic Community Bankers Bank stock at December 31, 2019, 2018 and 2017.

FNCB owns 201,000 shares of the common stock of a privately-held bank holding company. The common stock was purchased during 2017 for \$8.25 per share, or \$1.7 million in aggregate, as part of a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended for offerings not involving any public offering. The common stock of such bank holding company is not currently traded on any established market and is not expected to be traded in the near future on any securities exchange or established over-the-counter market. The \$1.7 million investment is included in other assets in the consolidated statements of financial condition at December 31, 2019 and 2018. FNCB has elected to account for this transaction as an investment in an equity security without a readily determinable fair value. Under GAAP, an equity security without a readily determinable fair value shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

On December 18, 2019, management became aware that this privately held bank holding company had entered into an Agreement and Plan of Merger (“Merger Agreement”) with a publicly traded bank holding company. Pursuant to the Merger Agreement, this privately held bank holding company will merge with and into the publicly traded bank holding company with that company surviving the merger (“surviving company”). At the effective time of the merger, anticipated to be sometime in the third quarter of 2020, each share of the privately held bank holding company’s common stock issued and outstanding prior to the effective time of merger will be converted into the right to receive 0.6212 shares of common stock of the surviving company or \$16.50 in cash, at the election of holder; provided, however, individual shareholder elections of consideration will be prorated as necessary to ensure that, in aggregate, 25% of the privately held bank holding company’s stock will be converted into the cash consideration with the remaining 75% converted into the stock consideration. Based on this event, management determined that no adjustment for impairment was required at December 31, 2019.

Loans

Total loans, gross decreased by \$8.9 million, or 1.1%, to \$826.3 million at December 31, 2019 from \$835.2 million at December 31, 2018. The reduction in loan balances largely reflected the planned runoff of the indirect automobile loans and the anticipated payoffs of two large municipal loans and paydown of a commercial line of credit. FNCB did experience strong demand for real estate secured loans across all sectors.

Historically, commercial lending activities have represented a significant portion of FNCB’s loan portfolio. Commercial lending includes commercial and industrial loans, commercial real estate loans and construction, land acquisition and development loans, and represented 57.3% and 52.0% of total loans at December 31, 2019 and December 31, 2018, respectively. The increase in commercial lending was largely due to increases in commercial real estate loans and construction, land acquisition and development loans.

From a collateral standpoint, a majority of FNCB’s loan portfolio consists of loans secured by real estate. Real estate secured loans, which include commercial real estate, construction, land acquisition and development, residential real estate loans and home equity lines of credit (“HELOCs”), increased by \$45.6 million, or 9.7%, to \$513.7 million at December 31, 2019 from \$468.1 million at December 31, 2018. The increase was primarily attributable to strong demand for commercial construction loans, which increased \$26.7 million to \$47.5 million at December 31, 2019 from \$20.8 million at December 31, 2018. Real estate secured loans as a percentage of total gross loans increased to 62.2% at December 31, 2019 from 56.0% at December 31, 2018.

Commercial and industrial loans decreased \$3.3 million, or 2.2%, during the year to \$147.6 million at December 31, 2019 from \$151.0 million at December 31, 2018. Commercial and industrial loans consist primarily of equipment loans, working capital financing, revolving lines of credit and loans secured by cash and marketable securities. Loans secured by commercial real estate increased \$15.6 million, or 5.9%, to \$278.4 million at December 31, 2019 from \$262.8 million at

December 31, 2018. Commercial real estate loans include long-term commercial mortgage financing and are primarily secured by first or second lien mortgages. Construction, land acquisition and development loans increased by \$26.7 million, or 128.1%, during the year to \$47.5 million at December 31, 2019, from \$20.8 million at December 31, 2018.

Residential real estate loans totaled \$170.7 million at December 31, 2019, an increase of \$5.9 million, or 3.6%, from \$164.8 million at December 31, 2018. The components of residential real estate loans include fixed-rate and variable-rate mortgage loans. HELOCs are not included in this category but are included in consumer loans. FNCF primarily underwrites fixed-rate purchase and refinance of residential mortgage loans for sale in the secondary market to reduce interest rate risk and provide funding for additional loans. Additionally, FNCF offers a “WOW” mortgage product, which is a non-saleable mortgage with maturity terms of 7.5 to 19.5 years, and offers customers an attractive fixed interest rate, low closing costs and a guaranteed 30-day close. WOW mortgages increased \$9.2 million, or 22.1%, to \$51.0 million at December 31, 2019 from \$41.8 million at December 31, 2018.

Consumer loans totaled \$138.2 million at December 31, 2019, a decrease of \$38.5 million, or 21.8%, from \$176.8 million at December 31, 2018. The majority of the decrease was concentrated within the indirect auto loan portfolio, as FNCF did not aggressively compete for these loans in 2019. Due to the anticipated payoff of two large loan relationships in the second quarter of 2019, loans to state and municipal governments decreased \$15.1 million, or 25.6%, to \$43.9 million at December 31, 2019 from \$59.0 million at December 31, 2018.

The following table presents loans receivable, net by major category at December 31, for each of the last five years:

Loan Portfolio Detail

(in thousands)	December 31,				
	2019	2018	2017	2016	2015
Residential real estate.....	\$ 170,723	\$ 164,833	\$ 158,020	\$ 144,260	\$ 130,696
Commercial real estate.....	278,379	262,778	261,783	243,830	245,198
Construction, land acquisition and development..	47,484	20,813	20,981	18,357	30,843
Commercial and industrial	147,623	150,962	150,103	150,758	146,826
Consumer	138,239	176,784	134,653	127,844	128,533
State and political subdivisions	43,908	59,037	42,529	43,709	46,056
Total loans, gross	826,356	835,207	768,069	728,758	728,152
Unearned income	(69)	(70)	(80)	(48)	(98)
Net deferred loan costs.....	2,192	3,963	2,654	2,569	2,662
Allowance for loan and lease losses.....	(8,950)	(9,519)	(9,034)	(8,419)	(8,790)
Loans, net.....	<u>\$ 819,529</u>	<u>\$ 829,581</u>	<u>\$ 761,609</u>	<u>\$ 722,860</u>	<u>\$ 721,926</u>

The following table presents the maturity distribution and interest rate information of the loan portfolio by major category as of December 31, 2019:

Maturity Distribution of the Loan Portfolio

(in thousands)	December 31, 2019			
	Within One Year	One to Five Years	Over Five Years	Total
Residential real estate.....	\$ 2,487	\$ 7,903	\$ 160,333	\$ 170,723
Commercial real estate.....	8,561	44,137	225,681	278,379
Construction, land acquisition and development.....	6,624	12,625	28,235	47,484
Commercial and industrial	69,947	50,495	27,182	147,623
Consumer	6,389	81,541	50,309	138,239
State and political subdivisions	1,837	5,863	36,208	43,908
Total loans, gross.....	<u>\$ 95,844</u>	<u>\$ 202,564</u>	<u>\$ 527,948</u>	<u>\$ 826,356</u>
Loans with predetermined interest rates.....	\$ 13,629	\$ 166,214	\$ 209,202	\$ 389,045
Loans with floating rates	82,215	36,350	318,746	437,311
Total loans, gross.....	<u>\$ 95,844</u>	<u>\$ 202,564</u>	<u>\$ 527,948</u>	<u>\$ 826,356</u>

Under industry regulations, a concentration is considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. Typically, industry guidelines require disclosure of concentrations of loans exceeding 10.0% of total loans outstanding. FNLCB had no such concentrations at December 31, 2019 and 2018. In addition to industry guidelines, FNLCB's internal policy considers a concentration to exist in its loan portfolio if an aggregate loan balance outstanding to borrowers within a specific industry exceeds 25.0% of capital. However, management regularly reviews loans by all industry categories to determine if a potential concentration exists.

The following table presents loans by industry, the percentage to gross loans and indicates concentrations greater than 25% of capital at December 31, 2019 and 2018:

Loan Concentrations

(dollars in thousands)	December 31,			
	2019		2018	
	Amount	% of Gross Loans	Amount	% of Gross Loans
Retail space/shopping centers	\$ 43,865	5.31%	\$ 48,021	5.75%
1-4 family residential investment properties	38,122	4.61%	38,756	4.64%
Physicians.....	26,739*	3.24%	25,379	3.04%

*Not considered a concentration, shown for comparative purposes only.

Asset Quality

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, net of unearned interest, deferred loan fees and costs, and reduced by the ALLL. The ALLL is established through a provision for loan and lease losses charged to earnings.

FNLCB has established and consistently applies loan policies and procedures designed to foster sound underwriting and credit monitoring practices. Credit risk is managed through the efforts of loan officers, the Chief Credit Officer, the loan review function, and the Credit Risk Management and the ALLL committees, as well as oversight from the Board of Directors. Management continually evaluates its credit risk management practices to ensure it is reacting to problems in the loan portfolio in a timely manner, although, as is the case with any financial institution, a certain degree of credit risk is dependent in part on local and general economic conditions that are beyond management's control.

Under FNLCB's risk rating system, loans that are rated pass, special mention, substandard, doubtful, or loss are reviewed regularly as part of the risk management practices. The Credit Risk Management Committee, which consists of key members of management, finance, legal, retail lending and credit administration, meets monthly or more often as necessary to review individual problem credits and workout strategies and provides monthly reports to the Board of Directors.

A loan is considered impaired when it is probable that FNLCB will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the note and loan agreement. For purposes of the analysis, all TDRs, loan relationships with an aggregate outstanding balance greater than \$100 thousand rated substandard and non-accrual, and loans that are identified as doubtful or loss are considered impaired. Impaired loans are analyzed individually to determine the amount of impairment. For collateral-dependent loans, impairment is measured based on the fair value of the collateral supporting the loans. A loan is determined to be collateral dependent when repayment of the loan is expected to be provided through the operation or liquidation of the collateral held. For impaired loans that are secured by real estate, management obtains external appraisals annually, or more frequently as warranted, to ascertain a fair value so that the impairment analysis can be updated. Should a current appraisal not be available at the time of impairment analysis, management may use other valuations sources, including current letters of intent, broker price opinions or executed agreements of sale. For non-collateral-dependent loans, impairment is measured based on the present value of expected future cash flows, net of any deferred fees and costs, discounted at the loan's original effective interest rate.

Loans to borrowers that are experiencing financial difficulty that are modified and result in the granting of concessions to the borrowers are classified as TDRs and are considered to be impaired. Such concessions generally involve an extension of a loan's stated maturity date, a reduction of the stated interest rate, payment modifications, capitalization of property taxes with respect to mortgage loans or a combination of these modifications. Non-accrual TDRs are returned to accrual status if principal and interest payments, under the modified terms, are brought current, are performing under the modified terms for six consecutive months, and management believes that collection of the remaining interest and principal is probable.

Non-performing loans are monitored on an ongoing basis as part of FNCB's loan review process. Additionally, work-out for non-performing loans and OREO are actively monitored through the Credit Risk Management Committee. A potential loss on a non-performing asset is generally determined by comparing the outstanding loan balance to the fair market value of the pledged collateral, less estimated cost to sell.

Loans are placed on non-accrual when a loan is specifically determined to be impaired or when management believes that the collection of interest or principal is doubtful. This generally occurs when a default of interest or principal has existed for 90 days or more, unless the loan is well secured and in the process of collection, or when management becomes aware of facts or circumstances that the loan would default before 90 days. FNCB determines delinquency status based on the number of days since the date of the borrower's last required contractual loan payment. When the interest accrual is discontinued, all unpaid interest income is reversed and charged back against current earnings. Any subsequent cash payments received are applied, first to the outstanding loan amounts, then to the recovery of any charged-off loan amounts, with any excess treated as a recovery of lost interest. A non-accrual loan is returned to accrual status when the loan is current as to principal and interest payments, is performing according to contractual terms for six consecutive months and future payments are reasonably assured.

Management actively manages impaired loans in an effort to mitigate loss to FNCB by working with customers to develop strategies to resolve borrower difficulties, through sale or liquidation of collateral, foreclosure, and other appropriate means. In addition, management monitors employment and economic conditions within FNCB's market area, as weakening of conditions could result in real estate devaluations and an increase in loan delinquencies, which could negatively impact asset quality and cause an increase in the provision for loan and lease losses. Management monitors employment conditions within FNCB's market area. Employment conditions in FNCB's market area worsened slightly in 2019 as evidenced by an increase in the seasonally-adjusted unemployment rate for the Scranton/Wilkes-Barre/Hazleton Pennsylvania metropolitan area to 5.5% for December 2019 from 5.1% for December 2018. Additionally, the unemployment rate for FNCB's primary market area was above the rate for the entire Commonwealth of Pennsylvania of 4.5% and the rate for the United States of 3.5% for December 2019.

Under the fair value of collateral method, the impaired amount of the loan is deemed to be the difference between the loan amount and the fair value of the collateral, less the estimated costs to sell. For real estate secured loans, management generally estimates selling costs using a factor of 10%, which is based on typical cost factors, such as a 6% broker commission, 1% transfer taxes, and 3% various other miscellaneous costs associated with the sales process. If the valuation indicates that the fair value has deteriorated below the carrying value of the loan, the difference between the fair value and the principal balance is either charged off or a specific reserve is established. For impaired loans for which the value of the collateral less estimated costs to sell exceeds the loan value, the impairment is determined to be zero.

The following table presents information about non-performing assets and accruing TDRs as of December 31, for each of the last five years:

Non-performing Assets and Accruing TDRs

(dollars in thousands)	December 31,				
	2019	2018	2017	2016	2015
Non-accrual loans, including non-accrual TDRs	\$ 9,084	\$ 4,696	\$ 2,578	\$ 2,234	\$ 3,788
Loans past due 90 days or more and still accruing	-	-	-	-	-
Total non-performing loans	9,084	4,696	2,578	2,234	3,788
Other real estate owned	289	919	1,023	2,048	3,154
Other non-performing assets	1,900	1,900	1,900	2,160	-
Total non-performing assets	<u>\$ 11,273</u>	<u>\$ 7,515</u>	<u>\$ 5,501</u>	<u>\$ 6,442</u>	<u>\$ 6,942</u>
Accruing TDRs	\$ 7,745	\$ 8,457	\$ 9,299	\$ 4,176	\$ 4,982
Non-performing loans as a percentage of total loans, gross	1.10%	0.56%	0.34%	0.31%	0.52%

Total non-performing assets increased \$3.8 million, or 50.0%, to \$11.3 million at December 31, 2019 from \$7.5 million at December 31, 2018. The increase was due to an increase in non-accrual loans of \$4.4 million, partially offset by a \$0.6 million decrease in OREO. The increase in non-accrual loans was primarily attributable to several large commercial relationships that were placed on non-accrual status during 2019. FNCB's ratio of non-performing loans to total gross loans increased to 1.10% at December 31, 2019 from 0.56% at December 31, 2018. FNCB's ratio of non-performing assets as a

percentage of shareholders' equity was 8.4% at December 31, 2019 from 8.7% at December 31, 2018. Management has increased workout efforts directed at these larger commercial relationships and continues to monitor all non-accrual loans, delinquency trends and economic conditions within FNCFB's market area on an on-going basis to proactively address any collection-related issues and mitigate potential losses.

Other non-performing assets at December 31, 2019 and 2018 is comprised solely of a classified account receivable secured by an evergreen letter of credit in the amount of \$1.9 million, received in 2011 as part of a settlement agreement for a large construction, land acquisition and development loan for a residential development project in the Pocono region of Monroe County. The project was stalled due to a decline in real estate values in this area following the financial crisis of 2008. The agreement provides for payment to FNCFB as real estate building lots are sold. In 2016, management classified this receivable as substandard due to length of holding time and continues to monitor this project closely. Economic development in this market area has recently improved and construction activity including substantial infrastructure, related to this project by the developer has increased. However, no lots have been sold to date.

TDRs at December 31, 2019 and 2018 were \$9.1 million and \$9.2 million, respectively. Accruing and non-accruing TDRs were \$7.7 million and \$1.4 million, respectively at December 31, 2019 and \$8.5 million and \$0.7 million, respectively at December 31, 2018. There were seven loan relationships modified as TDRs during the year ended December 31, 2019, which incorporated a total of ten individual loans. There was one loan relationship with an aggregate post-modification recorded investment of \$865 thousand that was comprised of two commercial real estate loans and one commercial and industrial loan for which terms were extended and taxes capitalized. Additional TDRs included four residential real estate loans with a post-modification recorded investment totaling \$289 thousand and three other commercial and industrial loans totaling \$712 thousand, involving an extension of terms. Subsequent to modification, FNCFB charged-off one of the commercial loans in the amount of \$235 thousand. There were no loans modified as TDRs during 2018.

For additional information about TDRs, see Note 5, "Loans" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K.

The average balance of impaired loans was \$13.8 million and \$11.6 million for the years ended December 31, 2019 and 2018, respectively. FNCFB recognized interest on impaired loans of \$398 thousand in 2019 and \$417 thousand in 2018.

The following table presents the changes in non-performing loans for the years ended December 31, 2019 and 2018. Loan foreclosures represent recorded investment at time of foreclosure not including the effect of any guarantees:

Changes in Non-performing Loans

(in thousands)	Year ended December 31,	
	2019	2018
Balance, January 1	\$ 4,696	\$ 2,578
Loans newly placed on non-accrual	9,030	6,262
Change in loans past due 90 days or more and still accruing.....	-	-
Loans transferred to OREO.....	-	(112)
Loans returned to performing status.....	(45)	(38)
Loans charged-off	(2,589)	(3,110)
Loan payments received.....	(2,008)	(884)
Balance, December 31.....	<u>\$ 9,084</u>	<u>\$ 4,696</u>

The additional interest income that would have been earned on non-accrual and restructured loans had the loans been performing in accordance with their original terms approximated to \$0.4 million and \$0.2 million for the years ended December 31, 2019 and 2018, respectively.

The following table presents accruing loan delinquencies and non-accrual loans as a percentage of gross loans at December 31, 2019 and 2018:

Loan Delinquencies and Non-accrual Loans

	December 31,	
	2019	2018
Accruing:		
30-59 days	0.26%	0.32%
60-89 days	0.10%	0.05%
90+ days	0.00%	0.00%
Non-accrual	1.10%	0.56%
Total delinquencies	<u>1.46%</u>	<u>0.93%</u>

Total delinquencies as a percent of gross loans increased to 1.46% at December 31, 2019 from 0.93% at December 31, 2018. The most predominant factor contributing to the increase in total delinquencies was a net increase in non-accrual loans of \$4.4 million, concentrated in the commercial real estate segment. Loans 30-59 days past due decreased, which surpassed the increase in loans balances that were 60-89 days past due.

Allowance for Loan and Lease Losses

The ALLL represents management's estimate of probable loan losses inherent in the loan portfolio. The ALLL is analyzed in accordance with GAAP and is maintained at a level that is based on management's evaluation of the adequacy of the ALLL in relation to the risks inherent in the loan portfolio.

As part of its evaluation, management considers qualitative and environmental factors, including, but not limited to:

- changes in national, local, and business economic conditions and developments, including the condition of various market segments;
- changes in the nature and volume of the loan portfolio;
- changes in lending policies and procedures, including underwriting standards, collection, charge-off and recovery practices and results;
- changes in the experience, ability and depth of lending management and staff;
- changes in the quality of the loan review system and the degree of oversight by the Board of Directors;
- changes in the trend of the volume and severity of past due and classified loans, including trends in the volume of non-accrual loans, TDRs and other loan modifications;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations;
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the current loan portfolio; and
- analysis of customers' credit quality, including knowledge of their operating environment and financial condition.

Evaluations are intrinsically subjective, as the results are estimated based on management knowledge and experience and are subject to interpretation and modification as information becomes available or as future events occur. Management monitors the loan portfolio on an ongoing basis with emphasis on weakness in both the real estate market and the economy in general and its effect on repayment. Adjustments to the ALLL are made based on management's assessment of the factors noted above.

For purposes of management's analysis of the ALLL, all loan relationships with an aggregate balance greater than \$100 thousand that are rated substandard and non-accrual, identified as doubtful or loss, and all TDRs are considered impaired and are analyzed individually to determine the amount of impairment. Circumstances such as construction delays, declining real estate values, and the inability of the borrowers to make scheduled payments have resulted in these loan relationships being classified as impaired. FNCB utilizes the fair value of collateral method for collateral-dependent loans and TDRs for which repayment depends on the sale of collateral. For non-collateral-dependent loans and TDRs, FNCB measures impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate. With regard to collateral-dependent loans, appraisals are received at least annually to ensure that impairment measurements reflect current market conditions. Should a current appraisal not be available at the time of impairment analysis, other valuation sources including current letters of intent, broker price opinions or executed agreements of sale may be used. Only downward adjustments are made based on these supporting values. Included in all impairment calculations is a cost to sell adjustment of approximately 10%, which is based on typical cost factors, including a 6% broker commission, 1% transfer taxes and 3%

various other miscellaneous costs associated with the sales process. Sales costs are periodically reviewed and revised based on actual experience. The ALLL analysis is adjusted for subsequent events that may arise after the end of the reporting period but before the financial reports are filed.

The ALLL equaled \$8.9 million at December 31, 2019, a decrease of \$0.6 million, or 6.0%, from \$9.5 million at December 31, 2018, as net loan charge-offs of \$1.4 million more than offset the provisions for loan and lease losses of \$0.8 million. The decrease in the provision for loan losses largely reflected a reduction in outstanding loan balances at December 31, 2019 as compared to December 31, 2018, coupled with a decrease in historical net charge-offs. Net charge-offs were \$1.4 million for the year ended December 31, 2019, a decrease of \$0.7 million, or 33.8%, compared to \$2.1 million for the year ended December 31, 2018.

The ALLL consists of both specific and general components. The component of the ALLL that is related to impaired loans that are individually evaluated for impairment, the guidance for which is provided by ASC 310 “*Impairment of a Loan*” (“ASC 310”), was \$473 thousand, or 5.3%, of the total ALLL at December 31, 2019, compared to \$657 thousand, or 6.9%, of the total ALLL at December 31, 2018. A general reserve of \$8.5 million was established for loans analyzed collectively under ASC 450 “*Contingencies*” (“ASC 450”), which represented 94.7% of the total ALLL of \$9.0 million at December 31, 2019. Included in the general component of the ALLL at December 31, 2019 and 2018 were unallocated reserves of \$426 thousand and \$29 thousand, respectively. Based on its evaluations, management may establish an unallocated component to cover any inherent losses that exist as of the evaluation date, but which may not have been identified under the methodology. FNCB received a significant payment on a large commercial line of credit just prior to December 31, 2019, which was a contributing factor to the overall decrease in commercial and industrial loans. The commercial customer is expected to re-draw on the line of credit in the first quarter of 2020. Additionally, construction, land acquisition and development loans have a negative historical net charge-off ratio used in the evaluation of the ALLL at December 31, 2019, which would result in a negative provision. Construction, land acquisition and development loans generally have a greater amount of inherent risk than other types of loans. For this reason, management reclassified the negative provision associated with the net recovery position into an unallocated reserve. Based on these circumstances, management believes the increase and level of the unallocated reserve to be appropriate at December 31, 2019. The ratio of the ALLL to total loans at December 31, 2019 and December 31, 2018 was 1.08% and 1.13%, respectively, based on loans, net of net deferred loan costs and unearned income of \$828.5 million and \$839.1 million, respectively.

