Here for you. Always.

FNCB Bancorp, Inc.
2020 Annual Report

Financial Highlights

(dollars in thousands, except share data)

Income Statement:	2020	2019	2018	2017	2016
Net interest income	$40,178	$36,260	$36,507	$33,048	$30,551
Non-interest income	9,250	7,620	11,790	7,225	6,203
Total revenue	49,428	43,880	48,297	40,273	36,754
Non-interest expense	28,915	29,682	29,327	28,069	27,545
Provision for loan and lease losses	1,941	797	2,550	769	1,153
Income tax expense	3,225	2,326	3,071	11,288	1,747
Net income	$15,347	$11,075	$13,349	$147	$6,309
Net interest margin	3.35%	3.29%	3.22%	3.23%	3.13%
Efficiency ratio (Bank only)	59.97%	67.72%	58.48%	69.13%	72.76%

Non-GAAP Financial Measure:	2020	2019	2018	2017	2016
Net income	$15,347	$11,075	$13,349	$147	$6,309
Non-recurring adjustments (1)	-	-	(4,761)	8,007	-
Adjusted net income	$15,347	$11,075	$8,588	$8,154	$6,309

Per share data:	2020	2019	2018	2017	2016
Net income per share (basic and diluted)	$0.76	$0.56	$0.79	$0.01	$0.38
Adjusted net income per share (basic and diluted)	0.76	0.56	0.51	0.49	0.38
Cash dividends declared	0.22	0.20	0.17	0.13	0.09
Tangible book value	7.70	6.62	5.78	5.32	5.43
Closing stock price	$6.40	$8.45	$8.44	$7.30	$6.05

Balance sheet data:	2020	2019	2018	2017	2016
Total assets	$1,465,679	$1,203,541	$1,237,732	$1,162,305	$1,195,599
Total loans, gross	903,341	826,356	835,207	768,069	728,758
Total deposits	1,287,448	1,001,709	1,095,629	1,002,448	1,015,139
Shareholders equity	$155,860	$133,607	$97,219	$89,191	$90,371

Asset quality data:	2020	2019	2018	2017	2016
Allowance for loan and lease losses/total loans	1.33%	1.08%	1.13%	1.17%	1.15%
Non-performing loans/total loans	0.62%	1.10%	0.56%	0.34%	0.31%
Allowance for loan and lease losses/non-performing loans	214.12%	98.53%	202.70%	350.43%	376.86%
Net (recoveries) charge-offs/average loans	(0.12%)	0.16%	0.25%	0.02%	0.21%

(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).

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 remains dedicated to making its customers' banking experience simply better.

Here to help.

PPP loans assisted many in our region.

INVESTMENT
PROFILE

ESTABLISHED
1910

LISTING
NASDAQ
CAPITAL MARKET®

TICKER SYMBOL
FNCB

MARKET CAP
$129.6 million
DECEMBER 31, 2020

DIVIDEND
$0.22
2020

DIVIDEND YIELD
3.44%
BASED ON CLOSING PRICE OF $6.40 ON DECEMBER 31, 2020

TOTAL ASSETS
$1.5 billion

TOTAL LOANS
$0.9 billion

TOTAL DEPOSITS
$1.3 billion

EMPLOYEES
214

Dear Shareholders, Customers and Friends,

FNCB's driving mission to make the banking experience of our stakeholders "simply better" has never been more important and evident than in 2020. Since March 11, 2020, when the World Health Organization declared COVID-19 a global pandemic, followed by the President declaring the virus a national emergency on March 13, 2020, everyone at FNCB has pulled together to deliver the same goal, to be "Here for you. Always." We are extremely proud of the efforts the entire FNCB team has made in 2020 to assist our customers and staff in navigating safely through the many challenges and operating constraints brought on by the pandemic.

In response to the national emergency, state and local governments immediately imposed various levels of operating restrictions and social distancing mandates for businesses and citizens, causing abrupt economic, employment and supply chain disruption across the United States and globally. The Federal Open Market Committee quickly responded by lowering the federal funds target rate 150 basis points to near zero, while the federal government provided various forms of fiscal stimulus through the CARES Act including direct payment to citizens, additional unemployment benefits and business funding via the Paycheck Protection Program (PPP) administered through the United States Small Business Administration (SBA).

Helping to grow nepa.

Helping Employees and Customers Stay Safe and Connected

FNCB acted immediately by invoking our pandemic preparedness plan and modifying our branch operations to drive-thru and by appointment only for customers needing to meet with one of our representatives in-person. During this time of limited operations, we continued to pay and provide benefits to branch staff required to stay at home, as well as encouraged back office staff to work remotely. Additionally, we implemented measures to ensure the safety of our customers and staff including instituting social distancing protocols, installing hand sanitizing stations in all locations and plexi-glass shields for all branch personnel. Mid-2020 when restrictions were relaxed, we re-opened our branches for regular business operations but continued to encourage customers to schedule an appointment for in-branch visits, and then transitioned back to limited operations when the number of confirmed cases escalated during the holiday season. As of the date of this report, FNCB's branch offices are open for business, but continue to operate under the guidelines of our pandemic preparedness plan.

At FNCB, we understand the important role technology plays within the banking industry. Our viability as a financial institution hinges upon our ability to remain current with respect to both implementing the latest in customer-facing applications, as well as securing and safeguarding highly sensitive, confidential information from breach.

*FNCB's driving mission to make the banking experience of our stakeholders **"simply better"** has never been more important and evident than in 2020.*

> "FNCB was incredibly organized and on top of everything as the situation changed; we were able to get our application in and processed very quickly and therefore we were able to obtain the loan quickly."

– Christopher Kotchick, DMD
NORTHEASTERN PENNSYLVANIA
ORAL AND MAXILLOFACIAL SURGERY

We believe our success this year was due, in part, to our agility in quickly transitioning to a remote work environment; extending our virtual environment outside the brick and mortar of the bank by providing our employees with the same security and functionality they had working inside the walls of the bank to now working wherever they are.

FNCB provides both individual and business customers with a comprehensive suite of digital banking platforms, including user-friendly online and mobile banking platforms that allow customers to open accounts, apply for a mortgage, pay bills and transfer funds 24 hours a day, 7 days a week from their computer or mobile device. Through our alliance with AllPoint, customers have access to a network of over 55,000 surcharge-free ATMs worldwide. We provide customers with a variety of mobile wallet alternatives including Apple Pay®, Google Pay® and Samsung Pay®. Effective in the third quarter of 2020, customers now have access to Zelle®, a fast, secure and contact free way to send and receive money between trusted partners. We also provide customers with the ability to receive fraud alert messages and manage where, when and how their debit card is used through the mobile application, CardValet®.

Additionally, in 2020, FNCB re-introduced proprietary personal and business credit cards through an alliance with ServisFirst Bank. This alliance also provides FNCB the ability to offer purchasing cards or PCards to business customers. PCards provide our business customers with the ability to earn a cash rebate on all purchases, as well as additional functionality and reporting to effectively manage their expenses and procurement.

In 2021, we will continue to evaluate and further develop our comprehensive digital platform, providing our customers with the latest, easiest and most secure way to conduct their banking transactions.

Helping Business Customers Stay the Course

Providing for and ensuring the financial stability of our business customers was a foremost concern for us in 2020. FNCB became a leader among community banks within our market area regarding PPP origination and funding. From the onset, our entire commercial, retail and credit administration teams responded to and assisted over 1,000 business customers apply for and receive PPP funding totaling $118.6 million. In the third quarter of 2020 when the SBA began accepting forgiveness applications, FNCB again responded by implementing a digital, cloud-based management tool to facilitate the entire forgiveness process, including providing customers with direct access to educational materials and the ability to easily upload required documents.

As of December 31, 2020, FNCB has received nearly $40.0 million in borrower forgiveness from the SBA and we anticipate that the remaining PPP loan balances will qualify for borrower forgiveness under the guidelines of the program in 2021.

$118.6 Million
IN PPP FUNDING

In addition to PPP funding, FNCB became one of 11 select lenders in the Commonwealth of Pennsylvania approved to participate in the Federal Reserve Bank's Main Street Lending Program (MSLP), a program providing federal support to small and mid-sized businesses and not-for-profit organizations impacted by the pandemic. The program provides for Federal Reserve Bank participation of 95.0% and bank participation of 5.0%. In 2020, FNCB originated 5 MSLP loans under this program totaling $85.9 million, with $4.3 million representing FNCB's 5.0% participation outstanding at December 31, 2020.

38.6%
Increase
IN NET INCOME

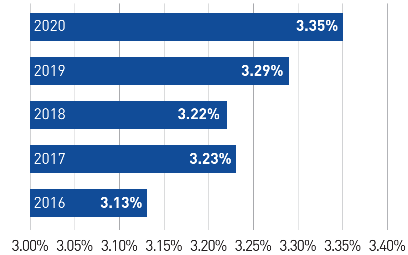
On December 27, 2020, a second stimulus bill, The Consolidated Appropriations Act of 2021, was signed into law providing further support to organizations and individuals affected by the pandemic. The new relief effort includes a second round of PPP funding, as well as additional fiscal stimulus packages and emergency relief programs. On January 19, 2021, FNCB began originating PPP loans as part of the second round of funding and as of February 28, 2021 has underwritten, submitted and received SBA approval for 400 loans representing approximately $52.7 million in funding.

In addition to participating in these governmental programs, FNCB worked directly with borrowers to provide loan modifications and payment accommodations under Section 4013 of the CARES Act to qualifying commercial and consumer loan customers experiencing financial disruption due to the COVID-19 pandemic. In 2020, we assisted customers by modifying 843 loans with balances totaling approximately $151.4 million under the CARES Act. As of December 31, 2020, there were 45 loans with an aggregate principal balance of $9.5 million that were still under a payment relief modification. The original provisions of the CARES Act applied to modifications made through December 31, 2020 and the new relief effort extended these provisions through January 1, 2022. We continue to prudently and constructively work with borrowers impacted by the pandemic to provide assistance tailored to their specific needs.

Helping to Drive Performance, Provide Strength and Create Value

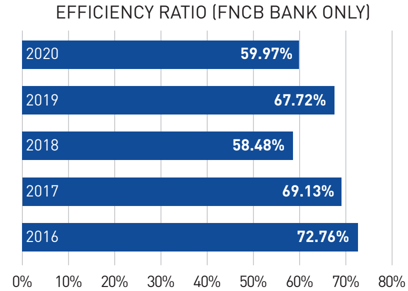
Despite the many challenges, FNCB exhibited very strong performance in 2020, including a $4.2 million, or 38.6%, increase in net income to $15.3 million, or $0.76 per basic and diluted share, from $11.1 million, or $0.56 per basic and diluted share in 2019.

TAX-EQUIVALENT NET INTEREST MARGIN



The earnings improvement was due mostly to a notable improvement in FNCB's tax-equivalent net interest margin, higher levels of non-interest income and a reduction in non-interest expense. FNCB's tax-equivalent net interest margin improved 6 basis points to 3.35% in 2020 from 3.29% in 2019, reflecting lower funding costs and the recognition of net loan origination fees on forgiven PPP loans. These factors helped to improve efficiency at the bank level as evidenced by an improvement in FNCB Bank's efficiency ratio to 59.97% in 2020 from 67.72% in 2019.

EFFICIENCY RATIO (FNCB BANK ONLY)



Non-interest income benefitted from net gains recognized on equity securities, along with increases in net gains realized on the sale of available-for-sale securities and mortgage loans held for sale. The reduction in non-interest expense reflected decreases in payroll-related costs, data processing expense and other operating expenses. Partially offsetting these positive factors was an increase in FNCB's provision for loan and lease losses, which resulted

“FNCB helped us throughout the entire PPP process. They made sure we had all of the correct information and asked for additional information when needed to process the loan and especially the forgiveness. The entire process was done in a quick professional manner.”

– John Mulhern, Jr.
ASHLEY MACHINE AND TOOL COMPANY

from additional credit provisioning in 2020 and reflected management's concern over the uncertainty and the unknown effects the COVID-19 pandemic may have on the economy.

Return on average assets and return on average shareholders' equity equaled 1.13% and 10.66%, respectively in 2020, compared to 0.92% and 8.88%, respectively in 2019. FNCB's balance sheet expanded $262.1 million, or 21.8%, to $1.466 billion at December 31, 2020 from $1.204 billion at December 31, 2019. The significant year-over-year growth primarily reflected an increase in total deposits of $285.7 million, or 28.5%, to $1.287 billion at December 31, 2020 from $1.002 billion at December 31, 2019 due largely to stimulus efforts, economic restrictions and changing depositor preferences.

Interest-bearing deposits increased $193.7 million, or 23.6%, to $1.016 billion at December 31, 2020 from $822.2 million at December 31, 2019, while non-interest-bearing deposits increased $92.0 million, or 51.3%, to $271.5 million at December 31, 2020 from $179.5 million at December 31, 2019. FNCB invested a portion of the increased liquidity into loans and available-for-sale debt securities and repay higher-costing wholesale borrowings. Lower market rates, coupled with the reduction in borrowed funds, allowed to reduce our cost of funds 44 basis points to 0.64% in 2020 from 1.08% in 2019. Total loans, gross grew $76.9 million, or 9.3%, to $903.3 million at December 31, 2020, from $826.4 million at December 31, 2019. The increase was largely due to the origination of $118.6 million in PPP loans, of which $78.6 million were outstanding at December 31, 2020.

"I couldn't have asked for better. Everyone made the entire process less overwhelming. I can't thank them enough for their help."

– Paulette Fargione
FARGIONE AUTO SERVICE

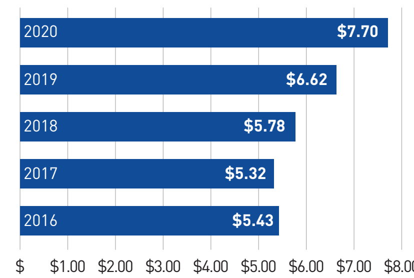
The outstanding balance of PPP loans at December 31, 2020 represented 33.0% of commercial and industrial loans and 8.7% of the entire loan portfolio outstanding at the close of 2020. FNCB recognized in interest income $1.2 million of net loan origination fees associated with PPP loans that were forgiven in 2020 with approximately $2.6 million in remaining net deferred loan origination fees expected to be recognized in 2021. Available-for-sale debt securities increased $77.2 million, or 28.3%, to $350.0 million at December 31, 2020 from $272.8 million at December 31, 2019. At December 31, 2020 FNCB had no outstanding borrowings through the FHLB of Pittsburgh, a decrease of $46.9 million compared to December 31, 2019. The remaining surplus liquidity resulted in an increase to cash and cash equivalents of $121.2 million, or 350.8% to $155.8 million at December 31, 2020 from $34.6 million at December 31, 2019.

21.8%
Growth
IN TOTAL ASSETS

Despite the uncertainty and volatility in economic and employment conditions, FNCB's asset quality improved throughout 2020, as evidenced by a reduction in total non-performing loans of $3.5 million to $5.6 million, or 0.62% of total loans, at December 31, 2020 from $9.1 million, or 1.10% of total loans, at December 31, 2019. FNCB's loan delinquency rate (total delinquent loans as a percentage of total loans) was 0.99% at December 31, 2020 compared to 1.46% at the end of 2019. The decrease in non-performing loans and loan delinquencies primarily reflected two large commercial relationships that returned to accrual status during 2020. Additionally, FNCB recorded a net recovery of previously charged-off loans of $1.1 million, or 0.12% of average loans, for 2020 compared net charge-offs of $1.4 million, or 0.16% of average loans, for 2019. FNCB recorded a provision for loan and lease losses of $1.9 million in 2020 compared to $0.8 million in 2019. The allowance for loan and lease losses as a percentage of gross loans was 1.33% and 1.08% at December 31, 2020 and 2019, respectively. Excluding PPP loans (non-GAAP), FNCB's allowance for loan and lease losses as a percentage of gross loans was 1.45% at December 31, 2020.

FNCB's capital position improved significantly, as total shareholders' equity increased $22.3 million, or 16.7%, to $155.9 million at December 31, 2020 from $133.6 million at December 31, 2019. The higher capital level was largely due to the strong 2020 net income of $15.3 million, coupled with market appreciation of our available-for-sale debt securities, net of deferred taxes, of $10.8 million. At December 31, 2019, FNCB Bank's capital ratios well exceeded the minimum ratios required by bank regulators to be considered well capitalized. FNCB Bank's total capital ratio improved to 15.79% at December 31, 2020 from 14.77% at December 31, 2019. FNCB Bank's Tier I leverage ratio decreased to 9.57% at December 31, 2020 from 10.36% at December

BOOK VALUE PER SHARE

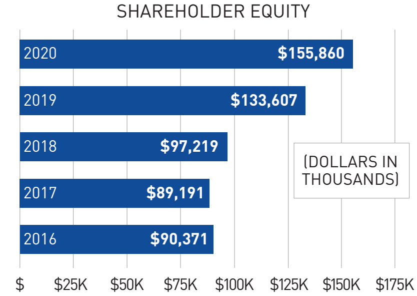


31, 2019, primarily reflecting the balance sheet expansion as total average assets used for the leverage ratio increased $240.0 million, or 20.1%. Additionally, tangible book value per share increased $1.08, or 16.3% to $7.70 per share at December 31, 2020 from $6.62 per share at December 31, 2019.

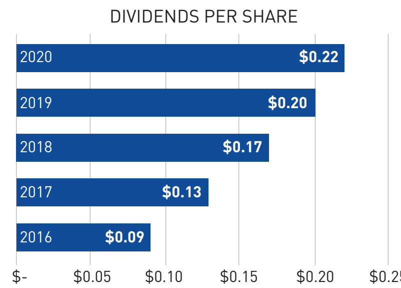
We continue to focus on providing an annual return to our shareholders that is meaningful and aligned with our peers. Total dividends paid to shareholders increased $0.02 per share, or 10.0%, to $0.22 per share in 2020 from $0.20 per share in 2019.

Despite the increase in the per share dividend amount, the dividend payout ratio decreased to 29.0% in 2020 compared to 36.4% in 2019, but was a notable increase compared to a payout ratio of 21.4% in 2018. Total dividends declared and paid in 2020 resulted in a dividend yield of 3.44% based on the closing stock price of $6.40 per share on December 31, 2020. Additionally, on January 27, 2021, the Board of Directors approved an increase in the first quarter 2021 dividend of $0.005 per share, or 9.1%, to $0.06 per share from $0.055 per share for the same quarter of 2020.

SHAREHOLDER EQUITY



> “FNCB’s significant support for children with learning differences at Allied Services has made all the difference in enabling access to an appropriate education.”
>
> **– Suzanne Rickard**
> ALLIED SERVICES
> DEPAUL SCHOOL



FNCB is continuously focused on creating long-term shareholder value. With this in mind, on January 27, 2021, FNCB’s Board of Directors authorized a stock repurchase program providing FNCB with the opportunity to purchase of up to 975,000 shares of outstanding common stock. Repurchases, which are administered through an independent broker, are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the trading plan.

There is not a guarantee as to the exact number of shares that will be repurchased by FNCB, and FNCB may discontinue purchases at any time management determines additional repurchases are no longer warranted.

Helping to Bridge the Gap

Many of the not-for-profit and community outreach organizations within our market area have been severely impacted by the ongoing pandemic. In 2020, FNCB provided assistance to many organizations in our community to help them bridge the widening financial gap the COVID-19 pandemic has created. FNCB established a charitable foundation to make a difference in our community.

The foundation provides grants to qualifying organizations ranging from $1,000 to $10,000. Qualifying organizations under the program include organizations that provide a direct service or affordable housing to low- to moderate-income individuals, promote youth and educational opportunities, enhance the cultural or economic development within our market area, and improve the quality of life or meet a specific unmet need in the communities we serve. In 2020, we provided direct financial support, including awards under our foundation and participation in the Pennsylvania Educational Improvement Tax Credit Program (EITC), totaling approximately $500,000.

In addition to financial support, our employees are actively lending a hand, giving generously of their time and talent in the community. With restrictions limiting traditional volunteer activities, our team developed several unique initiatives to give back, including "Team Lunch Fridays" from area restaurants, delivering lunch to essential workers and conducting fundraisers for families during the holiday season.

Helping to Execute our Mission in 2021

In 2020, we celebrated FNCB Bank's 110th anniversary serving northeastern Pennsylvania as a community bank. While the celebration was tempered due to the pandemic, it did call to mind that we as a financial institution have weathered many challenges over the course of those 110 years, and it is through those challenges that we find our strength and mission to move forward in a better way. As we enter 2021, one year after the declaration of the national emergency, many of our customers have been, and continue to be, impacted by the COVID-19 pandemic.

Our greatest concern remains the well-being and safety of our entire FNCB family, and our team is continuing to work with customers in developing solutions to help them get through the remainder of the pandemic in the best way possible. We believe our financial position is strong and will allow us to continue to serve the needs of our customers, employees and communities.

We sincerely appreciate your continued trust and your ongoing commitment to FNCB!

Sincerely,

Louis A. DeNaples
CHAIRMAN OF THE BOARD

Gerard A. Champi
PRESIDENT & CHIEF EXECUTIVE OFFICER

Shareholder Information

CORPORATE HEADQUARTERS
FNCB Bancorp, Inc.
102 E. 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 12, 2021, 9:00 AM ET
Access to the meeting via the Internet at:
virtualshareholdermeeting.com/FNCB2021

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 E. Drinker Street, Dunmore, PA 18512
james.bone@fncb.com

TRANFER 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
Phone: (877) 456-5754
Email: shareholder@broadridge.com
www.shareholder.broadridge.com/fncb

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stifel.com

Executive Team

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, 2020

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	**23-2900790**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
102 E. Drinker St., Dunmore, PA	**18512**
(Address of Principal Executive Offices)	(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 ☐	Accelerated Filer ☐
Non-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 has filed a report on and attestation to its management's assessment of the effectiveness of its interest control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 $97,621,290 at June 30, 2020.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 20,238,120 shares of common stock as of March 12, 2021.

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 2021 Annual Meeting of Shareholders.

Contents

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 is subject to credit risk, which could adversely affect its profitability;
- FNCB's concentrations of loans, including those to insiders and related parties, may create a greater risk of loan defaults and losses;
- 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'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;
- FNCB's risk management framework may not be effective in mitigating risks or losses to it;
- FNCB is subject to interest rate risk, which could adversely affect its profitability;
- changes in interest rates could reduce income, cash flows and asset values;
- Uncertainty relating to the expected phase-out of the London Interbank Offered Rate ("LIBOR") may adversely affect FNCB;
- 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 may not be able to retain or grow its core deposit base, which could adversely impact its funding costs;
- FNCB is a bank holding company and depends on dividends for 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 deposits, 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 or reputation;
- 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 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 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;
- FNCB may be adversely affected by the soundness of other financial institutions;

- damage to FNCB’s reputation could significantly harm its businesses, competitive position and prospects for growth;
- 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 depends on the accuracy and completeness of information provided by customers and counterparties;
- FNCB may face risks with respect to future expansion of acquisition activity;
- FNCB could be subject to environmental risks and associated costs on its foreclosed real estate assets;
- the COVID-19 pandemic and the measures taken to control its spread, will likely continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted;
- our participation in the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") may expose us to certain additional risks, including risks related to alleged noncompliance with PPP rules and regulations, which could have a material adverse impact on FNCB's business, financial condition and results of operations;
- 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 is subject to extensive government regulation, supervision and possible regulatory enforcement actions, which may subject FNCB to higher costs and lower shareholder returns;
- new or changed legislation or regulation and regulatory initiatives could adversely affect FNCB through increased regulation and increased costs of doing business;
- 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;
- the requirements of being a public company may strain FNCB’s resources and divert management's attention;
- FNCB Bank's FDIC deposit insurance premiums and assessments may increase;
- 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;
- 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, or repurchase shares of, the common stock may become limited;
- 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;
- the requirements of being a public company may strain FNCB's resources and divert management's attention;
- 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;
- FNCB’s disclosure controls and procedures and internal controls over financial reporting may not achieve their intended objectives;
- changes in accounting standards could impact FNCB’s reported earnings;
- 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;
- 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 (the "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 from its banking services.

