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, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-38408
FNCB BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	**23-2900790** (I.R.S. Employer Identification No.)
102 E. Drinker St., Dunmore, PA (Address of Principal Executive Offices)	**18512** (Zip Code)

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐	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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery periods pursuant to §240.10D-1(b). ☐

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 $96,406,863 at June 30, 2023.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 19,794,996 shares of common stock as of March 8, 2024.

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 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”), including statements with respect to the proposed merger between Peoples Financial Services Corp. ("PFIS") and FNCB Bancorp, Inc. under the Agreement and Plan of Merger, dated September 27, 2023 (the "Merger Agreement"), pursuant to which FNCB Bancorp, Inc. will merger with and into PFIS, with PFIS as the surviving entity (the "merger"), along with the transaction occurring immediately after such merger, whereby FNCB Bancorp, Inc.'s wholly owned subsidiary, FNCB Bank, will merger with and into PFIS's wholly owned subsidiary, Peoples Security Bank and Trust Company ("Peoples Bank"), with Peoples Bank as the surviving bank and a wholly owned subsidiary of PFIS (collectively, with the merger, the "mergers"). 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, and FNCB's financial condition and results of operations could be negatively impacted by changes in economic and market conditions and other factors that adversely affect FNCB's borrowers;
- FNCB’s commercial lending activities, including loans to insiders and their related parties, generally have relatively large balances and are concentrated in the Northeastern Pennsylvania market, which may present greater risks that other types of loans;
- 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 credit losses ("ACL") is not sufficient to absorb actual losses or if increases to the ACL were required;
- The CECL model for determining the ACL could add volatility to FNCB's provision for credit losses and results of operations;
- 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 FNCB's risks or losses;
- FNCB is subject to interest rate risk, changes in interest rates could reduce income, cash flows and asset values, which could adversely affect its profitability;
- FNCB may not be able to successfully compete with others for business;
- FNCB could be subject to credit risk related to derivative obligations;
- 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;
- New lines of business, products, product enhancements or services may subject FNCB to additional risk;
- 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 may face risks with respect to future expansion of acquisition activity;
- FNCB may be adversely affected by the soundness of other financial institutions;

- 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, as well as "fair and responsible banking" laws designed to protect consumers, which may subject FNCB to higher costs and lower shareholder returns;
- New or changed legislation or regulation, updated guidance regarding current regulation and regulatory initiatives could adversely affect FNCB through increased regulation and increased costs of doing business;
- External events, including natural disasters, national or global health emergencies, events of armed conflict in other countries, and terrorist threats, among others, could impact FNCB's ability to do business or other adversely affect FNCB's business, operations and financial condition;
- Because the market price of PFIS common stock will fluctuate, the value of the merger consideration to be received by our shareholders in the merger of FNCB with and into PFIS may change;
- Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met;
- Failure of the merger to be completed, the termination of the Merger Agreement or a significant delay in the consummation of the merger could negatively impact FNCB;
- FNCB will be subject to business uncertainties and contractual restrictions while the mergers are pending;
- The Merger Agreement contains provisions that may discourage other companies from pursuing, announcing or submitting a business combination proposal to FNCB that might result in greater value to FNCB shareholders;
- Litigation against FNCB or PFIS, or the members of FNCB's or PFIS's board of directors, could prevent or delay the completion of the mergers;
- Combining PFIS and FNCB may be more difficult, costly or time-consuming than expected, and PFIS and FNCB may fail to realize the anticipated benefits of the mergers;
- 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;
- An investment in FNCB’s common stock is not an insured deposit;
- Shareholders may not receive dividends on FNCB's common stock or have their shares repurchased by FNCB;
- 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 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;
- 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; 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. was 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 $13.0 million, $20.4 million, and $21.4 million in 2023, 2022 and2021, respectively. Total assets were $1.881 billion at December 31, 2023, $1.746 billion at December 31, 2022 and $1.664 billion at December 31, 2021.