The following table presents an allocation of the ALLL by major loan category and percent of loans in each category to total loans at December 31, for each of the last five years:

Allocation of the ALLL

(dollars in thousands)	December 31,									
	2019		2018		2017		2016		2015	
	Allowance	Percentage of Loans in Each Category to Total Loans	Allowance	Percentage of Loans in Each Category to Total Loans	Allowance	Percentage of Loans in Each Category to Total Loans	Allowance	Percentage of Loans in Each Category to Total Loans	Allowance	Percentage of Loans in Each Category to Total Loans
Residential real estate.....	\$ 1,147	20.66%	\$ 1,175	19.74%	\$ 1,236	20.58%	\$ 1,171	19.72%	\$ 1,333	17.87%
Commercial real estate.....	3,198	33.69%	3,107	31.46%	3,499	34.08%	3,297	33.32%	3,346	33.54%
Construction, land acquisition and development .	271	5.75%	188	2.49%	209	2.73%	268	2.51%	853	4.22%
Commercial and industrial	1,997	17.86%	2,552	18.07%	2,340	19.54%	1,736	21.01%	1,205	20.49%
Consumer.....	1,658	16.73%	2,051	21.17%	1,395	17.53%	1,457	17.47%	1,494	17.58%
State and political subdivisions..	253	5.31%	417	7.07%	355	5.54%	490	5.97%	485	6.30%
Unallocated.....	426	0.00%	29	0.00%	-	0.00%	-	0.00%	74	0.00%
Total	<u>\$ 8,950</u>	<u>100.00%</u>	<u>\$ 9,519</u>	<u>100.00%</u>	<u>\$ 9,034</u>	<u>100.00%</u>	<u>\$ 8,419</u>	<u>100.00%</u>	<u>\$ 8,790</u>	<u>100.00%</u>

The following table presents an analysis of the ALLL by loan category for each of the last five years:

Reconciliation of the ALLL

(dollars in thousands)	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Balance, January 1,	\$ 9,519	\$ 9,034	\$ 8,419	\$ 8,790	\$ 11,520
Charge-offs:					
Residential real estate	27	63	192	153	139
Commercial real estate	-	1,845	159	398	912
Construction, land acquisition and development	18	-	-	-	688
Commercial and industrial.....	1,258	97	495	1,107	180
Consumer.....	1,311	1,134	603	960	716
State and political subdivision	-	-	-	-	-
Total charge-offs	2,614	3,139	1,449	2,618	2,635
Recoveries of charged-off loans:					
Residential real estate	9	135	29	4	58
Commercial real estate	32	42	45	6	307
Construction, land acquisition and development	82	30	480	9	-
Commercial and industrial.....	364	291	360	507	400
Consumer.....	761	576	381	568	485
State and political subdivision	-	-	-	-	-
Total recoveries.....	1,248	1,074	1,295	1,094	1,250
Net charge-offs.....	1,366	2,065	154	1,524	1,385
Provision (credit) for loan and lease losses	797	2,550	769	1,153	(1,345)
Balance, December 31.....	\$ 8,950	\$ 9,519	\$ 9,034	\$ 8,419	\$ 8,790
Ratios:					
Net charge-offs as a percentage of average loans.....	0.16%	0.25%	0.02%	0.21%	0.20%
Allowance for loan and lease losses as a percent of gross loans outstanding at period end	1.08%	1.13%	1.17%	1.15%	1.20%

Other Real Estate Owned

At December 31, 2019, there were two properties with an aggregate carrying value of \$0.3 million in OREO, compared to six properties with an aggregate balance of \$0.9 million at December 31, 2018. During the year ended December 31, 2019, FNCB foreclosed upon two properties with a carrying value of \$256 thousand. The properties foreclosed upon were the collateral supporting investor-owned residential mortgage loans. The agreement with the investor requires FNCB to take title to the property upon foreclosure and FNCB is responsible for the property liquidation on behalf of the investor after foreclosure. During the year ended December 31, 2018, FNCB foreclosed upon one commercial real estate property with an aggregate carrying value of \$146 thousand.

During the year ended December 31, 2019, there were five sales of properties with an aggregate carrying value of \$0.8 million. Net gains realized on the sale of these properties was \$20 thousand. There were two sales of properties with an aggregate carrying value of \$0.4 million during the twelve months ended December 31, 2018, with net gains realized on the sales of \$31 thousand. Net gains on the sale of OREO properties were included in non-interest income for the years ended December 31, 2019 and 2018.

FNCB actively markets OREO properties for sale through a variety of channels including internal marketing and the use of outside brokers/realtors. The carrying value of OREO is generally calculated at an amount not greater than 90% of the most recent fair market appraised value unless specific conditions warrant an exception. A 10% factor is generally used to estimate costs to sell, which is based on typical cost factors, such as 6% broker commission, 1% transfer taxes, and 3% various other miscellaneous costs associated with the sales process. This fair value is updated on an annual basis or more frequently if new valuation information is available. Deterioration in the real estate market could result in additional losses on these properties. Valuation adjustments related to OREO totaled \$85 thousand for the year ended December 31, 2019 and \$102 thousand for the year ended December 31, 2018, which are included in other operating expense in the consolidated statements of income.

The following table presents the activity in OREO for the years ended December 31, 2019 and 2018:

Activity in OREO

(in thousands)	For the Years Ended December 31,	
	2019	2018
Balance, January 1.....	\$ 919	\$ 1,023
Real estate foreclosures.....	256	146
Transfer from bank premises.....	-	291
Valuation adjustments.....	(85)	(102)
Carrying value of OREO sold.....	(801)	(439)
Balance, December 31.....	<u>\$ 289</u>	<u>\$ 919</u>

The following table presents a distribution of OREO at December 31, for the past five years:

Distribution of OREO

(in thousands)	December 31,				
	2019	2018	2017	2016	2015
Land / lots.....	\$ 85	\$ 436	\$ 516	\$ 641	\$ 785
Commercial real estate.....	-	438	427	1,380	2,342
Residential real estate.....	204	45	80	27	27
Total other real estate owned.....	<u>\$ 289</u>	<u>\$ 919</u>	<u>\$ 1,023</u>	<u>\$ 2,048</u>	<u>\$ 3,154</u>

The expenses related to maintaining OREO include the subsequent write-downs of the properties related to declines in value since foreclosure, net of any income received. OREO expenses amounted to \$231 thousand and \$257 thousand, and are included in other operating expense in the consolidated statements of income, for the years ended December 31, 2019 and 2018, respectively.

Deposits

Management recognizes the importance of deposit growth as its primary funding source for loan products and regularly evaluates new products and strategies focused on growing commercial, consumer and municipal deposit relationships.

Total deposits decreased \$93.9 million, or 8.6%, to \$1.002 billion at December 31, 2019 from \$1.096 billion at December 31, 2018. Interest-bearing deposits decreased \$116.8 million, or 12.4%, to \$822.2 million at December 31, 2019 from \$939.0 million at December 31, 2018. Partially offsetting the decrease in interest-bearing deposits was an increase in non-interest-bearing demand deposits of \$22.9 million, or 14.6%, to \$179.5 million at December 31, 2019 from \$156.6 million at December 31, 2018. The increase in non-interest-bearing deposits was concentrated in small business and retail demand deposit accounts. With regard to interest-bearing deposits, the decrease primarily reflected a \$53.1 million reduction in higher-costing wholesale time deposits, coupled with decreases in interest-bearing demand deposits and retail time deposits. Interest-bearing demand deposits decreased \$23.1 million, or 4.1%, to \$534.7 million at December 31, 2019 from \$557.8 million at December 31, 2018, which was concentrated in the municipal sector. Retail time deposits decreased \$20.3 million, or 42.2%, to \$193.0 million at December 31, 2019 from \$213.3 million at December 31, 2018, which was caused primarily by the runoff of certificate deposit specials having promotional interest rates. At December 31, 2019, FNCB had no brokered time deposits outstanding, compared to \$53.1 million at December 31, 2018.

Non-interest-bearing demand deposits averaged \$4.3 million, or 2.5%, lower at \$164.0 million in 2019 as compared to \$168.3 million in 2018. Interest-bearing deposits averaged \$844.8 million in 2019, an increase of \$6.7 million, or 0.8%, compared to \$838.1 million in 2018. The increase was concentrated in average interest-bearing demand deposits which increased \$10.6 million, or 2.1% comparing 2019 and 2018. In addition, average time deposits, increased \$2.0 million, or 0.8%, to \$238.2 million in 2019 from \$236.2 million in 2018. Partially offsetting these increases was a decrease of \$5.8 million, or 5.9%, in average savings deposits to \$93.1 million in 2019 from \$98.9 million in 2018. FNCB's deposit funding costs increased 25 basis points, to 0.96% in 2019 from 0.71% in 2018. Rates on interest-bearing demand and time deposits increased by 24 basis points and 37 basis points, respectively, while rates on savings deposits remained steady at 0.13% comparing 2019 and 2018. The increase in deposit costs reflected higher market interest rates and increased competition sustained for the majority of 2019.

The average balance of, and the rate paid on, the major classifications of deposits for the past three years are summarized in the following table:

Deposit Distribution

(dollars in thousands)	For the Year Ended December 31,					
	2019		2018		2017	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Interest-bearing deposits:						
Demand.....	\$ 513,542	0.81%	\$ 502,978	0.57%	\$ 502,170	0.36%
Savings.....	93,114	0.13%	98,927	0.13%	101,952	0.13%
Time.....	238,145	1.60%	236,162	1.23%	198,143	0.80%
Total interest-bearing deposits	<u>844,801</u>	<u>0.96%</u>	<u>838,067</u>	<u>0.71%</u>	<u>802,265</u>	<u>0.44%</u>
Non-interest-bearing deposits	<u>164,035</u>		<u>168,313</u>		<u>156,670</u>	
Total deposits	<u>\$ 1,008,836</u>		<u>\$ 1,006,380</u>		<u>\$ 958,935</u>	

The following table presents the maturity distribution of time deposits of \$100,000 or more at December 31, 2019 and 2018:

Maturity Distribution of Time Deposits \$100,000 or More

(in thousands)	December 31,	
	2019	2018
3 months or less.....	\$ 17,471	\$ 49,056
Over 3 through 6 months.....	21,620	13,381
Over 6 through 12 months.....	35,299	48,273
Over 12 months.....	27,371	26,069
Total.....	<u>\$ 101,761</u>	<u>\$ 136,779</u>

Borrowings

Short-term borrowings generally represent overnight borrowing transactions through the FHLB of Pittsburgh, which provide for short-term funding requirements of FNCB and mature within one business day of the transaction. Short-term borrowings may also include federal funds purchased and borrowings through the Federal Reserve Discount Window, which are generally considered to be a contingency source of funding. FNCB periodically tests and/or confirms the availability of funding through the Federal Reserve Discount Window and federal funds lines of credit. There were no borrowings through the Federal Reserve Discount Window or under federal funds lines of credit outstanding at December 31, 2019 and 2018. At December 31, 2019, FNCB had \$14.1 million in overnight advances outstanding with the FHLB of Pittsburgh, an increase of \$7.5 million, or 113.6%, compared to \$6.6 million in overnight advances outstanding at December 31, 2018.

Long-term debt is comprised of FHLB of Pittsburgh term advances, subordinated debentures and junior subordinated debentures and totaled \$43.1 million at December 31, 2019, an increase of \$15.5 million, or 56.0%, from \$27.6 million at December 31, 2018. Term advances through the FHLB of Pittsburgh increased \$20.5 million to \$32.8 million at December 31, 2019 from \$12.3 million at December 31, 2018. FHLB of Pittsburgh overnight and term advances are collateralized under a blanket pledge agreement, and FNCB is also required to purchase FHLB of Pittsburgh stock based upon the amount of advances outstanding. At December 31, 2019, FNCB's maximum borrowing capacity with the FHLB of Pittsburgh was \$333.3 million.

On September 1, 2009, FNCB offered only to accredited investors up to \$25.0 million principal amount of unsecured subordinated debentures due September 1, 2019 (the "Notes"). The Notes had a principal balance of \$5.0 million on December 31, 2018. The Notes had a fixed interest rate of 4.50%. Subsequent to December 31, 2018, on January 30, 2019, the Board of Directors of FNCB approved the acceleration of the final \$5.0 million principal repayment on the Notes. The \$5.0 million final payment, which was due and payable on September 1, 2019, was paid to Noteholders on February 8, 2019.

FNCB also had \$10.3 million of junior subordinated debentures outstanding at December 31, 2019 and 2018. The interest rate on these debentures resets quarterly at a spread of 1.67% above the current 3-month LIBOR rate. The average interest rate paid on the junior subordinated debentures in 2019 was 4.17%, compared to 3.88% in 2018.

Average borrowed funds decreased \$56.0 million, or 46.8%, to \$63.6 million in 2019 from \$119.6 million in 2018. The average rate paid on borrowed funds increased 44 basis points to 2.66% in 2019 from 2.22% in 2018. The increase in rate on borrowed funds was due to increases in the rates paid for FHLB borrowings and junior subordinated debentures due to higher market interest rates for the majority of 2019. The maximum amount of total borrowings outstanding at any month end during the years ended December 31, 2019 and 2018 were \$97.5 million and \$203.2 million, respectively.

See Note 8, "Borrowed Funds" of the Notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K for additional information about FNCB's borrowed funds.

Liquidity

The term liquidity refers to the ability to generate sufficient amounts of cash to meet cash flow needs. Liquidity is required to fulfill the borrowing needs of FNCB's credit customers and the withdrawal and maturity requirements of its deposit customers, as well as to meet other financial commitments. FNCB's liquidity position is impacted by several factors, which include, among others, loan origination volumes, loan and investment maturity structure and cash flows, deposit demand and time deposit maturity structure and retention. FNCB has liquidity and contingent funding policies in place that are designed with controls in place to provide advanced detection of potentially significant funding shortfalls, establish methods for assessing and monitoring risk levels, and institute prompt responses that may alleviate a potential liquidity crisis. Management monitors FNCB's liquidity position and fluctuations daily, forecasts future liquidity needs, performs periodic stress tests on its liquidity levels and develops strategies to ensure adequate liquidity at all times.

The statements of cash flows present the change in cash and cash equivalents from operating, investing and financing activities. Cash and due from banks and interest-bearing deposits in other banks, which comprise cash and cash equivalents, are FNCB's most liquid assets. At December 31, 2019, cash and cash equivalents totaled \$34.6 million, a decrease of \$1.9 million from \$36.5 million at December 31, 2018. The modest decrease in cash and cash equivalents was due to net cash inflows from investing and operating activities, which was slightly more than offset by a net cash outflow from financing activities.

Cash inflows from investing activities provided \$37.1 million of cash and cash equivalents during the year ended December 31, 2019, which was due largely due to the net proceeds received from sales, maturities, calls and principal payments from available for sale debt securities in 2019 providing \$139.3 million of cash and cash equivalents, partially offset by \$106.0 million in purchases of available-for-sale securities. Also factoring into the net cash inflow from investing activities, was a net decrease in loans to customers of \$7.7 million. FNCB also received \$0.8 million in proceeds from the sale of OREO and \$0.4 million in a settlement from bank-owned life insurance. FNCB utilized \$4.5 million in cash and cash equivalents for the purchases of bank premises and equipment. Operating activities include net income, adjusted for the effects of non-cash transactions including, among others, depreciation and amortization and the provision for loan and lease losses, and is the primary source for the remaining funds from operations. Specifically, in 2019 FNCB recorded net income of \$11.1 million and non-cash adjustments to income of \$3.6 million, for a total of \$14.7 million in net cash provided by operations.

Financing activities used \$53.6 million in net cash, which resulted primarily from a \$93.9 million net decrease in deposits in 2019, coupled with cash dividends paid totaling \$4.0 million. Partially offsetting these outflows were net proceeds of \$28.0 million from FHLB of Pittsburgh advances and \$21.3 million from the issuance of common shares.

Management believes that FNCB's liquidity position is sufficient to meet its cash flow needs as of December 31, 2019. FNCB generally utilizes core deposits as its primary source of liquidity. Core deposits include non-interest-bearing and interest-bearing demand deposits, savings deposits and other time deposits, net of brokered deposits and one-way purchased deposits generated through the Promontory Interfinancial Network, which include time deposits issued under CDARs program and money market and NOW accounts issued through the ICS program. Participating in the Promontory Interfinancial Network programs allows FNCB to service and attract potential high-balance deposits customers who want the security of full-FDIC insurance but want to maintain a local deposit relationship. Reciprocal deposits issued through the Promontory Interfinancial Network program are considered to be core deposits. As of December 31, 2019, FNCB had approximately \$24.2 million placed into the reciprocal program. Core deposits averaged \$974.6 million for the year ended December 31, 2019, an increase of \$2.0 million, or 0.2%, compared to \$972.6 million for the year ended December 31, 2018. The increase in core deposits primarily reflected higher volumes of interest-bearing demand deposits due to increases in its personal relationship checking and interest-earning business checking products. Management reduced FNCB's utilization of wholesale funds, which include brokered certificates of deposit and FHLB of Pittsburgh advances. As of December 31, 2019 wholesale funding totaled \$46.9

FNCB's total regulatory capital increased \$21.3 million to \$133.4 million at December 31, 2019 from \$112.1 million at December 31, 2018. The Bank's risk-based capital ratios exceeded the minimum regulatory capital ratios required for adequately capitalized institutions. Based on the most recent notification from its primary regulators, the Bank was categorized as well capitalized at December 31, 2019 and 2018. There are no conditions or events since this notification that management believes have changed this category.

As of December 31, 2019, FNCB had 29,828,592 shares of common stock available for future sale or share dividends. The number of shareholders of record at December 31, 2019 was 1,735. Quarterly market highs and lows, dividends paid and known market makers are highlighted in Part I, Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" of this Annual Report on Form 10-K. For further discussion of FNCB's capital requirements and dividend limitations, refer to Note 14, "Regulatory Matters," of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Additionally, FNCB has available 20,000,000 authorized shares of preferred stock. There were no preferred shares issued and outstanding at December 31, 2019 and 2018.

On January 28, 2019, FNCB announced that it had commenced a public offering of its shares of common stock in a firm commitment underwritten offering. The offering closed on February 8, 2019, FNCB issued 3,285,550 shares of its common stock, which included 428,550 shares of common stock issued upon the exercise in full of the option to purchase additional shares granted to underwriters, at a public offering price of \$7.00 per share, less an underwriting discount of \$0.35 per share. FNCB received net proceeds after deducting underwriting discounts and offering expenses of \$21.3 million. Following the receipt of the proceeds during the first quarter of 2019, FNCB made a capital investment in FNCB Bank, its wholly-owned subsidiary of \$17.8 million.

FNCB's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to FNCB. Bank regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency. Cash dividends declared and paid by FNCB during 2019 and 2018 were \$0.20 per share and \$0.17 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2019 and 2018 dividend reinvestment shares were purchased in open market transactions, however shares under the optional cash purchase feature of the DRP were issued from authorized but unissued common shares. Shares of common stock issued under the DRP totaled 7,369 and 17,050 for the years ended December 31, 2019 and 2018, respectively. Subsequent to December 31, 2019, on January 22, 2020, FNCB declared a \$0.055 per share dividend payable on March 16, 2020 to shareholders of record on March 2, 2020.

Off-Balance Sheet Arrangements

In the ordinary course of operations, FNCB engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in our consolidated financial statements or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions may be used for general corporate purposes or for customer needs. Corporate purpose transactions would be used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding.

For the year ended December 31, 2019, FNCB did not engage in any off-balance sheet transactions that would have or would be reasonably likely to have a material effect on its consolidated financial condition. For a further discussion of FNCB's off-balance sheet arrangements, refer to Note 12, "Commitments, Contingencies, and Concentrations" to the notes to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

The following table presents off-balance financial instruments whose contractual amounts represent credit risk at December 31, 2019 and 2018. With the exception of credit availability for certain commercial construction, land acquisition and development loans having a 24-month draw period, all of the off-balance sheet financial instruments outstanding at December 31, 2019 expire within one year of their respective contract dates.

Off-Balance Sheet Commitments

(in thousands)	December 31,	
	2019	2018
Commitments to extend credit	\$ 275,891	\$ 181,322
Standby letters of credit.....	15,081	15,121

In order to provide for probable losses inherent in these instruments, FNCB recorded reserves for unfunded commitments of \$703 thousand and \$255 thousand at December 31, 2019 and 2018, respectively, which were included in other liabilities in the consolidated statements of financial condition.

FNCB's Finance unit proactively monitors the level of unused commitments against the available sources of liquidity from its investment portfolio, from deposit gathering activities as well as available unused borrowing capacity from the FHLB and the Federal Reserve. The Finance unit reports the results of its liquidity monitoring regularly to FNCB's Asset and Liability Management Committee, the Rate and Liquidity Committee, the Executive Management Committee and the Board of Directors.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Interest Rate Sensitivity

Market risk is the risk to earnings and/or financial position resulting from adverse changes in market rates or prices, such as interest rates, foreign exchange rates or equity prices. FNCB's exposure to market risk is primarily interest rate risk associated with our lending, investing and deposit gathering activities, all of which are other than trading. Changes in interest rates affect earnings by changing net interest income and the level of other interest-sensitive income and operating expenses. In addition, variations in interest rates affect the underlying economic value of our assets, liabilities and off-balance sheet items.

Asset and Liability Management

FNCB manages these objectives through its Asset and Liability Management Committee ("ALCO") and its Rate and Liquidity and Investment Committees, which consist of certain members of management and certain members of the finance unit. Members of the committees meet regularly to develop balance sheet strategies affecting the future level of net interest income, liquidity and capital. The major objectives of ALCO are to:

- manage exposure to changes in the interest rate environment by limiting the changes in net interest margin to an acceptable level within a reasonable range of interest rates;
- ensure adequate liquidity and funding;
- maintain a strong capital base; and
- maximize net interest income opportunities.

ALCO monitors FNCB's exposure to changes in net interest income over both a one-year planning horizon and a longer-term strategic horizon. ALCO uses net interest income simulations and economic value of equity ("EVE") simulations as the primary tools in measuring and managing FNCB's position and considers balance sheet forecasts, FNCB's liquidity position, the economic environment, anticipated direction of interest rates and FNCB's earnings sensitivity to changes in these rates in its modeling. In addition, ALCO has established policy tolerance limits for acceptable negative changes in net interest income. Furthermore, as part of its ongoing monitoring, ALCO requires quarterly back testing of modeling results, which involves after-the-fact comparisons of projections with FNCB's actual performance to measure the validity of assumptions used in the modeling techniques.

Earnings at Risk and Economic Value at Risk Simulations:

Earnings at Risk

Earnings-at-risk simulation measures the change in net interest income and net income under various interest rate scenarios. Specifically, given the current market rates, ALCO looks at “earnings at risk” to determine anticipated changes in net interest income from a base case scenario with scenarios of + 200, +400 and -200 basis points for simulation purposes. The simulation takes into consideration that not all assets and liabilities re-price equally and simultaneously with market rates (i.e., savings rate).

Economic Value at Risk

While earnings-at-risk simulation measures the short-term risk in the balance sheet, economic value (or portfolio equity) at risk measures the long-term risk by finding the net present value of the future cash flows from FNCFB’s existing assets and liabilities. ALCO examines this ratio regularly, and given the current rate environment, has utilized rate shocks of +200, +400 and -100 basis points for simulation purposes. Management recognizes that, in some instances, this ratio may contradict the “earnings at risk” ratio.

While ALCO regularly performs a wide variety of simulations under various strategic balance sheet and treasury yield curve scenarios, the following results reflect FNCFB’s sensitivity over the subsequent twelve months based on the following assumptions:

- asset and liability levels as of December 31, 2019 as a starting point;
- cash flows are based on contractual maturity and amortization schedules with applicable prepayments derived from internal historical data and external sources; and
- cash flows are reinvested into similar instruments to keep interest-earning asset and interest-bearing liability levels constant.