FNCB had net income of $15.3 million, $11.1 million, and $13.3 million in 2020, 2019 and 2018, respectively. Total assets were $1.466 billion at December 31, 2020, $1.204 billion at December 31, 2019 and $1.238 billion at December 31, 2018.

The Bank

Established as a national banking association in 1910, as of December 31, 2020 the Bank operated 17 full-service branch offices within its primary market area, Northeastern Pennsylvania.

Mission, Vision and Values

FNCB's mission is to make your banking experience simply better. We strive to be a growing, independent bank that is a leader in our community through the power of a strong team with a commitment to financial excellence for our customers and shareholders. We take pride in our core values:

- Simplicity - Simplifying processes, systems and products to create a better banking experience.
- Integrity - Maintaining the highest ethical standards and practices.
- Mission - To make your banking experience simply better.
- People - A team of employees dedicated to the community, our customers, our shareholders and each other.
- Leadership - An organization that grows under the guidance of focused and dedicated leaders.
- You - Our values equal YOU!

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, money market and certificate of deposit products, including a line of preferred products for higher-balance customers. The Bank is a member of IntraFi Network, formerly the Promontory Interfinancial Network, and participates in their Certificate of Deposit Account Registry (“CDARs”) and Insured Cash Sweep (“ICS”) programs, which provide customers with the 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 Purchase Rewards such as cash-back rewards and other offers. 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. Additionally, through SMS (Text) Message Banking customers can check their account balances, view their last five transactions, transfer funds between eligible accounts and receive alerts. 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 and business banking customers with online access 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® and electronic transfer solutions through Zelle®, a fast, secure and contact free way to send and receive money between trusted parties. FNCB Business Online Banking also provides business customers the ability to perform 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.

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. FNCB is a member of AllPoint, the largest surcharge-free ATM network. AllPoint provides FNCB customers with access to over 55,000 ATMs, free of charge worldwide, 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.

The Bank also offers business customers remote deposit capture and merchant services, as well as business debit cards and Purchasing cards ("PCards"). 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. PCards offer business customers the ability to earn a cash rebate on all purchases as well as additional functionality and reporting to effectively manage their expenses and procurement.

The Bank offers its retail and business customers FNCB Bank Overdraft Protection to protect against the cost and inconvenience of returned checks. Customers can also apply for an Instant Money loan or 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 and Lines of Credit

FNCB offers a variety of 1-4 family residential loans, home equity term loans and home equity lines of credit ("HELOCs"). 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. HELOCs 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. 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, 2020, 1-4 family residential mortgage loans, including home equity term loans and HELOCs totaled $196.3 million, or 21.7%, 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, 2020, the Bank sold $13.9 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, 2020, construction, land acquisition and development loans amounted to $59.8 million and represented 6.6% 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, 2020, FNCB's commercial real estate loans totaled $273.9 million, or 30.3%, 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, 2020, FNCB's commercial and industrial loans totaled $238.4 million, or 26.4%, of the total loan portfolio. Also included in commercial and industrial loans are loans originated during 2020 under various programs that were part of the governmental response to the COVID-19 pandemic. FNCB participated in the Paycheck Protection Program ("PPP") promulgated under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). PPP loans outstanding included in commercial and industrial loans were $78.6 million at December 31, 2020. FNCB also participated in the Federal Reserve System's Main Street Lending Program under which the Federal Reserve purchased 95.0% of the originated principal balance. The remaining 5.0% principal of loans originated under the Main Street Lending Program outstanding and included in commercial and industrial loans at December 31, 2020 was $4.3 million.

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, personal lines of credit and overdraft protection loans. At December 31, 2020, FNCB's consumer loans totaled $85.9 million, or 9.5%, 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, 2020, FNCB's state and political subdivision loans totaled $49.0 million, or 5.4%, 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 Federal Home Loan Bank of Pittsburgh ("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. 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 are 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 are listed on the Nasdaq Stock Market 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.

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, involve illegal funds, are designed to evade the requirements of the BSA or have 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 provides for 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, qualifying 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, 2020, 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%

At December 31, 2020, 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 14.54%, a total capital to risk-weighted assets ratio of 15.79% and a leverage ratio of 9.57%. Similarly, at December 31, 2019, FNCB exceeded capital requirements for an institution to be considered "well capitalized" with CET I capital and Tier I capital to risk-weighted assets ratios of 13.70%, a total capital to risk-weighted assets ratio of 14.77% and a leverage ratio of 10.36%.

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;

- created 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;
- made permanent the $250 thousand limit for federal deposit insurance at all insured depository institutions;
- includes 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;
- created the Financial Stability Oversight Council with authority to identify institutions and practices that might pose a systemic risk; 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.

C*onsumer 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. The FDIC calculates 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 June 2020, the FDIC adopted rules to make certain adjustments to the assessment calculation to mitigate the effects of insurance deposit assessments for institutions participating in the PPP adopted under the CARES Act.

At December 31, 2020, 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. As a result of the CARES Act, during 2020 the CBLR was reduced to 8.0% for the remainder of 2020 and set at 8.5% for 2021. FNCB has not elected to use the CBLR framework at this time and does not believe that the changes resulting from the Regulatory Relief Act, including whether it elects to use the CBLR framework in the future, will materially impact FNCB's business, operations, or financial results.

Dividend and Share Repurchase 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, or repurchase shares from 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, or the repurchase of shares of its common stock, is at the discretion of its board of directors, and any decision to declare a dividend, or repurchase shares, 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.

Human Capital Resources

As of December 31, 2020, FNCB, including the Bank, employed 214 persons, including 23 part-time employees. FNCB's employees support its vision to be a leader in the community with a commitment to financial excellence for customers and shareholders and deliver its mission to make your banking experience simply better.

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

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, 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 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 in which FNCB operates 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 its 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.

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, 2020, approximately 36.9**%** 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 $5.6 million, or 0.62% of total gross loans, as of December 31, 2020, and $9.1 million, or 1.10% of total gross loans, as of December 31, 2019. Specifically, commercial real estate loans that were non-performing totaled $3.2 million, or 0.36%, of total gross loans, as of December 31, 2020, and $5.6 million, or 0.68%, of total gross loans, as of December 31, 2019. There were no construction, land acquisition and development loans that were non-performing at December 31, 2020 and 2019. An increase 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, 2020, $530.0 million, or 58.7%, 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, $59.8 million, or 6.6%, were construction, land acquisition and development loans. Construction, land acquisition and development loans have the highest risk of uncollectability. An additional $238.4 million, or 26.4%, 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 $98.9 million as of December 31, 2020. At December 31, 2020, 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 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.

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'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, 2020, the ALLL totaled $11.9 million, representing 1.33% 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 $1.7 million in capital stock of the FHLB as of December 31, 2020. 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 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, 2020 was characterized by maturities or repricing of assets and liabilities that were well matched over the next 12 months, moving to an asset sensitivity position in subsequent years of the model. Accordingly, based on its interest sensitivity profile, FNCB would expect net interest income to remain at current levels 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, if interest rates decrease over the next 12 months, FNCB would expect net interest income projected to trend downward over the life of the simulation due primarily to lower replacements 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") 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. In November 2020, the FCA announced that most tenors of US Dollar LIBOR would continue to be published through June 30, 2023, which would allow additional legacy U.S. Dollar LIBOR contracts to mature before the succession of LIBOR. 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, 2020, FNCB had $1.287 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 and would be unable to repurchase its shares, 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 FHLB, 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. Secondarily, 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.

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 environmental, social and governance ("ESG") related issues, 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 and ESG risks, could also give rise to reputation risk that could negatively impact business prospects. These issues include, among others, 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 COVID-19 pandemic, and the measures taken to control its spread, will continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has impacted and is likely to continue to impact the national economy and the regional and local markets in which we operate, lower equity market valuations, create significant volatility and disruption in capital and debt markets, and increase unemployment levels. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We are subject to heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements that we have put in place for our employees. Federal Reserve actions to combat the economic contraction caused by the COVID-19 pandemic, including reductions of the target federal funds rate, could, if prolonged, adversely affect our net interest income and margins, and our profitability. Closures of businesses and the institution of social distancing, shelter in place and stay home orders in the communities we serve, have reduced business activity and financial transactions. While certain of these restrictions have been eased and workplaces in the communities we serve are beginning to reopen, the pace of reopening is measured, and these government policies and directives are subject to change as the effects and spread of the COVID-19 pandemic continue to evolve. It is unclear whether any COVID-19 pandemic-related business losses that we or our customers may suffer will be recovered by existing insurance policies. Changes in customer behavior due to worsening business and economic conditions or legislative or regulatory initiatives may impact the demand for our products and services, which could adversely affect our revenue, increase the recognition of credit losses in our loan portfolios and increase our allowance for credit losses. The measures we have taken to aid our customers, including short-term loan payment deferments and other payment accommodations under Section 4013 of the CARES Act, may be insufficient to help our customers who have been negatively impacted by the economic fallout from the COVID-19 pandemic. Loans that are currently in deferral status may become nonperforming loans. Because of adverse economic and market conditions affecting issuers, we may be required to recognize impairments on the securities we hold as well as reductions in other comprehensive income. The extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions we may take as may be required by government authorities or that we determine is in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

Our participation in the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") may expose us to certain additional risks, including risks relating to alleged noncompliance with PPP rules and regulations, which could have a material adverse impact on FNCB's business, financial condition and results of operations.

The CARES Act, enacted on March 27, 2020, included a $349 billion loan program, the Paycheck Protection Program ("PPP") administered through the Small Business Administration ("SBA"). Additional funding was provided for the PPP in April 2020. Under the PPP, small businesses and other entities and individuals were permitted to apply for loans from existing

SBA lenders and other approved lenders. FNCB is a participating lender under the PPP, and, as of December 31, 2020, had processed and received SBA approval for 1,002 loan applications resulting in approximately $118.6 million in loans. The Consolidated Appropriations Act of 2021 that was enacted on December 27, 2020 provides an additional $284.6 billion in PPP funding to small businesses, including borrowers who previously received a PPP loan. On January 19, 2021, FNCB began originating PPP loans as part of this second round of funding and as of February 28, 2021, has processed and received SBA approval for 400 loans representing approximately $52.7 million in funding. It is FNCB's understanding that loans funded through the PPP are fully guaranteed by the United States government. However, there is some ambiguity in the laws, rules, and guidance regarding the operation of the PPP, which may expose us to compliance risks relating to the PPP. We may have credit risk on PPP loans if a determination is later made by the SBA that deficiency exists in the manner in which a particular loan was originated, funded, or serviced, such as an issue with the eligibility of a borrower to receive a PPP loan. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced, the SBA may deny its liability under the guaranty relating to the loan, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency.

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 FRB, the FDIC and the 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, including the repurchase of common stock, 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. Laws and 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.

FNCB expects that the Biden Administration will seek to implement a regulatory reform agenda that is significantly different than that of the Trump Administration. This reform agenda could include a heightened focus on the regulation of loan portfolios and credit concentrations to borrowers impacted by climate change, heightened scrutiny on Bank Secrecy Act and anti-money laundering requirements, topics related to social equity, executive compensation, and increased capital and liquidity, as well as limits on share buybacks and dividends. In addition, mergers and acquisitions could be dampened by increased antitrust scrutiny. Reform proposals are also expected for the short-term wholesale markets. It is too early to assess which, if any of these policies, would be implemented and what their impact would be.

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.

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, or repurchase shares of its common stock, 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.

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 or repurchases 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.

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, or repurchase shares of, 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 dividend, or repurchase shares of its common stock, 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. In addition, FNCB's board of directors may only repurchase shares out of funds legally available for those repurchases. Although FNCB has historically paid cash dividends on its common stock, and has recently announced a share repurchase program to repurchase shares of its common stock, FNCB is not required to do so. FNCB cannot assure shareholders that it will continue paying dividends, or repurchase shares, 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, or repurchase shares, 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, and recently announced a share repurchase program for the repurchase of shares of its common stock, FNCB is not required to do so and may reduce or cease to pay common stock dividends, or repurchase shares, in the future. If FNCB reduces or ceases to pay common stock dividends, or terminates its stock repurchase program, the market price of its common stock could be adversely affected.

The principal source of funds from which FNCB pays cash dividends, and repurchase shares, 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, or repurchase shares if, after paying the dividend, or repurchasing such shares, 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, pay dividends on, or repurchase shares of, 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 SEC. 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 main office is located at 100 S. Blakely Street, Dunmore, Pennsylvania, 18512. At December 31, 2020, FNCB also operated sixteen additional community banking offices located throughout Lackawanna, Luzerne and Wayne counties, two administrative offices and another lending center located in Dunmore, Lackawanna County, Pennsylvania. Eight of the offices are leased and the balance are owned by the Bank. Except for potential remodeling of certain facilities to provide for the efficient use of workspace 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, 2020 and 2019 include:

- 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. 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;

- 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; and

- Previously, FNCB operated a limited purpose office (LPO). On November 30, 2020, the Board of Directors of the Bank approved a resolution to close the LPO located at 3500 Winchester Road, Allentown, Pennsylvania and the LPO was subsequently closed on January 18, 2021. The closure is consistent with the Bank's strategic goals and will not have any significant disruptions to the customer relationships serviced in that area.

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

FNCB’s common shares are traded on The Nasdaq Stock Market LLC ("Nasdaq") 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 29, 2020, FNCB was added as member of the Russell 2000® index, when FTSE Russell reconstituted its comprehensive set of U.S. global equity indexes. Previously, FNCB was added to the Russell 3000® index on July 1, 2019. Membership remains in place for one year. Each year, 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 indexes will continue to increase the visibility and liquidity of FNCB's common stock, as well as provide exposure to leading institutional investors.

On January 27, 2021, the Board of Directors of FNCB authorized a stock repurchase program under which up to 975,000 shares of FNCB's outstanding common stock may be acquired in the open market between February 3, 2021 and December 31, 2021 pursuant to a trading plan adopted in accordance with Rule 10b5-1 of the Exchange Act. Repurchases are administered through an independent broker and are subject to SEC regulations as well as certain price, market and timing constraints specified in the plan.

Holders

As of February 28 , 2021, there were approximately 1,671 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 $4.4 million, or $0.22 per share, in 2020 and $4.0 million, or $0.20 per share, in 2019. The dividend payout ratio was 29.0% for the year ended December 31, 2020 and 36.4% for the year ended December 31, 2019. 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 27, 2021, the Board of Directors declared a dividend of $0.06 per share for the first quarter of 2021. The dividend is payable on March 15, 2021 to shareholders of record as of March 1, 2021.

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.

	For the Years Ended December 31,				
(dollars in thousands, except per share data)	**2020**	**2019**	**2018**	**2017**	**2016**
Balance Sheet Data:					
Total assets	$ 1,465,679	$ 1,203,541	$ 1,237,732	$ 1,162,305	$ 1,195,599
Available-for-sale debt securities	350,035	272,839	296,032	290,387	276,015
Net loans	889,152	819,529	829,581	761,609	722,860
Total deposits	1,287,448	1,001,709	1,095,629	1,002,448	1,015,139
Borrowed funds	10,310	57,219	34,240	60,278	78,847
Shareholders' equity	155,860	133,607	97,219	89,191	90,371
Income Statement Data:					
Interest income	$ 46,338	$ 46,056	$ 45,085	$ 37,848	$ 34,748
Interest expense	6,160	9,796	8,578	4,800	4,197
Net interest income before provision for loan and lease losses	40,178	36,260	36,507	33,048	30,551
Provision for loan and lease losses	1,941	797	2,550	769	1,153
Non-interest income	9,250	7,620	11,790	7,225	6,203
Non-interest expense	28,915	29,682	29,327	28,069	27,545
Income before income taxes	18,572	13,401	16,420	11,435	8,056
Income tax expense	3,225	2,326	3,071	11,288	1,747
Net income	15,347	11,075	13,349	147	6,309
Earnings per share, basic and diluted	0.76	0.56	0.79	0.01	0.38
Capital and Related Ratios:					
Cash dividends declared per share	$ 0.22	$ 0.20	$ 0.17	$ 0.13	$ 0.09
Book value per share	7.70	6.62	5.78	5.32	5.43
Tier I leverage ratio (FNCB Bank only)	9.57%	10.36%	8.27%	8.24%	8.63%
Total risk-based capital to risk-adjusted assets (FNCB Bank only)	15.79%	13.70%	12.17%	12.49%	12.81%
Average equity to average total assets (1)	10.61%	10.32%	7.10%	8.36%	8.42%
Tangible equity to tangible assets	10.63%	11.10%	7.85%	7.67%	7.56%
Selected Performance Ratios:					
Return on average assets (1)	1.13%	0.92%	1.09%	0.01%	0.57%
Return on average equity (1)	10.66%	8.88%	15.38%	0.15%	6.82%
Net interest margin (2) (3)	3.35%	3.29%	3.22%	3.23%	3.13%
Noninterest income/operating income (2)	18.42%	17.19%	20.56%	15.79%	14.88%
Asset Quality Ratios:					
Allowance for loan and lease losses/total loans	1.33%	1.08%	1.13%	1.17%	1.15%
Nonperforming loans/total loans	0.62%	1.10%	0.56%	0.34%	0.31%
Allowance for loan and lease losses/nonperforming loans	214.12%	98.53%	202.7%	350.43%	376.86%
Net (recoveries) charge-offs/average loans	(0.12)%	0.16%	0.25%	0.02%	0.21%
Loan loss provision/net (recoveries) charge-offs	(183.29)%	58.35%	123.49%	499.35%	75.66%

(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 2020, 2019 & 2018 and 34.0 percent for prior years.
(3) Ratio for 2019 reflects a revision to the average balance of earning assets to reclassify $4,794 in certain average deposits in other banks from interest-bearing deposits in other banks to non-earning assets.

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 17 full-service branch offices operated by FNCB Bank, FNCB's wholly-owned subsidiary, within its primary market area, Northeastern 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, 2020 and 2019 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, 2020 and 2019 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, 2020 and 2019, 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, 2020 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.

Impact of COVID-19 and FNCB's response to the pandemic

In March 2020, the outbreak of the novel Coronavirus Disease 2019 ("COVID-19") was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has created a global public health crisis that has resulted in, and continues to pose, unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that FNCB serves. Federal, state and local authorities have responded to the pandemic by mandating the closure of non-essential businesses and schools, travel restrictions, limitations on public gatherings, and social distancing protocols. These governmental restrictions, coupled with fear of contracting the virus, resulted in a disruption in financial markets including the rapid decline in commercial and consumer activity, loss of revenues by businesses, a severe spike in unemployment, global supply chain and market volatility. The federal government has taken several actions designed to mitigate the impact of the economic disruption. Specifically, the Federal Open Market Committee ("FOMC") responded by aggressively cutting the federal funds target rate 150 basis points in two emergency actions including a 50-basis point reduction on March 3, 2020; and a 100 basis point reduction on March 15, 2020. The federal funds target rate remained at 0.00% to 0.25% from this point through December 31, 2020. Additionally, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, a $2.0 trillion legislative package, was signed into law. The CARES Act contains substantial tax and spending provisions including direct financial aid to American families, extensive emergency funding for hospitals and medical providers, and economic stimulus to significantly impacted industry sectors. Additionally, on December 27, 2020, the Consolidated Appropriations Act of 2021 ("CA Act") was signed into law and authorized more than $900 billion in additional economic relief to small businesses and consumers.

As a financial institution, FNCB is considered essential and has remained open for business and is operating under its pandemic preparedness plan. To ensure the financial needs of its customers are addressed in a safe and consistent manner, the Bank's offices are open for regular business, with administrative, lending and community branch offices adhering to federal, state, and local governmental guidelines and social distancing mandates. However, in order to limit the spread of COVID-19 customers are encouraged to utilize FNCB's drive-thru facilities, automated teller machines, Customer Care center, remote deposit capture and online banking, including online account opening and chat capabilities, and mobile banking applications. FNCB is also providing the necessary technology, when needed, to its operational staff to work remotely in a secure environment. As of December 31, 2020, FNCB did not face any material resource constraints through the implementation of its pandemic preparedness plan. Throughout the year ended December 31, 2020, FNCB incurred COVID-19-related expenses including stay-at-home pay, computer-related costs, cleaning and sanitizing facilities and safety supplies, none of which were considered material. COVID-19 related expenses are included in non-interest expense in the consolidated statements of income. Additionally, FNCB has not tested for and has not identified any material operational or internal control challenges or risks, nor does it anticipate any significant challenges to its ability to maintain its systems and controls, related to operational changes resulting from the continued implementation of the pandemic preparedness plan.

Bank regulators issued guidance and have encouraged banks to work prudently with, and provide short-term payment accommodations to, borrowers affected by COVID-19. Additionally, provisions under the CARES Act originally allowed banks providing borrowers with a COVID-19 related modification to elect to not classify any such modification as a trouble debt restructuring ("TDR") if the loan was not more than 30 days past due at December 31, 2019 and the modification was executed between March 1, 2020, the date the President of the United States declared the COVID-19 pandemic a national emergency, and the earlier of 60 days after the date of termination of this national emergency, or December 31, 2020. The CA Act extended TDR relief provided under Section 4013 of the CARES Act through January 1, 2022, or 60 days after the termination of the national emergency. FNCB has applied, and continues to apply, the provisions of Section 4013 of the CARES Act and is prudently working with borrowers affected by COVID-19 by providing payment accommodations and other modifications, including but not limited to, payment deferrals involving either interest-only or full payment deferral for periods of up to six months. While interest and fees will still accrue to income, under normal GAAP accounting, should eventual credit losses on these deferred payments emerge, interest income and fees accrued would need to be reversed. As a result, interest income in future periods could be negatively impacted. While FNCB is unable to determine the effect of such an impact on its financial condition or results of operations at this time, it recognizes that the sustained economic impact may affect its borrowers' ability to repay in future periods.

The CARES Act includes the Paycheck Protection Program ("PPP"), a program administered by the Small Business Administration ("SBA") designed to aid small- and medium-sized businesses through federally guaranteed loans distributed through banks. These loans were intended to guarantee up to 24 weeks of payroll and other costs to help those businesses remain viable and allow their workers to pay their bills. As an SBA Lender, the Bank actively participated in PPP loans assisting our small business community in securing this important funding. As of December 31, 2020, FNCB was able to serve 1,002 small business customers with PPP loans totaling $118.6 million. The CA Act that was enacted on December 27, 2020 provides an additional $284.6 billion in PPP funding to small businesses, including borrowers that previously received a PPP loan under the first round of funding. On January 19, 2021, FNCB began originating PPP loans as part of the second round of funding and as of February 28, 2021, has underwritten, submitted and received SBA approval for 400 loans representing approximately $52.7 million in funding. It is FNCB's understanding that loans funded through the PPP are fully guaranteed by the United States government. Should those circumstances change, FNCB could be required to increase its allowance for loan and lease losses related to these loans resulting in an increase in the provision for loan and lease losses.

The initial draw period of the first round of the PPP closed on August 8, 2020, and the SBA began accepting applications for forgiveness. FNCB notified and began providing ongoing assistance to customers with the forgiveness application process. As of December 31, 2020, FNCB had submitted 338 forgiveness applications to the SBA for PPP loans totaling $53.9 million and had received approval or funding from the SBA associated with a portion of these loans totaling $40.0 million. Additionally, the CA Act contains provisions that have simplified the forgiveness process for PPP loans under $150 thousand.