The Bank

Established as a national banking association in 1910, as of December 31, 2023 the Bank operated 16 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 an evolving, independent, community-focused bank that is a leader through the power of a strong team with a commitment to excellence for our employees, customers and shareholders. We take pride in our core values:

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

Recent Developments

On September 27, 2023, FNCB entered into the Merger Agreement with PFIS pursuant to which FNCB will merge with and into PFIS, with PFIS as the surviving entity. Immediately after such merger, the Bank will merge with and into Peoples Bank, with Peoples Bank as the surviving bank and a wholly-owned subsidiary of PFIS. Under the terms of the Merger Agreement, which has been unanimously approved by the boards of directors of both companies, shareholders of FNCB will be entitled to receive a fixed exchange ratio of 0.1460 shares of PFIS common stock for each share of the FNCB’s common stock. On October 27, 2023, FNCB filed a Federal Deposit Insurance Corporation ("FDIC") Interagency Bank Merger Application with the FDIC New York and a Pennsylvania Bank Merger Application with the Pennsylvania Department of Banking and Securities. Completion of the merger requires, among other things, the approval from these regulatory authorities, as well as FNCB’s shareholders.

The Merger Agreement provides certain termination rights for both PFIS and FNCB and further provides that a termination fee of $4.8 million will be payable by either PFIS or FNCB, as applicable, upon termination of the Merger Agreement under certain circumstances. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Definitive Merger Agreement filed by FNCB as Exhibit 2.1 to the Current Report on Form 8-K on September 27, 2023. Pending regulatory and shareholder approvals, FNCB expects the consummation of the mergers to be completed by the third quarter of 2024, however, there can be no assurance that the transaction will be consummated by such date, or at all.

Products and Services

Retail Banking

FNCB fulfills its mission and vision by offering a wide range of banking products and services tailored for both individuals and businesses.

For personal customers, the Bank provides various deposit products including savings, money markets, certificates of deposit and checking accounts, along with a line of preferred relationship products that offer premium benefits for higher-balance customers.

FNCB is also a member of IntraFi Network and participates in their Certificate of Deposit Account Registry (“CDARs”) and Insured Cash Sweep (“ICS”) programs, which allow customers to secure FDIC insurance on balances in excess of the standard limitations.

FNCB offers customers the convenience of 24/7 banking through online (www.fncb.com), mobile and telephone banking channels. Via fncb.com, customers can access their accounts directly, deposit checks, pay bills, open new accounts, apply for consumer or mortgage loans and obtain loan pre-qualification approvals. FNCB also provides various mobile payment alternatives including Apple Pay®, Samsung Pay®, Google Pay® and Zelle®.

Customers can access funds 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 and several offsite locations. FNCB is a member of the AllPoint network, providing customers with access to over 55,000 surcharge-free ATMs worldwide. Additionally, FNCB offers its customers with Card Manager, allowing debit cardholders the ability to receive fraud alert messages and manage their debit card usage, including when, where and how their debit card is used, as well as My Rewards cash-back offers on debit card purchases.

In addition to traditional deposit and loan products, FNCB offers business customers a suite of service options including, remote deposit capture, Merchant Services, Treasury Services, and purchasing cards ("PCards"). Remote deposit capture enables customers to process daily check deposits to their accounts through an online image capture environment. Merchant Services offers customers payment processing solutions, including credit card terminals, integrated payment systems and a dedicated account manager. Treasury Services include ACH origination, ACH and check positive pay, sweep services, wire services and Safepoint by Loomis. PCards allow business customers the ability to earn a cash rebate on credit card purchases, along with additional functionality and reporting to effectively manage their expenses and procurement. FNCB Business Online Banking provides customers the ability to perform wire transfers and payments through ACH transactions, as well as process direct deposit payroll transactions for employees, all available 24/7.