The following table illustrates the simulated impact of parallel and instantaneous interest rate shocks of +400 basis points, +200 basis points and -100 basis points on net interest income and the change in economic value over a one-year time horizon from the December 31, 2019 levels:

	Rates +200		Rates +400		Rates -100	
	Simulation Results	Policy Limit	Simulation Results	Policy Limit	Simulation Results	Policy Limit
Earnings at risk:						
Percent change in net interest income.....	(4.8)%	(12.5)%	(9.5)%	(20.0)%	1.9%	(10.0)%
Economic value at risk:						
Percent change in economic value of equity	1.7%	(20.0)%	1.7%	(35.0)%	(7.1)%	(10.0)%

FNCFB was liability rate sensitive at December 31, 2019, as a greater volume of interest-bearing liabilities than interest-earning assets will mature or reprice within a one-year time frame, due to a significant amount of non-maturity, interest-bearing deposit balances at the end of the period. Accordingly, model results at December 31, 2019 indicate that FNCFB’s net interest income is expected to decrease 4.8%, while FNCFB's economic value of equity is expected to increase 1.7% under a +200-basis point interest rate shock. In comparison, model results at December 31, 2018 indicated net interest income and the economic value of equity were expected to decrease 9.3% and 3.0% given a +200 basis point rate shock. Model results at December 31, 2019 continue to indicate that FNCFB is short-term liability sensitive and long-term asset sensitive.

Model results at December 31, 2019 indicated that FNCFB was liability rate sensitive over a one-year time horizon moving to an asset sensitive position in approximately months 13 through 15, and then continuing in an asset-sensitive position for the remaining periods of the model. The shift from liability sensitivity to asset sensitivity shortened by approximately three months from 18-24 months exhibited in the model results at December 31, 2018. During the third quarter of 2019, management took actions designed to shorten FNCFB's liability sensitive position including reinvesting \$36.9 million in proceeds from the sale of fixed-rate investments into floating-rate investments. Under the model, FNCFB’s net interest income is expected to decrease 4.8% under a +200-basis point interest rate shock, while FNCFB's economic value of equity is expected to increase 1.9% under a parallel shift in interest rates of +200 basis points. Under a -100-basis point interest rate shock,

model results indicated that FNCB's net interest income would increase 1.7% and economic value of equity would decrease 7.1%. Comparatively, model results at December 31, 2018 indicated net interest income and economic value of equity were expected to decrease 9.3% and 3.0%, respectively, given a +200-basis point rate shock, while net interest income would increase 3.0% and economic value of equity would decrease 2.6%, respectively, given a -100-basis point rate shock.

This analysis does not represent a forecast for FNCB and should not be relied upon as being indicative of expected operating results. These simulations are based on numerous assumptions, including but not limited to: the nature and timing of interest rate levels, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacements of asset and liability cash flows, and other factors. While assumptions reflect current economic and local market conditions, FNCB cannot make any assurances as to the predictive nature of these assumptions, including changes in interest rates, customer preferences, competition and liquidity needs, or what actions ALCO might take in responding to these changes.

As previously mentioned, as part of its ongoing monitoring, ALCO requires quarterly back testing of modeling results, which involves after-the-fact comparisons of projections with FNCB's actual performance to measure the validity of assumptions used in the modeling techniques. As part of its quarterly review, management compared tax-equivalent net interest income recorded for the three months ended December 31, 2019 with tax-equivalent net interest income that was projected for the same three-month period. The variance between actual and projected tax-equivalent net interest income for the three-month period ended December 31, 2019 was \$97 thousand or 1.1%. Although the variance was deemed immaterial, ALCO performs a rate/volume analysis between actual and projected results to continue to improve the accuracy of its simulation models.

Item 8. Financial Statements and Supplementary Data.



Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
FNCB Bancorp, Inc. and Subsidiaries

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of FNCB Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, for the years then ended and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework: (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

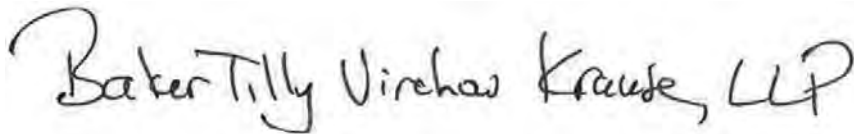
Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Baker Tilly Virchow Krause, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2018 Baker Tilly Virchow Krause, LLP

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

We have served as the Company's auditor since 2014.

Wilkes-Barre, Pennsylvania
March 9, 2020

FNCB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share data)	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents:		
Cash and due from banks.....	\$ 22,861	\$ 26,673
Interest-bearing deposits in other banks	11,704	9,808
Total cash and cash equivalents	34,565	36,481
Available-for-sale debt securities, at fair value.....	272,839	296,032
Equity securities, at fair value	920	891
Restricted stock, at cost.....	3,804	3,123
Loans held for sale	1,061	820
Loans, net of allowance for loan and lease losses of \$8,950 and \$9,519	819,529	829,581
Bank premises and equipment, net.....	17,518	14,425
Accrued interest receivable	3,234	3,614
Bank-owned life insurance.....	31,230	31,015
Other real estate owned	289	919
Net deferred tax assets	6,278	10,693
Other assets	12,274	10,138
Total assets	\$ 1,203,541	\$ 1,237,732
Liabilities		
Deposits:		
Demand (non-interest-bearing).....	\$ 179,465	\$ 156,600
Interest-bearing.....	822,244	939,029
Total deposits.....	1,001,709	1,095,629
Borrowed funds:		
Federal Home Loan Bank of Pittsburgh advances.....	46,909	18,930
Subordinated debentures.....	-	5,000
Junior subordinated debentures	10,310	10,310
Total borrowed funds.....	57,219	34,240
Accrued interest payable	258	338
Other liabilities.....	10,748	10,306
Total liabilities	1,069,934	1,140,513
Shareholders' equity		
Preferred stock (\$1.25 par)		
Authorized: 20,000,000 shares at December 31, 2019 and December 31, 2018		
Issued and outstanding: 0 shares at December 31, 2019 and December 31, 2018.....	-	-
Common stock (\$1.25 par)		
Authorized: 50,000,000 shares at December 31, 2019 and December 31, 2018		
Issued and outstanding: 20,171,408 shares at December 31, 2019 and 16,821,371 shares at December 31, 2018	25,214	21,026
Additional paid-in capital.....	81,130	63,547
Retained earnings.....	24,207	17,186
Accumulated other comprehensive income (loss).....	3,056	(4,540)
Total shareholders' equity	133,607	97,219
Total liabilities and shareholders' equity	\$ 1,203,541	\$ 1,237,732

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

FNCB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	For the Year Ended December 31,	
	2019	2018
Interest income		
Interest and fees on loans	\$ 37,818	\$ 36,381
Interest and dividends on securities:		
U.S. government agencies.....	3,545	3,565
State and political subdivisions, tax-free.....	149	133
State and political subdivisions, taxable	3,263	4,105
Other securities	1,093	813
Total interest and dividends on securities	8,050	8,616
Interest on interest-bearing deposits in other banks.....	188	88
Total interest income	46,056	45,085
Interest expense		
Interest on deposits.....	8,101	5,925
Interest on borrowed funds:		
Federal Home Loan Bank of Pittsburgh advances	1,241	2,025
Subordinated debentures.....	24	228
Junior subordinated debentures.....	430	400
Total interest on borrowed funds.....	1,695	2,653
Total interest expense	9,796	8,578
Net interest income before provision for loan and lease losses	36,260	36,507
Provision for loan and lease losses.....	797	2,550
Net interest income after provision for loan and lease losses	35,463	33,957
Non-interest income		
Deposit service charges.....	3,035	2,885
Net gain (loss) on the sale of available-for-sale securities.....	1,227	(4)
Net gain (loss) on equity securities	29	(27)
Net gain on the sale of mortgage loans held for sale	253	210
Net gain on the sale of SBA guaranteed loans.....	-	322
Net gain on the sale of other real estate owned	20	31
Loan-related fees.....	378	390
Income from bank-owned life insurance	520	555
Insurance recovery	-	6,027
Loan referral fees	703	-
Other	1,455	1,401
Total non-interest income	7,620	11,790
Non-interest expense		
Salaries and employee benefits	15,518	14,780
Occupancy expense.....	1,948	2,191
Equipment expense	1,319	1,254
Advertising expense.....	738	699
Data processing expense	3,113	2,799
Regulatory assessments.....	306	861
Bank shares tax	566	636
Professional fees	1,056	1,028
Other losses.....	156	598
Other operating expenses.....	4,962	4,481
Total non-interest expense	29,682	29,327
Income before income tax expense	13,401	16,420
Income tax expense.....	2,326	3,071
Net income	\$ 11,075	\$ 13,349
Earnings per share		
Basic	\$ 0.56	\$ 0.79
Diluted	\$ 0.56	\$ 0.79
Cash dividends declared per common share	\$ 0.20	\$ 0.17
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	19,802,095	16,799,004
Diluted	19,807,592	16,820,753

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

FNCB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	For the Year Ended December 31,	
	2019	2018
Net income	\$ 11,075	\$ 13,349
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale debt securities	10,842	(3,624)
Taxes	(2,277)	761
Net of tax amount	8,565	(2,863)
Reclassification adjustment for net (gains) losses included in net income	(1,227)	4
Taxes	258	(1)
Net of tax amount	(969)	3
Total other comprehensive income (loss)	7,596	(2,860)
Comprehensive income	\$ 18,671	\$ 10,489

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

FNCB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2019 and 2018

(in thousands, except share data)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balances, December 31, 2017	16,757,963	\$ 20,947	\$ 63,210	\$ 6,779	\$ (1,745)	\$ 89,191
Net income for the year.....	-	-	-	13,349	-	13,349
Cash dividends paid, \$0.17 per share	-	-	-	(2,857)	-	(2,857)
Reclassification of unrealized loss on equity securities	-	-	-	(65)	65	-
Restricted stock awards.....	-	-	279	-	-	279
Common shares issued under long-term incentive compensation plan	46,358	58	(58)	-	-	-
Common shares issued through dividend reinvestment/optional cash purchase plan.....	17,050	21	116	(20)	-	117
Other comprehensive loss, net of tax of \$760.....	-	-	-	-	(2,860)	(2,860)
Balances, December 31, 2018	<u>16,821,371</u>	<u>\$ 21,026</u>	<u>\$ 63,547</u>	<u>\$ 17,186</u>	<u>\$ (4,540)</u>	<u>\$ 97,219</u>
Net income for the year.....	-	-	-	11,075	-	11,075
Cash dividends paid, \$0.20 per share	-	-	-	(4,030)	-	(4,030)
Common shares issued for capital raise, net.....	3,285,550	4,107	17,201	-	-	21,308
Restricted stock awards.....	-	-	255	-	-	255
Common shares issued under long-term incentive compensation plan	57,118	71	79	-	-	150
Common shares issued through dividend reinvestment/optional cash purchase plan.....	7,369	10	48	(24)	-	34
Other comprehensive income, net of tax of \$2,019.....	-	-	-	-	7,596	7,596
Balances, December 31, 2019	<u>20,171,408</u>	<u>\$ 25,214</u>	<u>\$ 81,130</u>	<u>\$ 24,207</u>	<u>\$ 3,056</u>	<u>\$ 133,607</u>

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

FNCB BANCORP, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 11,075	\$ 13,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	746	824
Equity in trust	(13)	(12)
Depreciation and amortization	2,987	2,968
Valuation adjustment for loan servicing rights	2	-
Stock-based compensation expense	405	279
Provision for loan and lease losses	797	2,550
Valuation adjustment for off-balance sheet commitments	448	(127)
Net (gain) loss on the sale of available-for-sale debt securities	(1,227)	4
Net (gain) loss on equity securities	(29)	27
Net gain on the sale of mortgage loans held for sale	(253)	(210)
Net gain on the sale of SBA guaranteed loans	-	(322)
Net gain on the sale of other real estate owned	(20)	(31)
Valuation adjustment of other real estate owned	85	102
Loss on the disposition of bank premises and equipment	35	328
Gain on bank-owned life insurance settlement	(114)	-
Income from bank-owned life insurance	(520)	(555)
Proceeds from the sale of mortgage loans held for sale	9,900	9,819
Funds used to originate mortgage loans held for sale	(9,887)	(9,334)
Decrease in net deferred tax assets	2,396	5,835
Decrease (increase) in accrued interest receivable	380	(380)
Increase in prepaid expenses and other assets	(2,107)	(2,347)
(Decrease) increase in accrued interest payable	(80)	97
Decrease in director indemnification liability	-	(2,553)
(Decrease) increase in accrued expenses and other liabilities	(354)	2,839
Total adjustments	3,577	9,801
Net cash provided by operating activities	14,652	23,150
Cash flows from investing activities:		
Maturities, calls and principal payments of available-for-sale debt securities	11,051	6,676
Proceeds from the sale of available-for-sale debt securities	128,233	4,559
Purchases of available-for-sale debt securities	(105,995)	(22,256)
Purchase of the stock in Federal Home Loan Bank of Pittsburgh	(681)	(360)
Net decrease (increase) in loans to customers	7,737	(77,924)
Proceeds from the sale of SBA guaranteed loans	-	6,032
Proceeds from the sale of other real estate owned	821	470
Proceeds received from bank-owned life insurance settlement	419	-
Proceeds received from sale of bank premises and equipment	16	-
Purchases of bank premises and equipment	(4,540)	(6,015)
Net cash provided by (used in) investing activities	37,061	(88,818)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(93,920)	93,181
Net proceeds from Federal Home Loan Bank of Pittsburgh advances - overnight	7,500	6,600
Proceeds from Federal Home Loan Bank of Pittsburgh advances - term	70,000	73,929
Repayment of Federal Home Loan Bank of Pittsburgh advances - term	(49,521)	(106,567)
Principal reduction on subordinated debentures	(5,000)	-
Proceeds from issuance of common shares, net of discount	21,342	117
Cash dividends paid	(4,030)	(2,857)
Net cash (used in) provided by financing activities	(53,629)	64,403
Net decrease in cash and cash equivalents	(1,916)	(1,265)
Cash and cash equivalents at beginning of year	36,481	37,746
Cash and cash equivalents at end of year	\$ 34,565	\$ 36,481
Supplemental cash flow information		
Cash paid during the period for:		
Interest	\$ 9,876	\$ 8,481
Income taxes	-	23
Other transactions:		
Lease liabilities arising from obtaining right-of-use assets	92	-
Bank premises and equipment transferred to other real estate owned	-	291
Loans transferred to other real estate owned and repossessed assets	-	146
Investor loans transferred to other real estate owned	256	-

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

Notes to Consolidated Financial Statements

Note 1. ORGANIZATION

FNCB Bancorp, Inc. is a registered bank holding company under the Bank Holding Company Act of 1956 incorporated under the laws of the Commonwealth of Pennsylvania in 1997. It is the parent company of FNCB Bank (the “Bank”) and the Bank’s wholly owned subsidiaries FNCB Realty Company, Inc., FNCB Realty Company I, LLC, and FNCB Realty Company II, LLC. Unless the context otherwise requires, the term “FNCB” is used to refer to FNCB Bancorp, Inc., and its subsidiaries. In certain circumstances, however, the term “FNCB” refers to FNCB Bancorp, Inc., itself.

The Bank provides customary retail and commercial banking services to individuals, businesses and local governments and municipalities through its 17 full-service branch locations within its primary market area, Northeastern Pennsylvania and its limited purpose office (“LPO”) based in Allentown, Lehigh County, Pennsylvania.

FNCB Realty Company, Inc., FNCB Realty Company I, LLC, and FNCB Realty Company II, LLC were formed to hold real estate and/or operate businesses acquired in exchange for debt settlement or foreclosure.

In December 2006, First National Community Statutory Trust I (“Issuing Trust”), which is wholly owned by FNCB, was formed under Delaware law to provide FNCB with an additional funding source through the issuance of pooled trust preferred securities. FNCB has adopted Accounting Standards Codification (“ASC”) 810-10, Consolidation, for the Issuing Trust. Accordingly, the Issuing Trust has not been consolidated with the accounts of FNCB, because FNCB is not the primary beneficiary of the trust.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of FNCB are comprised of the accounts of FNCB Bancorp, Inc., and its wholly-owned subsidiary, FNCB Bank, as well as the Bank’s wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The accounting and reporting policies of FNCB conform to accounting principles generally accepted in the United States of America (“GAAP”), Regulation S-X and general practices within the banking industry. Prior period amounts have been reclassified when necessary to conform to the current year’s presentation. Such reclassifications did not have a material impact on the operating results or financial position of FNCB.

The preparation of financial statements in accordance with GAAP 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 the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term are the allowance for loan and lease losses (“ALLL”), securities’ valuation and impairment evaluation, the valuation of other real estate owned (“OREO”), and income taxes.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include cash on hand and amounts due from banks.

Securities

Debt Securities

FNCB classifies its investments in debt securities as either held-to-maturity or available-for-sale at the time of purchase. Debt securities that are classified as held-to-maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities that are classified as available-for-sale are carried at fair value with unrealized holding gains and losses recognized as a component of shareholders’ equity in accumulated other comprehensive income (loss), net of tax. Amortization of premiums and accretion of discounts is recognized over the life of the related security as an adjustment to yield using the interest method. Realized gains and losses on sales of debt securities are based on amortized cost using the specific identification method on the trade date. All of FNCB’s debt securities were classified as available-for-sale at December 31, 2019 and 2018.

Equity Securities with Readily Determinable Fair Values

FNCB's equity securities consist entirely of a mutual fund investment comprised of 1-4 family residential mortgage-backed securities collateralized by properties within FNCB's geographical market. Equity securities with readily determinable fair values are reported at fair value with net unrealized gains and losses recognized in the consolidated statements of income.

Fair values for debt securities and equity securities with readily determinable fair values are based upon quoted market prices, where available. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments, or a discounted cash flow model using market estimates of interest rates and volatility.

Restricted Securities

Investments in restricted securities have limited marketability, are carried at cost and are evaluated for impairment based on FNCB's determination of the ultimate recoverability of the par value of the stock. FNCB's investment in restricted securities, comprised of stock in the Federal Home Loan Bank of Pittsburgh and Atlantic Community Bankers Bank.

Equity Securities without Readily Determinable Fair Values

Equity securities without readily determinable fair values consist entirely of FNCB's investment in the common stock of a privately-held bank holding company. Equity securities without readily determinable fair values are carried at cost and included in other assets in the consolidated statements of financial condition. On a quarterly basis, management performs a qualitative assessment to determine if the investment is impaired. If the qualitative assessment indicates impairment, the investment is written down to its fair value, with the charge for impairment included in net income.

Evaluation for Other Than Temporary Impairment

On a quarterly basis, management evaluates all securities in an unrealized loss position for other than temporary impairment ("OTTI"). An individual security is considered impaired when its current fair value is less than its amortized cost basis. As part of its evaluation, management considers the following factors, among other things, in determining whether the security's impairment is other than temporary:

- the length of time and extent of the impairment;
- the causes of the decline in fair value, such as credit deterioration, interest rate fluctuations, or market volatility;
- adverse industry or geographic conditions;
- historical implied volatility;
- payment structure of the security and whether FNCB expects to receive all contractual cash flows;
- failure of the issuer to make contractual interest or principal payments in the past; and
- changes in the security's rating.

Based on current authoritative guidance, when a held-to-maturity or available-for-sale security is assessed for OTTI, management must first consider (a) whether it intends to sell the security and (b) whether it is more likely than not the FNCB will be required to sell the security prior to recovery of its amortized cost. If one of these circumstances applies to a security, an OTTI loss is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but FNCB does not expect to recover the entire amortized cost, an OTTI loss has occurred that must be separated into two categories: (a) the amount related to credit loss and (b) the amount related to other factors (such as market risk). In assessing the level of OTTI attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost of the security. The portion of the total OTTI related to credit loss is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based on cash flow projections discounted at the applicable original yield of the security, and is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income (loss). The total OTTI loss is presented in the statement of income less the portion recognized in other comprehensive income (loss). When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment that is based on information available to management at a point in time.

Loans and Loan Origination Fees and Costs

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balance, net of unamortized deferred loan fees and costs, any unearned income and partial charge-offs. Loans receivable are presented net of the allowance for loan and lease losses in the consolidated statements of financial condition. Interest income on all loans is recognized using the effective interest method. Nonrefundable loan origination fees, as well as certain direct loan origination costs, are deferred and the net amount amortized over the contractual life of the related loan as an adjustment to yield using the effective interest method. Amortization of deferred loan fees or costs is discontinued when a loan is placed on non-accrual status.

Loans are placed on non-accrual status when a loan is specifically determined to be impaired or when management believes that the collection of interest or principal is doubtful. This generally occurs when a default of interest or principal has existed for 90 days or more, unless the loan is well secured and in the process of collection, or when management becomes aware of facts or circumstances that the loan would default before 90 days. FNCB determines delinquency status based on the number of days since the date of the borrower's last required contractual loan payment. When the interest accrual is discontinued, all unpaid interest income is reversed and charged back against current earnings. Any subsequent cash payments received are applied, first to the outstanding principal balance, then to the recovery of any previously charged-off principal, with any excess treated as a recovery of lost interest. A non-accrual loan is returned to accrual status when the loan is current as to principal and interest payments, is performing according to contractual terms for six consecutive months and factors indicating reasonable doubt about the timely collection of payments no longer exist.

In accordance with federal regulations, prior to making, extending, renewing or advancing additional funds in excess of \$400 thousand on a loan secured by real estate, FNCB requires an appraisal of the property by an independent, state-certified or state-licensed appraiser (depending upon collateral type and loan amount) that is approved by the Board of Directors. Appraisals are reviewed internally or by an independent third party engaged by FNCB. Generally, management obtains a new appraisal when a loan is deemed impaired. These appraisals may be more limited in scope than those obtained at the initial underwriting of the loan.

Troubled Debt Restructurings

FNCB considers a loan to be a troubled debt restructuring ("TDR") when it grants a concession to the borrower for legal or economic reasons related to the borrower's financial difficulties that it would not otherwise consider. Such concessions granted generally involve a reduction of the stated interest rate, an extension of a loan's stated maturity date, a payment modification under a forbearance agreement, a permanent reduction of the recorded investment in the loan, capitalization of real estate taxes, or a combination of these modifications. Non-accrual TDRs are returned to accrual status if principal and interest payments, under the modified terms, are brought current, are performing under the modified terms for six consecutive months, and management believes that collection of the remaining interest and principal is probable.

Loan Impairment

A loan is considered impaired when it is probable that FNCB will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the note and loan agreement. For purposes of the analysis, all TDRs, loan relationships with an aggregate outstanding balance greater than \$100 thousand rated substandard and non-accrual, and loans that are identified as doubtful or loss are considered impaired. Impaired loans are analyzed individually to determine the amount of impairment. For collateral-dependent loans, impairment is measured based on the fair value of the collateral supporting the loans. A loan is determined to be collateral dependent when repayment of the loan is expected to be provided through the operation or liquidation of the collateral held. For impaired loans that are secured by real estate, external appraisals are generally obtained annually, or more frequently as warranted, to ascertain a fair value so that the impairment analysis can be updated. Should a current appraisal not be available at the time of impairment analysis, other sources of valuation may be used including current letters of intent, broker price opinions or executed agreements of sale. For non-collateral dependent loans, impairment is measured based on the present value of expected future cash flows, net of any deferred fees and costs, discounted at the loan's original effective interest rate.