The Federal Reserve Bank also provided support lending to small and mid-sized businesses and not-for-profit organizations impacted by the COVID-19 pandemic through the Main Street Lending Program. Specifically, the Main Street Business Lending Program provides for five loan facilities with total potential funding of up to $600 billion. The Main Street New Loan Facility ("MSNLF"), the Main Street Priority Loan Facility ("MSPLF") and the Main Street Expanded Loan Facility ("MSELF") are three credit facilities that provide eligible business borrowers impacted by COVID-19 with financing in amounts ranging from $250 thousand to $300 million, depending on the facility. Terms of all three facilities include Federal Reserve Bank participation of 95.0%, lender participation of 5.0%, a maturity of 5 years, principal deferral for two years, interest deferral for one year and an adjustable interest rate based on one- or three-month LIBOR plus 300 basis points. Similarly, the Nonprofit Organization New Loan Facility ("NONLF") and the Nonprofit Organization Expanded Loan Facility ("NOELF") provide eligible not-for-profit organizations with financing in amounts ranging from $250 thousand to $10 million. The Bank had received approval from the Federal Reserve Bank as a participating lender in the Main Street Lending Program. During the second half of 2020, FNCB originated five MSPLF loans with an aggregate principal balance of $85.9 million and retained 5.0% of the outstanding principal balance or $4.3 million which was outstanding as of December 31, 2020. FNCB engaged an independent third-party loan review firm to confirm satisfactory underwriting and risk management practices were employed by management in the origination of these loans.

Fallout from the COVID-19 pandemic continues to impact national, regional and local economies, as the number of confirmed cases spiked at the end of 2020 into early 2021. Management continues to monitor the loan portfolio in order to identify potential weakness and track exposures to borrowers and industries that may be impacted more acutely than others. Additionally, management continues to proactively reach out to specific borrowers to provide guidance and assistance as appropriate. On a portfolio level, management continues to monitor aggregate exposures to highly sensitive segments, such as hotels and hospitality, for changes in asset quality and payment performance, and liquidity levels. Management monitors unfunded commitments such as lines of credit and overdraft protection to determine liquidity and funding issues that may arise with our customers. FNCB engaged an independent third-party consultant to perform a Credit Stress Test analysis of the loan portfolio as of March 31, 2020 to assist management with evaluating the ALLL and capital planning with regard to any potential impacts of COVID-19 on the portfolio. Should economic conditions worsen, FNCB could experience further increases in its required allowance for loan and lease losses and record additional provisions for loan and lease losses. It is possible that FNCB’s asset quality metrics could be materially and adversely impacted in future periods if the effects of COVID-19 are prolonged.

Management expects the COVID-19 pandemic, as well as certain provisions of the CARES Act, CA Act and other recent legislative and regulatory relief efforts, to have a material impact on FNCB's operations. The full impact is unknown, continues to evolve and will be contingent upon the duration and severity of the economic downturn. At this time, management cannot determine or estimate the full magnitude of the impact and cannot provide any assurances as to how the crisis may ultimately affect FNCB's results of operations or financial position. The FNCB team will continue to work diligently to address any issues related to the COVID-19 pandemic in a safe and sound manner as they arise. Management believes that FNCB's balance sheet and capital position are strong and will allow FNCB to withstand the challenges that may be presented.

EXECUTIVE OVERVIEW

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

Results of Operations

Despite a very challenging operating environment due to the COVID-19 pandemic, FNCB exhibited strong earnings performance in 2020. Net income in 2020 amounted to $15.3 million, or $0.76 per diluted common share, an increase of $4.2 million, or 38.6%, compared to $11.1 million, or $0.56 per diluted common share, in 2019. The increase in 2020 net income compared to 2019 was primarily attributable to increases in net interest income and non-interest income and a decrease in non-interest expense. These positive factors were partially offset by increases in the provision for loan and lease losses and income tax expense. Net interest income was $40.2 million in 2020, an increase of $3.9 million, or 10.8%, from $36.3 million in 2019, which was primarily due to a $3.6 million, or 37.1% reduction in total interest expense. Net interest income was also favorably impacted by $1.2 million in net loan origination fees associated with PPP loans that was recognized upon forgiveness. Non-interest income increased $1.6 million, or 21.4%, to $9.2 million in 2020 from $7.6 million in 2019. The year over year increase in non-interest income largely reflected increases in net gains on equity securities, net gains on the sales of available-for-sale debt securities and mortgage loans held for sale, and deposit service charges, partially offset by a reduction in loan referral fees/interest rate swap revenue. Non-interest expense decreased $767 thousand, or 2.6%, to $28.9 million in 2020 from $29.7 million in 2019, which primarily reflected lower salaries and employee benefits, data processing costs and other operating expenses, partially offset by increases in occupancy, equipment and bank shares tax expenses. The provision for loan and lease losses increased $1.1 million to $1.9 million in 2020, from $0.8 million in 2019, which reflected additional credit provisioning in response to uncertainty brought on by the COVID-19 global pandemic. Income tax expense increased $0.9 million, or 38.6%, to $3.2 million in 2020 as compared to $2.3 million in 2019.

Return on average assets and return on average shareholders' equity equaled 1.13% and 10.66%, respectively, in 2020, compared to 0.92% and 8.88%, respectively, in 2019. FNCB paid dividends to holders of common stock of $0.22 per share in 2020, an increase of $0.02 per share, or 10.0%, compared to $0.20 per share in 2019. Total dividends declared and paid in 2020 equated to a dividend yield of approximately 3.44% based on the closing stock price of $6.40 per share on December 31, 2020. The dividend payout ratio was 29.0% in 2020 compared to 36.4% in 2019.

Balance Sheet Profile

Total assets increased $262.1 million, or 21.8%, to $1.466 billion at December 31, 2020 from $1.204 billion at December 31, 2019. The balance sheet expansion primarily reflected a strong inflow of deposits, a portion of which was used to purchase investment securities, fund loans and reduce borrowed funds, with the remainder resulting in a substantial increase in cash and cash equivalents. Specifically, cash and cash equivalents increased $121.2 million, or 350.8% to $155.8 million at December 31, 2020 from $34.6 million at December 31, 2019. Available-for-sale debt securities increased $77.2 million, or 28.3%, to $350.0 million at December 31, 2020 from $272.8 million at December 31, 2019. In addition, loans, net of net deferred costs and unearned income, increased $72.6 million, or 8.8%, to $901.1 million at December 31, 2020 from $828.5 million at December 31, 2019 Total deposits increased $285.7 million, or 28.5%, to $1.287 billion at December 31, 2020 from $1.002 billion at December 31, 2019. Borrowed funds decreased $46.9 million, or 82.0% to $10.3 million at December 31, 2020, compared to $57.2 million at December 31, 2019, as FNCB used some of the excess liquidity to repay FHLB of Pittsburgh advances. FNCB had no term or overnight borrowings through the Federal Home Loan Bank of Pittsburgh ("FHLB") outstanding at December 31, 2020.

Total shareholders' equity increased $22.3 million, or 16.7%, to $155.9 million at December 31, 2020 from $133.6 million at December 31, 2019. Contributing to the increase in capital was net income in 2020 of $15.3 million and a $10.8 million increase in accumulated other comprehensive income related primarily 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 $4.4 million. At December 31, 2020, FNCB Bank's total risk-based capital ratio and the Tier 1 leverage ratio were 15.79% and 9.57%, 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 2020

In 2020, FNCB Bank, FNCB's wholly-owned subsidiary, celebrated its 110th anniversary as a community bank serving the local communities in northeastern Pennsylvania with its mission to make the banking experience for customers "simply better". The celebration was tempered by COVID-19 as FNCB operated under its pandemic preparedness plan for the majority of 2020, which has continued into 2021. While managing the many challenges brought on by the spread of the virus, or by governmental, regulatory and customer response to the pandemic, FNCB's main focus in 2020 was to protect the health and safety of our customers and employees, provide support and assistance to businesses and others within the community, and respond to the abrupt shift in how bank products and services are delivered to the customer.

FNCB participated in the SBA's PPP, which resulted in the origination of 1,002 loans representing approximately $118.6 million in funding under the initial round of this program, that directly assisted local owners of small- and medium-sized businesses. Additionally, in the second half of 2020 when the SBA began accepting applications for forgiveness, FNCB implemented a digital, cloud-based management tool to facilitate the entire forgiveness process, providing customers with direct access to educational materials and the ability to easily upload required documents. As of December 31, 2020, FNCB had received $40.0 million in borrower forgiveness from the SBA and anticipate that the remaining PPP loan balances will qualify for borrower forgiveness under the guidelines of the program in 2021. In addition, FNCB became one of eleven select lenders in the Commonwealth of Pennsylvania approved to participate in the Federal Reserve's Main Street Lending Program. In addition to these governmental programs, FNCB worked directly with borrowers to provide loan payment deferral modifications under Section 1048 of the Cares Act to qualifying commercial and consumer loan customers experiencing financial disruption due to the COVID-19 pandemic.

Initiatives to improve the customer experience included expanding and enhancing FNCB's electronic and traditional product and service offerings that became vital to our customers during this unprecedented time. In addition to already providing customers with electronic payment options including Apple Pay®, Google Pay®, and Samsung Pay®, during the third quarter of 2020, the Bank partnered with Zelle®, a fast, secure and contact free way to send and receive money between trusted parties. In addition, FNCB began expanding utilization of online account opening and facilitating the PPP loan origination and forgiveness process through the use of digital signatures. With regard to creating long-term shareholder value, management has been focused on strategic business market opportunities to drive FNCB's financial performance through efficient balance sheet and interest rate risk management, growth and diversification of non-interest revenue streams, as well as enhancing the marketability and liquidity of FNCB's stock, which has aided the strong earnings performance.

Focus for 2021

Looking ahead to 2021, maintaining a safe environment for both staff and customers will remain a top priority, as well as continuing to enhance FNCB's digital banking platforms to respond to evolving customer demands. FNCB expanded the digital cloud-based PPP forgiveness tool to include functionality for the application process for additional PPP funding that was approved under the CA Act on December 27, 2020. On January 19, 2021, FNCB began originating loans under the second round of PPP funding and as of February 28, 2021, has underwritten, submitted and received approval for 400 loans representing approximately $52.7 million in funding. FNCB will continue to assist business customers through the forgiveness process and with the second round of funding, as well as work prudently with customers requesting further payment accommodations. In 2021, FNCB expects to benefit from the recognition of approximately $3.0 million in remaining net loan origination fees from the first round of PPP loans, and will continue to focus on improving efficiency and effectively navigating impending margin compression resulting from the low-interest rate environment. Additional areas of focus for 2021 include continuing to enhance the customer experience through implementation of a comprehensive digital strategy, strengthening our customer base and building existing customer wallet share, as well as a renewed focus on leadership and organizational development. To this point, early in 2021, FNCB announced the appointment of a new Chief Banking Officer to its Executive Management Team. The Chief Banking Officer, who has extensive retail financial sales and managerial experience will oversee, FNCB's commercial lending, retail lending and retail banking units.

Stock Repurchase Program

FNCB is continuously focused on creating long-term shareholder value. With this in mind, on January 27, 2021, FNCB's Board of Directors authorized a stock repurchase program. The program provides for the purchase of up to 975,000 shares of FNCB's outstanding common stock in open market transactions beginning on February 3, 2021 and ending on December 31, 2021. Repurchases are made pursuant to a trading plan that was adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. Acquisitions under the program will be administered through an independent broker at prevailing market prices. Repurchases are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the trading plan. Under the program, the purchases will be funded from available working capital presently available to FNCB, and the repurchased shares will be returned to the status of authorized but unissued shares of Common Stock. There is not a guarantee as to the exact number of shares that will be repurchased by FNCB, and FNCB may discontinue purchases at any time that management determines additional repurchases are no longer warranted.

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 2020, 2019 and 2018.

In 2020, in response to economic fallout from the global pandemic, the Federal Open Market Committee (“FOMC”) reduced the federal funds target rate a total of 150 basis points in two emergency actions: a 50 basis point decrease on March 3, 2020 followed by another 100 basis point decrease on March 16, 2020. The federal funds target rate remained at 0.00% to 0.25% from this point through the remainder of 2020. These actions resulted in a corresponding decrease in the national prime rate to 3.25% at December 31, 2020 from 4.75% at December 31, 2019. As a result, FNCB experienced a decrease in loan yields throughout 2020, compared to 2019. In addition, loan yields were impacted by the origination and funding of low-yielding PPP loans with a rate of 1.0%, offset by the recognition of net loan origination fees associated with a portion of these loans that were forgiven by the SBA. The Bank remained competitive in deposit rate offerings, parallel to market conditions and a surplus of liquidity within the industry. As a result, FNCB experienced a decrease in funding costs across interest-bearing deposits.

Tax-equivalent net interest income increased in 2020, by $4.3 million, or 11.7%, to $41.0 million compared to $36.7 million in 2019. The increase in tax-equivalent net interest income primarily reflected a $3.6 million decrease in interest expense, coupled with a $0.6 million increase in tax-equivalent interest income. The decrease in interest expense largely reflected significant reductions in the rates paid on interest-bearing demand deposits, time deposits, and borrowed funds. Also factoring into the decrease in interest expense was a decrease in the average balance of higher-costing borrowed funds. Average borrowed funds decreased $12.3 million, or 19.4%, to $51.3 million in 2020 from $63.6 million in 2019. Due to the decrease in deposit rates, FNCB experienced some deposit migration, as customers redirected maturing time deposits into non-maturity deposits. Tax-equivalent interest income in 2020 was negatively impacted by lower rates on average earning assets, which was more than entirely offset by the increase in the overall volumes of average earning assets. FNCB's tax-equivalent interest margin increased 6 basis points to 3.35% in 2020 from 3.29% in 2019. 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, increased 13 basis points to 3.21% in 2020 compared to 3.08% in 2019.

A decrease in funding costs was the driving factor that lead to the $3.6 million, or 37.1%, decrease in interest expense to $6.2 million in 2020 from $9.8 million in 2019. Rates paid on interest-bearing deposits decreased 37 basis points to 0.59% in 2020 from 0.96% in 2019, resulting in a corresponding decrease to interest expense of $2.8 million. The decrease in deposit rates was concentrated in other time deposits, which decreased 38 basis points to 1.22% in 2020, compared to 1.60% in 2019. In addition, interest-bearing demand deposits, decreased 33 basis points to 0.48% in 2020 as compared to 0.81% in 2019. The reduction in rates paid on time deposits and interest-bearing demand deposits contributed $1.9 million and $0.8 million to the overall decrease in interest expense due to changes in interest rates. The rate paid on savings deposits decreased slightly to 0.10% in 2020 compared to 0.13% in 2019 but had minimal impact on interest expense. Additionally, the rate paid on borrowed funds decreased 119 basis points to 1.47% in 2020 from 2.66% in 2019, contributing $0.6 million to the overall decrease in interest expense. Also contributing to the decrease to interest expense was a $12.3 million, or 19.4%, decrease in the average balance of other borrowed funds to $51.3 million in 2020 from $63.6 million in 2019, which led to a corresponding decrease in interest expense of $0.3 million. While FNCB experienced significant deposit growth, changes in average volumes of interest-bearing deposits resulted in only a negligible increase to interest expense, which reflected the deposit migration experienced in 2020. Total average interest-bearing deposits increased $63.7 million, or 7.5%, to $908.5 million in 2020 from $844.8 million in 2019, which resulted in an $86 thousand increase in interest expense. Specifically, the average balance of time deposits decreased $43.0 million, or 18.1%, to $195.1 million in 2020 from $238.1 million in 2019. The decrease in average time deposits resulted in a corresponding decrease to interest expense of $0.6 million, which was more than entirely offset by a $98.0 million, or 19.1%, increase in average interest-bearing demand deposits to $611.5 million in 2020 as compared to $513.5 million in 2019, which caused an increase to interest expense by $0.7 million.

Tax-equivalent interest income increased $0.6 million, or 1.4%, to $47.1 million in 2020 from $46.5 million in 2019, which reflected higher volumes of average earning assets, partially offset by lower earning asset yields. Average earning assets increased $106.2 million, or 9.5%, to $1.223 billion in 2020 from $1.117 billion in 2019, resulting in a corresponding increase to tax-equivalent interest income of $4.5 million. However, the tax-equivalent yield on earning assets fell 31 basis points to 3.85% in 2020 from 4.16% in 2019, which caused a partially offsetting decrease to tax-equivalent interest income of $3.9 million. Changes in the composition of FNCB's investments portfolio was able to mitigate the impact of lower market rates. Overall, changes in volumes and rates on the the investment portfolio contributed $1.0 million in tax-equivalent interest income. Specifically, average investments increased $22.8 million, or 8.2% to $302.2 million in 2020 from $279.4 million in 2019, primarily due to the increase in tax-free securities, which averaged $51.4 million in 2020 compared to $4.6 million in 2019. Conversely, taxable securities averaged $250.9 million in 2020, a decrease of $23.8 million, or 8.7%, from $274.7 million in 2019. The shift in composition of FNCB's investment portfolio reflected the change in its income tax position, as the majority of available NOL carryforwards were consumed in 2020. The tax-equivalent yield on the investment portfolio increased 10 basis points to 3.00% in 2020 from 2.90% in 2019. Conversely, changes in volumes and rates on the loan portfolio and interest-bearing deposits in other banks resulted in decreases to tax-equivalent interest income of $0.2 million each. Specifically, average loans increased $82.0 million, or 9.9%, to $911.4 million in 2020 compared to $829.4 million in 2019, resulting in a corresponding increase to tax-equivalent interest income of $3.6 million. The tax-equivalent yield earned on the loan portfolio decreased 43 basis points to 4.18% in 2020 from 4.61% in 2019, which caused a decrease to tax-equivalent interest income of $3.8 million. The impact on changes in loan volumes and rates largely reflected the origination of PPP loans. PPP loans, which carry an interest rate of 1.00%, averaged $76.9 million in 2020. Including amortization of net origination fees associated with PPP loans of $1.2 million, the yield on PPP loans was 2.61% in 2020. Tax-equivalent yield on average interest-bearing deposits decreased 208 basis points to 0.30% in 2020 from 2.38% in 2019, resulting in a $195 thousand decrease in tax equivalent interest income, which was slightly offset by the $1.3 million, or 16.4%, increase in volume to $9.2 million in 2020 from $7.9 million in 2019.

Non-accrual loans

The 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 for both years ended December 31, 2020 and 2019. Additionally, interest income recognized on impaired loans based on payments received approximated $0.4 million for both years ended December 31, 2020 and 2019.

The following table presents the components of net interest income for the three years ended December 31, 2020, 2019 and 2018:

Summary of Net Interest Income

	For the Year Ended December 31,								
	2020			2019			2018		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Assets:									
Earning assets (2)(3)									
Loans-taxable (4)	$ 863,702	$ 35,980	4.17 %	$ 784,124	$ 36,332	4.63 %	$ 783,438	$ 34,714	4.43 %
Loans-tax free (4)	47,669	2,070	4.34 %	45,246	1,881	4.16 %	52,251	2,110	4.04 %
Total loans (1)(2)	911,371	38,050	4.18 %	829,370	38,213	4.61 %	835,689	36,824	4.41 %
Securities-taxable	250,881	7,322	2.92 %	274,739	7,901	2.88 %	302,418	8,483	2.81 %
Securities-tax free	51,367	1,738	3.38 %	4,618	189	4.09 %	4,087	168	4.11 %
Total securities (1)(5)	302,248	9,060	3.00 %	279,357	8,090	2.90 %	306,505	8,651	2.82 %
Interest-bearing deposits in other banks (6)	9,203	28	0.30 %	7,910	188	2.38 %	4,667	88	1.89 %
Total earning assets	1,222,822	47,138	3.85 %	1,116,637	46,491	4.16 %	1,146,861	45,563	3.97 %
Non-earning assets	145,227			101,273			84,283		
Allowance for loan and lease losses	(10,867)			(9,359)			(9,584)		
Total assets	$ 1,357,182			$ 1,208,551			$ 1,221,560		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities									
Interest-bearing demand deposits	$ 611,511	2,933	0.48 %	$ 513,542	4,167	0.81 %	$ 502,978	2,881	0.57 %
Savings deposits	101,847	97	0.10 %	93,114	124	0.13 %	98,927	133	0.13 %
Time deposits	195,140	2,374	1.22 %	238,145	3,810	1.60 %	236,162	2,911	1.23 %
Total interest-bearing deposits	908,498	5,404	0.59 %	844,801	8,101	0.96 %	838,067	5,925	0.71 %
Borrowed funds and other interest-bearing liabilities	51,287	756	1.47 %	63,640	1,695	2.66 %	119,573	2,653	2.22 %
Total interest-bearing liabilities	959,785	6,160	0.64 %	908,441	9,796	1.08 %	957,640	8,578	0.90 %
Demand deposits	242,017			164,035			168,313		
Other liabilities	11,368			11,395			8,831		
Shareholders' equity	144,012			124,680			86,776		
Total liabilities and shareholders' equity	$ 1,357,182			$ 1,208,551			$ 1,221,560		
Net interest income/interest rate spread (6)(7)		40,978	3.21 %		36,695	3.08 %		36,985	3.07 %
Tax equivalent adjustment		(800)			(435)			(478)	
Net interest income as reported		$ 40,178			$ 36,260			$ 36,507	
Net interest margin (6)(8)			3.35 %			3.29 %			3.22 %

(1) Interest income is presented on a tax-equivalent basis using a 21% rate.
(2) Loans are stated net of unearned income.
(3) Non-accrual loans are included in loans within earning assets.
(4) Interest income on loans includes net loan fees of $467 in 2020, and net loan costs of $1,467 in 2019 and $1,650 in 2018.
(5) The yields for securities that are classified as available for sale are based on the average historical amortized cost.
(6) Information for 2019 includes revisions to average balances to reclassify certain average deposits in other banks from interest-bearing deposits in other banks to non-earning assets in the amount of $4,794.
(7) 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.
(8) 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

	For the Year Ended December 31,					
	2020 vs. 2019			2019 vs. 2018		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
(in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans-taxable	$ 3,501	$ (3,853)	$ (352)	$ 30	$ 1,588	$ 1,618
Loans-tax free	103	86	189	(290)	61	(229)
Total loans	3,604	(3,767)	(163)	(260)	1,649	1,389
Securities-taxable	(695)	116	(579)	(792)	210	(582)
Securities-tax free	1,587	(38)	1,549	22	(1)	21
Total securities	892	78	970	(770)	209	(561)
Interest-bearing deposits in other banks	35	(195)	(160)	73	27	100
Total interest income	4,531	(3,884)	647	(957)	1,885	928
Interest expense:						
Interest-bearing demand deposits	692	(1,926)	(1,234)	62	1,224	1,286
Savings deposits	11	(38)	(27)	(8)	(1)	(9)
Time deposits	(617)	(819)	(1,436)	25	874	899
Total interest-bearing deposits	86	(2,783)	(2,697)	79	2,097	2,176
Borrowed funds and other interest-bearing liabilities	(284)	(655)	(939)	(1,415)	457	(958)
Total interest expense	(198)	(3,438)	(3,636)	(1,336)	2,554	1,218
Net interest income	$ 4,729	$ (446)	$ 4,283	$ 379	$ (669)	$ (290)

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.

During 2020, management took into consideration the potential adverse impact that the COVID-19 pandemic has had on economic conditions in its application of FNCB's methodology on the allowance for loan and lease losses. Specifically, management tried to address this adverse impact by adjusting the qualitative factor associated with changes in national, local and business economic conditions and developments. In addition, management increased the unallocated portion of the ALLL to a maximum of 10.0% of the total allowance. Both actions have resulted in higher credit provisioning during the twelve months ended December 31, 2020. FNCB recorded a provision for loan and lease losses of $1.9 million for the year ended December 31, 2020, an increase of $1.1 million compared to $0.8 million for the year ended December 31, 2019.

Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2020 and 2019:

Components of Non-Interest Income

(in thousands)	Year Ended December 31, 2020	2019
Deposit service charges	$ 3,252	$ 3,035
Net gain on the sale of available-for-sale securities	1,528	1,227
Net gain on equity securities	1,171	29
Net gain on the sale of mortgage loans held for sale	653	253
Net gain on the sale of other real estate owned	-	20
Loan-related fees	348	378
Income from bank-owned life insurance	482	520
Loan referral fees	390	703
Merchant services revenue	565	536
Other	861	919
Total non-interest income	$ 9,250	$ 7,620

For the year ended December 31, 2020, non-interest income increased $1.6 million to $9.2 million compared to $7.6 million for the year ended December 31, 2019. The 21.4% increase in non-interest income primarily reflected a $1.1 million increase in net gains on equity securities. Net gains on equity securities in 2020 included a $1.1 thousand gain recognized on FNCB's investment in the common stock of a privately held bank holding company as part of the completion of a merger and acquisition. Also contributing to the higher level of non-interest income were increases in the net gains realized on the sale of mortgage loans held for sale and available-for-sale debt securities, and an increase in deposit services charges. An increase in mortgage volume due to historically low interest rates, coupled with favorable pricing on the secondary market, led to a $400 thousand, or 158.1%, increase in net gains on the sale of mortgages held for sale to $653 thousand in 2020, compared to $253 thousand in 2019. Net gains on the sale of available-for-sale debt securities increased $301 thousand, or 24.5%, to $1.5 million in 2020 from $1.2 million in 2019. With regard to deposit service charges, in the second half of 2019, FNCB engaged an independent third party to conduct a comprehensive evaluation of FNCB's non-interest income and fee structure to identify opportunities for enhancement. Recommendations to the fee structure arising from this assessment were fully implemented prior to the beginning of 2020. FNCB also implemented an automated, dynamic overdraft management system in 2020. As a result, deposit service charges increased, $217 thousand, or 7.1%, to $3.2 million in 2020 compared to $3.0 million in 2019. The increase primarily reflected increases in ATM surcharge fees, service charges on consumer and business demand deposits and overdraft-related fees.

Partially offsetting the increases to non-interest income was a $313 thousand, or 44.5%, decline in loan referral fees/interest rate swap revenue to $390 thousand in 2020 from $703 thousand in 2019. Loan referral fees include fees received from third-party counterparties related to various commercial loan interest rate swap transactions and fees received for the referral of FHA residential mortgage loans to a third-party broker. The decrease in these fees reflected a reduction in both the number and volume of such transactions in 2020 as compared to 2019.

In 2019, FNCB also recorded a $114 thousand BOLI death benefit claim, included in other non-interest income. There were no BOLI death benefit claims in 2020.

Non-Interest Expense

The following table presents the major components of non-interest expense for the years ended December 31, 2020 and 2019:

Components of Non-Interest Expense

	Year Ended December 31,	
(in thousands)	**2020**	**2019**
Salaries and employee benefits	$ 15,246	$ 15,518
Occupancy expense	2,052	1,948
Equipment expense	1,477	1,319
Advertising expense	685	738
Data processing expense	2,933	3,113
Bank shares tax	786	566
Professional fees	999	1,056
Other operating expenses	4,737	5,424
Total non-interest expense	$ 28,915	$ 29,682

Non-interest expense totaled $28.9 million in 2020, a decrease of $767 thousand, or 2.6%, from $29.7 million in 2019. The decrease resulted primarily from decreases in salaries and employee benefits, data processing expense and other operating expenses. Partially offsetting these decreases were increases in occupancy costs, equipment expenses and bank shares tax.

Salaries and employee benefits decreased $272 thousand, or 1.75%, to $15.2 million in 2020 from $15.5 million in 2019. The reduction in salaries and employee benefits was largely due to an increase in payroll-related costs that were deferred and amortized over the life of the loan under ASC 310-20, which primarily reflected the 1,002 PPP loans originated in 2020. Also impacting the decrease in salaries and employee benefits was a 7.5-person reduction in full-time equivalent employees, due primarily to COVID-19 limitations on branch operations. As a result, salary costs decreased $320 thousand, or 2.7%, to $11.7 million in 2020 from $12.0 million in 2019, and payroll taxes decreased $56 thousand, or 5.8%, to $906 thousand in 2020 from $962 thousand in 2019. Partially offsetting these factors were increases in employee incentive costs of $142 thousand, or 20.3%, health insurance expense of $121 thousand, or 10.1%, and retirement costs of $95 thousand, or 19.8%. At the end of 2020, the Board of Directors approved a special one-time bonus to each employee to convey appreciation during this unprecedented time, which included payments of $500 and $250 for each full-time and part-time employee, respectively. The total cost of this one-time incentive payment was $101 thousand, which accounted for the majority of the increase in incentive costs. In the fourth quarter of 2019, FNCB began self-insuring employee healthcare benefits through a consortium. The increase in health insurance expense reflected first year costs and timing differences of benefit billing and payments associated with the transition. The higher amount of retirement costs was due to increases in supplemental employee retirement plan ("SERP") contributions and changes in FNCB's 401(k) plan including, an increase to the percentage for employer match and institution of an auto-enrollment feature upon hire.

Other operating expenses decreased $687 thousand, or 12.7%, to $4.7 million in 2020 from $5.4 million in 2019. The decrease was predominately due to a $538 thousand favorable swing in the provision for off-balance sheet commitments due to lower commitment volumes. FNCB recorded a credit for off-balance sheet commitments of $90 thousand in 2020 compared to a provision of $448 thousand in 2019.

Occupancy costs increased $104 thousand, or 5.4%, to $2.0 million in 2020 from $1.9 million in 2019, while equipment expenses increased $158 thousand, or 11.9%, to $1.5 million in 2020, compared to $1.3 million in 2019, reflecting a full-year of depreciation expense for premises and furniture and equipment related to the new offices opened in mid-2019. In addition, COVID-19 related expenses such as the cleaning and sanitization of branch and administrative offices, the installation of health and safety equipment including hand sanitizing stations and plexiglass partitions, computer-related expenses to enable a remote work environment also factored into the increase in occupancy and equipment expense.

Bank shares tax also increased in 2020, to $786 thousand, up $220 thousand from $566 thousand recorded at December 31, 2019, which reflected an increase in capital at the Bank level.

Provision for Income Taxes

FNCB recorded income tax expense of $3.2 million in 2020, an increase of $899 thousand, or 38.6%, compared to $2.3 million in 2019. The increase in income tax expense was due to higher taxable income in 2020 as compared to 2019.

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, 2020 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, 2020 or 2019.

FINANCIAL CONDITION

Total assets were $1.466 billion at December 31, 2020, an increase of $262.1 million, or 21.8%, from $1.204 billion at December 31, 2019. The increase in total assets resulted from the increase in interest-earning assets, specifically an increase in available-for-sale debt securities of $77.2 million, or 28.3%, to $350.0 million at December 31, 2020 from $272.8 million at December 31, 2019. Loans, net of the allowance for loan and lease losses, also increased by $69.6 million, or 8.5%, to $889.2 million at December 31, 2020 from $819.5 million at December 31, 2019. The increase was largely due to the origination of PPP loans, of which $76.0 million, net of net deferred origination fees, were outstanding at December 31, 2020. Cash and cash equivalents increased $121.2 million, or 350.8% to $155.8 million at December 31, 2020 from $34.6 million at December 31, 2019. Total deposits increased $285.7 million, or 28.5%, to $1.287 billion at December 31, 2020 from $1.002 billion at December 31, 2019. The increase in deposits was primarily attributable to increases in both interest-bearing and non-interest-bearing deposits. Total borrowed funds decreased $46.9 million, or 82.0% to $10.3 million at December 31, 2020 from $57.2 million at December 31, 2019. FNCB had no term or overnight borrowings through the FHLB of Pittsburgh outstanding as of December 31, 2020.

Total shareholders' equity increased $22.3 million, or 16.7%, to $155.9 million at December 31, 2020 from $133.6 million at December 31, 2019. The increase was due to net income in 2020 of $15.3 million and a $10.8 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 $4.4 million. Dividends declared and paid by FNCB on its common stock totaled $0.22 per share in 2020, an increase of $0.02 per share, or 10.0%, compared to $0.20 per share in 2019. On January 27, 2021, the Board of Directors of FNCB declared a $0.06 per share dividend for the first quarter of 2021, which was a 9.1% increase compared to the $0.055 per share dividend declared for the first quarter of 2020. The first quarter 2021 dividend is payable on March 15, 2021 to shareholders of record on March 1, 2021.

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, 2020 and 2019, 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, 2020, 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 and tax-free 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, 2020.

The investment portfolio is predominantly fixed-rate in nature. As such, 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. U.S. Treasury rates fell significantly in the first quarter of 2020 in response to the outbreak of COVID-19, declaration of a national emergency and economic shutdown in March 2020. U.S. Treasury rates fluctuated slightly but hovered near historic lows for the remainder of 2020. Conversely, spreads between short- and long-term rates widened from the narrow margins exhibited in 2019, adding some minor slope to the yield curve. Specifically, the spread between the 2-year and 10-year U.S. Treasury rate, which was 0.34% at December 31, 2019 widened 46 basis points to 0.80% at December 31, 2020. The 2-year Treasury rate, which was 1.58% at December 31, 2019, fell 135 basis points to 0.23% at March 31, 2020 and decreased another 10 basis points to 0.13% at December 31, 2020. Meanwhile, the 10-year Treasury rate, which was 1.92% at December 31, 2019, dropped 122 basis points to 0.70% at March 31, 2020, but rebounded 23 basis points to 0.93% at December 31, 2020. Due to the decrease in rates comparing December 31, 2020 and 2019, FNCB experienced significant appreciation in the fair value of its investment portfolio. FNCB reported a net unrealized holding gain on its investment portfolio of $14.0 million, net of income taxes of $3.7 million at December 31, 2020, compared to a $3.1 million net unrealized holding gain, net of income taxes of $0.8 million, at December 31, 2019. However, any further 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 and equity securities with readily determinable fair values at December 31, 2020, 2019 and 2018:

Composition of the Investment Portfolio

	December 31,		
(in thousands)	**2020**	**2019**	**2018**
Available-for-sale debt securities			
Obligations of state and political subdivisions	$ 205,828	$ 117,763	$ 152,187
U.S. government/government-sponsored agencies:			
Collateralized mortgage obligations - residential	56,972	80,294	34,207
Collateralized mortgage obligations - commercial	3,904	17,723	73,640
Mortgage-backed securities	13,026	18,485	23,934
Private collateralized mortgage obligations	38,199	25,075	2,913
Corporate debt securities	24,580	7,182	4,936
Asset-backed securities	7,526	5,621	1,802
Negotiable certificates of deposit	-	696	2,413
Total available-for-sale debt securities	$ 350,035	$ 272,839	$ 296,032
Equity securities, at fair value	$ 3,026	$ 920	$ 891

Management monitors the investment portfolio regularly and adjusts the investment strategy to reflect changes in liquidity needs, asset/liability strategy and tax-planning requirements. The composition of FNCB's investment portfolio shifted in 2020, reflecting the change in its income tax position, as the majority of available NOL carryforwards were consumed in 2020. At December 31, 2020, available NOLs were approximately $2.0 million, a decrease of $18.7 million compared to $20.7 million outstanding at December 31, 2019. Because of the change in tax position, FNCB increased its holdings of tax-free investments in 2020.

Management continually monitors the investment portfolio for credit worthiness, value, and yield. Each year management engages a third-party consultant to review the municipal portfolio to determine if there is any undue credit risk within the portfolio. In 2020, management decided to increase the frequency of independent third-party reviews of its municipal investments from annually to semi-annually with the most recent credit review conducted as of December 31, 2020. As part of the independent review, each security is compared to their Portfolio Credit Benchmark to identify which securities may contain more than a minimal risk of payment default. As of December 31, 2020, the third-party report concluded that each security held within the portfolio met or exceeded the benchmark and that none of the securities required further review. The next third-party review is scheduled for June 30, 2021. Management also monitors municipal securities monthly using a third-party Municipal Surveillance Report.

Market conditions in 2020 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 2020 with an aggregate amortized cost of $66.7 million. Gross proceeds received on the sales totaled $68.2 million, with net gains of $1.5 million realized upon the sales and included in non-interest income. The securities sold had a weighted-average yield of 1.63%.

Securities purchased during the year ended December 31, 2020 totaled $152.7 million, including $72.9 million in tax-free obligations of state and political subdivisions, $22.8 million in taxable obligations of state and political subdivisions, $19.8 million in private CMOs, $17.8 million in corporate debt securities, $12.1 million in CMOs of U.S. government-sponsored agencies and $7.3 million in asset-backed securities. Securities purchased during 2020 had a weighted-average yield of 2.58%.

The following table presents the maturities of available-for-sale debt securities, based on carrying value at December 31, 2020, 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, 2020						
(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	$ 4,718	$ 65,429	$ 23,821	$ 111,860	$ -	$ -	$ 205,828
Yield	2.42%	2.95%	2.92%	2.85%			2.88%
U.S. government/government-sponsored agencies:							
Collateralized mortgage obligations – residential	-	-	-	-	56,972	-	56,972
Yield					2.75%		2.75%
Collateralized mortgage obligations – commercial	-	-	-	-	3,904	-	3,904
Yield					1.98%		1.98%
Mortgage-backed securities	-	-	-	-	13,026	-	13,026
Yield					3.17%		3.17%
Private collateralized mortgage obligations	-	-	-	-	38,199	-	38,199
Yield					2.53%		2.53%
Corporate debt securities	-	1,004	23,576	-	-	-	24,580
Yield		6.50%	5.12%				5.18%
Asset-backed securities	-	-	-	-	7,526	-	7,526
Yield					1.57%		1.57%
Total available-for-sale maturities	$ 4,718	$ 66,433	$ 47,397	$ 111,860	$ 119,627	$ -	$ 350,035
Weighted average yield	2.42%	3.00%	4.02%	2.85%	2.63%	-%	2.96%

OTTI Evaluation

There was no OTTI recognized during the years ended December 31, 2020 and 2019. 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.

Management noted no indicators of impairment for the FHLB of Pittsburgh or Atlantic Community Bankers Bank stock at December 31, 2020, 2019 and 2018.

Equity Securities and Equity Securities without Readily Determinable Fair Value

At December 31, 2019, FNCB owned 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 this bank holding company was not traded on any established market. FNCB had accounted for this transaction as an equity security without a readily determinable fair value. The $1.7 million investment was included in other assets at December 31, 2019.

On December 18, 2019, this privately held bank holding company entered into an Agreement and Plan of Merger ("Merger Agreement") with a publicly traded bank holding company. The Merger Agreement provided for the privately held bank holding company to merge with and into the publicly traded bank holding company, the company surviving the merger ("surviving company"). The surviving company's common stock trades on Nasdaq. The acquisition was completed on July 1, 2020. FNCB received $1.2 million in cash for 74,113 of the acquired shares having a cost of $611 thousand. FNCB realized a gain of $611 thousand as part of this transaction. The remaining 122,178 shares with a cost of $1.0 million were converted into 78,822 shares of the surviving company's common stock that had a fair value of $19.90 per share on July 1, 2020 or $1.6 million in aggregate, which exceeded the cost basis of $1.0 million. FNCB recognized an unrealized gain of $522 thousand on the conversion of this stock upon the acquisition.

On September 15, 2020, FNCB purchased 20,000 shares of the fixed-rate non-cumulative perpetual preferred stock of another publicly traded bank holding company pursuant to an underwritten public offering at an offering price of $25.00 per share or $500 thousand in aggregate. The preferred stock, which trades on Nasdaq, pays a quarterly dividend rate of 7.50%. Also included in equity securities at December 31, 2020 and 2019, was a $1.0 million investment in a mutual fund comprised of 1-4 family residential mortgage-backed securities collateralized by properties within FNCB's market area.

Equity securities held by FNCB with a readily determinable fair value are reported at fair value on the consolidated statements of financial condition with unrealized gains and losses recognized in non-interest income in the consolidated statements of income. At December 31, 2020 and 2019, equity securities had a cost basis of $2.5 million and $1.0 million, respectively. The fair value of equity securities was $3.0 million at December 31, 2020 and $0.9 million at December 31, 2019.

On December 29, 2020, FNCB purchased 20,000 shares of the fixed-rate, non-cumulative perpetual preferred stock of a privately-held bank holding company at an offering price of $25.00 per share or $500 thousand in aggregate, which is included in other assets in the consolidated statements of financial condition. The preferred stock pays quarterly dividends at an annual rate of 8.25%, commencing March 30, 2021. The preferred stock of this bank holding company is not traded on any established market and is accounted for as an equity security without a 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. As part of its qualitative assessment, management engaged an independent third party of provide a valuation of this investment as of December 31, 2020, which indicated that the investment was not impaired. Management determined that no adjustment for impairment was required at December 31, 2020.

Loans

Total loans, gross increased by $76.9 million, or 9.3%, to $903.3 million at December 31, 2020 from $826.4 million at December 31, 2019. The increase in loan balances was largely due to the origination of PPP loans. Gross PPP loans outstanding at December 31, 2020 were $78.6 million. Additionally, FNCB experienced moderate demand for residential real estate loans, construction, land acquisition and development loans, commercial and industrial loans and loans to state and political subdivisions, while commercial real estate loans and consumer loans contracted, comparing December 31, 2020 and 2019.

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 63.3% and 57.3% of total loans at December 31, 2020 and December 31, 2019, respectively. The increase in commercial lending was largely due to increases in commercial and industrial loans, specifically PPP loans, and construction, land acquisition and development loans. Excluding PPP loans, commercial lending represented 59.8% of total loans at December 31, 2020.

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, and residential real estate loans increased by $16.2 million, or 3.2%, to $530.0 million at December 31, 2020 from $513.8 million at December 31, 2019. The increase was primarily attributable to strong demand for commercial construction loans, as construction, land acquisition and development loans increased $12.3 million, or 25.9%, to $59.8 million at December 31, 2020 from $47.5 million at December 31, 2019. Real estate secured loans as a percentage of total gross loans decreased to 58.7% at December 31, 2020 from 62.2% at December 31, 2019. Excluding PPP loans, real estate secured loans as a percentage of total gross loans at December 31, 2020 was 64.3%.

Commercial and industrial loans increased $90.8 million, or 61.5%, during the year to $238.4 million at December 31, 2020 from $147.6 million at December 31, 2019. Commercial and industrial loans consist primarily of equipment loans, working capital financing, revolving lines of credit and loans secured by cash and marketable securities and PPP loans. Excluding PPP loans, commercial and industrial loans increased $12.2 million or 8.3%. Loans secured by commercial real estate decreased $4.5 million, or 1.6%, to $273.9 million at December 31, 2020 from $278.4 million at December 31, 2019**.** Commercial real estate loans include long-term commercial mortgage financing and are primarily secured by first or second lien mortgages.

FNCB 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, FNCB 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. FNCB also offers home equity loans and home equity lines of credit ("HELOC") 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, while HELOCs are variable-rate loans. Residential real estate loans totaled $196.3 million at December 31, 2020, an increase of $8.4 million, or 4.5%, from $187.9 million at December 31, 2019. In 2020, FNCB experienced strong demand for its proprietary WOW mortgage product, which increased $21.9 million, or 42.9%, to $72.9 million at December 31, 2020 from $51.0 million at December 31, 2019. Partially offsetting this increase were reductions in traditional 1-4 family mortgages, home equity loans and HELOCs.

Consumer loans totaled $85.9 million at December 31, 2020, a decrease of $35.2 million, or 29.1%, from $121.1 million at December 31, 2019. The majority of the decrease was concentrated within the indirect auto loan portfolio, as FNCB did not aggressively compete for these loans in 2020. Loans to state and municipal governments increased $5.1 million, or 11.6%, to $49.0 million at December 31, 2020 from $43.9 million at December 31, 2019.

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

Loan Portfolio Detail

	December 31,				
(in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Residential real estate	$ 196,328	$ 187,863	$ 184,531	$ 179,439	$ 167,906
Commercial real estate	273,903	278,379	262,778	261,783	243,830
Construction, land acquisition and development	59,785	47,484	20,813	20,981	18,357
Commercial and industrial	238,435	147,623	150,962	150,103	150,758
Consumer	85,881	121,099	157,086	113,234	104,198
State and political subdivisions	49,009	43,908	59,037	42,529	43,709
Total loans, gross	903,341	826,356	835,207	768,069	728,758
Unearned income	(110)	(69)	(70)	(80)	(48)
Net deferred loan (fees) costs	(2,129)	2,192	3,963	2,654	2,569
Allowance for loan and lease losses	(11,950)	(8,950)	(9,519)	(9,034)	(8,419)
Loans, net	$ 889,152	$ 819,529	$ 829,581	$ 761,609	$ 722,860

The following table presents the maturity distribution and interest rate information of the loan portfolio by major category as of December 31, 2020:

Maturity Distribution of the Loan Portfolio

(in thousands)	December 31, 2020 Within One Year	One to Five Years	Over Five Years	Total
Residential real estate	$ 6,941	$ 14,018	$ 175,369	$ 196,328
Commercial real estate	6,844	53,756	213,303	273,903
Construction, land acquisition and development	6,378	17,168	36,239	59,785
Commercial and industrial	69,098	145,835	23,502	238,435
Consumer	1,980	78,280	5,621	85,881
State and political subdivisions	776	3,681	44,552	49,009
Total loans, gross	$ 92,017	$ 312,738	$ 498,586	$ 903,341
Loans with predetermined interest rates	$ 15,859	$ 259,444	$ 174,935	$ 450,238
Loans with floating rates	76,158	53,294	323,651	453,103
Total loans, gross	$ 92,017	$ 312,738	$ 498,586	$ 903,341

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. FNCB had no such concentrations at December 31, 2020 and 2019. In addition to industry guidelines, FNCB'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 in 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, 2020 and 2019:

Loan Concentrations

	December 31,			
	2020		2019	
(dollars in thousands)	Amount	% of Gross Loans	Amount	% of Gross Loans
Retail space/shopping centers	$ 43,926	4.86%	$ 43,865	5.31%
1-4 family residential investment properties	58,114	6.43%	38,122	4.61%

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.

FNCB 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, including the Director's Loan Committee. Management continually evaluates its credit risk management practices to ensure problems in the loan portfolio are addressed 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 FNCB'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 from the finance, legal, retail lending and credit administration units, meets monthly or more often as necessary to review individual problem credits and workout strategies and provides monthly reports to the Director's Loan Committee and full Board of Directors.

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, 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. Employment conditions in FNCB's market area worsened in 2020 due to the COVID-19 pandemic. Unemployment rates across the United States and the Commonwealth of Pennsylvania spiked soon after the national emergency was declared, and non-essential businesses were required to shutdown or required to operate under capacity limitations. At December 31, 2019 (prior to COVID-19) the seasonally-adjusted unemployment rate for the United States, the Commonwealth of Pennsylvania and the Scranton/Wilkes-Barre/Hazleton Pennsylvania metropolitan statistical area ("MSA") were 3.6%, 4.6% and 6.0%, respectively. For April 2020, amid the closure of non-essential businesses, the unemployment rate for the entire United States jumped to 14.8%. Similarly, the unemployment rates for the Commonwealth of Pennsylvania and the Scranton/Wilkes-Barre/Hazleton Pennsylvania MSA rose to 16.1% and 18.4%, respectively in April 2020. However, later in the year unemployment rates, although still elevated in comparison to December 31, 2019, returned to more normal levels as restrictions were eased. For December 2020, the unemployment rates for both the United States and Commonwealth of Pennsylvania were 6.7%, while the unemployment rate for the Scranton/Wilkes-Barre/Hazleton Pennsylvania MSA was 7.9%. Management will continue to evaluate the effects of the pandemic as they unfold and proactively address any potential impact to the credit quality of FNCB's loan portfolio.