Generally, all loans with balances of \$100 thousand or less are considered within homogeneous pools and are not individually evaluated for impairment. However, individual loans with balances of \$100 thousand or less are individually evaluated for impairment if that loan is part of a larger impaired loan relationship or the loan is a TDR.

Impaired loans, or portions thereof, are charged-off upon determination that all or a portion of the loan balance is uncollectible and exceeds the fair value of the collateral. A loan is considered uncollectible when the borrower is delinquent with respect to principal or interest repayment and it is unlikely that the borrower will have the ability to pay the debt in a timely manner,

collateral value is insufficient to cover the outstanding indebtedness and the guarantors (if applicable) do not provide adequate support for the loan.

Allowance for Loan and Lease Losses

Management evaluates the credit quality of FNCB's loan portfolio on an ongoing basis and performs a formal review of the adequacy of the ALLL on a quarterly basis. The ALLL is established through a provision for loan losses charged to earnings and is maintained at a level that management considers adequate to absorb estimated probable losses inherent in the loan portfolio as of the evaluation date. Loans, or portions of loans, determined by management to be uncollectible are charged off against the ALLL, while recoveries of amounts previously charged off are credited to the ALLL.

Determining the amount of the ALLL is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, qualitative factors, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Banking regulators, as an integral part of their examination of FNCB, also review the ALLL, and may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the ALLL. Additionally, the ALLL is determined, in part, by the composition and size of the loan portfolio.

FNCB's allowance methodology consists primarily of two components, a specific component and a general component. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted by qualitative factors. The general reserve component of the ALLL is based on pools of unimpaired loans segregated by loan segment and risk rating categories of "Pass", "Special Mention" or "Substandard and Accruing." Historical loss factors and various qualitative factors are applied based on the risk profile in each risk rating category to determine the appropriate reserve related to those loans. Substandard loans on non-accrual status above the \$100 thousand loan relationship threshold and all loans considered TDRs are classified as impaired. Based on its evaluation, management may establish an unallocated component that is used to cover any inherent losses that exist as of the evaluation date, but which may not have been identified under the methodology.

When establishing the ALLL, management categorizes loans into the following loan segments that are based generally on the nature of the collateral and basis of repayment. The risk characteristics of FNCB's loan segments are as follows:

Construction, Land Acquisition and Development Loans - These loans consist of loans secured by real estate, with the purpose of constructing one- to four-family homes, residential developments and various commercial properties including shopping centers, office complexes and single-purpose, owner-occupied structures. Additionally, loans in this category include loans for land acquisition, secured by raw land. FNCB's construction program offers either short-term, interest-only loans that require the borrower to pay only interest during the construction phase with a balloon payment of the principal outstanding at the end of the construction period or only interest during construction with a conversion to amortizing principal and interest when the construction is complete. Loans for undeveloped real estate are subject to a loan-to-value ratio not to exceed 65%. Construction loans are treated similarly to the developed real estate loans and are subject to a maximum loan to value ratio of 85% based upon an "as-completed" appraised value. Construction loans generally yield a higher interest rate than other mortgage loans but also carry more risk.

Commercial Real Estate Loans - These loans represent the largest portion of FNCB's total loan portfolio and loans in this portfolio generally carry larger loan balances. The commercial real estate mortgage loan portfolio consists of owner-occupied and non-owner-occupied properties that are secured by a broad range of real estate, including but not limited to, office complexes, shopping centers, hotels, warehouses, gas stations, convenience markets, residential care facilities, nursing care facilities, restaurants and multifamily housing. FNCB offers commercial real estate loans at various rates and terms that do not exceed 25 years. These types of loans are subject to specific loan-to-value guidelines prior to the time of closing. The policy limits for developed real estate loans are subject to a maximum loan-to-value ratio of 85%. Commercial mortgage loans must also meet specific criteria that include the capacity, capital, credit worthiness and cash flow of the borrower and the project being financed. Potential borrower(s) and guarantor(s) are required to provide FNCB with historical and current financial data. As part of the underwriting process for commercial real estate loans, management performs a review of the cash flow analysis of the borrower(s), guarantor(s) and the project in addition to considering the borrower's expertise, credit history, net worth and the value of the underlying property.

Commercial and Industrial Loans - FNCB offers commercial loans at various rates and terms to businesses located in its primary market area. The commercial loan portfolio includes revolving lines of credit, automobile floor plans, equipment loans, vehicle loans, improvement loans and term loans. These loans generally carry a higher risk than commercial real estate loans by the nature of the underlying collateral, which can be machinery and equipment, inventory, accounts receivable, vehicles or marketable securities. Generally, a collateral lien is placed on the collateral supporting the loan. In order to reduce the risk associated with these loans, management may attempt to secure real estate as collateral and obtain personal guarantees of the borrower as deemed necessary.

State and Political Subdivision Loans - FNCB originates general obligation notes and tax anticipation loans to state and political subdivisions, which are primarily municipalities in FNCB's market area.

Residential Real Estate Loans - FNCB offers fixed-rate 1 - 4 family residential loans. Residential first lien mortgages are generally subject to an 80% loan to value ratio based on the appraised value of the property. FNCB will generally require the mortgagee to purchase Private Mortgage Insurance if the amount of the loan exceeds the 80% loan to value ratio. Residential mortgage loans are generally smaller in size and are considered homogeneous as they exhibit similar characteristics. FNCB may sell loans and retain servicing when warranted by market conditions.

Consumer Loans - FNCB offers both secured and unsecured installment loans, personal lines of credit and overdraft protection loans. FNCB is in the business of underwriting indirect auto loans which are originated through various auto dealers in northeastern Pennsylvania and dealer floor plan loans. FNCB offers home equity loans and home equity lines of credit ("HELOCs") with a maximum combined loan-to-value ratio of 90% based on the appraised value of the property. Home equity loans have fixed rates of interest and carry terms up to 15 years. HELOCs have adjustable interest rates and are based upon the national prime interest rate. Consumer loans are generally smaller in size and exhibit homogeneous characteristics.

Off-Balance-Sheet Credit-Related Financial Instruments

FNCB is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing need of its customers. These financial instruments include commitments to extend credit, unused portions of lines of credit, including revolving HELOCs, and letters of credit. FNCB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual notional amount of these instruments. FNCB uses the same credit policies in making these commitments as it does for on-balance sheet instruments. In order to provide for probable losses inherent in these instruments, FNCB records a reserve for unfunded commitments, included in other liabilities on the consolidated statements of financial condition, with the offsetting expense recorded in other operating expenses in the consolidated statements of income.

Mortgage Banking Activities, Loan Sales and Servicing

Mortgage loans originated and held for sale are carried at the lower of aggregate cost or fair value determined on an individual loan basis. Net unrealized losses are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold and include the value assigned to the rights to service the loan.

FNCB may also elect to sell the guaranteed principal balance of loans that are guaranteed by the Small Business Administration ("SBA") and retain the servicing on those loans.

Servicing rights are recorded at fair value upon sale of the loan and reported in other assets on the consolidated statements of financial condition. Servicing rights are amortized in proportion to and over the period during which estimated servicing income will be received.

Fair value is based on market prices for comparable servicing contracts, when available, or alternately, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing rights are evaluated for impairment at each reporting date based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If management later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Other Real Estate Owned

OREO consists of property acquired by foreclosure, abandonment or conveyance of deed in-lieu of foreclosure of a loan, and bank premises that are no longer used for operation or for future expansion. OREO is held for sale and is initially recorded at fair value less estimated costs to sell at the date of acquisition or transfer, which establishes a new cost basis. Upon acquisition of the property through foreclosure or deed in-lieu of foreclosure, any adjustment to fair value less estimated selling costs is recorded to the ALLL. The determination is made on an individual asset basis. Bank premises no longer used for operations or future expansion are transferred to OREO at fair value less estimated selling costs with any related write-down included in non-interest expense. Subsequent to acquisition, valuations are periodically performed, and the assets are carried at the lower of cost or fair value less estimated cost to sell. Fair value is determined through external appraisals, current letters of intent, broker price opinions or executed agreements of sale, unless management determines that conditions exist that warrant an adjustment to the value. Costs relating to the development and improvement of the OREO properties may be capitalized; holding period costs and any subsequent changes to the valuation allowance are charged to expense as incurred.

Bank Premises and Equipment

Land is stated at cost. Bank premises, equipment and leasehold improvements are stated at cost less accumulated depreciation. Costs for routine maintenance and repairs are expensed as incurred, while significant expenditures for improvements are capitalized. Depreciation expense is computed generally using the straight-line method over the following ranges of estimated useful lives, or in the case of leasehold improvements, to the expected terms of the leases, if shorter:

Buildings and improvements (years).....	5 to 40
Furniture, fixtures and equipment (years)	3 to 20
Leasehold improvements (years)	3 to 35

Long-lived Assets

Intangible assets and bank premises and equipment are reviewed by management at least annually for potential impairment and whenever events or circumstances indicate that carrying amounts may not be recoverable.

Income Taxes

FNCB recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized.

FNCB files a consolidated Federal income tax return. Under tax sharing agreements, each subsidiary provides for and settles income taxes with FNCB as if it would have filed on a separate return basis. Interest and penalties, if any, as a result of a taxing authority examination are recognized within non-interest expense. FNCB is not currently subject to an audit by any of its tax authorities and with limited exception is no longer subject to federal and state income tax examinations by taxing authorities for years before 2016.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management determined that FNCB had no liabilities for uncertain tax positions at December 31, 2019 and 2018.

Earnings per Share

Earnings per share is calculated on the basis of the weighted-average number of common shares outstanding during the year. Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per share reflect additional shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by FNCB relate to shares of unvested restricted stock for which the dilutive effect is calculated using the treasury stock method.

Stock-Based Compensation

FNCB is required to measure and record compensation expense for stock-based payments based on the instrument's fair value on the date of the grant. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of shares of restricted stock awarded under the Long Term Incentive Compensation Plan ("LTIP") is determined using an average of the high and low prices for FNCB's common stock for the 10 days preceding the grant date. Stock-based compensation expense for stock options and restricted stock is recognized ratably over the vesting period, adjusted for forfeitures during the period in which they occur.

Bank-Owned Life Insurance

Bank-owned life insurance ("BOLI") represents the cash surrender value of life insurance policies on certain current and former directors and officers of FNCB. FNCB purchased the insurance as a tax-deferred investment and future source of funding for liabilities, including the payment of employee benefits such as health care. BOLI is carried in the consolidated statements of financial condition at its cash surrender value. Increases in the cash value of the policies, as well as proceeds received, are recorded in non-interest income. Under some of these policies, the beneficiaries receive a portion of the death benefit. The net present value of the future death benefits scheduled to be paid to the beneficiaries was \$113 thousand and \$111 thousand at December 31, 2019 and 2018, respectively, and is reflected in other liabilities on the consolidated statements of financial condition.

Fair Value Measurement

FNCB uses fair value measurements to record fair value adjustments to certain financial assets and liabilities and to determine fair value disclosures. Available-for-sale debt securities are recorded at fair value on a recurring basis. Additionally, from time to time, FNCB may be required to recognize adjustments to other assets at fair value on a nonrecurring basis, such as impaired loans, other securities, and OREO.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction.

Accounting standards define fair value, establish a framework for measuring fair value, establish a three-level hierarchy for disclosure of fair value measurement and provide disclosure requirements about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy are:

- Level 1 valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets;
- Level 2 valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data; and
- Level 3 valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

Revenue Recognition

On January 1, 2018, FNCB adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606): Section A, "Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contract with Customers (Subtopic 340-40);" Section B, "Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables;" and Section C, "Background Information and Basis for Conclusions," provides a robust framework for addressing revenue recognition issues, and replaced almost all existing revenue recognition guidance, including industry specific guidance, in current GAAP. FNCB elected to implement the new guidance using the modified retrospective application, with the cumulative effect recorded as an adjustment to opening retained earnings upon adoption. The adoption of ASU 2014-09 did not have a material effect on the operating results or financial position of FNCB, and there was no cumulative effect adjustment required to be recorded.

FNCB recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. FNCB's primary source of revenue is interest income from the Bank's loans and investment securities. FNCB also earns non-interest income from various banking services offered by the Bank as follows:

- Deposit service charges - include general service fees for monthly account maintenance, account analysis fees, non-sufficient funds fees, wire transfer fees and other deposit account related fees. Revenue is recognized when FNCB's performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts. Also included in deposit service charges is income from ATM surcharges and debit card services income. ATM surcharges are generated when an FNCB cardholder uses a an ATM that is not within the AllPoint ATM network or a non-FNCB cardholder uses an FNCB ATM. Card services income is primarily comprised of interchange fees earned whenever a customer uses an FNCB debit card as payment for goods and/or services through a card payment network such as Mastercard/Visa. FNCB's performance obligation is satisfied on a daily basis as transactions are processed. FNCB recognizes ATM surcharges and card services income as transactions with merchants are settled, generally on a daily basis.
- Net gains on the sale of other real estate owned - FNCB records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When FNCB finances the sale of OREO to the buyer, FNCB assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, FNCB adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.
- Loan referral fees represent fees FNCB receives from a third party correspondent bank for referring certain qualified borrowers to their proprietary loan participation swap program. FNCB receives the referral fees at the time the loan closes. The fees are non-refundable and are not tied to the loan and FNCB has no future obligations to the correspondent under the participation agreement related to the referral fee. FNCB records referral fees in non-interest income upon receipt.
- Other income – primarily includes wealth management fee income, merchant services fee income and title insurance revenue. Wealth management fee income represents fees received from a third-party broker-dealer as part of a revenue-sharing agreement for fees earned from customers that we refer to the third party. Merchant services fees represent commissions received from the major payment networks such as VISA/Mastercard on activity generated by customers on their merchant account. Wealth management and merchant services fee income are transactional in nature and are recognized in income monthly when FNCB's performance obligation is complete, which is generally the time that payment is received. With regard to title insurance revenue, FNCB is a member in a limited liability company that provides title insurance services to customers referred by member financial institutions. In accordance with an operating agreement, the title insurance company makes quarterly discretionary distributions to member institutions on a pro-rata basis based on their respective membership interest percentage at the time of distribution. FNCB's performance obligation under the operating agreement was satisfied with its capital contribution. There are no future minimum referral quotas required under the operating agreement. FNCB records revenue from quarterly distributions at the time of receipt.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

New Authoritative Accounting Guidance

Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842): "Leases" requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. Consistent with prior GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by the lessee will primarily depend on its classification as a finance or operating lease. However, unlike prior GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU requires both finance and operating leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The new disclosures include both qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public business entities. An entity could adopt the new guidance either by restating prior periods and recording a cumulative effect adjustment at the beginning of the earliest comparative period presented or by recording a cumulative effect adjustment at the beginning of the period of adoption. FNCB adopted this guidance on January 1, 2019 and applied the standard by recording a cumulative effect adjustment at that date. Management performed a comprehensive evaluation of the effect this guidance may have on its operating results or financial position, including working with various business units within the organization and reviewing contractual arrangements for embedded leases in an effort to identify FNCB's full lease population. Based on management's evaluation, the adoption of ASU 2016-02 resulted in FNCB recording an aggregate right of use asset and lease liability of \$3.2 million and \$3.7 million for its operating lease commitments. See Note 12, "Commitments, Contingencies and Concentrations," in these notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," to this Annual Report on Form 10-K for required disclosure regarding FNCB's right of use assets and lease liabilities.

ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Topic 310): "Premium Amortization on Purchased Callable Debt Securities" requires that the amortization period for certain callable debt securities be shortened to the earliest call date. The amortization of callable securities held at a discount is not affected. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public business entities. The adoption of this guidance on January 1, 2019 did not have a material effect on the operating results or financial position of FNCB.

Accounting Guidance to be Adopted in Future Periods

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments," replaces the current loss impairment methodology under GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 is commonly referred to as Current Expected Credit Losses ("CECL"), and will require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments in this update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income, including such financial assets as loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. On June 17, 2016, the four, federal financial institution regulatory agencies (the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency), issued a joint statement to provide information about ASU 2016-13 and the initial supervisory views regarding the implementation of the new standard. The joint statement applies to all banks, savings associations, credit unions and financial institution holding companies, regardless of asset size. The statement details the key elements of, and the steps necessary for, the successful transition to the new accounting standard. In addition, the statement notifies financial institutions that because the appropriate allowance levels are institution-specific amounts, the agencies will not establish benchmark targets or ranges for the change in institutions' allowance levels upon adoption of the ASU, or for allowance levels going forward. Due to the importance of ASU 2016-13, the agencies encourage financial institutions to begin planning and preparing for the transition and state that senior management, under the oversight of the board of directors, should work closely with staff in their accounting, lending, credit risk management, internal audit, and information technology functions during the transition period leading up to, and well after, adoption. ASU 2016-13 was originally effective for public business entities that are registered with the U.S. Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934, as amended, including smaller reporting companies, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. On November 15, 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-10, "Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," which finalized various effective dates delay for private companies, not-for-profit organizations, and certain smaller reporting companies. Specifically under ASU 2019-10 the effective date for implementation of CECL for smaller reporting companies, private companies and not-for-profits

was extended to fiscal years, and interim periods within those years, beginning after December 15, 2022. FNCB is a smaller reporting company, and accordingly, will adopt this guidance on January 1, 2023. FNCB has created a CECL task group comprised of members of its finance, credit administration, lending, internal audit, loan operations and information systems units. The CECL task group understands the provisions of ASU 2016-13 and is currently in the process of implementing the new guidance, which includes, but is not limited to: (1) identifying segments and sub-segments within the loan portfolio that have similar risk characteristics; (2) determining the appropriate methodology for each segment; (3) implementing changes that are necessary to its core operating system and interfaces to be able to capture appropriate data requirements; and (4) evaluating qualitative factors and economic to develop appropriate forecasts for integration into the model. FNCB is currently evaluating the effect this guidance may have on its operating results and/or financial position, including assessing any potential impact on its capital.

ASU 2018-13 Fair Value Measurement (Topic 820): “Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement” modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the FASB Concepts Statement, “Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements”. In accordance with the Concepts Statement, this ASU removes, modifies and adds select disclosure requirements under Topic 820 after consideration of costs and benefits. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 for public entities, with early adoption permitted. The adoption of this guidance on January 1, 2020 is not expected to have a material effect on the operating results or financial position of FNCB.

ASU 2018-15 Intangibles – Goodwill and Other–Internal-Use Software (Subtopic 350-40): “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. ASU 2018-15 requires that a customer in a hosting arrangement that is a service contract follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize and which costs to expense, as well as requiring costs that cannot be capitalized to be expensed over the term of the hosting arrangement. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 for public business entities, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance on January 1, 2020 is not expected to have a material effect on the operating results or financial position of FNCB.

ASU 2019-12 Income Taxes (Topic 740) -"Simplifying the Accounting for Income Taxes" is part of the initiative to reduce complexity in accounting standards by removing certain exceptions to the general principles in Topic 740. The amendments also provide for the consistent application of, and simplify, GAAP for other areas of Topic 740 by clarifying and amending existing guidance. Particularly, ASU 2019-12 simplifies GAAP related to franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 for public business entities, and for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, beginning after December 15, 2022, for all other entities. Early adoption is permitted. The adoption of this guidance on January 1, 2022 is not expected to have a material effect on the operating results or financial position of FNCB.

ASU 2020-01 Investments - "Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). The new guidance addresses accounting for the transition into and out of the equity method and measuring certain purchase options and forward contracts to acquire investments. If a company is applying the measurement alternative for an equity investment under ASC 321 and must transition to the equity method, or if applying the equity method and must transition to ASC 321; because of an observable transaction, it will remeasure its investment immediately before transition. If a company holds certain non-derivative forward contracts or purchased call options to acquire equity securities, such instruments generally will be measured using the fair value principles of ASC 321 before settlement or exercise. ASU 2020-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 for public business entities, and for fiscal years, and interim periods within those fiscal years beginning after December 15, 2021 for all other entities. Early adoption is permitted. The adoption of this guidance on January 1, 2022 is not expected to have a material effect on the operating results or financial position of FNCB.

Note 3. RESTRICTED CASH BALANCES

FNCB is required to maintain average reserve balances as established by the Federal Reserve Bank. The required reserve balance was \$1.6 million at both December 31, 2019 and 2018. FNCB satisfied through the restriction of vault cash and deposits maintained at the Federal Reserve Bank.

In addition, FNCB maintains compensating balances at correspondent banks, most of which are not required, but are used to offset specific charges for services. At December 31, 2019 and 2018, the amount of these balances were \$1.2 million and \$2.8 million, respectively.

Note 4. SECURITIES

Debt Securities

The following tables present the amortized cost, gross unrealized gains and losses, and the fair value of FNCB's available-for-sale debt securities at December 31, 2019 and 2018:

(in thousands)	December 31, 2019			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale debt securities:				
Obligations of state and political subdivisions.....	\$ 115,428	\$ 2,694	\$ 359	\$ 117,763
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	79,606	780	92	80,294
Collateralized mortgage obligations - commercial	17,414	320	11	17,723
Mortgage-backed securities	18,142	343	-	18,485
Private collateralized mortgage obligations	25,069	49	43	25,075
Corporate debt securities.....	7,000	182	-	7,182
Asset-backed securities	5,618	4	1	5,621
Negotiable certificates of deposit.....	694	2	-	696
Total available-for-sale debt securities	<u>\$ 268,971</u>	<u>\$ 4,374</u>	<u>\$ 506</u>	<u>\$ 272,839</u>

(in thousands)	December 31, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale debt securities:				
Obligations of state and political subdivisions.....	\$ 154,268	\$ 214	\$ 2,295	\$ 152,187
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	35,147	6	946	34,207
Collateralized mortgage obligations - commercial	76,038	-	2,398	73,640
Mortgage-backed securities	24,165	47	278	23,934
Private collateralized mortgage obligations	2,908	7	2	2,913
Corporate debt securities.....	5,000	14	78	4,936
Asset-backed securities	1,825	-	23	1,802
Negotiable certificates of deposit.....	2,428	-	15	2,413
Total available-for-sale debt securities	<u>\$ 301,779</u>	<u>\$ 288</u>	<u>\$ 6,035</u>	<u>\$ 296,032</u>

Except for securities of U.S. government and government-sponsored agencies, there were no securities of any individual issuer that exceeded 10.0% of shareholders' equity at December 31, 2019 or 2018.

The following table presents the maturity information of FNCB's available-for-sale debt securities at December 31, 2019. Expected maturities will differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	December 31, 2019	
	Available-for-Sale	
(in thousands)	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less.....	\$ 2,195	\$ 2,201
After one year through five years.....	49,724	50,936
After five years through ten years.....	51,056	52,525
After ten years.....	20,147	19,979
Asset-backed securities.....	5,618	5,621
Collateralized mortgage obligations.....	122,089	123,092
Mortgage-backed securities.....	18,142	18,485
Total.....	<u>\$ 268,971</u>	<u>\$ 272,839</u>

The following table presents the gross proceeds received and gross realized gains and losses on sales of available-for-sale debt securities for the years ended December 31, 2019 and 2018.

(in thousands)	Year Ended December 31,	
	2019	2018
Available-for-sale debt securities:		
Gross proceeds received on sales.....	\$ 128,233	\$ 4,559
Gross realized gains.....	1,257	-
Gross realized losses.....	(30)	(4)

The following tables present the number of, fair value and gross unrealized losses of available-for-sale debt securities with unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time the securities have been in an unrealized loss position.