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

	December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Non-accrual loans, including non-accrual TDRs	$ 5,581	$ 9,084	$ 4,696	$ 2,578	$ 2,234
Loans past due 90 days or more and still accruing	-	-	-	-	-
Total non-performing loans	5,581	9,084	4,696	2,578	2,234
Other real estate owned	58	289	919	1,023	2,048
Other non-performing assets	1,900	1,900	1,900	1,900	2,160
Total non-performing assets	$ 7,539	$ 11,273	$ 7,515	$ 5,501	$ 6,442
Accruing TDRs	$ 6,975	$ 7,745	$ 8,457	$ 9,299	$ 4,176
Non-performing loans as a percentage of total loans, gross	0.62%	1.10%	0.56%	0.34%	0.31%

Despite economic uncertainty and elevated unemployment due to COVID-19, FNCB's asset quality metrics improved throughout 2020. Total non-performing assets decreased $3.7 million, or 33.1%, to $7.5 million at December 31, 2020 from $11.3 million at December 31, 2019. The decrease was due primarily to a decrease in non-accrual loans of $3.5 million, coupled with a $231 thousand decrease in OREO. The reduction in non-accrual loans was primarily attributable to the return of several large commercial relationships to accrual status during 2020. FNCB's ratio of non-performing loans to total gross loans decreased to 0.62% at December 31, 2020 from 1.10% at December 31, 2019. Similarly, FNCB's ratio of non-performing assets as a percentage of shareholders' equity decreased to 4.8% at December 31, 2020 from 8.4% at December 31, 2019. While credit quality metrics of FNCB's loan portfolio improved comparing December 31, 2020 and December 31, 2019, management believes the COVID-19 pandemic may have an adverse effect on asset quality in the future. Prolonged disruption to FNCB's customers could result in increased loan delinquencies, defaults and collateral devaluations. Management actively manages problem credits through workout efforts focused on developing strategies to resolve borrower difficulties through liquidation of collateral and other appropriate means. Additionally, management continues to monitor non-accrual loans, delinquency trends and economic conditions within FNCB's market area on an on-going basis in order to proactively address any collection-related issues and mitigate any potential losses.

The following table presents the changes in non-performing loans for the years ended December 31, 2020 and 2019. Loan foreclosures represent recorded investment at time of foreclosure not including the effect of any guarantees:

Changes in Non-performing Loans

	Year ended December 31,	
(in thousands)	**2020**	**2019**
Balance, January 1	$ 9,084	$ 4,696
Loans newly placed on non-accrual	2,352	9,030
Change in loans past due 90 days or more and still accruing	-	-
Loans transferred to OREO	-	-
Loans returned to performing status	(1,573)	(45)
Loans charged-off	(1,514)	(2,589)
Loan payments received	(2,768)	(2,008)
Balance, December 31	$ 5,581	$ 9,084

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 $0.4 million for both the years ended December 31, 2020 and 2019.

The following table presents accruing loan delinquencies and non-accrual loans as a percentage of gross loans at December 31, 2020 and 2019:

Loan Delinquencies and Non-accrual Loans

	December 31, 2020	December 31, 2019
Accruing:		
30-59 days	0.31%	0.26%
60-89 days	0.06%	0.10%
90+ days	0.00%	0.00%
Non-accrual	0.62%	1.10%
Total delinquencies	0.99%	1.46%

Total delinquencies as a percent of gross loans decreased to 0.99% at December 31, 2020 from 1.46% at December 31, 2019. The most predominant factor contributing to the decrease in total delinquencies was a net decrease in non-accrual loans of $3.5 million, concentrated in the commercial real estate segment. Loans 30-59 days past due increased, which surpassed the decrease in loan balances that were 60-89 days past due.

Other non-performing assets at December 31, 2020 and 2019 was 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 agreement provides for payment to FNCB as real estate building lots are sold. The project was stalled due to a decline in real estate values in this area following the financial crisis of 2008. In 2019, economic development in this market area started to improve and management had confirmed that the developer for this project had resumed construction activity, including the completion of substantial infrastructure, and had increased marketing and sales initiatives related to the project. As of December 31, 2020, no single-unit lots have been sold, however, the construction of a seven-unit building that houses timeshare units has been completed and owners began occupying the units in the fourth quarter of 2020. Management continues to monitor this project closely and is currently in negotiations with with the developer to establish a repayment plan beginning in 2021. However, uncertainty and economic volatility associated with the COVID-19 pandemic are unknown and could negatively impact the timing of sales and payments.

TDRs at December 31, 2020 and 2019 were $7.7 million and $9.1 million, respectively. Accruing and non-accruing TDRs were $7.0 million and $0.7 million, respectively at December 31, 2020 and $7.7 million and $1.4 million, respectively at December 31, 2019. Loans modified as TDRs during the year ended December 31, 2020, included three commercial and industrial loans and one residential mortgage loan. The three commercial loans with an aggregate pre- and post-modification recorded investment of $196 thousand, were modified under forbearance agreements. The modification of the residential loan involved an extension of terms and had a pre- and post-modification recorded investment of $93 thousand. In 2019, there were seven loan relationships modified as TDRs during the year, which incorporated a total of ten individual loans. There was one 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 TDR's 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, FNCB charged-off one of the commercial loans in the amount of $235 thousand.

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 for both the years ended December 31, 2020 and 2019. FNCB recognized interest on impaired loans of $351 thousand in 2020 and $398 thousand in 2019.

Modifications Related to COVID-19

In late March 2020, the federal banking regulators issued guidance encouraging banks to work prudently with and provide short-term payment accommodations to borrowers affected by COVID-19. Additionally, Section 4013 of the CARES Act addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 do not need to be classified as TDRs. FNCB has applied this guidance and made 922 such modifications, with 843 loans having an aggregate recorded investment of $151.4 million outstanding as of December 31, 2020. These initial modifications provided borrowers with a short-term, typically three-month, interest-only period or full payment deferral. FNCB extended a second payment deferral modification for 79 loans with an aggregate recorded investment of

$22.0 million. Management is closely monitoring all loans for which a payment deferral has been granted and will continue to follow regulatory guidance when working with the borrowers which have been impacted by COVID-19 and apply the provisions of the CARES Act in making any TDR determinations. As of December 31, 2020, there were 45 loans with an aggregate recorded investment of $9.5 million, or 1.06% of total loans, that were still under deferral.

The following table presents information about COVID-19 related loan modifications by major loan category as of December 31, 2020.

	As of December 31, 2020					
	Total Loans Modified			Total Number of Loans Still Under Deferral		
(in thousands)	Number of Loans	Recorded Investment	% of Loan Category	Number of Loans	Recorded Investment	% of Loan Category
COVID-19 related loan modifications:						
Residential real estate	199	$ 17,594	8.96%	5	$ 196	0.10%
Commercial real estate	146	94,586	34.53%	6	8,617	3.15%
Construction, land acquisition and development	11	11,019	18.43%	-	-	-
Commercial and industrial	106	21,659	9.08%	1	42	0.02%
Consumer	381	6,587	7.67%	33	677	0.79%
State and political subdivision	-	-	-	-	-	-
Total	843	$ 151,445	16.76%	45	9,532	1.06%

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 $11.9 million at December 31, 2020, an increase of $3.0 million, or 33.5%, from $8.9 million at December 31, 2019. The increase resulted from a provision for loan and lease losses of $1.9 million coupled with net recoveries of $1.1 million for the year ended December 31, 2020. The increase in the ALLL was primarily related to economic disruption and uncertainty caused by the COVID-19 pandemic. Management adjusted the qualitative factors for the potential effect of economic and employment uncertainty and disruption due to the global pandemic into its evaluation.

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 $416 thousand, or 3.5%**,** of the total ALLL at December 31, 2020, compared to $473 thousand, or 5.3%, of the total ALLL at December 31, 2019. A general reserve of $11.5 million was established for loans analyzed collectively under ASC 450 "*Contingencies*" ("ASC 450"), which represented 96.5% of the total ALLL of $11.9 million at December 31, 2020. Included in the general component of the ALLL at December 31, 2020 and 2019 were unallocated reserves of $1.1 million and $426 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. The increase in the unallocated reserve was directly related to the increase in credit provisioning due to the economic disruption caused by the COVID-19 pandemic. Based on these circumstances, management believes the increase and level of the unallocated reserve to be appropriate at December 31, 2020. The ratio of the ALLL to total loans at December 31, 2020 and December 31, 2019 was 1.33% and 1.08%, respectively, based on loans, net of net deferred loan costs and unearned income of $901.1 million and $828.5 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

	December 31,									
	2020		2019		2018		2017		2016	
(dollars in thousands)	**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	$ 1,715	21.73%	$ 1,147	22.73%	$ 1,175	22.09%	$ 1,236	23.36%	$ 1,171	23.04%
Commercial real estate	4,268	30.32%	3,198	33.69%	3,107	31.46%	3,499	34.08%	3,297	33.46%
Construction, land acquisition and development	538	6.62%	271	5.75%	188	2.49%	209	2.73%	268	2.52%
Commercial and industrial	2,619	26.39%	1,997	17.86%	2,552	18.08%	2,340	19.54%	1,736	20.69%
Consumer	1,319	9.51%	1,658	14.66%	2,051	18.81%	1,395	14.75%	1,457	14.30%
State and political subdivisions	405	5.43%	253	5.31%	417	7.07%	355	5.54%	490	5.99%
Unallocated	1,086	-%	426	-%	29	-%	-	-%	-	-%
Total	$ 11,950	100.00%	$ 8,950	100.00%	$ 9,519	100.00%	$ 9,034	100.00%	$ 8,419	100.00%

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

Reconciliation of the ALLL

	For the Year Ended December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Balance, January 1,	$ 8,950	$ 9,519	$ 9,034	$ 8,419	$ 8,790
Charge-offs:					
Residential real estate	-	27	63	192	153
Commercial real estate	336	-	1,845	159	398
Construction, land acquisition and development	-	18	-	-	-
Commercial and industrial	254	1,258	97	495	1,107
Consumer	975	1,311	1,134	603	960
State and political subdivision	-	-	-	-	-
Total charge-offs	1,565	2,614	3,139	1,449	2,618
Recoveries of charged-off loans:					
Residential real estate	43	9	135	29	4
Commercial real estate	846	32	42	45	6
Construction, land acquisition and development	-	82	30	480	9
Commercial and industrial	1,220	364	291	360	507
Consumer	515	761	576	381	568
State and political subdivision	-	-	-	-	-
Total recoveries	2,624	1,248	1,074	1,295	1,094
Net (recoveries) charge-offs	(1,059)	1,366	2,065	154	1,524
Provision for loan and lease losses	1,941	797	2,550	769	1,153
Balance, December 31,	$ 11,950	$ 8,950	$ 9,519	$ 9,034	$ 8,419
Ratios:					
Net (recoveries) charge-offs as a percentage of average loans	(0.12)%	0.16%	0.25%	0.02%	0.21%
Allowance for loan and lease losses as a percent of gross loans at end of period	1.33%	1.08%	1.13%	1.17%	1.15%
Allowance for loan and lease losses as a percent of gross loans at end of period, excluding PPP Loans	1.45%	1.08%	1.13%	1.17%	1.15%

Other Real Estate Owned

At December 31, 2020, there was one piece of commercial land with an aggregate carrying value of $58 thousand held in OREO, compared to two properties with an aggregate balance of $289 thousand at December 31, 2019. The two properties that were held as of December 31, 2019, included the piece of commercial land and a single family residential real estate property with carrying values of $85 thousand and $204 thousand, respectively. FNCB recorded a valuation adjustment to the carrying value of the piece of commercial land of $27 thousand in the third quarter of 2020. The residential real estate property, which was the collateral supporting an investor-owned residential mortgage loan, was sold in 2020. The agreement with the investor requires FNCB to take title of the property upon foreclosure and liquidate the property on behalf of the investor after foreclosure. FNCB did not realize any gain or loss upon the sale.

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. Net gains on the sale of OREO properties were included in non-interest income for the year ended December 31, 2019.

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 $27 thousand for the year ended December 31, 2020 and $85 thousand for the year ended December 31, 2019, 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, 2020 and 2019:

Activity in OREO

	For the Years Ended December 31,	
(in thousands)	**2020**	**2019**
Balance, Janauary 1	$ 289	$ 919
Real estate foreclosures	-	256
Transfer from bank premises	-	-
Valuation adjustments	(27)	(85)
Carrying value of OREO sold	(204)	(801)
Balance, December 31	$ 58	$ 289

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

Distribution of OREO

	December 31,				
(in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Land / lots	$ 58	$ 85	$ 436	$ 516	$ 641
Commercial real estate	-	-	438	427	1,380
Residential real estate	-	204	45	80	27
Total other real estate owned	$ 58	$ 289	$ 919	$ 1,023	$ 2,048

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 $164 thousand and $231 thousand and are included in other operating expense in the consolidated statements of income, for the years ended December 31, 2020 and 2019, 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. FNCB experienced strong deposit demand in 2020, which was concentrated primarily in non-maturity deposits. The strong demand was generally caused by factors related to the COVID-19 pandemic including among others, various government stimulus initiatives, PPP funding, and changes in consumer and saving habits and business investment in response to economic uncertainty. FNCB did experience some deposit migration during 2020 as maturing time deposits were redirected into non-maturity deposits.

Total deposits increased $285.7 million, or 28.5%, to $1.287 billion at December 31, 2020 from $1.002 billion at December 31, 2019. Interest-bearing deposits increased $193.7 million, or 23.6%, to $1.016 billion at December 31, 2020 from $822.2 million at December 31, 2019. In addition, non-interest-bearing demand deposits increased $92.0 million, or 51.3%, to $271.5 million at December 31, 2020 from $179.5 million at December 31, 2019. The increase in non-interest-bearing deposits was due primarily to increases in consumer and small business demand deposit accounts, including residual balances retained from PPP loan funding. With regard to interest-bearing deposits, the increase was primarily concentrated in interest-bearing demand accounts, specifically money market transaction accounts, interest-bearing public funds and interest-bearing business checking accounts. In total, interest-bearing demand deposits increased $178.7 million, or 33.4%, to $713.4 million at December 31, 2020 from $534.7 million at December 31, 2019. Time deposits with balances $250 thousand and over decreased $12.2 million, or 25.2%, to $36.2 million at December 31, 2020, from $48.4 million at December 31, 2019, while other time deposits increased $12.1 million, or 8.34%, to $156.7 million at December 31, 2020 from $144.6 million at December 31, 2019. Included in other time deposits was $20.0 million in brokered time deposits outstanding that are part of an interest rate swap transaction. Excluding brokered deposits, other time deposits would have contracted $7.9 million, or 5.5%. There were no brokered time deposits outstanding at December 31, 2019.

Non-interest-bearing demand deposits averaged $78.0 million, or 47.5%, higher at $242.0 million in 2020 as compared to $164.0 million in 2019. Interest-bearing deposits averaged $908.5 million in 2020, an increase of $63.7 million, or 7.5%, compared to $844.8 million in 2019. The increase was concentrated in average interest-bearing demand deposits which increased $98.0 million, or 19.1% comparing 2020 and 2019. Average savings deposits increased $8.7 million, or 9.3%, to $101.8 million in 2020 from $93.1 million in 2019. Partially offsetting these increases was a decrease of $43.0 million, or 18.1%, in average time deposits, to $195.1 million in 2020 from $238.1 million in 2019. FNCB's deposit funding costs decreased 37 basis points, to 0.59% in 2020 from 0.96% in 2019. Rates on interest-bearing demand and time deposits decreased by 33 basis points and 38 basis points, respectively, while savings deposit rates decreased to a lesser extent, by 3 basis points to 0.10% comparing 2020 and 2019. The decrease in deposit costs reflected lower market interest rates and oversupply of bank liquidity in 2020.

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

	For the Year Ended December 31,					
	2020		2019		2018	
(dollars in thousands)	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Interest-bearing deposits:						
Demand	$ 611,511	0.48%	$ 513,542	0.81%	$ 502,978	0.57%
Savings	101,847	0.10%	93,114	0.13%	98,927	0.13%
Time	195,140	1.22%	238,145	1.60%	236,162	1.23%
Total interest-bearing deposits	908,498	0.59%	844,801	0.96%	838,067	0.71%
Non-interest-bearing deposits	242,017		164,035		168,313	
Total deposits	$ 1,150,515		$ 1,008,836		$ 1,006,380	

The following table presents the maturity distribution of time deposits of $100,000 or more at December 31, 2020 and 2019:

Maturity Distribution of Time Deposits $100,000 or More

	December 31,	
(in thousands)	2020	2019
3 months or less	$ 20,023	$ 17,471
Over 3 through 6 months	17,180	21,620
Over 6 through 12 months	40,319	35,299
Over 12 months	10,441	27,371
Total	$ 87,963	$ 101,761

Borrowings

FNCB has an agreement with the FHLB 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. In addition to pledging loans, FNCB is required to purchase FHLB stock based upon the amount of credit extended. Loans that were pledged to collateralize borrowings under this agreement were $500.1 million at December 31, 2020 and $475.3 million at December 31, 2019. FNCB's maximum borrowing capacity was $352.2 million at December 31, 2020. There was $75.0 million in letters of credit to secure municipal deposits outstanding at December 31, 2020 under this agreement. There were no overnight borrowings or term advances through the FHLB outstanding at December 31, 2020.

Advances through the Federal Reserve Bank Discount Window generally include short-term advances which are fully collateralized by certain pledged loans in the amount of $31.5 million under the Federal Reserve Bank's Borrower-in-Custody ("BIC") program. There were no advances under the BIC program outstanding at December 31, 2020 and December 31, 2019. FNCB had available borrowing capacity of $16.4 million under this program at December 31, 2020.

The Paycheck Protection Program Liquidity Facility ("PPPLF") was established by the Federal Reserve System on April 9, 2020 to provide participating lenders with liquidity to loan money under the PPP. PPPLF advances are collateralized by pools of PPP loans, have an interest rate of 0.35% and a maturity date equal to the term of the pool of PPP loans securing it. Repayment of PPP loans serving as collateral must be passed on to the Federal Reserve Bank Discount Window to pay down the corresponding PPPLF advance. At December 31, 2020, there were no PPPLF advances outstanding and FNCB had liquidity available of $58.3 million through this facility.

FNCB also had $10.3 million of junior subordinated debentures outstanding at December 31, 2020 and 2019. The interest rate on these debentures resets quarterly at a spread of 1.67% above the current 3-month LIBOR rate, currently 1.89% at December 31, 2020. The average interest rate paid on the junior subordinated debentures in 2020 was 2.43**%**, compared to 4.17% in 2019.

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 fixed interest rate of 4.50%. 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.

Average borrowed funds decreased $12.3 million, or 19.4%, to $51.3 million in 2020 from $63.6 million in 2019. The average rate paid on borrowed funds decreased 119 basis points to 1.47% in 2020 from 2.66% in 2019. The decrease in rate on borrowed funds was due to decreases in the rates paid for FHLB borrowings and junior subordinated debentures due to lower market interest rates for the majority of 2020.

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. FNCB's liquidity position improved substantially in 2020, as an influx of cash from financing and operating activities were only partially offset by cash outflows used in investing activities. Cash and cash equivalents totaled $155.8 million at December 31, 2020, an increase of $121.2 million from $34.6 million at December 31, 2019.

Financing activities provided $234.4 million in net cash, which resulted primarily from a $285.7 million net increase in deposits in 2020. This increase was slightly offset by net cash used to repay FHLB of Pittsburgh term and overnight advances of $46.9 million and pay quarterly dividends totaling $4.4 million. 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. In 2020 operating activities provided FNCB with $22.0 million in net cash, which reflected net income of $15.3 million and non-cash adjustments to income of $6.7 million.

Net cash outflows from investing activities used $135.2 million of cash and cash equivalents during the year ended December 31, 2020, which was largely due to funding of PPP loans, resulting in a net increase in loans to customers of $73.3 million. In addition, purchases of available-for-sale debt securities in 2020 utilized $152.7 million in cash and cash equivalents, which was partially offset by the cash proceeds received from the sale of available-for-sale debt securities of $68.3 million and from maturities, calls and principal payments of available-for-sale securities of $21.7 million.

Management is actively monitoring FNCB's liquidity position and capital adequacy in light of the changing circumstances related to economic uncertainty brought on by the COVID-19 pandemic. While management believes FNCB's liquidity position is favorable, they are keenly aware that changes in economic conditions related to COVID-19, or in general, could pose potential stress on liquidity should deposits begin exiting the Bank or FNCB's asset quality deteriorates. Additionally, FNCB could experience an increase in the utilization of existing lines of credit as customers manage their own liquidity needs during this time of economic uncertainty. Management believes that FNCB's liquidity position is sufficient to meet its cash flow needs as of December 31, 2020. 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 IntraFi℠ Network, which include time deposits issued under CDARs program and money market accounts issued through the ICS program. Participating in the IntraFi℠ 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 IntraFi℠ Network program are considered to be core deposits. As of December 31, 2020, FNCB had approximately $24.6 million placed into the reciprocal program. In addition to cash and cash equivalents of $155.8 million, FNCB had ample sources of additional liquidity including approximately $276.0 million in available borrowing capacity with the FHLB of Pittsburgh, and available borrowing capacity through The Federal Reserve Discount Window of $58.3 million under the PPPLF and $16.4 million under the BIC program. In addition, FNCB had $47.0 million in federal fund lines of credit available through correspondent banks at December 31, 2020.

Capital

A strong capital base is essential to the continued growth and profitability of FNCB and is therefore a management priority. Management's principal capital planning goals include: providing an adequate return to shareholders; retaining a sufficient base from which to provide for future growth, and complying with applicable regulatory standards. As more fully described in Note 14, "Regulatory Matters" to the notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K, regulatory authorities have prescribed specified minimum capital ratios as guidelines for determining capital adequacy to help assure the safety and soundness of financial institutions.

The following schedules present information regarding the Bank's risk-based capital at December 31, 2020 and 2019, and selected other capital ratios:

	FNCB Bank		Minimum Required For Capital Adequacy Purposes	Minimum Required For Capital Adequacy Purposes with Conservation Buffer	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations
(dollars in thousands)	**Amount**	**Ratio**	**Ratio**	**Ratio**	**Ratio**
December 31, 2020					
Total capital (to risk-weighted assets)	$ 149,173	15.79%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	137,356	14.54%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	137,356	14.54%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	137,356	9.57%	4.00%	4.00%	5.00%
Total risk-weighted assets	944,546				
Total average assets	1,434,776				

(dollars in thousands)	FNCB Bank Amount	FNCB Bank Ratio	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
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%	8.5%	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				

FNCB's total regulatory capital increased $15.8 million to $149.2 million at December 31, 2020 from $133.4 million at December 31, 2019. 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, 2020 and 2019. There are no conditions or events since this notification that management believes have changed this category.

As of December 31, 2020, FNCB had 29,754,351 shares of common stock available for future sale or share dividends. The number of shareholders of record at December 31, 2020 was 1,671**.** 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 15, "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, 2020 and 2019.

On January 27, 2021, FNCB's Board of Directors authorized a stock repurchase program under which up to 975,000 shares of FNCB's outstanding common stock may be acquired in the open market commencing no earlier than February 3, 2021 and expiring December 31, 2021 pursuant to a trading plan that was adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The shares will be purchased from time to time at prevailing market prices, through open market transactions depending upon market conditions. Repurchases under the repurchase program are administered through an independent broker and are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the trading plan. Under the program, the purchases will be funded from available working capital presently available to FNCB, and the repurchased shares will be returned to the status of authorized but unissued shares of Common Stock. There is not a guarantee as to the exact number of shares that will be repurchased by FNCB, and FNCB may discontinue purchases at any time that management determines additional repurchases are no longer warranted. As of December 31, 2020, FNCB had approximately 20,245,649 million shares outstanding. As of February 28, 2021, 8,188 shares were repurchased at an average price of $6.81 per share.

On February 8, 2019, FNCB completed a public offering of its shares of common stock in a firm commitment underwritten offering and 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, it's 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 2020 and 2019 were $0.22 per share and $0.20 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2020 and 2019 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 10,271 and 7,369 for the years ended December 31, 2020 and 2019, respectively. Subsequent to December 31, 2020, on January 27, 2021, FNCB declared a $0.06 per share dividend payable on March 15, 2021 to shareholders of record on March 1, 2021.

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, 2020, 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, 2020 and 2019. 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, 2020 expire within one year of their respective contract dates.

Off-Balance Sheet Commitments

	December 31,	
(in thousands)	**2020**	**2019**
Commitments to extend credit	$ 227,908	$ 275,891
Standby letters of credit	18,914	15,081

In order to provide for probable losses inherent in these instruments, FNCB recorded reserves for unfunded commitments of $613 thousand and $703 thousand at December 31, 2020 and 2019, 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 ("ALCO"), the Investment 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.

LIBOR Replacement

The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Funding Rate ("SOFR") replace USD-LIBOR. ARRC has proposed that the transition to SOFR from USD-LIBOR will take place by the end of 2021. FNCB has various loans, investments, borrowings and interest rate swap contracts that are indexed to USD-LIBOR. On December 4, 2020, the ICE Benchmark Administration ("IBA"), which complies and oversees LIBOR, published a proposal announcing that it will hold a consultation through January 25, 2021 on its intention to extend most of the USD-LIBOR tenors to June 30, 2023. No formal announcement has been made, however, U.S. banking regulators have expressed support for the extension, and it is expected that the IBA will reaffirm the extension plans. FNCB is actively monitoring its LIBOR exposures and evaluating the risks involved.

Asset and Liability Management

The ALCO, comprised of members of the Bank's board of directors, executive management of other appropriate officers, oversees FNCB's interest rate risk management program. Members of ALCO meet quarterly, or more frequently as necessary, 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 -100 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 FNCB'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 FNCB’s sensitivity over the subsequent twelve months based on the following assumptions:

- asset and liability levels as of December 31, 2020 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, 2020 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....	(1.0)%	(12.5)%	0.6%	(20.0)%	(0.8)%	(10.0)%
Economic value at risk:						
Percent change in economic value of equity..	10.7%	(20.0)%	16.7%	(35.0)%	(32.9)%	(10.0)%

Model results at December 31, 2020 indicated that FNCB's asset/liability position was relatively well matched in the near term and exhibited only minor sensitivity to changes in interest rates over the next twelve months. Model results at December 31, 2020 indicated that FNCB’s net interest income is expected to decrease 1.0% under a +200-basis point interest rate shock. Additionally, model results indicated that FNCB's economic value of equity ("EVE") is expected to increase 10.7% 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 decrease 0.8% and the EVE would decrease 32.9%, respectively. With the exception of a -100-basis point impact on the EVE, all modeled exposures of net interest income and EVE were within internal policy guidelines. Management does not believe that the modeled decrease in the EVE, which exceeds the current policy limit of 10.0%, poses any undue interest rate risk at December 31, 2020. Comparatively, model results at December 31, 2019 indicated net interest income would be expected to decrease 4.8% and economic value of equity would be expected to increase 1.7% given a +200-basis point rate shock. Conversely, given a -100- basis point rate shock at December 31, 2019, net interest income would be expected to increase 1.9% and the economic value of equity would decrease 7.1%.

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. In response to the economic disruption and uncertainty brought on by the COVID-19 pandemic, the FOMC lowered the federal funds target rate a total of 150 basis points in two emergency actions with an expectation that the Committee will maintain a low interest rate environment for the foreseeable future. Given FNCB's current asset/liability position, the significantly lower market interest rates may have a negative impact on FNCB's earning asset yields and variable-rate loans and securities indexed to prime and LIBOR will reprice downward.

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, 2020 with tax-equivalent net interest income that was projected for the period. There was a negative variance between actual and projected tax-equivalent net interest income for the three months ended December 31, 2020 of approximately $408 thousand, or 3.6%. The variance primarily reflected a difference in the assumption for the volume and timing of the forgiveness of PPP loans used in the model with that actually experienced. As of December 31, 2020, FNCB has received $39.8 million in borrower forgiveness from the SBA and anticipates that the remaining PPP loan balances will qualify for forgiveness under the guidelines of the program. ALCO performs a detailed rate/volume analysis between actual and projected results in order 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

Opinion 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, 2020 and 2019, 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"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, 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.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Qualitative Factor Adjustments

As described in Notes 1 and 5 to the consolidated financial statements, the allowance for loan losses represents management's estimate of probable and reasonable incurred credit losses inherent in the loan portfolio. The Company's allowance for loan losses was $11.95 million at December 31, 2020, which consisted of specific and general reserve components of $0.42 million and $11.53 million, respectively.

In calculating the general reserve component, management considered historical loss experience by segment and qualitative factor adjustments for changes not reflected in the historical loss experience. The general reserve component of the Company's allowance for loan losses involved consideration of national and local economic conditions, levels of and trends in classified loans, delinquency rates and nonaccrual loans, trends in volumes and terms of loans, changes in lending policies, lending personnel, and collateral, as well as concentrations in loan types, industry, and geography. Changes in these qualitative factor adjustments could have a material impact on the Company's financial results.

The allowance for loan losses is an accounting estimate with significant measurement uncertainty and involves the application of significant judgment by management. Therefore, a high degree of auditor judgment and significant auditor effort was required in evaluating the audit evidence obtained related to the qualitative factor adjustments for the commercial real estate, commercial and industrial, construction, and land acquisition and development segments used by management in the calculation.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of internal controls over the evaluation of the qualitative factors used to estimate the loan segments, including controls addressing:
  - Management's review of the completeness and accuracy of underlying data inputs used as the basis for determination of qualitative factor adjustments;
  - Management's determination of impaired loans excluded from the general reserve component of the allowance for loan losses;
  - Management's judgements related to the quantitative and qualitative assessment of underlying data used in the determination of qualitative factor adjustments and the resulting allocation to the allowance for loan losses; and,
  - Management's review of the qualitative factors for mathematical accuracy.

- Substantively testing the appropriateness of the judgments and assumptions used in management's estimation process for developing the qualitative factor adjustments, including:
  - Assessment of whether all relevant factors were considered that affect the collectability of the loan portfolio;
  - Evaluation of the completeness, accuracy, and relevance of underlying internal and external data inputs used as a basis for the qualitative factor adjustments and corroboration of these inputs by comparison to the Company's lending practices, historical loan portfolio performance, and third-party macroeconomic data;
  - Evaluation of the propriety of impaired loans excluded from the general reserve component of the allowance for loan losses; and,
  - Recalculation of the allowance for loan loss and allocation of qualitative factor adjustments to the appropriate loan segments.

Baker Tilly US, LLP

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

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Iselin, New Jersey
March 12, 2021

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

(in thousands, except share data)	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 24,822	$ 23,944
Interest-bearing deposits in other banks	130,989	10,621
Total cash and cash equivalents	155,811	34,565
Available-for-sale debt securities, at fair value	350,035	272,839
Equity securities, at fair value	3,026	920
Restricted stock, at cost	1,745	3,804
Loans held for sale	2,107	1,061
Loans, net of allowance for loan and lease losses of $11,950 and $8,950	889,152	819,529
Bank premises and equipment, net	17,579	17,518
Accrued interest receivable	4,286	3,234
Bank-owned life insurance	31,712	31,230
Other assets	10,226	18,841
Total assets	$ 1,465,679	$ 1,203,541
Liabilities		
Deposits:		
Demand (non-interest-bearing)	$ 271,499	$ 179,465
Interest-bearing	1,015,949	822,244
Total deposits	1,287,448	1,001,709
Borrowed funds:		
Federal Home Loan Bank of Pittsburgh advances	-	46,909
Junior subordinated debentures	10,310	10,310
Total borrowed funds	10,310	57,219
Accrued interest payable	108	258
Other liabilities	11,953	10,748
Total liabilities	1,309,819	1,069,934
Shareholders' equity		
Preferred stock ($1.25 par)		
Authorized: 20,000,000 shares at December 31, 2020 and December 31, 2019		
Issued and outstanding: 0 shares at December 31, 2020 and December 31, 2019	-	-
Common stock ($1.25 par)		
Authorized: 50,000,000 shares at December 31, 2020 and December 31, 2019		
Issued and outstanding: 20,245,649 shares at December 31, 2020 and 20,171,408 shares at December 31, 2019	25,307	25,214
Additional paid-in capital	81,587	81,130
Retained earnings	35,080	24,207
Accumulated other comprehensive income	13,886	3,056
Total shareholders' equity	155,860	133,607
Total liabilities and shareholders’ equity	$ 1,465,679	$ 1,203,541

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, 2020	2019
Interest income		
Interest and fees on loans	$ 37,615	$ 37,818
Interest and dividends on securities:		
U.S. government agencies	2,336	3,545
State and political subdivisions, tax-free	1,373	149
State and political subdivisions, taxable	3,025	3,263
Other securities	1,961	1,093
Total interest and dividends on securities	8,695	8,050
Interest on interest-bearing deposits in other banks	28	188
Total interest income	46,338	46,056
Interest expense		
Interest on deposits	5,404	8,101
Interest on borrowed funds:		
Federal Reserve Bank Discount Window advances	32	-
Federal Home Loan Bank of Pittsburgh advances	474	1,241
Subordinated debentures	-	24
Junior subordinated debentures	250	430
Total interest on borrowed funds	756	1,695
Total interest expense	6,160	9,796
Net interest income before provision for loan and lease losses	40,178	36,260
Provision for loan and lease losses	1,941	797
Net interest income after provision for loan and lease losses	38,237	35,463
Non-interest income		
Deposit service charges	3,252	3,035
Net gain on the sale of available-for-sale securities	1,528	1,227
Net gain on equity securities	1,171	29
Net gain on the sale of mortgage loans held for sale	653	253
Net gain on the sale of other real estate owned	-	20
Loan-related fees	348	378
Income from bank-owned life insurance	482	520
Loan referral fees/interest rate swap revenue	390	703
Merchant services revenue	565	536
Other	861	919
Total non-interest income	9,250	7,620
Non-interest expense		
Salaries and employee benefits	15,246	15,518
Occupancy expense	2,052	1,948
Equipment expense	1,477	1,319
Advertising expense	685	738
Data processing expense	2,933	3,113
Bank shares tax	786	566
Professional fees	999	1,056
Other operating expenses	4,737	5,424
Total non-interest expense	28,915	29,682
Income before income tax expense	18,572	13,401
Income tax expense	3,225	2,326
Net income	$ 15,347	$ 11,075
Earnings per share		
Basic	$ 0.76	$ 0.56
Diluted	$ 0.76	$ 0.56
Cash dividends declared per common share	$ 0.22	$ 0.20
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	20,210,439	19,802,095
Diluted	20,212,187	19,807,592

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, 2020	For the Year Ended December 31, 2019
Net income	$ 15,347	$ 11,075
Other comprehensive income:		
Unrealized gains on available-for-sale debt securities	15,349	10,842
Taxes	(3,223)	(2,277)
Net of tax amount	12,126	8,565
Reclassification adjustment for net gains included in net income	(1,528)	(1,227)
Taxes	321	258
Net of tax amount	(1,207)	(969)
Derivative adjustments	(112)	-
Taxes	23	-
Net of tax amount	(89)	-
Total other comprehensive income	10,830	7,596
Comprehensive income	$ 26,177	$ 18,671

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, 2020 and 2019

(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, 2018	16,821,371	$ 21,026	$ 63,547	$ 17,186	$ (4,540)	$ 97,219
Net income	-	-	-	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	20,171,408	$ 25,214	$ 81,130	$ 24,207	$ 3,056	$ 133,607
Net income	-	-	-	15,347	-	15,347
Cash dividends paid, $0.22 per share	-	-	-	(4,447)	-	(4,447)
Restricted stock awards	-	-	336	-	-	336
Common shares issued under long-term incentive compensation plan	63,970	80	70	-	-	150
Common shares issued through dividend reinvestment/optional cash purchase plan	10,271	13	51	(27)	-	37
Other comprehensive income, net of tax of $2,879	-	-	-	-	10,830	10,830
Balances, December 31, 2020	20,245,649	$ 25,307	$ 81,587	$ 35,080	$ 13,886	$ 155,860

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, 2020	2019
Cash flows from operating activities:		
Net income	$ 15,347	$ 11,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	879	746
Equity in trust	(8)	(13)
Depreciation of bank premises and equipment	1,628	1,396
Amortization of loan origination (fees) costs	(626)	1,591
Valuation adjustment for loan servicing rights	16	2
Stock-based compensation expense	486	405
Provision for loan and lease losses	1,941	797
Valuation adjustment for off-balance sheet commitments	(90)	448
Net gain on the sale/redemption of available-for-sale debt securities	(1,528)	(1,227)
Net gain on equity securities	(1,171)	(29)
Net gain on the sale of mortgage loans held for sale	(653)	(253)
Net gain on the sale of other real estate owned	-	(20)
Valuation adjustment of other real estate owned	27	85
Loss on the disposition of bank premises and equipment	-	35
Gain on bank-owned life insurance settlement	-	(114)
Income from bank-owned life insurance	(482)	(520)
Proceeds from the sale of mortgage loans held for sale	14,510	9,900
Funds used to originate mortgage loans held for sale	(14,903)	(9,887)
Decrease in net deferred tax assets	3,219	2,396
(Increase) decrease in accrued interest receivable	(1,052)	380
Decrease (increase) in other assets	1,412	(2,107)
Decrease in accrued interest payable	(150)	(80)
Increase (decrease) in other liabilities	773	(354)
Total adjustments	4,228	3,577
Net cash provided by operating activities	19,575	14,652
Cash flows from investing activities:		
Maturities, calls and principal payments of available-for-sale debt securities	20,694	11,051
Proceeds from the sale/redemption of available-for-sale debt securities	69,271	128,233
Purchases of available-for-sale debt securities	(152,691)	(105,995)
Purchase of equity securities	(500)	-
Redemption (purchase) of the stock in Federal Home Loan Bank of Pittsburgh	2,059	(681)
Proceeds from the sale/transfer of equity securities	1,223	-
Purchase of equity securities without readily determinable fair values	(500)	-
Net (increase) decrease in loans to customers	(70,820)	7,737
Proceeds from the sale of other real estate owned	204	821
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	(1,689)	(4,540)
Net cash (used in) provided by investing activities	(132,749)	37,061
Cash flows from financing activities:		
Net increase (decrease) in deposits	285,739	(93,920)
(Repayment of) proceeds from Federal Home Loan Bank of Pittsburgh advances – overnight	(14,100)	7,500
Proceeds from Federal Home Loan Bank of Pittsburgh advances - term	20,000	70,000
Repayment of Federal Home Loan Bank of Pittsburgh advances - term	(52,809)	(49,521)
Principal reduction on subordinated debentures	-	(5,000)
Proceeds from issuance of common shares, net of discount	37	21,342
Cash dividends paid	(4,447)	(4,030)
Net cash provided by (used in) financing activities	234,420	(53,629)
Net increase (decrease) in cash and cash equivalents	121,246	(1,916)
Cash and cash equivalents at beginning of year	34,565	36,481
Cash and cash equivalents at end of year	$ 155,811	$ 34,565
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$ 6,310	$ 9,876
Other transactions:		
Lease liabilities arising from obtaining right-of-use assets	387	92
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.

FNCB Realty Company, Inc., FNCB Realty Company I, LLC, and FNCB Realty Company II, LLC, which were formed to hold real estate and/or operate businesses acquired in exchange for debt settlement or foreclosure, were inactive at December 31, 2020 and 2019.

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 and Equity Securities with Readily Determinable Fair Values

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. Premiums on callable debt securities are amortized to the earliest call date. Amortization of premiums and accretion of discounts on noncallable debt securities 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, 2020 and 2019.

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 is 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 generally consist of common and/or preferred stock of privately held financial institutions, which 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 securities are impaired. If the qualitative assessment indicates impairment, the security 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. The total OTTI loss is presented in the statement of income less the portion recognized in other comprehensive income. 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 $500 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:

<u>Construction, Land Acquisition and Development Loans</u> - 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.

<u>Commercial Real Estate Loans</u> - 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. 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. Residential mortgage loans, including home equity loans, are generally smaller in size and are considered homogeneous as they exhibit similar characteristics.

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. 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 operations 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 2017.

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, 2020 and 2019.

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 recognizes all share-based payments for compensation in the consolidated statements of income based on their fair values on the grant date. The fair value of shares of unrestricted and restricted stock and 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 unrestricted stock is recognized on the grant date. For restricted stock, stock-based compensation expense 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 $116 thousand and $113 thousand at December 31, 2020 and 2019, 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 and derivative contracts 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

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, which is recognized on the accrual basis primarily on terms in written contracts such as loan agreements or securities contracts. 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 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/interest rate swap revenue - 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. Interest rate swap revenue represent net fees FNCB receives from a counterparty for completing the swap transaction with the counterparty directly. FNCB receives both types of 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 such fees. FNCB records referral fees/interest rate swap revenue 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") 2020-04, Reference Rate Reform (Topic 848): "Facilitation of the Effects of Reference Rate Reform on Financial Reporting," provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in ASU 2020-04 were effective upon issuance. On January 7, 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848) that clarifies that certain optional expedients and exceptions provided for in ASU 2020-04 also apply to derivatives that do not reference a rate that is being discontinued but otherwise are affected by reference rate reform. ASU 2021-01 clarifies that changes in the interest rates used for margining, discounting, or contract price alignment for derivative instruments that are being implemented as part of the market-wide transition to new reference rates, commonly referred to as the "discounting transition," are within the scope of Topic 848. ASU 2021-01 was effective upon issuance. As part of its overall evaluation of reference rate reform, management is still evaluating the impact that LIBOR replacement will have on FNCB's operating results and financial position. Any such impacts will be prospective in nature and may affect net interest income and fair value estimates after the effective date of such rate replacement. The LIBOR replacement is not expected to 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 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

On March 26, 2020, the Board of Governors of the Federal Reserve System eliminated the reserve requirement for all depository institutions. Prior to this date, FNCB was required to maintain average reserve balances as established by the Federal Reserve Bank. The required reserve balance was $1.6 million at December 31, 2019, which was 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, 2020 and 2019, the amount of these balances were $4.5 million and $1.2 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, 2020 and 2019:

	December 31, 2020			
(in thousands)	**Amortized Cost**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses**	**Fair Value**
Available-for-sale debt securities:				
Obligations of state and political subdivisions	$ 192,851	$ 13,012	$ 35	$ 205,828
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	54,091	2,940	59	56,972
Collateralized mortgage obligations - commercial	3,721	183	-	3,904
Mortgage-backed securities	12,452	588	14	13,026
Private collateralized mortgage obligations	37,926	352	79	38,199
Corporate debt securities	23,800	790	10	24,580
Asset-backed securities	7,505	46	25	7,526
Negotiable certificates of deposit	-	-	-	-
Total available-for-sale debt securities	$ 332,346	$ 17,911	$ 222	$ 350,035

(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	$ 268,971	$ 4,374	$ 506	$ 272,839

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, 2020 or 2019.

The following table presents the maturity information of FNCB's available-for-sale debt securities at December 31, 2020. 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.

(in thousands)	December 31, 2020 Available-for-Sale Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 4,663	$ 4,718
After one year through five years	61,851	66,433
After five years through ten years	44,805	47,397
After ten years	105,332	111,860
Asset-backed securities	7,505	7,526
Collateralized mortgage obligations	95,738	99,075
Mortgage-backed securities	12,452	13,026
Total	$ 332,346	$ 350,035

The following table presents the gross proceeds received and gross realized gains and losses on sales and redemption of available-for-sale debt securities for the years ended December 31, 2020 and 2019.

(in thousands)	Year Ended December 31, 2020	2019
Available-for-sale debt securities:		
Gross proceeds received on sales	$ 68,256	$ 128,233
Gross proceeds received on redemption	1,015	-
Gross realized gains on sales	1,686	1,257
Gross realized losses on sales	(173)	(30)
Gross realized gain on redemption	15	-

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, 2020 and 2019, aggregated by investment category and length of time the securities have been in an unrealized loss position.

	December 31, 2020								
	Less than 12 Months			12 Months or Greater			Total		
(dollars in thousands)	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	6	$ 4,541	$ 35	-	$ -	$ -	6	$ 4,541	$ 35
U.S. government/government-sponsored agencies:									
Collateralized mortgage obligations - residential	2	7,019	59	-	-	-	2	7,019	59
Collateralized mortgage obligations - commercial	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	1	2,103	14	-	-	-	1	2,103	14
Private collateralized mortgage obligations	3	7,857	42	1	2,256	37	4	10,113	79
Corporate debt securities	2	1,739	10	-	-	-	2	1,739	10
Asset-backed securities	2	746	13	1	1,591	12	3	2,337	25
Total	16	$ 24,005	$ 173	2	$ 3,847	$ 49	18	$ 27,852	$ 222

	December 31, 2019								
	Less than 12 Months			12 Months or Greater			Total		
(dollars in thousands)	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	21	$ 61,748	$ 506	-	$ -	$ -	21	$ 61,748	$ 506

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.

Management performed a review of all securities in an unrealized loss position as of December 31, 2020 and determined that movements in the fair values of the securities were consistent with changes in market interest rates or market disruption stemming from the COVID-19 global pandemic. 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, 2020. 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, 2020.

Equity Securities and Equity Securities without Readily Determinable Fair Value

At December 31, 2019, FNCB owned 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 this bank holding company was not traded on any established market. FNCB had accounted for this transaction as an equity security without a readily determinable fair value. The $1.7 million investment was included in other assets at December 31, 2019.

On December 18, 2019, this privately held bank holding company had entered into an Agreement and Plan of Merger ("Merger Agreement") with a publicly traded bank holding company. The Merger Agreement provided for the privately held bank holding company to merge with and into the publicly traded bank holding company, the company surviving the merger ("surviving company"). The surviving company's common stock trades on Nasdaq. The acquisition was completed on July 1, 2020. FNCB received $1.2 million in cash for 74,113 of the acquired shares having a cost of $611 thousand. FNCB realized a gain of $611 thousand as part of this transaction. The remaining 126,887 shares with a cost of $1.0 million were converted into 78,822 shares of the surviving company's common stock that had a fair value of $19.90 per share on July 1, 2020 or $1.6 million in aggregate, which exceeded the cost basis of $1.0 million. FNCB recognized an unrealized gain of $522 thousand on the conversion of this stock upon the acquisition.

On September 15, 2020, FNCB purchased 20,000 shares of the fixed-rate non-cumulative perpetual preferred stock of another publicly traded bank holding company pursuant to an underwritten public offering at an offering price of $25.00 per share or $500 thousand in aggregate. The preferred stock, which trades on Nasdaq, pays a quarterly dividend rate of 7.50%. Also included in equity securities at December 31, 2020 and 2019, was a $1.0 million investment in a mutual fund comprised of 1-4 family residential mortgage-backed securities collateralized by properties within FNCB's market area.

Equity securities held by FNCB with a readily determinable fair value are reported at fair value on the consolidated statements of financial condition with unrealized gains and losses recognized in non-interest income in the consolidated statements of income. At December 31, 2020 and 2019, equity securities had a cost basis of $2.5 million and $1.0 million, respectively. The fair value of equity securities was $3.0 million at December 31, 2020 and $0.9 million at December 31, 2019.

The following table presents unrealized and realized gains and losses recognized in net income on equity securities for the years ended December 31, 2020 and 2019.