(dollars in thousands)	December 31, 2019								
	Less than 12 Months			12 Months or Greater			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Obligations of state and political subdivisions.....	10	\$ 19,436	\$ 359	-	\$ -	\$ -	10	\$ 19,436	\$ 359
U.S. government/ government-sponsored agencies:.....									
Collateralized mortgage obligations - residential ..	4	19,934	92	-	-	-	4	19,934	92
Collateralized mortgage obligations - commercial	1	2,500	11	-	-	-	1	2,500	11
Mortgage-backed securities	-	-	-	-	-	-	-	-	-
Private collateralized mortgage obligations.....	4	18,990	43	-	-	-	4	18,990	43
Corporate debt securities.....	-	-	-	-	-	-	-	-	-
Asset-backed securities.....	2	888	1	-	-	-	2	888	1
Negotiable certificates of deposit.....	-	-	-	-	-	-	-	-	-
Total.....	<u>21</u>	<u>\$ 61,748</u>	<u>\$ 506</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>21</u>	<u>\$ 61,748</u>	<u>\$ 506</u>

(dollars in thousands)	December 31, 2018								
	Less than 12 Months			12 Months or Greater			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
Obligations of state and political subdivisions	3	\$ 7,154	\$ 205	109	\$ 112,563	\$ 2,090	112	\$ 119,717	\$ 2,295
U.S. government/ government-sponsored agencies:									
Collateralized mortgage obligations - residential	-	-	-	14	31,414	946	14	31,414	946
Collateralized mortgage obligations - commercial	-	-	-	25	73,640	2,398	25	73,640	2,398
Mortgage-backed securities	1	52	-	6	10,294	278	7	10,346	278
Private collateralized mortgage obligations	1	950	2	-	-	-	1	950	2
Corporate debt securities	2	2,922	78	-	-	-	2	2,922	78
Asset-backed securities	1	369	2	1	1,433	21	2	1,802	23
Negotiable certificates of deposit	3	740	3	7	1,673	12	10	2,413	15
Total	11	\$ 12,187	\$ 290	162	\$ 231,017	\$ 5,745	173	\$ 243,204	\$ 6,035

Management evaluates individual securities in an unrealized loss position quarterly for OTTI. As part of its evaluation, management considers, among other things, the length of time a security's fair value is less than its amortized cost, the severity of decline, any credit deterioration of the issuer, whether or not management intends to sell the security, and whether it is more likely than not that FNCB will be required to sell the security prior to recovery of its amortized cost.

There were 21 securities in an unrealized loss position at December 31, 2019, including 10 obligations of state and political subdivisions, 5 securities issued by a U.S. government or government-sponsored agency, 4 non-agency mortgage-backed securities and 2 asset-backed securities. Management performed a review of all securities in an unrealized loss position as of December 31, 2019 and determined that movements in the fair values of the securities were consistent with changes in market interest rates. In addition, as part of its review, management noted that there was no material change in the credit quality of any of the issuers or any other event or circumstance that may cause a significant adverse effect on the fair value of these securities. Moreover, to date, FNCB has received all scheduled principal and interest payments and expects to fully collect all future contractual principal and interest payments on all securities in an unrealized loss position at December 31, 2019. FNCB does not intend to sell the securities, nor is it more likely than not that it will be required to sell the securities, prior to recovery of their amortized cost. Based on the results of its review and considering the attributes of these debt securities, management concluded that the individual unrealized losses were temporary and OTTI did not exist at December 31, 2019.

Equity Securities

FNCB's investment in equity securities consists entirely of a mutual fund investment comprised of 1 - 4 family residential mortgage-backed securities collateralized by properties within FNCB's geographical market. At December 31, 2019 and 2018, this mutual fund had a cost of \$1.0 million. The unrealized loss on the mutual fund was \$80 thousand and \$109 thousand, respectively, resulting in a fair value of \$920 thousand and \$891 thousand, respectively, at December 31, 2019 and 2018. FNCB adopted ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities" on January 1, 2018. Upon adoption FNCB recorded a one-time reclassification between retained earnings and accumulated other comprehensive loss for the unrealized loss on this mutual fund, net of taxes, of \$65 thousand. Under the new guidance, any changes in the fair value of equity securities is recognized in the consolidated statements of income.

The following table presents unrealized and realized gains and losses recognized in net income on equity securities for the years ended December 31, 2019 and 2018.

(in thousands)	Year Ended December 31,	
	2019	2018
Net gain (loss) recognized on equity securities.....	\$ 29	\$ (27)
Less: net gains (losses) recognized on equity securities sold.....	-	-
Unrealized gain (loss) recognized on equity securities held	<u>\$ 29</u>	<u>\$ (27)</u>

Restricted Securities

The following table presents FNCB's investment in restricted securities at December 31, 2019 and 2018. Restricted securities have limited marketability and are carried at cost.

(in thousands)	December 31,	
	2019	2018
Stock in Federal Home Loan Bank of Pittsburgh.....	\$ 3,794	\$ 3,113
Stock in Atlantic Community Bankers Bank	10	10
Total restricted securities, at cost	<u>\$ 3,804</u>	<u>\$ 3,123</u>

Management noted no indicators of impairment for the Federal Home Loan Bank ("FHLB") of Pittsburgh or Atlantic Community Bankers Bank stock at December 31, 2019 and 2018.

Equity Securities without Readily Determinable Fair Values

FNCB owns 201,000 shares of the common stock of a privately-held bank holding company. The common stock was purchased during 2017 for \$8.25 per share, or \$1.7 million in aggregate, as part of a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended for offerings not involving any public offering. The common stock of such bank holding company is not currently traded on any established market and is not expected to be traded in the near future on any securities exchange or established over-the-counter market. The \$1.7 million investment is included in other assets in the consolidated statements of financial condition at December 31, 2019 and 2018. FNCB has elected to account for this transaction as an investment in an equity security without a readily determinable fair value. Under GAAP, an equity security without a readily determinable fair value shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

On December 18, 2019, management became aware that this privately held bank holding company had entered into an Agreement and Plan of Merger ("Merger Agreement") with a publicly traded bank holding company. Pursuant to the Merger Agreement, this privately held bank holding company will merge with and into the publicly traded bank holding company with that company surviving the merger ("surviving company"). At the effective time of the merger, anticipated to be sometime in the third quarter of 2020, each share of the privately held bank holding company's common stock issued and outstanding prior to the effective time of merger will be converted into the right to receive 0.6212 shares of common stock of the surviving company or \$16.50 in cash, at the election of holder; provided, however, individual shareholder elections of consideration will be prorated as necessary to ensure that, in aggregate, 25% of the privately held bank holding company's stock will be converted into the cash consideration with the remaining 75% converted into the stock consideration. Based on this event, management determined that no adjustment for impairment was required at December 31, 2019.

Note 5. LOANS

The following table summarizes loans receivable, net, by category at December 31, 2019 and 2018:

(in thousands)	December 31,	
	2019	2018
Residential real estate.....	\$ 170,723	\$ 164,833
Commercial real estate.....	278,379	262,778
Construction, land acquisition and development.....	47,484	20,813
Commercial and industrial.....	147,623	150,962
Consumer.....	138,239	176,784
State and political subdivisions.....	43,908	59,037
Total loans, gross.....	826,356	835,207
Unearned income.....	(69)	(70)
Net deferred loan costs.....	2,192	3,963
Allowance for loan and lease losses.....	(8,950)	(9,519)
Loans, net.....	<u>\$ 819,529</u>	<u>\$ 829,581</u>

FNCB has granted loans, letters of credit and lines of credit to certain of its executive officers and directors as well as to certain of their related parties. For more information about related party transactions, refer to Note 11, “Related Party Transactions” to these consolidated financial statements.

For information about credit concentrations within FNCB’s loan portfolio, refer to Note 12, “Commitments, Contingencies and Concentrations” to these consolidated financial statements.

FNCB originates 1- 4 family mortgage loans for sale in the secondary market. During both of the years ended December 31, 2019 and 2018, 1 - 4 family mortgages sold on the secondary market were \$9.6 million. Net gains on the sale of residential mortgage loans were \$253 thousand in 2019 and \$210 thousand in 2018. FNCB retains servicing rights on mortgages sold in the secondary market. At December 31, 2019 and December 31, 2018, there were \$1.1 million and \$820 thousand in 1 - 4 family residential mortgage loans held for sale, respectively.

For the year ended December 31, 2018, FNCB sold the guaranteed principal balance of loans that were guaranteed by the Small Business Administration (“SBA”) totaling \$5.7 million. Net gains realized upon the sales, included in non-interest income, totaled \$322 thousand in 2018. FNCB has retained the servicing rights on these loans. There were no sales of the guaranteed principal balance of SBA loans during the year ended December 31, 2019. The unpaid principal balance of loans serviced for others, including residential mortgages and SBA-guaranteed loans were \$106.0 million and \$108.4 million at December 31, 2019 and 2018, respectively.

FNCB does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, and bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

FNCB provides for loan losses based on the consistent application of its documented ALLL methodology. Loan losses are charged to the ALLL and recoveries are credited to it. Additions to the ALLL are provided by charges against income based on various factors which, in management’s judgment, deserve current recognition of estimated probable losses. Loan losses are charged-off in the period the loans, or portions thereof, are deemed uncollectible. Generally, FNCB will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated recoverable amount based on its methodology detailed below. Management regularly reviews the loan portfolio and makes adjustments for loan losses in order to maintain the ALLL in accordance with GAAP. The ALLL consists primarily of the following two components:

- (1) Specific allowances are established for impaired loans, which FNCB defines as all loan relationships with an aggregate outstanding balance greater than \$100 thousand rated substandard and on non-accrual, loans rated doubtful or loss, and all TDRs. The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the carrying value of the loan and either (a) the present value of expected future cash flows discounted at the loan’s effective interest rate, (b) the loan’s observable market price, or (c) the fair value of the underlying collateral, less estimated costs to sell, for collateral dependent loans. Impaired loans that have no impairment losses are not considered in the establishment of general valuation allowances as described below. If

management determines that collection of the impairment amount is remote, a charge-off will be recorded for the impairment amount.

- (2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. FNCB divides its portfolio into loan segments for loans exhibiting similar characteristics. Loans rated special mention or substandard and accruing, which are embedded in these loan segments, are then separated from these loan segments, as these loans are subject to an analysis that emphasizes the credit risk associated with these loans. An estimated loss rate is then applied to each loan segment, which are based on FNCB's own historical loss experience for each respective loan segment. In addition, management evaluates and applies to each loan segment certain qualitative or environmental factors that are likely to cause estimated credit losses associated with FNCB's existing portfolio to differ from historical experience, which are discussed below. For loans that have an internal credit rating of special mention or substandard, the qualitative and environmental factors are further adjusted for the increased risk.

As part of its evaluation, management considers qualitative and environmental factors, including, but not limited to:

- changes in national, local, and business economic conditions and developments, including the condition of various market segments;
- changes in the nature and volume of the loan portfolio;
- changes in lending policies and procedures, including underwriting standards, collection, charge-off and recovery practices and results;
- changes in the experience, ability and depth of lending management and staff;
- changes in the quality of the loan review system and the degree of oversight by the Board of Directors;
- changes in the trend of the volume and severity of past due and classified loans, including trends in the volume of non-accrual loans, TDRs and other loan modifications;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations;
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the current loan portfolio; and
- analysis of customers' credit quality, including knowledge of their operating environment and financial condition.

Management evaluates the credit quality of the loan portfolio on an ongoing basis, and performs a formal review of the adequacy of the ALLL on a quarterly basis. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the established ALLL, which could have a material negative effect on FNCB's operating results or financial condition. While management uses the best information available to make its evaluations, future adjustments to the ALLL may be necessary if conditions differ substantially from the information used in making the evaluations. Banking regulators, as an integral part of their examination of FNCB, also review the ALLL, and may require, based on their judgments about information available to them at the time of their examination, that certain loan balances be charged off or require that adjustments be made to the ALLL.

The following tables present, by loan category, the activity in the ALLL and the allocation of the ALLL and related loan balance disaggregated based on impairment methodology at December 31, 2019 and 2018.

**Allowance for Loan and Lease Losses by Loan Category
December 31, 2019**

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction, Land Acquisition and Development	Commercial and Industrial	Consumer	State and Political Subdivisions	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2019...	\$ 1,175	\$ 3,107	\$ 188	\$ 2,552	\$ 2,051	\$ 417	\$ 29	\$ 9,519
Charge-offs	(27)	-	(18)	(1,258)	(1,311)	-	-	(2,614)
Recoveries	9	32	82	364	761	-	-	1,248
Provisions (credits)	(10)	59	19	339	157	(164)	397	797
Ending balance, December 31, 2019	<u>\$ 1,147</u>	<u>\$ 3,198</u>	<u>\$ 271</u>	<u>\$ 1,997</u>	<u>\$ 1,658</u>	<u>\$ 253</u>	<u>\$ 426</u>	<u>\$ 8,950</u>
Specific reserve	<u>\$ 9</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 242</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473</u>
General reserve	<u>\$ 1,138</u>	<u>\$ 2,977</u>	<u>\$ 271</u>	<u>\$ 1,755</u>	<u>\$ 1,657</u>	<u>\$ 253</u>	<u>\$ 426</u>	<u>\$ 8,477</u>
Loans receivable:								
Individually evaluated for impairment	\$ 2,711	\$ 11,640	\$ 76	\$ 1,164	\$ 195	\$ -	\$ -	\$ 15,786
Collectively evaluated for impairment	<u>168,012</u>	<u>266,739</u>	<u>47,408</u>	<u>146,459</u>	<u>138,044</u>	<u>43,908</u>	<u>-</u>	<u>810,570</u>
Total loans, gross at December 31, 2019	<u>\$ 170,723</u>	<u>\$ 278,379</u>	<u>\$ 47,484</u>	<u>\$ 147,623</u>	<u>\$ 138,239</u>	<u>\$ 43,908</u>	<u>\$ -</u>	<u>\$ 826,356</u>

**Allowance for Loan and Lease Losses by Loan Category
December 31, 2018**

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction, Land Acquisition and Development	Commercial and Industrial	Consumer	State and Political Subdivisions	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2018...	\$ 1,236	\$ 3,499	\$ 209	\$ 2,340	\$ 1,395	\$ 355	\$ -	\$ 9,034
Charge-offs	(63)	(1,845)	-	(97)	(1,134)	-	-	(3,139)
Recoveries	135	42	30	291	576	-	-	1,074
Provisions (credits)	(133)	1,411	(51)	18	1,214	62	29	2,550
Ending balance, December 31, 2018	<u>\$ 1,175</u>	<u>\$ 3,107</u>	<u>\$ 188</u>	<u>\$ 2,552</u>	<u>\$ 2,051</u>	<u>\$ 417</u>	<u>\$ 29</u>	<u>\$ 9,519</u>
Specific reserve	<u>\$ 14</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 657</u>
General reserve	<u>\$ 1,161</u>	<u>\$ 3,066</u>	<u>\$ 188</u>	<u>\$ 1,952</u>	<u>\$ 2,049</u>	<u>\$ 417</u>	<u>\$ 29</u>	<u>\$ 8,862</u>
Loans receivable:								
Individually evaluated for impairment	\$ 1,847	\$ 9,408	\$ 82	\$ 697	\$ 383	\$ -	\$ -	\$ 12,417
Collectively evaluated for impairment	<u>162,986</u>	<u>253,370</u>	<u>20,731</u>	<u>150,265</u>	<u>176,401</u>	<u>59,037</u>	<u>-</u>	<u>822,790</u>
Total loans, gross at December 31, 2018	<u>\$ 164,833</u>	<u>\$ 262,778</u>	<u>\$ 20,813</u>	<u>\$ 150,962</u>	<u>\$ 176,784</u>	<u>\$ 59,037</u>	<u>\$ -</u>	<u>\$ 835,207</u>

Credit Quality Indicators – Commercial Loans

Management continuously monitors and evaluates the credit quality of FNCB's commercial loans by regularly reviewing certain credit quality indicators. Management utilizes credit risk ratings as the key credit quality indicator for evaluating the credit quality of FNCB's loan receivables.

FNCB's commercial loan classification and credit grading processes are part of the lending, underwriting, and credit administration functions to ensure an ongoing assessment of credit quality. FNCB maintains a formal, written loan classification and credit grading system that includes a discussion of the factors used to assign appropriate classifications of credit grades to loans. The risk grade groupings provide a mechanism to identify risk within the loan portfolio and provide management and the board of directors with periodic reports by risk category. The process also identifies groups of loans that warrant the special attention of management. Accurate and timely loan classification and credit grading is a critical component of loan portfolio management. Loan officers are required to review their loan portfolio risk ratings regularly for accuracy. In addition, the credit risk ratings play an important role in the loan review function, as well as the establishment and evaluation of the provision for loan and lease losses and the ALLL.

The loan review function uses the same risk rating system in the loan review process. Quarterly, FNCB engages an independent third party to assess the quality of the loan portfolio and evaluate the accuracy of ratings with the loan officer's and management's assessment.

FNCB's loan rating system assigns a degree of risk to commercial loans based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Management analyzes these non-homogeneous loans individually by grading the loans as to credit risk and probability of collection for each type of loan. Commercial and industrial loans include commercial indirect auto loans which are not individually risk rated, and construction, land acquisition and development loans include residential construction loans which are also not individually risk rated. These loans are monitored on a pool basis due to their homogeneous nature as described in "Credit Quality Indicators – Other Loans" below. FNCB risk rates certain residential real estate loans and consumer loans that are part of a larger commercial relationship using a credit grading system as described in "Credit Quality Indicators – Commercial Loans." The grading system contains the following basic risk categories:

1. Minimal Risk
2. Above Average Credit Quality
3. Average Risk
4. Acceptable Risk
5. Pass - Watch
6. Special Mention
7. Substandard - Accruing
8. Substandard - Non-Accrual
9. Doubtful
10. Loss

This analysis is performed on a quarterly basis using the following definitions for risk ratings:

Pass – Assets rated 1 through 5 are considered pass ratings. These assets show no current or potential problems and are considered fully collectible. All such loans are evaluated collectively for ALLL calculation purposes. However, accruing loans restructured under a TDR that have been performing for an extended period, do not represent a higher risk of loss, and have been upgraded to a pass rating are evaluated individually for impairment.

Special Mention – Assets classified as special mention do not currently expose FNCB to a sufficient degree of risk to warrant an adverse classification but do possess credit deficiencies or potential weaknesses deserving close attention. Special mention assets have a potential weakness or pose an unwarranted financial risk which, if not corrected, could weaken the asset and increase risk in the future.

Substandard – Assets classified as substandard have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility that FNCB will sustain some loss if the deficiencies are not corrected.

Doubtful – Assets classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that such weaknesses make collection or liquidation in full highly questionable and improbable based on current circumstances.

Loss – Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted.

Credit Quality Indicators – Other Loans

Certain residential real estate loans, consumer loans, and commercial indirect auto loans are monitored on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more are placed on non-accrual status unless collection of the loan is in process and reasonably assured. FNCFB utilizes accruing versus non-accrual status as the credit quality indicator for these loan pools.

The following tables present the recorded investment in loans receivable by loan category and credit quality indicator at December 31, 2019 and 2018:

Credit Quality Indicators December 31, 2019										
	Commercial Loans					Other Loans				
	Pass	Special Mention	Substandard	Doubtful	Loss	Subtotal Commercial	Accruing Loans	Non- accrual Loans	Subtotal Other	Total Loans
Residential real estate	\$ 32,219	\$ 177	\$ 307	\$ -	\$ -	\$ 32,703	\$ 136,709	\$ 1,311	\$ 138,020	\$ 170,723
Commercial real estate	266,112	1,668	10,599	-	-	278,379	-	-	-	278,379
Construction, land acquisition and development.	46,361	-	-	-	-	46,361	1,123	-	1,123	47,484
Commercial and industrial.....	140,589	426	1,484	-	-	142,499	5,124	-	5,124	147,623
Consumer	3,111	-	-	-	-	3,111	134,457	671	135,128	138,239
State and political subdivisions..	43,908	-	-	-	-	43,908	-	-	-	43,908
Total	<u>\$ 532,300</u>	<u>\$ 2,271</u>	<u>\$ 12,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 546,960</u>	<u>\$ 277,413</u>	<u>\$ 1,982</u>	<u>\$ 279,395</u>	<u>\$ 826,356</u>

Credit Quality Indicators December 31, 2018										
	Commercial Loans					Other Loans				
	Pass	Special Mention	Substandard	Doubtful	Loss	Subtotal Commercial	Accruing Loans	Non- accrual Loans	Subtotal Other	Total Loans
Residential real estate	\$ 33,573	\$ 291	\$ 154	\$ -	\$ -	\$ 34,018	\$ 130,132	\$ 683	\$ 130,815	\$ 164,833
Commercial real estate	250,674	1,858	10,246	-	-	262,778	-	-	-	262,778
Construction, land acquisition and development.	17,704	-	757	-	-	18,461	2,352	-	2,352	20,813
Commercial and industrial.....	137,888	4,193	2,448	-	-	144,529	6,421	12	6,433	150,962
Consumer	2,024	-	-	-	-	2,024	174,373	387	174,760	176,784
State and political subdivisions..	57,345	1,665	27	-	-	59,037	-	-	-	59,037
Total	<u>\$ 499,208</u>	<u>\$ 8,007</u>	<u>\$ 13,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,847</u>	<u>\$ 313,278</u>	<u>\$ 1,082</u>	<u>\$ 314,360</u>	<u>\$ 835,207</u>

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment in these non-accrual loans was \$9.1 million at December 31, 2019 and \$4.7 million at December 31, 2018. Generally, loans are placed on non-accrual status when they become 90 days or more delinquent. Once a loan is placed on non-accrual status it remains on non-accrual status until it has been brought current, has six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exists. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accrual status. There were no loans past due 90 days or more and still accruing at December 31, 2019 and 2018.

The following tables present the delinquency status of past due and non-accrual loans at December 31, 2019 and 2018:

(in thousands)	December 31, 2019				
	Delinquency Status				
	0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	>= 90 Days Past Due	Total
Performing (accruing) loans:					
Residential real estate.....	\$ 168,754	\$ 134	\$ 261	\$ -	\$ 169,149
Commercial real estate.....	272,561	75	106	-	272,742
Construction, land acquisition and development..	47,484	-	-	-	47,484
Commercial and industrial	146,221	200	-	-	146,421
Consumer	135,384	1,695	489	-	137,568
State and political subdivisions	43,908	-	-	-	43,908
Total performing (accruing) loans	<u>814,312</u>	<u>2,104</u>	<u>856</u>	<u>-</u>	<u>817,272</u>
Non-accrual loans:					
Residential real estate.....	873	17	228	456	1,574
Commercial real estate.....	2,520	893	434	1,790	5,637
Construction, land acquisition and development..	-	-	-	-	-
Commercial and industrial	943	-	114	145	1,202
Consumer	193	93	38	347	671
State and political subdivisions	-	-	-	-	-
Total non-accrual loans	<u>4,529</u>	<u>1,003</u>	<u>814</u>	<u>2,738</u>	<u>9,084</u>
Total loans receivable	<u>\$ 818,841</u>	<u>\$ 3,107</u>	<u>\$ 1,670</u>	<u>\$ 2,738</u>	<u>\$ 826,356</u>

(in thousands)	December 31, 2018				
	Delinquency Status				
	0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	>= 90 Days Past Due	Total
Performing (accruing) loans:					
Residential real estate.....	\$ 163,690	\$ 319	\$ 136	\$ -	\$ 164,145
Commercial real estate.....	259,904	-	-	-	259,904
Construction, land acquisition and development..	20,813	-	-	-	20,813
Commercial and industrial	150,108	87	20	-	150,215
Consumer	173,890	2,221	286	-	176,397
State and political subdivisions	59,037	-	-	-	59,037
Total performing (accruing) loans	<u>827,442</u>	<u>2,627</u>	<u>442</u>	<u>-</u>	<u>830,511</u>
Non-accrual loans:					
Residential real estate.....	443	-	136	109	688
Commercial real estate.....	1,061	-	-	1,813	2,874
Construction, land acquisition and development..	-	-	-	-	-
Commercial and industrial	677	50	-	20	747
Consumer	91	61	74	161	387
State and political subdivisions	-	-	-	-	-
Total non-accrual loans	<u>2,272</u>	<u>111</u>	<u>210</u>	<u>2,103</u>	<u>4,696</u>
Total loans receivable	<u>\$ 829,714</u>	<u>\$ 2,738</u>	<u>\$ 652</u>	<u>\$ 2,103</u>	<u>\$ 835,207</u>

The following tables present a distribution of the recorded investment, unpaid principal balance and the related allowance for FNCB's impaired loans, which have been analyzed for impairment under ASC 310, at December 31, 2019 and 2018. Non-accrual loans, other than TDRs, with balances less than the \$100 thousand loan relationship threshold are not evaluated individually for impairment and accordingly, are not included in the following tables. However, these loans are evaluated collectively for impairment as homogeneous pools in the general allowance under ASC 450. Total non-accrual loans, other than TDRs, with balances less than the \$100 thousand loan relationship threshold that were evaluated under ASC 450 amounted to \$1.0 million and \$0.7 million at December 31, 2019 and 2018, respectively.