(in thousands)	Year Ended December 31, 2020	2019
Net gain recognized on equity securities	$ 1,171	$ 29
Less: net gains recognized on equity securities sold/acquired	611	-
Unrealized gain recognized on equity securities held	$ 560	$ 29

On December 29, 2020, FNCB purchased 20,000 shares of the fixed-rate, non-cumulative perpetual preferred stock of a privately-held bank holding company at an offering price of $25.00 per share or $500 thousand in aggregate, which is included in other assets in the consolidated statement of financial condition. The preferred stock pays quarterly dividends at an annual rate of 8.25%, commencing March 30, 2021. The preferred stock of this bank holding company is not traded on any established market and is accounted for as an equity security without a 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. As part of its qualitative assessment, management engaged an independent third party to provide a valuation of this investment as of December 31, 2020, which indicated that the investment was not impaired. Management determined that no adjustment for impairment was required at December 31, 2020.

Restricted Securities

The following table presents FNCB's investment in restricted securities at December 31, 2020 and 2019. Restricted securities have limited marketability and are carried at cost.

(in thousands)	December 31, 2020	December 31, 2019
Stock in Federal Home Loan Bank of Pittsburgh	$ 1,735	$ 3,794
Stock in Atlantic Community Bankers Bank	10	10
Total restricted securities, at cost	$ 1,745	$ 3,804

Management noted no indicators of impairment for the Federal Home Loan Bank ("FHLB") of Pittsburgh or Atlantic Community Bankers Bank stock at December 31, 2020 and 2019.

Note 5. LOANS

The following table summarizes loans receivable, net, by category at December 31, 2020 and 2019:

(in thousands)	December 31, 2020	December 31, 2019
Residential real estate	$ 196,328	$ 187,863
Commercial real estate	273,903	278,379
Construction, land acquisition and development	59,785	47,484
Commercial and industrial	238,435	147,623
Consumer	85,881	121,099
State and political subdivisions	49,009	43,908
Total loans, gross	903,341	826,356
Unearned income	(110)	(69)
Net deferred loan (fees) costs	(2,129)	2,192
Allowance for loan and lease losses	(11,950)	(8,950)
Loans, net	$ 889,152	$ 819,529

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 12, “Related Party Transactions” to these consolidated financial statements.

For information about credit concentrations within FNCB’s loan portfolio, refer to Note 13, “Commitments, Contingencies and Concentrations” to these consolidated financial statements.

FNCB originates 1- 4 family residential mortgage loans for sale in the secondary market. During the years ended December 31, 2020 and 2019, 1 - 4 family residential mortgages sold on the secondary market were $13.9 million and $9.6 million, respectively. Net gains on the sale of residential mortgage loans were $653 thousand in 2020 and $253 thousand in 2019. FNCB retains servicing rights on mortgages sold in the secondary market. 1-4 family residential mortgage loans held for sale were $2.1 million at December 31, 2020 and $1.1 million at December 31, 2019.

There were no sales of SBA guaranteed loans during the years ended December 31, 2020. The unpaid principal balance of loans serviced for others, including residential mortgages and SBA-guaranteed loans were $96.5 million and $106.0 million at December 31, 2020 and 2019, 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.

In addition to the specific and general components, management may establish an unallocated allowance that is used to cover any inherent losses that exist as of the evaluation date, but which may have not been identified under the methodology.

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. However, 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, 2020 and 2019.

Allowance for Loan and Lease Losses by Loan Category
December 31, 2020

(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, 2020	$ 1,147	$ 3,198	$ 271	$ 1,997	$ 1,658	$ 253	$ 426	$ 8,950
Charge-offs	-	(336)	-	(254)	(975)	-	-	(1,565)
Recoveries	43	846	-	1,220	515	-	-	2,624
Provisions (credits)	525	560	267	(344)	121	152	660	1,941
Ending balance, December 31, 2020	$ 1,715	$ 4,268	$ 538	$ 2,619	$ 1,319	$ 405	$ 1,086	$ 11,950
Specific reserve	$ 13	$ 46	$ -	$ 357	$ -	$ -	$ -	$ 416
General reserve	$ 1,702	$ 4,222	$ 538	$ 2,262	$ 1,319	$ 405	$ 1,086	$ 11,534
Loans receivable:								
Individually evaluated for impairment	$ 2,321	$ 8,448	$ 69	$ 897	$ -	$ -	$ -	$ 11,735
Collectively evaluated for impairment	194,007	265,455	59,716	237,538	85,881	49,009	-	891,606
Total loans, gross at December 31, 2020	$ 196,328	$ 273,903	$ 59,785	$ 238,435	$ 85,881	$ 49,009	$ -	$903,341

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	$ 1,147	$ 3,198	$ 271	$ 1,997	$ 1,658	$ 253	$ 426	$ 8,950
Specific reserve	$ 10	$ 221	$ -	$ 242	$ -	$ -	$ -	$ 473
General reserve	$ 1,137	$ 2,977	$ 271	$ 1,755	$ 1,658	$ 253	$ 426	$ 8,477
Loans receivable:								
Individually evaluated for impairment	$ 2,906	$ 11,640	$ 76	$ 1,164	$ -	$ -	$ -	$ 15,786
Collectively evaluated for impairment	184,957	266,739	47,408	146,459	121,099	43,908	-	810,570
Total loans, gross at December 31, 2019	$ 187,863	$ 278,379	$ 47,484	$ 147,623	$ 121,099	$ 43,908	$ -	$826,356

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. FNCB 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, 2020 and 2019:

Credit Quality Indicators
December 31, 2020

	Commercial Loans						Other Loans			
	Pass	Special Mention	Substandard	Doubtful	Loss	Subtotal Commercial	Accruing Loans	Non-accrual Loans	Subtotal Other	Total Loans
Residential real estate	$ 35,839	$ 494	$ 209	$ -	$ -	$ 36,542	$ 158,896	$ 890	$ 159,786	$ 196,328
Commercial real estate	256,390	4,349	13,164	-	-	273,903	-	-	-	273,903
Construction, land acquisition and development	55,697	-	-	-	-	55,697	4,088	-	4,088	59,785
Commercial and industrial	233,370	961	1,104	-	-	235,435	3,000	-	3,000	238,435
Consumer	-	-	-	-	-	-	85,374	507	85,881	85,881
State and political subdivisions	48,998	-	-	-	-	48,998	11	-	11	49,009
Total	$ 630,294	$ 5,804	$ 14,477	$ -	$ -	$ 650,575	$ 251,369	$ 1,397	$ 252,766	$ 903,341

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	$ 35,330	$ 177	$ 307	$ -	$ -	$ 35,814	$ 150,715	$ 1,334	$ 152,049	$ 187,863
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	-	-	-	-	-	-	120,451	648	121,099	121,099
State and political subdivisions	43,908	-	-	-	-	43,908	-	-	-	43,908
Total	$ 532,300	$ 2,271	$ 12,390	$ -	$ -	$ 546,960	$ 277,413	$ 1,982	$ 279,395	$ 826,356

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 $5.6 million at December 31, 2020 and $9.1 million at December 31, 2019. 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. At December 31, 2020, there was one commercial and industrial loan that was past due 90 days or more and still accruing, which has subsequently been brought current. There were no loans past due 90 days or more and still accruing at December 31, 2019.

The following tables present the delinquency status of past due and non-accrual loans at December 31, 2020 and 2019:

	December 31, 2020				
	Delinquency Status				
(in thousands)	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	$ 194,820	$ 251	$ 159	$ -	$ 195,230
Commercial real estate	270,059	606	-	-	270,665
Construction, land acquisition and development	59,785	-	-	-	59,785
Commercial and industrial	237,262	419	16	-	237,697
Consumer	83,486	1,485	403	-	85,374
State and political subdivisions	49,009	-	-	-	49,009
Total performing (accruing) loans	894,421	2,761	578	-	897,760
Non-accrual loans:					
Residential real estate	642	39	-	417	1,098
Commercial real estate	1,484	-	-	1,754	3,238
Construction, land acquisition and development	-	-	-	-	-
Commercial and industrial	614	-	124	-	738
Consumer	114	132	96	165	507
State and political subdivisions	-	-	-	-	-
Total non-accrual loans	2,854	171	220	2,336	5,581
Total loans receivable	$ 897,275	$ 2,932	$ 798	$ 2,336	$ 903,341

	December 31, 2019				
	Delinquency Status				
(in thousands)	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	$ 185,871	$ 134	$ 261	$ -	$ 186,266
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	118,267	1,695	489	-	120,451
State and political subdivisions	43,908	-	-	-	43,908
Total performing (accruing) loans	814,312	2,104	856	-	817,272
Non-accrual loans:					
Residential real estate	873	17	228	479	1,597
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	324	648
State and political subdivisions	-	-	-	-	-
Total non-accrual loans	4,529	1,003	814	2,738	9,084
Total loans receivable	$ 818,841	$ 3,107	$ 1,670	$ 2,738	$ 826,356

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, 2020 and 2019. 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 $1.4 million and $1.0 million at December 31, 2020 and 2019, respectively.

	December 31, 2020		
(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no allowance recorded:			
Residential real estate	$ 859	$ 957	$ -
Commercial real estate	2,729	5,311	-
Construction, land acquisition and development	69	69	-
Commercial and industrial	5	5	-
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with no related allowance recorded	3,662	6,342	-
With a related allowance recorded:			
Residential real estate	1,462	1,462	13
Commercial real estate	5,719	5,719	46
Construction, land acquisition and development	-	-	-
Commercial and industrial	892	1,130	357
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with a related allowance recorded	8,073	8,311	416
Total of impaired loans:			
Residential real estate	2,321	2,419	13
Commercial real estate	8,448	11,030	46
Construction, land acquisition and development	69	69	-
Commercial and industrial	897	1,135	357
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans	$ 11,735	$ 14,653	$ 416

(in thousands)	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no allowance recorded:			
Residential real estate	$ 1,240	$ 1,329	$ -
Commercial real estate	4,548	6,007	-
Construction, land acquisition and development	76	76	-
Commercial and industrial	593	850	-
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with no related allowance recorded	6,457	8,262	-
With a related allowance recorded:			
Residential real estate	1,666	1,666	10
Commercial real estate	7,092	7,811	221
Construction, land acquisition and development	-	-	-
Commercial and industrial	571	573	242
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with a related allowance recorded	9,329	10,050	473
Total of impaired loans:			
Residential real estate	2,906	2,995	10
Commercial real estate	11,640	13,818	221
Construction, land acquisition and development	76	76	-
Commercial and industrial	1,164	1,423	242
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans	$ 15,786	$ 18,312	$ 473

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, 2020 and 2019:

	Year Ended December 31,			
	2020		2019	
(in thousands)	Average Balance	Interest Income (1)	Average Balance	Interest Income (1)
Residential real estate	$ 2,542	$ 78	$ 2,400	$ 95
Commercial real estate	10,111	254	10,092	297
Construction, land acquisition and development	72	5	79	5
Commercial and industrial	1,041	14	1,207	1
Consumer	-	-	-	-
State and political subdivisions	-	-	-	-
Total impaired loans	$ 13,766	$ 351	$ 13,778	$ 398

(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 for both years ended December 31, 2020 and 2019.

Troubled Debt Restructured Loans

TDRs at December 31, 2020 and 2019 were $7.7 million and $9.1 million, respectively. Accruing and non-accruing TDRs were $7.0 million and $0.7 million**,** respectively at December 31, 2020 and $7.7 million and $1.4 million, respectively at December 31, 2019. Approximately $197 thousand and $97 thousand in specific reserves have been established for TDRs as of December 31, 2020 and 2019, respectively. FNCB was not committed to lend additional funds to any loan classified as a TDR at December 31, 2020 and 2019.

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.

The following tables present the pre- and post-modification recorded investment in loans modified as TDRs and type of modifications made during the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020						
		Pre-Modification Outstanding Recorded Investment by Type of Modification					
(in thousands)	Number of Contracts	Extension of Term	Extension of Term and Capitalization of Taxes	Capitalization of Taxes	Principal Forbearance	Total	Post-Modification Outstanding Recorded Investment
Loan category:							
Residential real estate	1	$ 93	$ -	$ -	$ -	$ 93	$ 93
Commercial real estate	-	-	-	-	-	-	-
Construction, land acquisition and development	-	-	-	-	-	-	-
Commercial and industrial	3		-	-	196	196	196
Consumer	-	-	-	-	-	-	-
State and political subdivisions	-	-	-	-	-	-	-
Total modifications	4	$ 93	$ -	$ -	$ 196	$ 289	$ 289

	Year Ended December 31, 2019						
		Pre-Modification Outstanding Recorded Investment by Type of Modification					
(dollars in thousands)	Number of Contracts	Extension of Term	Extension of Term and Capitalization of Taxes	Extension of Term and Forbearance	Forbearance	Total	Post-Modification Outstanding Recorded Investment
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	10	$ 1,389	$ 178	$ 42	$ 208	$1,817	$ 1,865

There were no TDRs modified within the previous 12 months that defaulted during the years ended December 31, 2020 and 2019.

Modifications Related to COVID-19

In late March 2020, the federal banking regulators issued guidance and are encouraging banks to work prudently with, and provide short-term payment accommodations to borrowers affected by COVID-19. Additionally, Section 4013 of the CARES Act addressed COVID-19 related modifications and specified that such modifications made on loans were current as of December 31, 2019 do not need to be classified as TDRs. FNCB has applied this guidance and made 922 such modifications, with 843 loans having an aggregate recorded investment of $151.4 million outstanding as of December 31, 2020. These initial modifications provided borrowers with a short-term, typically three-month, interest-only period or full payment deferral. FNCB extended a second payment deferral modification for 79 loans with an aggregate recorded investment of $22.0 million. Management is closely monitoring all loans for which a payment deferral has been granted and will continue to follow regulatory guidance when working with the borrowers which have been impacted by COVID-19 and apply the provisions of the CARES Act in making any TDR determinations. As of December 31, 2020, there were 45 loans with an aggregate recorded investment of $9.5 million, or 1.06% of total loans, that were still under deferral.

The following table presents information on COVID-19 related loan modifications by major loan category as of December 31, 2020.

	As of December 31, 2020					
	Total Loans Modified			Total Number of Loans Still Under Deferral		
(in thousands)	**Number of Loans**	**Recorded Investment**	**% of Loan Category**	**Number of Loans**	**Recorded Investment**	**% of Loan Category**
COVID-19 related loan modifications:						
Residential real estate	199	$ 17,594	8.96%	5	$ 196	0.10%
Commercial real estate	146	94,586	34.53%	6	8,617	3.15%
Construction, land acquisition and development	11	11,019	18.43%	-	-	-
Commercial and industrial	106	21,659	9.08%	1	42	0.02%
Consumer	381	6,587	7.67%	33	677	0.79%
State and political subdivision	-	-	-	-	-	-
Total	843	$ 151,445	16.76%	45	9,532	1.06%

Residential Real Estate Loan Foreclosures

There was one residential real estate property with a recorded investment of $153 thousand that was in the process of foreclosure as of December 31, 2020. There were no residential real estate properties in OREO at December 31, 2020.

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 of the properties with a carrying value of $52 thousand was sold during 2019. The remaining property with a carrying value of $204 thousand was included in OREO at December 31, 2019 and was subsequently sold in 2020.

Note 6. BANK PREMISES AND EQUIPMENT

The following table summarizes bank premises and equipment at December 31, 2020 and 2019:

	December 31,	
(in thousands)	**2020**	**2019**
Land	$ 3,537	$ 3,537
Buildings and improvements	13,708	12,798
Furniture, fixtures and equipment	12,114	11,551
Leasehold improvements	3,654	3,578
Total	33,013	31,464
Accumulated depreciation	(15,434)	(13,946)
Net	$ 17,579	$ 17,518

Depreciation and amortization expense of premises and equipment amounted to $1.6 million and $1.4 million for the years ended December 31, 2020 and 2019, respectively.

Note 7. DEPOSITS

The following table summarizes deposits by major category at December 31, 2020 and 2019:

	December 31,	
(in thousands)	**2020**	**2019**
Demand (non-interest bearing)	$ 271,499	$ 179,465
Interest-bearing:		
Interest-bearing demand	713,398	534,677
Savings	109,664	94,530
Time ($250,000 and over)	36,216	48,425
Other time	156,671	144,612
Total interest-bearing	1,015,949	822,244
Total deposits	$ 1,287,448	$ 1,001,709

The aggregate amount of deposits reclassified as loans was $86 thousand at December 31, 2020 and $62 thousand at December 31, 2019. Management evaluates transaction accounts that are overdrawn for collectability as part of its evaluation for credit losses. During 2020 and 2019, 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, 2020:

(in thousands)	**$250,000 and Over**	**Other Time Deposits**	**Total**
2021	33,161	132,717	165,878
2022	3,055	13,315	16,370
2023	-	3,940	3,940
2024	-	3,753	3,753
2025	-	2,946	2,946
2026 and thereafter	-	-	-
Total	$ 36,216	$ 156,671	$ 192,887

Investment securities with a carrying value of $279.7 million and $235.0 million at December 31, 2020 and 2019, respectively, were pledged to collateralize certain municipal deposits. In addition, FNCB had outstanding letters of credit with the FHLB to secure municipal deposits of $75.0 million and $60.0 million at December 31, 2020 and 2019, respectively.

Note 8. BORROWED FUNDS

Short-term borrowings available to FNCB include overnight advances through the Federal Home Loan Bank of Pittsburgh ("FHLB") 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, which are unsecured, was $40.0 million at December 31, 2020.

FNCB has an agreement with the FHLB 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. In addition to pledging loans, FNCB is required to purchase FHLB stock based upon the amount of credit extended. Loans that were pledged to collateralize borrowings under this agreement were $500.1 million at December 31, 2020 and $475.3 million at December 31, 2019. FNCB’s maximum borrowing capacity was $352.2 million at December 31, 2020. There was $75.0 million in letters of credit to secure municipal deposits outstanding at December 31, 2020 under this agreement. There were no overnight borrowings or term advances through the FHLB outstanding at December 31, 2020.

Advances through the Federal Reserve Bank Discount Window generally include short-term advances which are fully collateralized by certain pledged loans in the amount of $31.5 million under the Federal Reserve Bank's Borrower-in-Custody ("BIC") program. There were no advances under the BIC program outstanding at December 31, 2020 and December 31, 2019. FNCB had available borrowing capacity of $16.4 million under this program at December 31, 2020.

On April 9, 2020 the Federal Reserve Bank established the Paycheck Protection Program Liquidity Facility ("PPPLF") through the Discount Window to provide participating lenders with liquidity to loan money under the PPP. PPPLF advances are collateralized by pools of PPP loans, have an interest rate of 0.35% and a maturity date equal to the term of the pool of PPP loans securing it. Repayment of PPP loans serving as collateral must be passed on to the Federal Reserve Bank Discount Window to pay down the corresponding PPPLF advance. At December 31, 2020, there were no outstanding advances under the PPPLF and FNCB had $58.3 million in availability through this facility.

	As of and for the Year Ended December 31, 2020				
(dollars in thousands)	Ending Balance	Average Balance	Maximum Month-End Balance	Weighted Average Rate for the Year	Weighted Average Rate at Period End
FHLB of Pittsburgh advances - overnight	$ -	$ 5,501	$ 35,125	1.24%	-
FHLB of Pittsburgh advances - term	-	26,354	52,809	1.54%	-
Federal funds	-	26	-	0.76%	-
Federal reserve discount window BIC advances	-	437	10,000	0.25%	-
Federal reserve discount window PPPLF advances	-	8,659	36,272	0.35%	-
Junior subordinated debentures	10,310	10,310	10,310	2.43%	1.89%

	As of and for the Year Ended December 31, 2019				
(dollars in thousands)	Ending Balance	Average Balance	Maximum Month-End Balance	Weighted Average Rate for the Year	Weighted Average Rate at Period End
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 BIC advances	-	-	-	-	-
Subordinated debentures	-	520	5,000	4.50%	-
Junior subordinated debentures	10,310	10,310	10,310	4.17%	3.56%

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 2.43% in 2020 and 4.17% in 2019. 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, 2020 and 2019 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, 2020 and 2019. At December 31, 2020 and 2019, accrued and unpaid interest associated with the Debentures amounted to $9 thousand and $16 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. At December 31, 2018, there was $5.0 million in principal outstanding on the Notes. 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, 2020:

	December 31, 2020	
(in thousands)	**Amount**	**Weighted Average Interest Rate**
2021	$ -	-
2022	-	-
2023	-	-
2024	-	-
2025	-	-
2026 and thereafter	10,310	1.89%
Total	$ 10,310	1.89%

Note 9. DERIVATIVE AND HEDGING TRANSACTIONS

Risk Management Objective of Using Derivatives

FNCB is exposed to certain risks arising from both its business operations and economic conditions. It principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. FNCB manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, FNCB enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future unknown and uncertain cash amounts, the value of which are determined by interest rates. Derivative financial instruments are used to manage differences in the amount, timing, and duration of known or expected cash payments primarily related to FNCB's borrowings.

Cash Flow Hedges of Interest Rate Risk

FNCB's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, FNCB primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for FNCB making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During 2020, such derivatives were used to hedge the variable cash flows associated with forecasted issuances of debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on FNCB's variable-rate debt. During the next twelve months, it is estimated that an additional $69 thousand will be reclassified as an increase to interest expense.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service FNCB provides to certain customers. FNCB executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that FNCB executes with a third party, such that FNCB minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of FNCB's derivative financial instruments and the classification on the consolidated statements of financial condition at December 31, 2020 and December 31, 2019.

	Derivative Assets					Derivative Liabilities				
		As of December 31, 2020		As of December 31, 2019			As of December 31, 2020		As of December 31, 2019	
(in thousands)	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments										
Interest rate products	$ -	Other assets	$ -	Other assets	$ -	$ 30,000	Other liabilities	$ 120	Other liabilities	$ -
Total derivatives designated as hedging instruments ..			-		-			120		-
Derivatives not designated as hedging instruments										
Interest Rate Products	2,750	Other assets	23	Other assets	-	2,750	Other liabilities	23	Other liabilities	-
Total derivatives not designated as hedging instruments ..			23		-			23		-
Cash and other collateral (1)			-		-			-		-
Net derivative amounts........			$ 23		$ -			$ 143		$ -

(1) Other collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The other collateral consist of securities and is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the other collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

There were no derivative financial instruments outstanding as of December 31, 2019 or during the year ended December 31, 2019.

Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income as of December 31, 2020. Amounts disclosed are gross and not net of taxes.

	Year Ended December 31, 2020						
(in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Derivatives in cash flow hedging relationships..							
Interest rate products	$ (102)	$ (102)	$ -	Interest expense	$ 11	$ 11	$ -
Total................	$ (102)	$ (102)	$ -		$ 11	$ 11	$ -

Effect of Fair Value and Cash Flow Hedge Accounting on the Statement of Income

The table below presents the effect of the FNCB's derivative financial instruments on the consolidated statements of income for the year ended December 31,2020.

(in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships Year Ended December 31, 2020 Interest Expense
Total amounts of income and expense line items presented in the cash flow statement of financial performance in which the effects of fair value or hedges are recorded..	$ 11
The effects of fair value and cash flow hedging:	
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20	
Interest contracts:	
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	$ 11
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income as a result that a forecasted transaction is no longer probable of occurring..	$ -
Amount of gain or (loss) reclassified from accumulated OCI into income - included component	$ 11
Amount of gain or (loss) reclassified from accumulated OCI into income - excluded component...............	$ -

Effect of Derivatives Not Designated as Hedging Instruments on the Statement of Income

Derivative financial instruments that are not designated as hedging instruments had no effect on the consolidated statements of income for the year ended December 31, 2020.

Credit-risk-related Contingent Features

FNCB has agreements with each of its derivative counterparties that contain a provision where if FNCB defaults or is capable of being declared in default on any of its indebtedness, then it could also be declared in its derivative obligations.

FNCB has agreements with certain of its derivatives counterparties that contain a provision where if it fails to maintain its status as a well-capitalized institution, then it could be required to post additional collateral.

As of December 31, 2020, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustments for nonperformance risk, related to these agreements was $135 thousand. As of December 31, 2020, FNCB has not posted any collateral related to these agreements. If FNCB had breached any of these provisions at December 31, 2020, it could have been required to settle its obligations under the agreements at the termination value of $135 thousand.

Note 10. 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 Profit Sharing Plan is determined at management's discretion at the end of each year and funded. The 401(k) feature of the Profit Sharing 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 2020 and 2019. Discretionary matching contributions under the 401(k) feature of the plan totaled $332 thousand in 2020 and $305 thousand in 2019.

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 both December 31, 2020 and December 31, 2019.

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 $240 thousand in 2020 and $173 thousand in 2019. The total liability associated with the SERP was $856 thousand at December 31, 2020 and $657 thousand at December 31, 2019.

Note 11. 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, 2020 and 2019:

	For the Year Ended December 31,	
(in thousands)	**2020**	**2019**
Current	$ 6	$ -
Deferred	3,219	2,326
Income tax expense	$ 3,225	$ 2,326

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, 2020 and December 31, 2019:

	For the Year Ended December 31,			
	2020		2019	
(dollars in thousands)	Amount	%	Amount	%
Provision at statutory tax rates	$ 3,900	21.00%	$ 2,814	21.00%
Add (deduct):				
Tax effects of tax free interest income	(632)	(3.40)%	(344)	(2.56)%
Non-deductible interest expense	46	0.25%	19	0.14%
Bank-owned life insurance	(101)	(0.55)%	(109)	(0.81)%
Other items, net	12	0.06%	(54)	(0.41)%
Income tax provision	$ 3,225	17.36%	$ 2,326	17.36%

The following table summarizes the components of net deferred tax assets at December 31, 2020 and 2019:

	December 31,	
(in thousands)	2020	2019
Allowance for loan and lease losses	$ 2,638	$ 2,027
Deferred compensation	641	592
Lease liability	752	729
Other real estate owned valuation	23	33
Deferred intangible assets	45	166
Employee benefits	210	192
Accrued interest	2	-
Accrued vacation	56	42
Deferred income	51	-
Depreciation	13	10
Derivative liabilities	24	-
Net operating loss carryover	418	4,348
Gross deferred tax assets	4,873	8,139
Deferred loan origination costs	(173)	(143)
Unrealized holding gains on securities available-for-sale	(3,715)	(812)
Unrealized holding gains on equity securities	(118)	-
Right of use asset	(686)	(660)
Deferred income	-	(22)
Accrued interest	-	(224)
Gross deferred tax liabilities	(4,692)	(1,861)
Net deferred tax assets	$ 181	$ 6,278

At December 31, 2020 FNCB had approximately $2.0 million in federal net operating loss ("NOL") carryovers, which expire in 2035 if not used. Deferred taxes associated with these NOL carryovers were $418 thousand at December 31, 2020.

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, 2020, 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 12. 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, 2020 and 2019:

	For the Year Ended December 31,	
(in thousands)	**2020**	**2019**
Balance January 1,	$ 77,896	$ 64,634
Additions, new loans and advances	79,325	93,871
Repayments	(58,286)	(80,609)
Balance December 31,	$ 98,935	$ 77,896

At December 31, 2020 and 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, 2020 and 2019 amounted to $146.2 million and $84.1 million, respectively. Interest paid on the deposits amounted to $542 thousand in 2020 and $484 thousand in 2019.

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 $2.0 million and $2.4 million in 2020 and 2019, respectively.

Note 13. 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. ROU assets and lease liabilities were $3.3 million and $3.6 million, respectively, at December 31, 2020 and $3.1 million and $3.5 million, respectively, at 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 $408 thousand and $418 thousand, respectively, at December 31, 2020 and 2019.

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2020:

(in thousands)	December 31, 2020
2021	$ 375
2022	372
2023	364
2024	330
2025	335
2026 and thereafter	2,742
Total lease payments	4,518
Less: imputed interest	937
Present value of operating lease liabilities	$ 3,581

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

(dollars in thousands)	December 31, 2020	December 31, 2019
Weighted-average remaining lease term (in years)	13.3	14.3
Weighted-average discount rate	3.25%	3.45%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 395	$ 385

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, 2020 and 2019 are as follows:

	December 31,	
(in thousands)	2020	2019
Commitments to extend credit	$ 227,908	$ 275,891
Standby letters of credit	18,914	15,081

In order to provide for probable losses inherent in these instruments, FNCB recorded reserves for unfunded commitments of $613 thousand and $703 thousand at December 31, 2020 and 2019, 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, 2020, FNCB serviced payments on $21.6 million of first lien residential loan principal under these terms for the FHLB. At December 31, 2020, the maximum credit enhancement obligation for such guarantees by

FNCB would be approximately $975 thousand if total foreclosure losses on the entire pool of loans exceed the FLA of approximately $53 thousand. There was no reserve established for this guarantee at December 31, 2020 and 2019.

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, 2020 and 2019, FNCB had balances with Compass Bank of $4.4 million and $1.1 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, 2020 and 2019.

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 $333.7 million, or 36.9% of gross loans at December 31, 2020. Geographic concentrations exist because FNCB provides its services in its primary market area of Northeastern Pennsylvania 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 $47.4 million, or 5.2%, of gross loans at December 31, 2020.

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, 2020 and 2019:

	December 31, 2020		December 31, 2019	
(in thousands)	**Amount**	**% of Gross Loans**	**Amount**	**% of Gross Loans**
Retail space/shopping centers	$ 43,926	4.86%	$ 43,865	5.31%
1-4 family residential investment properties	58,114	6.43%	38,122	4.61%

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 14. STOCK COMPENSATION PLANS

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 75,924 shares in 2020 and 57,684 shares in 2019.

The following table summarizes the activity related to FNCB's unvested restricted stock awards during the years ended December 31, 2020 and 2019.

	For the Years Ended December 31,			
	2020		2019	
	Restricted Shares	**Weighted-Average Grant Date Fair Value**	**Restricted Shares**	**Weighted-Average Grant Date Fair Value**
Unvested restricted stock awards at January 1,	128,150	$ 7.76	114,702	$ 7.50
Awards granted	75,924	6.07	57,684	7.64
Forfeitures	(5,741)	6.64	(6,678)	7.61
Vestings	(38,420)	7.48	(37,558)	6.80
Unvested restricted stock awards at December 31,	159,913	$ 7.07	128,150	$ 7.76

For the years ended December 31, 2020 and 2019, stock-based compensation expense, which is included in salaries and benefits expense in the consolidated statements of income, totaled $336 thousand in 2020 and $255 thousand in 2019. Total unrecognized compensation expense related to unvested restricted stock awards at December 31, 2020 and 2019 was $896 thousand and $809 thousand, respectively. Unrecognized compensation expense related to unvested shares of restricted stock is expected to be recognized over a weighted-average period of 3.4 years.

On July 1, 2020 and 2019, 2,555 shares and 1,956 shares, respectively, of FNCB's common stock were granted under the LTIP to each of the Bank's ten non-employee directors. The total number of shares granted to the directors were 25,550 in 2020 and 19,560 in 2020. The shares of common stock immediately vested to each director upon grant, and the fair value per share on the grant date was $5.87 for the 2020 grant and $7.67 for the 2019 grant. Directors fees totaling $150 thousand associated with these grants was recognized on both July 1, 2020 and 2019 and included in other operating expense in the consolidated statements of income for December 31, 2020 and 2019. At December 31, 2020, there were 756,387 shares of common stock available for award under the LTIP.

Note 15. REGULATORY MATTERS/SUBSEQUENT EVENTS

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, it's wholly-owned subsidiary of $17.8 million.

FNCB’s ability to pay dividends to its shareholders, or repurchase shares of its common stock, is largely dependent on the Bank’s ability to pay dividends to FNCB. Bank regulations limit the amount of dividends that may be paid, or shares that may be repurchased, without prior approval of the Bank’s regulatory agency. Cash dividends declared and paid by FNCB during 2020 and 2019 were $0.22 per share and $0.20 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2020 and 2019 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 10,271 and 7,369 for the years ended December 31, 2020 and 2019, respectively. Subsequent to December 31, 2020, on January 27, 2021, FNCB declared a $0.06 per share dividend payable on March 15, 2021 to shareholders of record on March 1, 2021.

On January 27, 2021, FNCB's Board of Directors authorized a stock repurchase program under which up to 975,000 shares of FNCB's outstanding common stock may be acquired in the open market commencing no earlier than February 3, 2021 and expiring December 31, 2021 pursuant to a trading plan that was adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

Under the program shares will be purchased from time to time at prevailing market prices, through open market transactions depending upon market conditions and administered through an independent broker. Repurchases are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the trading plan. Under the program, the purchases will be funded from available working capital presently available to FNCB, and the repurchased shares will be returned to the status of authorized but unissued shares of Common Stock. There is not a guarantee as to the exact number of shares that will be repurchased by FNCB, and FNCB may discontinue purchases at any time that management determines additional repurchases are no longer warranted.

The Company is considered a small bank holding company and is 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, 2020, that FNCB and the Bank meet all applicable capital adequacy requirements.

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, 2020 and 2019:

(dollars in thousands)	FNCB Bank Amount	FNCB Bank Ratio	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
December 31, 2020					
Total capital (to risk-weighted assets)	$ 149,173	15.79%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	137,356	14.54%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	137,356	14.54%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	137,356	9.57%	4.00%	4.00%	5.00%
Total risk-weighted assets	944,546				
Total average assets	1,434,776				

(dollars in thousands)	FNCB Bank Amount	FNCB Bank Ratio	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
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				

Note 16. 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, 2020, FNCB owned eighteen corporate debt securities with an aggregate amortized cost and fair value of $23.8 million and $24.6 million, respectively. The market for ten of the eighteen corporate debt securities at December 31, 2020 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 3.99% to 5.07% 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).

Derivative Contracts

FNCB's derivative liabilities are reported at fair value utilizing Level 2 inputs. Values of these instruments are obtained through an independent pricing source utilizing information which may include market observed quotations for swaps, LIBOR rates, forward rates and rate volatility. Derivative contracts create exposure to interest rate movements a swell as risks from the potential of non-performance of the counterparty.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2020 and 2019, and the fair value hierarchy of the respective valuation techniques utilized to determine the fair value:

	Fair Value Measurements at December 31, 2020			
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available-for-sale debt securities:				
Obligations of state and political subdivisions	$ 205,828	$ -	$ 205,828	$ -
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	56,972	-	56,972	-
Collateralized mortgage obligations - commercial	3,904	-	3,904	-
Mortgage-backed securities	13,026	-	13,026	-
Private collateralized mortgage obligations	38,199	-	38,199	-
Corporate debt securities	24,580	-	8,156	16,424
Asset-backed securities	7,526	-	7,526	-
Total available-for-sale debt securities	350,035	-	333,612	16,424
Equity securities, at fair value	3,026	3,026	-	-
Derivative assets	23	-	23	-
Total financial assets	$ 353,084	$ 3,026	$ 333,635	$ 16,424
Financial liabilities:				
Derivative liabilities	$ 143	$ -	$ 143	$ -
Total financial liabilities	$ 143	$ -	$ 143	$ -

	Fair Value Measurements at December 31, 2019			
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
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	272,839	-	267,689	5,150
Equity Securities, at fair value	920	920	-	-
Total financial assets	$ 273,759	$ 920	$ 267,689	$ 5,150

FNCB did not have any financial liabilities that were measured at fair value on a recurring basis at December 31, 2019. There were no transfers between levels within the fair value hierarchy during the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

Fair Value Measurements
Using Significant Unobservable Inputs (Level 3)

	Corporate Debt Securities For the Year Ended December 31,	
(in thousands)	**2020**	**2019**
Balance at January 1,	$ 5,150	$ 3,929
Additions	11,800	1,000
Redemptions	(1,015)	-
Sales	-	-
Total gains or losses (realized/unrealized):		
Included in earnings	15	-
Included in other comprehensive income	474	221
Balance at December 31,	$ 16,424	$ 5,150

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, 2020 and 2019, 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.

	December 31, 2020					
	Fair Value Measurement			Quantitative Information		
(in thousands)	**Recorded Investment**	**Valuation Allowance**	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Value/ Range**
Impaired loans - collateral dependent	$ 4,244	$ 218	$ 4,026	Appraisal of collateral	Selling costs	10.0%
Impaired loans - other	7,491	198	7,293	Discounted cash flows	Discount rate	3.00% - 8.75%
Other real estate owned	58	-	58	Appraisal of collateral	Selling costs	10.0%

	December 31, 2019					
	Fair Value Measurement			Quantitative Information		
(in thousands)	**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%

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, 2020 and 2019. 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.

		December 31, 2020		December 31, 2019	
(in thousands)	**Fair Value Measurement**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:					
Cash and short term investments	Level 1	$ 155,811	$ 155,811	$ 34,565	$ 34,565
Available-for-sale debt securities	See previous table	350,035	350,035	272,839	272,839
Equity securities	Level 1	3,026	3,026	920	920
Restricted stock	Level 2	1,745	1,745	3,804	3,804
Loans held for sale	Level 2	2,107	2,107	1,061	1,061
Loans, net	Level 3	889,152	891,880	819,529	810,074
Accrued interest receivable	Level 2	4,286	4,286	3,234	3,234
Equity securities without readily determinable fair values	Level 3	500	500	1,658	1,658
Servicing rights	Level 3	324	479	356	790
Derivative assets	Level 2	23	23	-	-
Financial liabilities:					
Deposits	Level 2	1,287,448	1,288,567	1,001,709	1,001,829
Borrowed funds	Level 2	10,310	10,310	57,219	57,234
Accrued interest payable	Level 2	108	108	258	258
Derivative liabilities	Level 2	135	143	-	-

Note 17. 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. For each of the years ended December 31, 2020 and 2019 common stock equivalents reflected in the table above were related entirely to the incremental shares of 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, 2020 and 2019:

	For the Year Ended December 31,	
(in thousands, except share data)	**2020**	**2019**
Net income	$ 15,347	$ 11,075
Basic weighted-average number of common stock outstanding	20,210,439	19,802,095
Plus: common share equivalents	1,747	5,497
Diluted weighted-average number of common stock outstanding	20,212,187	19,807,592
Income per share of common stock:		
Basic	$ 0.76	$ 0.56
Diluted	$ 0.76	$ 0.56

Note 18. OTHER COMPREHENSIVE INCOME

The following tables summarize the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2020 and 2019.

	For the year Ended December 31, 2020	
(in thousands)	**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	$ (1,528)	Net gain on the sale of available-for-sale securities
Taxes	321	Income taxes
Net of tax amount	$ (1,207)	

	For the year Ended December 31, 2019	
(in thousands)	**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 on the sale of available-for-sale securities
Taxes	258	Income taxes
Net of tax amount	$ (969)	

The following table summarizes the changes in accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2020 and 2019:

	For the Year Ended December 31,	
(in thousands)	**2020**	**2019**
Balance, January 1,	$ 3,056	$ (4,540)
Other comprehensive income before reclassifications	12,037	8,565
Amounts reclassified from accumulated other comprehensive income	(1,207)	(969)
Net other comprehensive income during the period	10,830	7,596
Balance, December 31,	$ 13,886	$ 3,056

Note 19. 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, 2020	December 31, 2019
Assets:		
Cash	$ 11,296	$ 10,343
Investment in statutory trust	425	418
Investment in subsidiary (equity method)	151,700	131,194
Equity securities, at fair value	2,093	-
Other assets	726	2,019
Total assets	$ 166,240	$ 143,974
Liabilities and Shareholders' Equity:		
Junior subordinated debentures	$ 10,310	$ 10,310
Accrued interest payable	9	16
Other liabilities	61	41
Total liabilities	10,380	10,367
Shareholders' equity	155,860	133,607
Total liabilities and shareholders' equity	$ 166,240	$ 143,974

Condensed Statements of Income

(in thousands)	For the Year Ended December 31, 2020	For the Year Ended December 31, 2019
Income:		
Dividends from subsidiaries	$ 10,000	$ 10,000
Interest and dividend income	75	77
Gain on equity securities	1,158	-
Trust income	8	13
Total income	11,241	10,090
Expense:		
Interest on subordinated notes	-	24
Interest on junior subordinated debt	251	430
Other operating expenses	312	275
Total expenses	563	729
Income before income taxes	10,679	9,361
Provision for income taxes	6	-
Income before equity in undistributed net income of subsidiary	10,673	9,361
Equity in undistributed net income of subsidiary	4,675	1,714
Net income	$ 15,347	$ 11,075

Condensed Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2020	2019
Cash flows from operating activities:		
Net income	$ 15,347	$ 11,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(4,675)	(1,714)
Equity in trust	(8)	(13)
Gain on equity securities	(1,158)	-
Decrease in accrued interest payable	(7)	(22)
Decrease in other assets	621	467
Increase in other liabilities	20	12
Net cash provided by operating activities	10,140	9,805
Cash flows from investing activities:		
Investment in Subsidiary	(5,000)	(17,750)
Proceeds from the sale/transfer of equity securities	1,223	-
Purchases of equity securities	(500)	-
Purchase of equity security without a readily determinable fair value	(500)	-
Net cash used in investing activities	(4,777)	(17,750)
Cash flows from financing activities:		
Principal reduction on subordinated debentures	-	(5,000)
Proceeds from issuance of common shares	37	21,342
Cash dividends paid	(4,447)	(4,030)
Net cash (used in) provided by financing activities	(4,410)	12,312
Net increase in cash	953	4,367
Cash at beginning of year	10,343	5,976
Cash at end of year	$ 11,296	$ 10,343

Note 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2020			
	Quarter Ended			
(in thousands, except share data)	March 31,	June 30,	September 30,	December 31,
Interest income	$ 11,144	$ 11,190	$ 11,302	$ 12,702
Interest expense	1,967	1,610	1,456	1,127
Net interest income	9,177	9,580	9,846	11,575
Provision (credit) for loan and lease losses	1,151	831	74	(115)
Net interest income after provision (credit) for loan and lease losses	8,026	8,749	9,772	11,690
Non-interest income	1,694	2,501	2,970	2,085
Non-interest expense	7,205	6,424	7,843	7,443
Income before income taxes	2,515	4,826	4,899	6,332
Income tax expense	452	805	792	1,176
Net income	$ 2,063	$ 4,021	$ 4,107	$ 5,156
Earnings per share:				
Basic	$ 0.10	$ 0.20	$ 0.20	$ 0.26
Diluted	$ 0.10	$ 0.20	$ 0.20	$ 0.26

	2019			
	Quarter Ended			
(in thousands, except share data)	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	$ 2,635	$ 2,549	$ 2,403	$ 3,488
Earnings per share:				
Basic	$ 0.14	$ 0.13	$ 0.12	$ 0.17
Diluted	$ 0.14	$ 0.13	$ 0.12	$ 0.17

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, 2020.

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, 2020.

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, 2020, 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, 2020.

Gerard A. Champi	James M. Bone, Jr., CPA
President and Chief Executive Officer	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 "Delinquent Section 16(a) Reports" 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 regarding security ownership of certain beneficial owners and management 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. The information regarding securities authorized for issuance under equity compensation plans by this Item 12 is incorporated by reference to the section entitled "Equity Compensation Plan Information" 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 11, 2016, is hereby incorporated by reference.
EXHIBIT 3.3	Amended and Restated Bylaws - filed as Exhibit 3.1 to FNCB's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as filed on May 4, 2020, 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 4.4*	Description of Securities
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+	Directors' and Officers' Deferred Compensation Plan - filed as Exhibit 10.4 to FNCB's Form 10-K for the year ended December 31, 2004 – as filed on March 16, 2005, is hereby incorporated by reference.
EXHIBIT 10.4+	2013 Long-Term Incentive Compensation Plan – filed as Exhibit 10.1 to FNCB's Current Report on Form 8-K on December 27, 2013, is hereby incorporated by reference.
EXHIBIT 10.5+	Executive Incentive Plan – filed as Exhibit 10.14 to FNCB's Form 10-K for the year ended December 31, 2012, as filed on March 28, 2013, is hereby incorporated by reference.
EXHIBIT 10.6+	Form of Restricted Stock Award Agreement – filed as Exhibit 4.2 to FNCB's Form S-8 on January 24, 2014 is hereby incorporated by reference.
EXHIBIT 10.7+	Form of Stock Option Award Agreement – filed as Exhibit 4.3 to FNCB's Form S-8 on January 24, 2014 is hereby incorporated by reference.
EXHIBIT 10.8+	First National Community Bank Supplemental Executive Retirement Plan – filed as Exhibit 10.16 to FNCB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.9+	Employment Agreement Between First National Community Bank and Gerard A. Champi, COO – filed as Exhibit 10.17 to FNCB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.10+	Employment Agreement Between First National Community Bancorp, Inc., First National Community Bank and James M. Bone, Jr. CFO – filed as Exhibit 10.18 to FNCB's Current Report on Form 8-K on October 2, 2015, is hereby incorporated by reference.
EXHIBIT 10.11+	Employment Agreement Between First National Community Bank and Brian C. Mahlstedt, CLO – filed as Exhibit 10.19 to FNCB'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 FNCB's Registration Statement on Form S-3 , as filed on September 28, 2018, is hereby incorporated by reference.
EXHIBIT 23*	Consent of Baker Tilly US, 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.INS	INLINE XBRL INSTANCE DOCUMENT (THE INSTANCE DOCUMENT DOES NOT APPEAR IN THE INTERACTIVE DATA FILE BECAUSE ITS XBRL TAGS ARE EMBEDDED WITHIN THE INLINE XBRL DOCUMENT)
EXHIBIT 101.SCH	INLINE XBRL TAXONOMY EXTENSION SCHEMA
EXHIBIT 101.CAL	INLINE XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EXHIBIT 101.DEF	INLINE XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

EXHIBIT 101.LAB	INLINE XBRL TAXONOMY EXTENSION LABLE LINKBASE
EXHIBIT 101.PRE	INLINE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
EXHIBIT 104	COVER PAGE INTERATIVE DATA FILE (FORMATTED AS INLINE XBRL AND CONTAINED IN EXHIBIT 101)

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* 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.

/s/ Gerard A. Champi	March 12, 2021
Gerard A. Champi	Date
President and Chief Executive Officer	

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:

/s/ Gerard A. Champi	March 12, 2021
Gerard A. Champi President and Chief Executive Officer	Date
/s/ James M. Bone, Jr.	March 12, 2021
James M. Bone, Jr., CPA Executive Vice President and Chief Financial Officer Principal Financial Officer	Date
/s/ Stephanie A. Westington	March 12, 2021
Stephanie A. Westington, CPA Senior Vice President and Controller Principal Accounting Officer	Date

Directors:

/s/ William G. Bracey	March 12, 2021	/s/ Gerard A. Champi	March 12, 2021
William G, Bracey	Date	Gerard A. Champi	Date
/s/ Joseph Coccia	March 12, 2021	/s/ Joseph L. DeNaples	March 12, 2021
Joseph Coccia	Date	Joseph L. DeNaples	Date
/s/ Louis A. DeNaples	March 12, 2021	/s/ Louis A. DeNaples, Jr.	March 12, 2021
Louis A. DeNaples	Date	Louis A. DeNaples, Jr.	Date
/s/Vithalbhai D. Dhaduk	March 12, 2021	/s/ Keith W. Eckel	March 12, 2021
Vithalbhai D. Dhaduk	Date	Keith W. Eckel	Date
/s/ Kathleen McCarthy Lambert	March 12, 2021	/s/ Thomas J. Melone	March 12, 2021
Kathleen McCarthy Lambert	Date	Thomas J. Melone	Date
/s/John P. Moses	March 12, 2021		
John P. Moses	Date		

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FNCB Bancorp, Inc.

102 EAST DRINKER STREET, DUNMORE, PA 18512