(in thousands)	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no allowance recorded:			
Residential real estate.....	\$ 1,217	\$ 1,303	\$ -
Commercial real estate.....	4,548	6,007	-
Construction, land acquisition and development.....	76	76	-
Commercial and industrial	593	850	-
Consumer	23	26	-
State and political subdivisions	-	-	-
Total impaired loans with no related allowance recorded.....	6,457	8,262	-
With a related allowance recorded:			
Residential real estate.....	1,494	1,494	9
Commercial real estate.....	7,092	7,811	221
Construction, land acquisition and development.....	-	-	-
Commercial and industrial	571	573	242
Consumer	172	172	1
State and political subdivisions	-	-	-
Total impaired loans with a related allowance recorded.....	9,329	10,050	473
Total of impaired loans:			
Residential real estate.....	2,711	2,797	9
Commercial real estate.....	11,640	13,818	221
Construction, land acquisition and development.....	76	76	-
Commercial and industrial	1,164	1,423	242
Consumer	195	198	1
State and political subdivisions	-	-	-
Total impaired loans.....	\$ 15,786	\$ 18,312	\$ 473

(in thousands)	December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no allowance recorded:			
Residential real estate.....	\$ 313	\$ 375	\$ -
Commercial real estate.....	7,149	8,795	-
Construction, land acquisition and development.....	82	82	-
Commercial and industrial	-	-	-
Consumer	26	28	-
State and political subdivisions	-	-	-
Total impaired loans with no related allowance recorded.....	<u>7,570</u>	<u>9,280</u>	<u>-</u>
With a related allowance recorded:			
Residential real estate.....	1,534	1,534	14
Commercial real estate.....	2,259	2,259	41
Construction, land acquisition and development.....	-	-	-
Commercial and industrial	697	697	600
Consumer	357	357	2
State and political subdivisions	-	-	-
Total impaired loans with a related allowance recorded.....	<u>4,847</u>	<u>4,847</u>	<u>657</u>
Total of impaired loans:			
Residential real estate.....	1,847	1,909	14
Commercial real estate.....	9,408	11,054	41
Construction, land acquisition and development.....	82	82	-
Commercial and industrial	697	697	600
Consumer	383	385	2
State and political subdivisions	-	-	-
Total impaired loans.....	<u>\$ 12,417</u>	<u>\$ 14,127</u>	<u>\$ 657</u>

The following table presents the average balance of, and interest income recognized on, impaired loans summarized by loan category for the years ended December 31, 2019 and 2018:

(in thousands)	Year Ended December 31,			
	2019		2018	
	Average Balance	Interest Income (1)	Average Balance	Interest Income (1)
Residential real estate.....	\$ 2,157	\$ 84	\$ 1,827	\$ 83
Commercial real estate.....	10,092	297	8,580	311
Construction, land acquisition and development.....	79	5	83	5
Commercial and industrial	1,207	1	759	1
Consumer	243	11	388	17
State and political subdivisions	-	-	-	-
Total impaired loans.....	<u>\$ 13,778</u>	<u>\$ 398</u>	<u>\$ 11,637</u>	<u>\$ 417</u>

(1) Interest income represents income recognized on performing TDRs.

The additional interest income that would have been earned on non-accrual and restructured loans had these loans performed in accordance with their original terms approximated \$0.4 million and \$0.2 million for the years ended December 31, 2019 and 2018, respectively.

Troubled Debt Restructured Loans

TDRs at December 31, 2019 and 2018 were \$9.1 million and \$9.2 million, respectively. Accruing and non-accruing TDRs were \$7.7 million and \$1.4 million, respectively at December 31, 2019 and \$8.5 million and \$0.7 million, respectively at December 31, 2018. Approximately \$97 thousand and \$651 thousand in specific reserves have been established for TDRs as of December 31, 2019 and 2018, respectively. FNCB was not committed to lend additional funds to any loan classified as a TDR at December 31, 2019 and 2018.

The modification of the terms of loans classified as TDRs may include one or a combination of the following, among others: a reduction of the stated interest rate of the loan, an extension of the maturity date, capitalization of real estate taxes, a payment modification under a forbearance agreement, or a permanent reduction of the recorded investment in the loan.

There were no loans modified as TDRs during the year ended December 31, 2018. The following table presents the pre- and post-modification recorded investment in loans modified as TDRs and type of modifications made during the year ended December 31, 2019:

(in thousands)	Year Ended December 31, 2019						Post-Modification Outstanding Recorded Investment
	Pre-Modification Outstanding Recorded Investment by Type of Modification						
	Number of Contracts	Extension of Term	Extension of Term and Capitalization of Taxes	Capitalization of Taxes	Principal Forbearance	Total	
Loan category:							
Residential real estate.....	4	\$ 24	\$ -	\$ 42	\$ 208	\$ 274	\$ 289
Commercial real estate.....	2	432	178	-	-	610	644
Construction, land acquisition and development.....	-	-	-	-	-	-	-
Commercial and industrial	4	933	-	-	-	933	932
Consumer	-	-	-	-	-	-	-
State and political subdivisions	-	-	-	-	-	-	-
Total modifications	<u>10</u>	<u>\$ 1,389</u>	<u>\$ 178</u>	<u>\$ 42</u>	<u>\$ 208</u>	<u>\$ 1,817</u>	<u>\$ 1,865</u>

There were no TDRs modified within the previous 12 months that defaulted during the years ended December 31, 2019 and 2018.

Residential Real Estate Loan Foreclosures

There was one residential real estate property with a recorded investment of \$154 thousand that was in the process of foreclosure at December 31, 2019. There were two investor-owned residential real estate properties with an aggregate carrying value of \$256 thousand foreclosed upon during the year ended December 31, 2019. One property was subsequently sold during 2019. The remaining property with a carrying value of \$204 thousand was included in OREO at December 31, 2019.

There were two consumer mortgage loans secured by residential real estate properties in the process of foreclosure at December 31, 2018. There was no aggregate recorded investment to FNCB for these two loans at December 31, 2018. The balance of one loan was previously charged-off in entirety and the other loan was sold to an investor on the secondary market. There were no residential real estate properties foreclosed upon during the year ended December 31, 2018, and there was one residential real estate property with a carrying value of \$45 thousand included in OREO at December 31, 2018.

Note 6. BANK PREMISES AND EQUIPMENT

The following table summarizes bank premises and equipment at December 31, 2019 and 2018:

(in thousands)	December 31,	
	2019	2018
Land	\$ 3,537	\$ 3,383
Buildings and improvements.....	12,798	10,865
Furniture, fixtures and equipment	11,551	10,178
Leasehold improvements.....	3,578	3,601
Total.....	31,464	28,027
Accumulated depreciation.....	(13,946)	(13,602)
Net	<u>\$ 17,518</u>	<u>\$ 14,425</u>

Depreciation and amortization expense of premises and equipment amounted to \$1.4 million for each of the years ended December 31, 2019 and 2018.

On September 27, 2018, FNCB executed a contract with Branch Banking and Trust Company to purchase the real property, improvements and fixtures located at 360 South Mountain Boulevard, Mountain Top, Luzerne County, Pennsylvania for \$550 thousand for the purpose of opening a branch office. The contract contains a deed restriction under which FNCB has agreed to not operate, sell, or lease the property for a period of six months from the recording of the deed. FNCB closed on the purchase of the property on December 14, 2018 and opened the new branch in the second quarter of 2019.

On November 5, 2018, FNCB received approval from its primary regulator to relocate the Bank's main office located at 102 E. Drinker Street, Dunmore, Lackawanna County, Pennsylvania, into a new state-of -the-art office, featuring the personal banker model and a relaxed, cafe-like atmosphere design to enhance the customers's in-branch banking experience. The new main office is directly across the street at 100 S. Blakely Street, Dunmore, Pennsylvania. The cost of the main office relocation project, which was completed in the second quarter of 2019, approximated \$2.0 million and was funded by cash generated from operations. The former main office was renovated into office space for members of FNCB's Commercial Lending and Retail Banking Units.

Note 7. DEPOSITS

The following table summarizes deposits by major category at December 31, 2019 and 2018:

(in thousands)	December 31,	
	2019	2018
Demand (non-interest bearing).....	\$ 179,465	\$ 156,600
Interest-bearing:		
Interest-bearing demand	534,677	557,803
Savings	94,530	92,078
Time (\$250,000 and over)	48,425	56,659
Other time.....	144,612	232,489
Total interest-bearing.....	822,244	939,029
Total deposits.....	<u>\$ 1,001,709</u>	<u>\$ 1,095,629</u>

The aggregate amount of deposits reclassified as loans was \$62 thousand at December 31, 2019 and \$36 thousand at December 31, 2018. Management evaluates transaction accounts that are overdrawn for collectability as part of its evaluation for credit losses. During 2019 and 2018, no deposits were received on terms other than those available in the normal course of business.

The following table summarizes scheduled maturities of time deposits, including certificates of deposit and individual retirement accounts, at December 31, 2019:

<u>(in thousands)</u>	<u>\$250,000 and Over</u>	<u>Other Time Deposits</u>	<u>Total</u>
2020.....	41,009	93,903	134,912
2021.....	6,126	38,823	44,949
2022.....	1,290	5,547	6,837
2023.....	-	2,687	2,687
2024.....	-	3,652	3,652
2025 and thereafter.....	-	-	-
Total.....	<u>\$ 48,425</u>	<u>\$ 144,612</u>	<u>\$ 193,037</u>

Investment securities with a carrying value of \$235.0 million and \$286.4 million at December 31, 2019 and 2018, respectively, were pledged to collateralize certain municipal deposits. In addition, FNCB had outstanding letters of credit with the FHLB to secure municipal deposits of \$60.0 million and \$47.5 million at December 31, 2019 and 2018, respectively.

Note 8. BORROWED FUNDS

Short-term borrowings available to FNCB include overnight FHLB of Pittsburgh advances, federal funds lines of credit and the Federal Reserve Discount Window, which generally represent overnight or less than 30-day borrowings. FNCB's maximum borrowing capacity under federal funds lines of credit and the Federal Reserve Discount Window was \$40.0 million and \$11.4 million, respectively at December 31, 2019. Federal funds lines of credit are unsecured, while any borrowings through the Federal Reserve Discount Window are fully collateralized by certain pledged loans in the amount of \$22.9 million at December 31, 2019.

FNCB has an agreement with the FHLB of Pittsburgh which allows for borrowings, either overnight or term, up to a maximum borrowing capacity based on a percentage of qualifying loans pledged under a blanket pledge agreement. Loans of \$475.3 million and \$492.3 million, at December 31, 2019 and 2018, respectively, were pledged to collateralize borrowings under this agreement. FNCB's maximum borrowing capacity was \$333.3 million at December 31, 2019, of which \$32.8 million in fixed-rate advances having original maturities between nine months and two years, \$14.1 million in overnight funds and \$60.0 million in letters of credit to secure municipal deposits, were outstanding. In addition to pledging loans, FNCB is required to purchase FHLB of Pittsburgh stock based upon the amount of advances and letters of credit outstanding.

<u>As of and for the Year Ended December 31, 2019</u>					
<u>(dollars in thousands)</u>	<u>Ending Balance</u>	<u>Average Balance</u>	<u>Maximum Month-End Balance</u>	<u>Weighted Average Rate for the Year</u>	<u>Weighted Average Rate at Period End</u>
FHLB of Pittsburgh advances – overnight.....	\$ 14,100	\$ 14,971	\$ 59,825	2.58%	1.80%
FHLB of Pittsburgh advances – term.....	32,809	37,831	65,171	2.26%	1.86%
Federal funds.....	-	8	-	-	-
Federal reserve discount window advances.....	-	-	-	-	-
Subordinated debentures.....	-	520	5,000	4.50%	-
Junior subordinated debentures.....	10,310	10,310	10,310	4.17%	3.56%

<u>As of and for the Year Ended December 31, 2018</u>					
<u>(dollars in thousands)</u>	<u>Ending Balance</u>	<u>Average Balance</u>	<u>Maximum Month-End Balance</u>	<u>Weighted Average Rate for the Year</u>	<u>Weighted Average Rate at Period End</u>
FHLB of Pittsburgh advances – overnight.....	\$ 6,600	\$ 45,066	\$ 103,250	2.05%	2.65%
FHLB of Pittsburgh advances – term.....	12,330	59,197	101,661	1.86%	1.77%
Federal funds.....	-	-	-	-	-
Federal reserve discount window advances.....	-	-	-	-	-
Subordinated debentures.....	5,000	5,000	5,000	4.50%	4.50%
Junior subordinated debentures.....	10,310	10,310	10,310	3.88%	4.46%

On December 14, 2006, the Issuing Trust issued \$10.0 million of trust preferred securities (the "Trust Securities") at a variable interest rate of 7.02%, with a scheduled maturity of December 15, 2036. FNCB owns 100.0% of the ownership interest in the

Issuing Trust. The proceeds from the issue were invested in \$10.3 million, 7.02% Junior Subordinated Debentures (the “Debentures”) issued by FNCB. The interest rate on the Trust Securities and the Debentures resets quarterly at a spread of 1.67% above the current 3-month LIBOR rate. The average interest rate paid on the Debentures was 4.17% in 2019 and 3.88% in 2018. The Debentures are unsecured and rank subordinate and junior in right to all indebtedness, liabilities and obligations of FNCB. The Debentures represent the sole assets of the Trust. Interest on the Trust Securities is deferrable until a period of twenty consecutive quarters has elapsed. FNCB has the option to prepay the Trust Securities beginning December 15, 2011. FNCB has, under the terms of the Debentures and the related Indenture, as well as the other operative corporate documents, agreed to irrevocably and unconditionally guarantee the Trust’s obligations under the Debentures. FNCB has reflected this investment on a deconsolidated basis. As a result, the Debentures totaling \$10.3 million, have been reflected in borrowed funds in the consolidated statements of financial condition at December 31, 2019 and 2018 under the caption “Junior Subordinated Debentures”. FNCB records interest expense on the Debentures in its consolidated statements of income. FNCB also records its common stock investment issued by First National Community Statutory Trust I in other assets in its consolidated statements of financial condition at December 31, 2019 and 2018. At December 31, 2019 and 2018, accrued and unpaid interest associated with the Debentures amounted to \$16 thousand and \$19 thousand, respectively.

On September 1, 2009, FNCB offered only to accredited investors up to \$25.0 million principal amount of unsecured subordinated debentures due September 1, 2019 (the “Notes”). Prior to July 1, 2015, the Notes had a fixed interest rate of 9% per annum. Payments of interest are payable to registered holders of the Notes (the “Noteholders”) quarterly on the first of every third month, subject to the right of FNCB to defer such payment. On June 30, 2015, pursuant to approval from all of the Noteholders and the Reserve Bank, FNCB amended the original terms of the Notes to reduce the interest rate payable from 9.00% to 4.50% effective July 1, 2015 and to accelerate a partial repayment of principal amount under the Notes. Pursuant to the approved amendment, on June 30, 2015, FNCB repaid 44% of the original principal amount, or \$11.0 million, of the Notes outstanding to the holders on June 30, 2015, with the remaining \$14.0 million in principal to be repaid as follows: (a) 16% of the original principal amount, or \$4.0 million, payable on September 1, 2017; (b) 20% of the original principal amounts, or \$5.0 million, payable on September 1, 2018; and (c) the final 20% of the original principal amount, or \$5.0 million, payable on September 1, 2019, the maturity date of the Notes. On October 28, 2016, the Board of Directors of FNCB approved the acceleration of a \$4.0 million partial repayment of principal on the Notes. The \$4.0 million principal repayment, which was due and payable on September 1, 2017, was paid to Noteholders on December 1, 2016. On July 27, 2017, the Board of Directors of FNCB approved the acceleration of a \$5.0 million partial repayment of principal on the Notes. The \$5.0 million principal repayment, which was due and payable on September 1, 2018, was paid to Noteholders on September 1, 2017. The principal balance outstanding was \$5.0 million at December 31, 2018. The accrued and unpaid interest associated with the Notes amounted to \$19 thousand at December 31, 2018. Subsequent to December 31, 2018, on January 30, 2019, the Board of Directors of FNCB approved the acceleration of the final \$5.0 million repayment of principal on the Notes. The \$5.0 million principal repayment, which was due and payable on September 1, 2019, along with all outstanding accrued interest for the period December 1, 2018 through February 7, 2019, was paid to Noteholders on February 8, 2019.

The following table presents maturities of borrowed funds and the weighted-average rate by contractual maturity date at December 31, 2019:

(in thousands)	December 31, 2019	
	Amount	Weighted Average Interest Rate
2020.....	\$ 21,387	1.73%
2021.....	25,522	1.93%
2022.....	-	-
2023.....	-	-
2024.....	-	-
2025 and thereafter.....	10,310	3.56%
Total.....	<u>\$ 57,219</u>	<u>2.15%</u>

Note 9. BENEFIT PLANS

The Bank has a defined contribution profit sharing plan (“Profit Sharing Plan”) which includes the provision under section 401(k) of the Internal Revenue Code (“401(k)”) and covers all eligible employees. The Bank’s contribution to the plan is determined at management’s discretion at the end of each year and funded. The 401(k) feature of the plan permits employees to make voluntary salary deferrals, either pre-tax or Roth, up to the dollar limit prescribed by law. FNCB may make discretionary matching contributions equal to a uniform percentage of employee salary deferrals. Discretionary matching contributions are determined each year by management and approved by the Board of Directors. There were no discretionary annual contributions made to the profit sharing plan in 2019 and 2018. Discretionary matching contributions under the 401(k) feature of the plan totaled \$305 thousand in 2019 and \$298 thousand in 2018.

The Bank has an unfunded non-qualified deferred compensation plan covering all eligible Bank officers and directors as defined by the plan. This plan permits eligible participants to elect to defer a portion of their compensation. Elective deferred compensation and accrued earnings, included in other liabilities in the accompanying consolidated statements of financial condition, aggregated \$2.0 million at December 31, 2019 and \$3.2 million at December 31, 2018.

The Bank has a Supplemental Executive Retirement Plan (“SERP”) for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of The Employee Retirement Income Security Act of 1974. The general provisions of the SERP provide for annual year-end contributions, performance contingent contributions and discretionary contributions. The SERP contributions are unfunded for Federal tax purposes and constitute an unsecured promise by the Bank to pay benefits in the future and are included in other liabilities in the accompanying consolidated statements of financial condition. Participants in the SERP have the status of general unsecured creditors of the Bank. SERP contributions totaled \$173 thousand in 2019 and \$108 thousand in 2018. The total liability associated with the SERP was \$657 thousand at December 31, 2019 and \$557 thousand at December 31, 2018.

Note 10. INCOME TAXES

The following table summarizes the current and deferred amounts of the provision for income tax expense (benefit) for each of the two years ended December 31, 2019 and 2018:

<u>(in thousands)</u>	For the Year Ended December 31,	
	2019	2018
Current	\$ -	\$ (2,764)
Deferred	2,326	5,835
Income tax expense	<u>\$ 2,326</u>	<u>\$ 3,071</u>

The following table presents a reconciliation between the effective income tax expense and the income tax expense that would have been provided at the federal statutory tax rate of 21.0% for the years ended December 31, 2019 and December 31, 2018:

<u>(in thousands)</u>	For the Year Ended December 31,	
	2019	2018
Provision at statutory tax rates	\$ 2,814	\$ 3,448
Add (deduct):		
Tax effects of non-taxable income	(344)	(378)
Non-deductible interest expense	19	15
Bank-owned life insurance	(109)	(117)
Other items, net	(54)	103
Income tax expense	<u>\$ 2,326</u>	<u>\$ 3,071</u>

The following table summarizes the components of the net deferred tax asset at December 31, 2019 and 2018:

(in thousands)	December 31,	
	2019	2018
Allowance for loan and lease losses.....	\$ 2,027	\$ 2,052
Deferred compensation	592	817
Unrealized holding losses on securities available-for-sale.....	-	1,207
Lease liability	729	-
Other real estate owned valuation	33	125
Deferred intangible assets	166	300
Employee benefits.....	192	102
Accrued rent expense	-	72
Accrued vacation.....	42	36
Deferred income.....	-	51
Depreciation	10	51
Net operating loss carryover	4,348	6,291
Gross deferred tax assets	8,139	11,104
Deferred loan origination costs	(143)	(192)
Unrealized holding gains on securities available-for-sale	(812)	-
Right of use asset	(660)	-
Deferred income.....	(22)	-
Accrued interest	(224)	(219)
Gross deferred tax liabilities.....	(1,861)	(411)
Net deferred tax assets.....	\$ 6,278	\$ 10,693

At December 31, 2019 FNCB had approximately \$20.7 million in federal net operating loss ("NOL") carryovers, which expire in 2035 if not used. Deferred taxes associated with these NOL carryovers were \$4.3 million at December 31, 2019.

Management evaluates the carrying amount of its deferred tax assets on a quarterly basis, or more frequently if necessary, in accordance with guidance set forth in ASC Topic 740 "Income Taxes," and applies the criteria in the guidance to determine whether it is more likely than not that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. In evaluating available evidence, management considers, among other factors, historical financial performance, expectation of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing of reversals of temporary differences. In assessing the need for a valuation allowance, management carefully weighs both positive and negative evidence currently available. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. If management determines based on available evidence, both positive and negative, that it is more likely than not that some portion or all of the deferred tax asset will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and depend upon management's estimates and judgments used in their evaluation of both positive and negative evidence. Based on the most recent evaluation at December 31, 2019, management believes that FNCB's future taxable income will be sufficient to utilize the deferred tax assets. Management anticipates that FNCB's core earnings will continue to support the utilization of NOL carryovers and recognition of deferred tax assets based on future growth projections.

Note 11. RELATED PARTY TRANSACTIONS

In conducting its business, FNCB has engaged in, and intends to continue to engage in, banking and financial transactions with directors, executive officers and their related parties.

FNCB has granted loans, letters of credit and lines of credit to directors, executive officers and their related parties. The following table summarizes the changes in the total amounts of such outstanding loans, advances under lines of credit, net of any participations sold, as well as repayments during the years ended December 31, 2019 and 2018:

<u>(in thousands)</u>	<u>For the Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance January 1,	\$ 64,634	\$ 55,576
Additions, new loans and advances	93,871	87,015
Repayments	(80,609)	(77,957)
Balance December 31,	<u>\$ 77,896</u>	<u>\$ 64,634</u>

At December 31, 2019, there were no loans made to directors, executive officers and their related parties that were not performing in accordance with the terms of the loan agreements.

Deposits from directors, executive officers and their related parties held by the Bank at December 31, 2019 and 2018 amounted to \$84.1 million and \$115.5 million, respectively. Interest paid on the deposits amounted to \$484 thousand in 2019 and \$348 thousand in 2018.

In the course of its operations, FNCB acquires goods and services from, and transacts business with, various companies of related parties, which include, but are not limited to, employee health insurance, fidelity bond and errors and omissions insurance, legal services, and repair of repossessed automobiles for resale. FNCB recorded payments to related parties for goods and services of \$2.4 million and \$2.5 million in 2019 and 2018, respectively.

On February 8, 2019, FNCB accelerated the final \$5.0 million principal repayment on the notes, which was due and payable on September 1, 2019, of which \$3.1 million was paid to directors and/or their related interests. Accordingly, there was no balance outstanding on the notes held by directors and/or their related parties at December 31, 2019. The Notes held by directors and/or their related parties totaled \$3.1 million at December 31, 2018. Interest expense recorded on the Notes for directors and/or their related parties amounted to \$24 thousand and \$141 thousand for the years ended December 31, 2019 and 2018, respectively. Interest accrued and unpaid on the Notes to directors and/or their related parties totaled \$12 thousand at December 31, 2018.

Note 12. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Leases

FNCB is obligated under operating leases for certain bank branches, office space, automobiles and equipment. Operating lease right of use ("ROU") assets represent FNCB's right to use an underlying asset during the lease term and operating liabilities represent its obligation to make lease payments under the lease agreement. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents FNCB's incremental borrowings rate at the commencement date. ROU assets are included in other assets and operating lease liabilities are included in other liabilities in the consolidated statements of financial condition. As of December 31, 2019 ROU assets and lease liabilities were \$3.1 million and \$3.5 million, respectively.

The following table summarizes the components of FNCB's operating lease expense for the year ended December 31, 2019. Operating lease expense associated with bank branches and office space is included in occupancy expense, while operating lease expense associated with automobiles and office equipment are included in equipment expense in the consolidated statements of income. Total rental expense under leases amounted to \$418 thousand in 2019.

<u>(in thousands)</u>	<u>For the Year Ended December 31, 2019</u>
Operating lease cost - bank branches	\$ 343
Operating lease cost - automobiles and equipment	31
Short-term lease cost - office space.....	42
Short-term lease cost - automobiles and equipment.....	2
Variable lease cost.....	-
Total lease cost.....	<u>\$ 418</u>

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2019:

(in thousands)	December 31, 2019
2020.....	\$ 387
2021.....	353
2022.....	331
2023.....	323
2024.....	287
2025 and thereafter.....	2,813
Total lease payments.....	4,494
Less: imputed interest.....	1,023
Present value of operating lease liabilities.....	<u>\$ 3,471</u>

The following table presents other information related to FNCB's operating leases:

(dollars in thousands)	December 31, 2019
Weighted-average remaining lease term.....	14.3 years
Weighted-average discount rate.....	3.45%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases.....	\$ 385

The following table presents the minimum future obligations under non-cancelable leases in effect at December 31, 2018:

(in thousands)	Minimum Future Lease Payments		
	December 31, 2018		
	Facilities	Vehicles & Equipment	Total
2019.....	\$ 385	\$ 13	\$ 398
2021.....	313	1	314
2022.....	287	-	287
2023.....	265	-	265
2024.....	223	-	223
2025 and thereafter.....	820	-	820
Total.....	<u>\$ 2,293</u>	<u>\$ 14</u>	<u>\$ 2,307</u>

Total rental expense under leases amounted to \$492 thousand in 2018.

Financial Instruments with off-balance sheet commitments

FNCB 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 and standby letters of credit that involve varying degrees of credit, interest rate or liquidity risk in excess of the amount recognized in the balance sheet. FNCB's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2019 and 2018 are as follows:

(in thousands)	December 31,	
	2019	2018
Commitments to extend credit.....	\$ 275,891	\$ 181,322
Standby letters of credit.....	15,081	15,121

In order to provide for probable losses inherent in these instruments, FNCB recorded reserves for unfunded commitments of \$703 thousand and \$255 thousand at December 31, 2019 and 2018, respectively, which were included in other liabilities on the consolidated balance sheets.

Commitments to extend credit are agreements to lend to customers in accordance with contractual provisions. These commitments usually are for specific periods or contain termination clauses and may require the payment of a fee. The total amounts of unused commitments do not necessarily represent future cash requirements, in that commitments often expire without being drawn upon.

Letters of credit and financial guarantees are agreements whereby FNCB guarantees the performance of a customer to a third party. Collateral may be required to support letters of credit in accordance with management’s evaluation of the creditworthiness of each customer. The credit exposure assumed in issuing letters of credit is essentially equal to that in other lending activities.

Federal Home Loan Bank — Mortgage Partnership Finance (“MPF”) Program

Under a secondary market loan servicing program with the FHLB, FNCB, in exchange for a monthly fee, provides a credit enhancement guarantee to the FHLB for foreclosure losses in excess of a defined First Loss Account (“FLA”) balance, up to specified amounts. At December 31, 2019, FNCB serviced payments on \$21.5 million of first lien residential loan principal under these terms for the FHLB. At December 31, 2019, the maximum credit enhancement obligation for such guarantees by FNCB would be approximately \$902 thousand if total foreclosure losses on the entire pool of loans exceed the FLA of approximately \$64 thousand. There was no reserve established for this guarantee at December 31, 2019 and 2018.

Concentrations of Credit Risk

Cash Concentrations: The Bank maintains cash balances at several correspondent banks. FNCB engages in a primary correspondent banking relationship with Compass Bank. At December 31, 2019 and 2018, FNCB had balances with Compass Bank of \$1.1 million and \$2.7 million, respectively. There were no other due from bank accounts in excess of the \$250 thousand limit covered by the Federal Deposit Insurance Corporation (“FDIC”) at December 31, 2019 and 2018.

Loan Concentrations: FNCB attempts to limit its exposure to concentrations of credit risk by diversifying its loan portfolio and closely monitoring any concentrations of credit risk. The commercial real estate and construction, land acquisition and development portfolios comprise \$325.6 million, or 39.4% of gross loans at December 31, 2019. Geographic concentrations exist because FNCB provides its services in its primary market area of Northeastern Pennsylvania and the Lehigh Valley and conducts limited activities outside of that area. FNCB had loans and loan commitments secured by real estate outside of its primary market area of \$24.3 million, or 2.9%, of gross loans at December 31, 2019.

FNCB considers an industry concentration within the loan portfolio to exist if the aggregate loan balance outstanding for that industry exceeds 25.0% of capital. The following table summarizes the concentration within FNCB’s loan portfolio by industry at December 31, 2019 and 2018:

(in thousands)	December 31, 2019		December 31, 2018	
	Amount	% of Gross Loans	Amount	% of Gross Loans
Retail space/shopping centers	\$ 43,865	5.31%	\$ 48,021	5.75%
1-4 family residential investment properties	38,122	4.61%	38,756	4.64%
Physicians.....	26,739*	3.24%	25,379	3.04%

* Not considered a concentration, shown for comparative purposes only.

Litigation

FNCB has been subject to tax audits, and is also a party to routine litigation involving various aspects of its business, such as employment practice claims, workers compensation claims, claims to enforce liens, condemnation proceedings on properties in which FNCB holds security interests, claims involving the making and servicing of real property loans and other issues incident to its business, none of which has or is expected to have a material adverse impact on the consolidated financial condition, results of operations or liquidity of FNCB.

Note 13. STOCK COMPENSATION PLANS

FNCB had an Employee Stock Incentive Plan (the “Stock Incentive Plan”), under which options were granted to key officers and other employees of FNCB. The Stock Incentive Plan expired on August 30, 2010. Accordingly, no further grants have been, or will be, made under the Stock Incentive Plan. On January 5, 2019, the remaining 19,200 stock options outstanding under the Stock Incentive Plan expired and were forfeited. There was no compensation expense related to options under the Stock Incentive Plan recorded in each of the years ended December 31, 2019 and 2018.

The following table summarizes the changes in the status of FNCB’s Stock Incentive Plan:

	For the Years Ended December 31,			
	2019		2018	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock options outstanding at the beginning of the year.....	19,200	\$ 10.81	19,200	\$ 10.81
Granted.....	-	-	-	-
Exercised.....	-	-	-	-
Forfeited.....	(19,200)	10.81	-	-
Stock options outstanding at the end of the year.....	<u>-</u>	<u>\$ -</u>	<u>19,200</u>	<u>\$ 10.81</u>
Options exercisable at year end.....	<u>-</u>	<u>\$ -</u>	<u>19,200</u>	<u>\$ 10.81</u>
Weighted average fair value of options granted during the year..		\$ -		\$ -
Stock-based compensation expense		\$ -		\$ -

At December 31, 2018, the exercisable options had no total intrinsic value and there was no unrecognized compensation expense.

FNCB has a Long-Term Incentive Compensation Plan (“LTIP”) for directors, executive officers and key employees. The LTIP authorizes up to 1,200,000 shares of common stock for issuance and provides the Board of Directors with the authority to offer several different types of long-term incentives, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares. The Board of Directors granted awards, comprised solely of shares of restricted stock, to executives and certain key employees under the terms of the LTIP of 57,684 shares in 2019 and 57,829 shares in 2018.

The following table summarizes the activity related to FNCB’s unvested restricted stock awards during the years ended December 31, 2019 and 2018.

	For the Years Ended December 31,			
	2019		2018	
	Restricted Shares	Weighted- Average Grant Date Fair Value	Restricted Shares	Weighted- Average Grant Date Fair Value
Unvested restricted stock awards at January 1,.....	114,702	\$ 7.50	106,129	\$ 6.23
Awards granted	57,684	7.64	57,829	8.54
Forfeitures	(6,678)	7.61	(2,898)	7.25
Vestings.....	(37,558)	6.80	(46,358)	5.93
Unvested restricted stock awards at December 31,.....	<u>128,150</u>	<u>\$ 7.76</u>	<u>114,702</u>	<u>\$ 7.50</u>

For the years ended December 31, 2019 and 2018, stock-based compensation expense, which is included in salaries and benefits expense in the consolidated statements of income, totaled \$255 thousand in 2019 and \$279 thousand in 2018. Total unrecognized compensation expense related to unvested restricted stock awards at December 31, 2019 and 2018 was \$809 thousand and \$675 thousand, respectively. Unrecognized compensation expense related to unvested shares of restricted stock is expected to be recognized over a weighted-average period of 3.7 years.

On July 1, 2019, 1,956 shares of FNCB's common stock were granted under the LTIP to each of FNCB Bank's ten non-employee directors, or 19,560 shares in the aggregate. The shares of common stock immediately vested to each director upon grant, and the fair value of the shares on the grant date was \$7.67 per share. Directors fees totaling \$150 thousand were recognized as part of this grant and included in director fees in the consolidated statements of income for December 31, 2019. At December 31, 2019, there were 869,726 shares of common stock available for award under the LTIP.

Note 14. REGULATORY MATTERS/SUBSEQUENT EVENT

On January 28, 2019, FNCB announced that it had commenced a public offering of its shares of common stock in a firm commitment underwritten offering. The offering closed on February 8, 2019, FNCB issued 3,285,550 shares of its common stock, which included 428,550 shares of common stock issued upon the exercise in full of the option to purchase additional shares granted to underwriters, at a public offering price of \$7.00 per share, less an underwriting discount of \$0.35 per share. FNCB received net proceeds after deducting underwriting discounts and offering expenses of \$21.3 million. Following the receipt of the proceeds during the first quarter of 2019, FNCB made a capital investment in FNCB Bank, its wholly-owned subsidiary of \$17.8 million.

FNCB's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to FNCB. Bank regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency. Cash dividends declared and paid by FNCB during 2019 and 2018 were \$0.20 per share and \$0.17 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2019 and 2018 dividend reinvestment shares were purchased in open market transactions, however shares under the optional cash purchase feature of the DRP were issued from authorized but unissued common shares. Shares of common stock issued under the DRP totaled 7,369 and 17,050 for the years ended December 31, 2019 and 2018, respectively. Subsequent to December 31, 2019, on January 22, 2020, FNCB declared a \$0.055 per share dividend payable on March 16, 2020 to shareholders of record on March 2, 2020.

In 2018, the Federal Reserve increased the asset limit to qualify as a small bank holding company from \$1 billion to \$3 billion. As a result, the Company met the eligibility criteria for a small bank holding company and was exempt from risk-based capital and leverage rules, including Basel III. FNCB and the Bank are 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 adverse effect on FNCB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, FNCB and the Bank must meet specific capital guidelines that involve quantitative measures of FNCB's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. FNCB's and the Bank'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, 2019, that FNCB and the Bank meet all applicable capital adequacy requirements.

Basel III Transitional rules became effective for FNCB Bank on January 1, 2015 with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The Regulatory Capital Rules include new risk-based capital and leverage ratios and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank under the Regulatory Capital Rules are:

- a total capital ratio of 8.00% (unchanged from previous rules);
- a Tier I risk-based capital ratio of 6.00% (increased from 4.00%);
- a new common equity Tier I risk-based capital ratio of 4.50%; and
- a Tier I capital to average assets ("Tier I leverage ratio") of 4.00% for all institutions.

The Bank is required to maintain a "capital conservation buffer," composed entirely of common equity Tier I capital, in addition to minimum risk-based capital ratios, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers). The required capital conservation buffer was 2.500% for 2019 and 1.875% in 2018. The Regulatory Capital Rules also included revisions and clarifications consistent with Basel III regarding the various components of Tier I capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier I capital, some of which will be phased out over time. Implementation of the deductions and other adjustments to common equity Tier I capital began on January 1, 2015 and were phased-in over a four-year period: i.) 40% on January 1, 2015; ii.) 60% on January 1, 2016; and iii.) an additional 20% per year thereafter. On November 21, 2017, the Federal Reserve, the OCC and the FDIC approved a revision to the Regulatory Capital Rules to suspend the phase-in of certain deductions and other adjustments to common equity Tier I capital. The updated final rule applies to non-advanced approaches banking organizations and is effective on January 1, 2018. Management believes the Bank was in full compliance with the additional capital conservation buffer requirement at December 31, 2019.

Additionally, under the prompt corrective action requirements, which complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as “well capitalized”:

- a total risk-based capital ratio of 10.00% (unchanged from current rules);
- a Tier I risk-based capital ratio of 8.00% (increased from 6.00%);
- a new common equity Tier I risk-based capital ratio of 6.50%; and
- a Tier I leverage ratio of 5.00%.

Current quantitative measures established by regulation to ensure capital adequacy require FNCB Bank to maintain minimum amounts and ratios (set forth in the table below) of Total capital, Tier I capital, and Tier I common equity (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). The following tables present summary information regarding the Bank’s risk-based capital and related ratios at December 31, 2019 and 2018:

(dollars in thousands)	FNCB Bank		Minimum Required For Capital Adequacy Purposes Ratio	Minimum Required For Capital Adequacy Purposes with Conservation Buffer Ratio	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Ratio
	Amount	Ratio			
December 31, 2019					
Total capital (to risk-weighted assets)	\$ 133,406	14.77%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	123,753	13.70%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	123,753	13.70%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	123,753	10.36%	4.00%	4.00%	5.00%
Total risk-weighted assets	903,172				
Total average assets	1,194,789				

(dollars in thousands)	FNCB Bank		Minimum Required For Capital Adequacy Purposes Ratio	Minimum Required For Capital Adequacy Purposes with Conservation Buffer Ratio	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Ratio
	Amount	Ratio			
December 31, 2018					
Total capital (to risk-weighted assets)	\$ 112,128	12.17%	8.00%	9.875%	10.00%
Tier I capital (to risk-weighted assets)	102,354	11.11%	6.00%	7.875%	8.00%
Tier I common equity (to risk-weighted assets)	102,354	11.11%	4.50%	6.375%	6.50%
Tier I capital (to average assets)	102,354	8.27%	4.00%	4.00%	5.00%
Total risk-weighted assets	921,126				
Total average assets	1,238,347				

Note 15. FAIR VALUE MEASUREMENTS

In determining fair value, FNCB uses various valuation approaches, including market, income and cost approaches. Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, which are developed based on market data obtained from sources independent of FNCB. Unobservable inputs reflect FNCB's knowledge about the assumptions the market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). A financial asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets;
- Level 2 valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data; and
- Level 3 valuation is derived from other valuation methodologies including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

A description of the valuation methodologies used for assets recorded at fair value, and for estimating fair value of financial instruments not recorded at fair value, is set forth below.

Available-for-Sale Debt Securities

The estimated fair values for FNCB's investments in obligations of U.S. government agencies, obligations of state and political subdivisions, government-sponsored agency CMOs and mortgage-backed securities, private collateralized mortgage obligations, asset-backed securities and negotiable certificates of deposit are obtained by FNCB from a nationally-recognized pricing service. This pricing service develops estimated fair values by analyzing like securities and applying available market information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing (Level 2 inputs), to prepare valuations. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The fair value measurements consider observable data that may include, among other things, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, and are based on market data obtained from sources independent from FNCB. The Level 2 investments in FNCB's portfolio are priced using those inputs that, based on the analysis prepared by the pricing service, reflect the assumptions that market participants would use to price the assets. Management has determined that the Level 2 designation is appropriate for these securities because, as with most fixed-income securities, those in FNCB's portfolio are not exchange-traded, and such non-exchange-traded fixed income securities are typically priced by correlation to observed market data. FNCB has reviewed the pricing service's methodology to confirm its understanding that such methodology results in a valuation based on quoted market prices for similar instruments traded in active markets, quoted markets for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which the significant assumptions can be corroborated by market data as appropriate to a Level 2 designation.

For those securities for which the inputs used by an independent pricing service were derived from unobservable market information, FNCB evaluated the appropriateness and quality of each price. Management reviewed the volume and level of activity for all classes of securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value (fair values based on Level 3 inputs). If applicable, the adjustment to fair value was derived based on present value cash flow model projections obtained from third party providers using assumptions similar to those incorporated by market participants.

At December 31, 2019, FNCB owned six corporate debt securities with an aggregate amortized cost and fair value of \$7.0 million and \$7.2 million, respectively. The market for four of the six corporate debt securities at December 31, 2019 was not active and markets for similar securities are also not active. FNCB obtained valuations for these securities from a third-party

service provider that prepared the valuations using a discounted cash flow approach. Management takes measures to validate the service provider's analysis and is actively involved in the valuation process, including reviewing and verifying the assumptions used in the valuation calculations. Results of a discounted cash flow test are significantly affected by variables such as the estimate of the probability of default, estimates of future cash flows, discount rates, prepayment rates and the creditworthiness of the underlying issuers. FNCB considers these inputs to be unobservable Level 3 inputs because they are based on estimates about the assumptions market participants would use in pricing this type of asset and developed based on the best information available in the circumstances rather than on observable inputs. As it relates to fair value measurements, once each issuer is categorized and the forecasted default rates have been applied, the expected cash flows are modeled using the variables described above. Discount rates ranging from 5.13% to 5.63% were applied to the expected cash flows to estimate fair value. Management will continue to monitor the market for these securities to assess the market activity and the availability of observable inputs and will continue to apply these controls and procedures to the valuations received from its third-party service provider for the period it continues to use an outside valuation service.

Equity Securities

The estimated fair values of equity securities are determined by obtaining quoted prices on nationally recognized exchanges (Level 1 inputs).

Assets Measured at Fair Value on a Recurring Basis

The following tables present the financial assets that are measured at fair value on a recurring basis at December 31, 2019 and 2018, and the fair value hierarchy of the respective valuation techniques utilized to determine the fair value:

Fair Value Measurements at December 31, 2019				
(in thousands)	Fair Value	Quoted Prices	Significant	Significant
		in Active Markets	Observable	Unobservable
		for Identical	Inputs	Inputs
		Assets	(Level 2)	(Level 3)
		(Level 1)		
Available-for-sale debt securities:				
Obligations of state and political subdivisions	\$ 117,763	\$ -	\$ 117,763	\$ -
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations – residential	80,294	-	80,294	-
Collateralized mortgage obligations – commercial	17,723	-	17,723	-
Mortgage-backed securities	18,485	-	18,485	-
Private collateralized mortgage obligations	25,075	-	25,075	-
Corporate debt securities	7,182	-	2,032	5,150
Asset-backed securities	5,621	-	5,621	-
Negotiable certificates of deposit	696	-	696	-
Total available-for-sale debt securities	<u>\$ 272,839</u>	<u>\$ -</u>	<u>\$ 267,689</u>	<u>\$ 5,150</u>
Equity Securities	<u>\$ 920</u>	<u>\$ 920</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurements at December 31, 2018				
(in thousands)	Fair Value	Quoted Prices	Significant	Significant
		in Active Markets	Observable	Unobservable
		for Identical	Inputs	Inputs
		Assets	(Level 2)	(Level 3)
		(Level 1)		
Available-for-sale debt securities:				
Obligations of state and political subdivisions	\$ 152,187	\$ -	\$ 152,187	\$ -
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations – residential	34,207	-	34,207	-
Collateralized mortgage obligations – commercial	73,640	-	73,640	-
Mortgage-backed securities	23,934	-	23,934	-
Private collateralized mortgage obligations	2,913	-	2,913	-
Corporate debt securities	4,936	-	1,007	3,929
Asset-backed securities	1,802	-	1,802	-
Negotiable certificates of deposit	2,413	-	2,413	-
Total available-for-sale debt securities	<u>\$ 296,032</u>	<u>\$ -</u>	<u>\$ 292,103</u>	<u>\$ 3,929</u>
Equity Securities	<u>\$ 891</u>	<u>\$ 891</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers between levels within the fair value hierarchy during the years ended December 31, 2019 and 2018.

The following table presents a reconciliation and statement of operations classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which consisted entirely of corporate debt securities, for the years ended December 31, 2019 and 2018.

**Fair Value Measurements
Using Significant Unobservable Inputs (Level 3)**

(in thousands)	Corporate Debt Securities For the Year Ended December 31,	
	2019	2018
Balance at January 1,.....	\$ 3,929	\$ 4,058
Additions.....	1,000	-
Payments received.....	-	-
Sales.....	-	-
Total gains or losses (realized/unrealized):		
Included in earnings.....	-	-
Included in other comprehensive income.....	221	(129)
Balance at December 31,.....	<u>\$ 5,150</u>	<u>\$ 3,929</u>

Assets Measured at Fair Value on a Non-Recurring Basis

The following tables present assets and liabilities measured at fair value on a non-recurring basis at December 31, 2019 and 2018, and additional quantitative information about the valuation techniques and inputs utilized by FNCB to determine fair value. All such assets and liabilities were measured using Level 3 inputs.

(in thousands)	December 31, 2019					
	Fair Value Measurement			Quantitative Information		
	Recorded Investment	Valuation Allowance	Fair Value	Valuation Technique	Unobservable Inputs	Value/ Range
Impaired loans - collateral dependent.....	\$ 7,721	\$ 376	\$ 7,345	Appraisal of collateral	Selling costs	10.0%
Impaired loans – other.....	8,065	97	7,968	Discounted cash flows	Discount rate	3.99% - 7.49%
Other real estate owned.....	289	-	289	Appraisal of collateral	Selling costs	10.0%

(in thousands)	December 31, 2018					
	Fair Value Measurement			Quantitative Information		
	Recorded Investment	Valuation Allowance	Fair Value	Valuation Technique	Unobservable Inputs	Value/ Range
Impaired loans - collateral dependent.....	\$ 8,020	\$ 606	\$ 7,414	Appraisal of collateral	Selling costs	10.0%
Impaired loans – other.....	4,397	51	4,346	Discounted cash flows	Discount rate	3.70% - 7.50%
Other real estate owned.....	919	-	919	Appraisal of collateral	Selling costs	10.0%

The fair value of collateral-dependent impaired loans is determined through independent appraisals or other reasonable offers, which generally include various Level 3 inputs which are not identifiable. Management reduces the appraised value by the estimated costs to sell the property and may make adjustments to the appraised values as necessary to consider any declines in real estate values since the time of the appraisal. For impaired loans that are not collateral-dependent, fair value is determined using the discounted cash flow method. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance or is charged off. The amount shown is the balance of impaired loans, net of any charge-offs and the related allowance for loan losses.

OREO properties are recorded at fair value less the estimated cost to sell at the date of FNCB's acquisition of the property. Subsequent to acquisition of the property, the balance may be written down further. It is FNCB's policy to obtain certified external appraisals of real estate collateral underlying impaired loans and OREO, and estimate fair value using those appraisals. Other valuation sources may be used, including broker price opinions, letters of intent and executed sale agreements.

The following table summarizes the estimated fair values of FNCB's financial instruments at December 31, 2019 and 2018. FNCB discloses fair value information about financial instruments, whether or not recognized in the statements of financial condition, for which it is practicable to estimate that value. The fair value of financial instruments that are not measured at fair value in the financial statements were based on exit price notion. The following estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, management judgment is required to interpret data and develop fair value estimates. Accordingly, the estimates below are not necessarily indicative of the amounts FNCB could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(in thousands)	Fair Value Measurement	December 31, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Cash and short term investments	Level 1	\$ 34,565	\$ 34,565	\$ 36,481	\$ 36,481
Available-for-sale debt securities	See previous table	272,839	272,839	296,032	296,032
Equity securities	Level 1	920	920	891	891
Restricted stock	Level 2	3,804	3,804	3,123	3,123
Loans held for sale.....	Level 2	1,061	1,061	820	820
Loans, net.....	Level 3	819,529	810,074	829,581	816,234
Accrued interest receivable.....	Level 2	3,234	3,234	3,614	3,614
Equity securities without readily determinable fair values	Level 3	1,658	1,658	1,658	1,658
Servicing rights.....	Level 3	356	790	350	878
Financial liabilities					
Deposits	Level 2	1,001,709	1,001,829	1,095,629	1,093,797
Borrowed funds	Level 2	57,219	57,234	34,240	34,108
Accrued interest payable.....	Level 2	258	258	338	338

Note 16. EARNINGS PER SHARE

For FNCB, the numerator of both the basic and diluted earnings per share of common stock is net income available to common shareholders. The weighted average number of common shares outstanding used in the denominator for basic earnings per common share is increased to determine the denominator used for diluted earnings per common share by the effect of potentially dilutive common share equivalents utilizing the treasury stock method. Common share equivalents are outstanding stock options to purchase FNCB's shares of common stock and unvested restricted stock.

The following table presents the calculation of both basic and diluted earnings per share of common stock for the years ended December 31, 2019 and 2018:

(in thousands, except share data)	For the Year Ended December 31,	
	2019	2018
Net income	\$ 11,075	\$ 13,349
Basic weighted-average number of common stock outstanding	19,802,095	16,799,004
Plus: common share equivalents	5,497	21,749
Diluted weighted-average number of common stock outstanding	19,807,592	16,820,753
Income per share of common stock:		
Basic	\$ 0.56	\$ 0.79
Diluted	\$ 0.56	\$ 0.79

For each of the years ended December 31, 2019 and 2018 common stock equivalents reflected in the table above were related entirely to the incremental shares of unvested restricted stock. For the year ended December 31, 2018, stock options of 19,200 shares were excluded from common stock equivalents. The exercise prices of stock options exceeded the average market price of FNCB's common stock during the periods presented; therefore, inclusion of these common stock equivalents would be anti-dilutive to the diluted earnings per share of common stock calculation. On January 5, 2019, the stock options expired and were forfeited.

Note 17. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2019 and 2018.

(in thousands)	For the year Ended December 31, 2019	
	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Statements of Income
Available-for-sale debt securities:		
Reclassification adjustment for net gains reclassified into net income	\$ (1,227)	Net gain (loss) on the sale of available-for-sale securities
Taxes	258	Income taxes
Net of tax amount	<u>\$ (969)</u>	

(in thousands)	For the year Ended December 31, 2018	
	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Statements of Income
Available-for-sale debt securities:		
Reclassification adjustment for net losses reclassified into net income	\$ 4	Net gain (loss) on the sale of available-for-sale securities
Taxes	(1)	Income taxes
Net of tax amount	<u>\$ 3</u>	

The following table summarizes the changes in accumulated other comprehensive (loss) income, net of tax, for the years ended December 31, 2019 and 2018:

(in thousands)	For the Year Ended December 31,	
	2019	2018
Balance, January 1,	\$ (4,540)	\$ (1,745)
Other comprehensive income (loss) before reclassifications	8,565	(2,863)
Amounts reclassified from accumulated other comprehensive income (loss).....	(969)	3
Net other comprehensive income (loss) during the period.....	7,596	(2,860)
Reclassification of net loss on equity securities upon adoption of ASU 2016-01	-	65
Balance, December 31,.....	<u>\$ 3,056</u>	<u>\$ (4,540)</u>

Note 18. CONDENSED FINANCIAL INFORMATION — PARENT COMPANY ONLY

The following tables present condensed parent company only financial information:

Condensed Statements of Financial Condition

(in thousands)	December 31,	
	2019	2018
Assets:		
Cash.....	\$ 10,343	\$ 5,976
Investment in statutory trust.....	418	405
Investment in subsidiary (equity method).....	131,194	104,134
Other assets.....	2,019	2,081
Total assets	\$ 143,974	\$ 112,596
Liabilities and Shareholders' Equity:		
Subordinated debentures.....	\$ -	\$ 5,000
Junior subordinated debentures.....	10,310	10,310
Accrued interest payable.....	16	38
Other liabilities.....	41	29
Total liabilities	10,367	15,377
Shareholders' equity.....	133,607	97,219
Total liabilities and shareholders' equity	\$ 143,974	\$ 112,596

Condensed Statements of Income

(in thousands)	For the Year Ended December 31,	
	2019	2018
Income:		
Dividends from subsidiaries.....	\$ 10,000	\$ 12,180
Interest on interest-bearing deposits in other banks.....	77	3
Income from trust.....	13	12
Total income	10,090	12,195
Expense:		
Interest on subordinated notes.....	24	228
Interest on junior subordinated debt.....	430	400
Other operating expenses.....	275	353
Other losses.....	-	32
Total expenses	729	1,013
Income before income taxes	9,361	11,182
Provision for income taxes.....	-	-
Income before equity in undistributed net income of subsidiary	9,361	11,182
Equity in undistributed net income of subsidiary.....	1,714	2,167
Net income	\$ 11,075	\$ 13,349

Condensed Statements of Cash Flows

(in thousands)	For the Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 11,075	\$ 13,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,714)	(2,167)
Equity in trust.....	(13)	(12)
(Decrease) increase in accrued interest payable.....	(22)	3
Decrease in other assets	467	65
Decrease in director indemnification liability	-	(2,553)
Increase (decrease) in other liabilities	12	(30)
Net cash provided by operating activities	9,805	8,655
Cash flows from investing activities:		
Investment in Subsidiary.....	(17,750)	-
Net cash used in investing activities.....	(17,750)	-
Cash flows from financing activities:		
Principal reduction on subordinated debentures	(5,000)	-
Proceeds from issuance of common shares.....	21,342	117
Cash dividends paid	(4,030)	(2,857)
Net cash provided by (used in) financing activities	12,312	(2,740)
Net increase in cash.....	4,367	5,915
Cash at beginning of year	5,976	61
Cash at end of year.....	\$ 10,343	\$ 5,976

Note 19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except share data)	2019			
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Interest income	\$ 11,609	\$ 11,462	\$ 11,506	\$ 11,479
Interest expense	2,663	2,508	2,455	2,170
Net interest income	8,946	8,954	9,051	9,309
(Credit) provision for loan and lease losses	(154)	347	637	(33)
Net interest income after (credit) provision for loan and lease losses	9,100	8,607	8,414	9,342
Non-interest income	1,515	1,578	1,831	2,696
Non-interest expense	7,425	7,122	7,329	7,806
Income before income taxes	3,190	3,063	2,916	4,232
Income tax expense	555	514	513	744
Net income.....	<u>\$ 2,635</u>	<u>\$ 2,549</u>	<u>\$ 2,403</u>	<u>\$ 3,488</u>
Earnings per share:				
Basic	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.17
Diluted	\$ 0.14	\$ 0.13	\$ 0.12	\$ 0.17
	2018			
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Interest income	\$ 10,440	\$ 11,234	\$ 11,693	\$ 11,718
Interest expense	1,562	1,997	2,438	2,581
Net interest income	8,878	9,237	9,255	9,137
Provision (credit) for loan and lease losses	720	880	1,149	(199)
Net interest income after provision (credit) for loan and lease losses.....	8,158	8,357	8,106	9,336
Non-interest income	1,519	1,529	1,320	7,422
Non-interest expense	7,232	6,966	7,188	7,941
Income before income taxes	2,445	2,920	2,238	8,817
Income tax expense	426	508	388	1,749
Net income.....	<u>\$ 2,019</u>	<u>\$ 2,412</u>	<u>\$ 1,850</u>	<u>\$ 7,068</u>
Earnings per share:				
Basic	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.42
Diluted	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.42

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

FNCB's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of FNCB's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2019.

Based on that evaluation, FNCB's Chief Executive Officer and Chief Financial Officer concluded FNCB's disclosure controls and procedures were effective as of December 31, 2019.

There were no changes made to FNCB's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, FNCB's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for FNCB Bancorp, Inc. (the "Company"). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States and is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are only being made in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Any control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system inherently has limitations and the benefits of controls must be weighed against their costs. 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 controls. Therefore, no assessment of a cost-effective system of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected.

As of December 31, 2019, management of the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of our internal control over financial reporting.

Based on this evaluation under the criteria in the Framework, management concluded that the Company's system of internal control over financial reporting was effective as of December 31, 2019.

Baker Tilly Virchow Krause, LLP, the Company's independent registered public accounting firm that audited the Company's consolidated financial statements, has issued an audit report on the Company's internal control over financial reporting as of December 31, 2019. That report is included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

/s/ Gerard A. Champi

Gerard A. Champi

President and Chief Executive Officer

/s/ James M. Bone, Jr., CPA

James M. Bone, Jr., CPA

Executive Vice President and Chief Financial Officer

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information concerning the Directors and Executive Officers of FNCB required by this Item 10 is incorporated herein by reference to the sections entitled “Information as to Nominees, Directors and Executive Officers” in FNCB’s Definitive Proxy Statement for its 2020 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about April 13, 2020 (the “Proxy Statement”). Disclosure of compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, by FNCB’s Directors and Executive Officers is incorporated by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement. In addition, information concerning Audit Committee and Audit Committee Financial Expert is included in the Proxy Statement under the caption “Audit Committee Report” and is incorporated herein by reference.

FNCB has adopted a Code of Business Conduct and Ethics (the “Code”) that applies to FNCB’s directors and employees, including the President and Principal Executive Officer (“PEO”), Principal Financial Officer (“PFO”) and Principal Accounting Officer (“PAO”). The Code includes guidelines relating to compliance with laws, the ethical handling of actual or potential conflicts of interest, the use of corporate opportunities, protection and use of FNCB’s confidential information, accepting gifts and business courtesies, accurate financial and regulatory reporting, and procedures for promoting compliance with, and reporting violations of, the Code. The Code is available on FNCB’s website at www.fncb.com/investorrelations/ under the heading “Governance Documents.” FNCB intends to post any amendments to the Code on its website and also to disclose any waivers (to the extent applicable to FNCB’s President, PEO, PFO or PAO) on a Form 8-K within the prescribed time period.

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated herein by reference to the section entitled “Executive Compensation” in FNCB’s Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 is incorporated herein by reference to the section entitled “Principal Beneficial Owners of FNCB’s Common Stock” in FNCB’s Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 related to certain relationships and related transactions is incorporated herein by reference to the section entitled “Certain Relationships and Related Transactions” in FNCB’s Proxy Statement. The information required under this Item 13 related to Director Independence is incorporated herein by reference to the section entitled “Corporate Governance” in FNCB’s Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 is incorporated herein by reference to the section entitled “Fees Paid to Independent Registered Public Accounting Firm” in FNCB’s Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The following financial statements are included by reference in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial Statement Schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

3. The following exhibits are filed herewith or incorporated by reference.

- EXHIBIT 3.1 Amended and Restated Articles of Incorporation of FNCB Bancorp, Inc. dated May 19, 2010 – filed as Exhibit 3.1 to FNCB's Current Report on Form 8-K on May 19, 2010, is hereby incorporated by reference.
- EXHIBIT 3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation dated October 4, 2016 – filed as Exhibit 3.1 to FNCB's Current Report on Form 8-K on October 4, 2016, is hereby incorporated by reference.
- EXHIBIT 3.3 Amended and Restated Bylaws - filed as Exhibit 3.3 to FNCB's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed on March 8, 2019, is hereby incorporated by reference.
- EXHIBIT 4.1 Form of Common Stock Certificate – filed as Exhibit 4.1 to FNCB's Form 10-Q for the quarter ended September 30, 2016, as filed on November 4, 2016, is hereby incorporated by reference.
- EXHIBIT 4.2 Form of Amended and Restated Subordinated Note – filed as Exhibit 4.2 to FNCB's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, as filed on August 7, 2015, is hereby incorporated by reference.
- EXHIBIT 4.3 Indenture by and between First National Community Bancorp, Inc. and Wilmington Trust Company, dated as of December 14, 2006 - filed as Exhibit 10.2 to FNCB's Current Report on Form 8-K on December 19, 2006, DEC file number 333-24121, is hereby incorporated by reference.
- EXHIBIT 10.1 Amended and Restated Declaration of Trust by and among Wilmington Trust Company First National Community Bancorp, Inc. and with individuals as administrators, dated as of December 14, 2006 – filed as Exhibit 10.1 to FNCB's 8-K on December 19, 2006 is hereby incorporated by reference.
- EXHIBIT 10.2 Guarantee Agreement by and between First National Community Bancorp, Inc. and Wilmington Trust Company, dated as of December 14, 2006 - filed as Exhibit 10.4 to FNCB's Current Report on Form 8-K on December 19, 2006, SEC file number 333-24121, is hereby incorporated by reference.

EXHIBIT 10.3+	2000 Stock Incentive Plan-filed as Exhibit 10.2 to FNCFB's Form 10-K for the year ended December 31, 2004, SEC file number 333-24121 – as filed on March 16, 2005, is hereby incorporated by reference.
EXHIBIT 10.4+	Directors' and Officers' Deferred Compensation Plan - filed as Exhibit 10.4 to FNCFB's Form 10-K for the year ended December 31, 2004 – as filed on March 16, 2005, is hereby incorporated by reference.
EXHIBIT 10.5	Stipulation of Settlement dated November 27, 2013 – filed as Exhibit 10.1 to FNCFB's Current Report on Form 8-K on December 4, 2013, is hereby incorporated by reference.
EXHIBIT 10.6+	2013 Long-Term Incentive Compensation Plan – filed as Exhibit 10.1 to FNCFB's Current Report on Form 8-K on December 27, 2013, is hereby incorporated by reference.
EXHIBIT 10.7+	Executive Incentive Plan – filed as Exhibit 10.14 to FNCFB's Form 10-K for the year ended December 31, 2012, as filed on March 28, 2013, is hereby incorporated by reference.
EXHIBIT 10.8+	2012 Employee Stock Grant Plan – filed as Exhibit 10.15 to FNCFB's Form 10-K for the year ended December 31, 2012, as filed on March 28, 2013, is hereby incorporated by reference.
EXHIBIT 10.9+	2013 Employee Stock Grant Plan – filed as Exhibit 10.18 to FNCFB's Form 10-K for the year ended December 31, 2013, as filed on March 24, 2014, is hereby incorporated by reference.
EXHIBIT 10.10+	2014 Employee Stock Grant Plan – filed as Exhibit 10.1 to FNCFB's Form 10-Q for the quarter ended September 30, 2014, as filed on November 10, 2014 is hereby incorporated by reference.
EXHIBIT 10.11+	2015 Employee Stock Grant Plan – filed as Exhibit 10.12 to FNCFB's Form 10-K for the year ended December 31, 2015, as filed on March 11, 2016, is hereby incorporated by reference.
EXHIBIT 10.12+	Form of Restricted Stock Award Agreement – filed as Exhibit 4.2 to FNCFB's Form S-8 on January 24, 2014 is hereby incorporated by reference.
EXHIBIT 10.13+	Form of Stock Option Award Agreement – filed as Exhibit 4.3 to FNCFB's Form S-8 on January 24, 2014 is hereby incorporated by reference.
EXHIBIT 10.14+	First National Community Bank Supplemental Executive Retirement Plan – filed as Exhibit 10.16 to FNCFB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.15+	Employment Agreement Between First National Community Bank and Gerard A. Champi, COO – filed as Exhibit 10.17 to FNCFB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.16+	Employment Agreement Between First National Community Bancorp, Inc., First National Community Bank and James M. Bone, Jr. CFO – filed as Exhibit 10.18 to FNCFB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.17+	Employment Agreement Between First National Community Bank and Brian C. Mahlstedt, CLO – filed as Exhibit 10.19 to FNCFB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 21	Subsidiaries– filed as Exhibit 21.1 to FNCFB's Registration Statement on Form S-3 , as filed on September 28, 2018, is hereby incorporated by reference.

EXHIBIT 23*	Consent of Baker Tilly Virchow Krause, LLP
EXHIBIT 31.1*	Certification of Chief Executive Officer
EXHIBIT 31.2*	Certification of Chief Financial Officer
EXHIBIT 32**	Section 1350 Certification — Chief Executive Officer and Chief Financial Officer
EXHIBIT 101	The following financial information from FNCB Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019 formatted in an XBRL Interactive Data File: (1) Consolidated Statements of Financial Condition; (2) Consolidated Statements of Income (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Shareholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.

* Filed herewith

** Furnished herewith

+ Management contract, compensatory plan or arrangement

Item 16. Form 10-K Summary

None.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

Registrant: FNCB BANCORP, INC.

<u>/s/ Gerard A. Champi</u> Gerard A. Champi President and Chief Executive Officer	<u>March 9, 2020</u> Date
--	------------------------------

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gerard A. Champi and James M. Bone, Jr., jointly and severally, his or her attorney-in-fact, each with the full power of substitutes, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>/s/ Gerard A. Champi</u> Gerard A. Champi President and Chief Executive Officer	<u>March 9, 2020</u> Date
--	------------------------------

<u>/s/ James M. Bone, Jr.</u> James M. Bone, Jr., CPA Executive Vice President and Chief Financial Officer Principal Financial Officer	<u>March 9, 2020</u> Date
---	------------------------------

<u>/s/ Stephanie A. Westington</u> Stephanie A. Westington, CPA Senior Vice President and Controller Principal Accounting Officer	<u>March 9, 2020</u> Date
--	------------------------------

Directors:

<u>/s/ William G. Bracey</u> William G, Bracey	<u>March 9, 2020</u> Date	<u>/s/ Gerard A. Champi</u> Gerard A. Champi	<u>March 9, 2020</u> Date
<u>/s/ Joseph Coccia</u> Joseph Coccia	<u>March 9, 2020</u> Date	<u>/s/ Joseph L. DeNaples</u> Joseph L. DeNaples	<u>March 9, 2020</u> Date
<u>/s/ Louis DeNaples</u> Louis DeNaples	<u>March 9, 2020</u> Date	<u>/s/ Louis A. DeNaples, Jr.</u> Louis A. DeNaples, Jr.	<u>March 9, 2020</u> Date
<u>/s/Vithalbhai D. Dhaduk</u> Vithalbhai D. Dhaduk	<u>March 9, 2020</u> Date	<u>/s/ Keith W. Eckel</u> Keith W. Eckel	<u>March 9, 2020</u> Date
<u>/s/ Kathleen McCarthy Lambert</u> Kathleen McCarthy Lambert	<u>March 9, 2020</u> Date	<u>/s/ Thomas J. Melone</u> Thomas J. Melone	<u>March 9, 2020</u> Date
<u>/s/John P. Moses</u> John P. Moses	<u>March 9, 2020</u> Date		

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

FNCB Bancorp, Inc.
102 East Drinker Street
Dunmore, PA 18512
Phone: 570-346-7667
or 1-877-TRY-FNCB
www.fncb.com

STOCK LISTING

Common stock of FNCB Bancorp, Inc. is listed on The NASDAQ Capital Market® under the symbol: FNCB

VIRTUAL ANNUAL MEETING

Wednesday, May 13, 2020
2:00 p.m. ET
Access to the meeting via internet at:
www.virtualshareholdermeeting.com/FNCB2020

TRANSFER AGENT AND REGISTRANT OF STOCK

Shareholders requiring a change of name, address or ownership of stock, or information about shareholder records, lost or stolen certificates, and dividend checks, direct deposit, dividend reinvestment and optional cash purchase should contact:

Broadridge Financial Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717
shareholder@broadridge.com
www.shareholder.broadridge.com/fncb

INDEPENDENT AUDITORS

Baker Tilly Virchow Krause, LLP
46 Public Square, Suite 400
Wilkes-Barre, PA 18701

SEC LEGAL COUNSEL

Cozen O'Connor
One Liberty Place
1650 Market Street, Suite 2800
Philadelphia, PA 19103

INVESTOR INFORMATION

Investor and shareholder information regarding FNCB Bancorp, Inc., including all filings with the Securities and Exchange Commission, is available through FNCB's website: investors.fncb.com

Copies may also be obtained without charge upon written request to:
Mr. James M. Bone, Jr., CPA
Investor Relations Department
FNCB Bancorp, Inc.
102 East Drinker Street
Dunmore, PA 18512
Phone: (570) 348-6419
james.bone@fncb.com

MARKET MAKERS

Boenning & Scattergood, Inc.
Four Tower Bridge
200 Barr Harbor Drive, Suite 300
West Conshohocken, PA 19428
Phone: (800) 883-1212
www.boenninginc.com

Griffin Financial Group, LLC
440 Monticello Avenue, Suite 1824
Norfolk, VA 23510
Phone: (757) 955-8444
www.griffinfinancialgroup.com

Stifel, Nicolaus & Company, Incorporated
One South Street, 15th Floor
Baltimore, MD 21202
Phone: (443) 224-1990
www.stifel.com

Wedbush Securities, Inc.
One SW Columbia Street, Suite 1000
Portland, OR 97258
Phone: (800) 224-2226
www.wedbush.com



FNCB Bancorp, Inc.

102 EAST DRINKER STREET, DUNMORE, PA 18512