Lending Activities

FNCB offers a variety of financing alternatives to individuals and businesses generally in its primary market area through the origination of loans and leases 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. FNCB also offers specialized equipment financing alternatives including simple loans, direct finance leases and municipal leases to businesses within and outside its primary market area under its wholly owned subsidiary, 1st Equipment Finance Inc. Simple interest loans and direct finance leases are included in commercial equipment financing subsidiary loans, while municipal leases are included in state and political subdivision loans. In addition to originating loans, FNCB from time to time purchases individual and pools of commercial, residential mortgage and consumer loans originated by third parties, which are included in the respective loan category.

Residential Mortgage Loans and Home Equity Term Loans and Lines of Credit

FNCB offers a variety of 1- 4 family residential loans, home equity lines of credit ("HELOCs") and HELOCs with a carve-out feature. 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. 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. The carve out feature of a HELOC allows borrowers to access up to three simultaneous fixed-rate amortizing loans without having to reapply. The rate for each amortizing loan is based on the National Prime Rate as published on the day of the carve out plus a spread that is determined by the length of the loan term. FNCB also offers a proprietary “WOW” mortgage, a first-lien, fixed-rate mortgage product with maturity terms ranging from 10 to 19.5 years. At December 31, 2023, 1- 4 family residential mortgage loans, including home equity term loans and HELOCs totaled $245.3 million, or 20.1%, of FNCB's 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 mortgages as deemed necessary according to current asset/liability strategies.

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, 2023, construction, land acquisition and development loans amounted to $59.9 million and represented 4.9% of FNCB's 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, 2023, commercial real estate loans totaled $408.1 million, or 33.5%, of FNCB's total loan portfolio.

Commercial and Industrial Loans

Generally, FNCB 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, 2023, commercial and industrial loans totaled $183.8 million, or 15.1%, of FNCB's total loan portfolio.

Commercial Equipment Financing

FNCB offers equipment financing alternatives, including direct finance loans and leases and municipal leases, to businesses and governmental units within and outside its primary market area, through the Bank's wholly-owned subsidiary, 1st Equipment Finance, Inc. In addition, this loan segment includes purchased pools of secured and unsecured loans. These loans are primarily secured by vehicles, machinery and equipment. At December 31, 2023 , commercial equipment financing loans under the subsidiary totaled $163.6 million, or 13.4%, of FNCB's total loan portfolio.

Consumer Loans

Consumer loans include indirect automobile loans originated through various auto dealers in the Bank's market area, secured and unsecured installment loans, direct new and used automobile financing, personal lines of credit and overdraft protection loans. At December 31, 2023, consumer loans totaled $85.7 million, or 7.0%, of FNCB's total loan portfolio.

State and Political Subdivision Loans and Leases

FNCB originates state and political subdivision loans and leases, including general obligation, tax anticipation notes and municipal leases, primarily to municipalities in the Bank’s market area. At December 31, 2023, state and political subdivision loans and leases totaled $73.8 million, or 6.1%, of FNCB's total loan portfolio.

Purchased Loans

FNCB purchases individual loans and loan pools originated by several third-party originators to diversify the loan portfolio and enhance net interest income. Purchase loans include pooled commercial equipment loans, unsecured commercial, residential mortgage loans and secured and unsecured consumer individual loans and loan pools. The pools have relatively short average lives and provide steady cash flows. Commercial equipment loans are secured under the Uniform Commercial Code by titles, secured consumer loans are collateralized by chattel paper, while credit enhancement features including reserve funds provide credit protection for the consumer and commercial unsecured pools. FNCB has reviewed individual loan files, if feasible, or reviewed random samples of loan files and credit metrics to ensure underwriting was aligned with FNCB's internal underwriting standards. FNCB does not provide servicing of purchased loans.

See Note 2, “Summary of Significant Accounting Policies” and Note 4, "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 its division, *1st Investment Services* and 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 and investment 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 ("FHLB") of Pittsburgh 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. The Bank is subject primarily to the provisions of the Federal Deposit Insurance Act and, as a state-chartered financial institution, to the Pennsylvania Banking Code of 1965. 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 affiliates, 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.

In 2018, the FRB 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. As of December 31, 2023, FNCB qualifies as a small bank holding company and is therefore not subject to the consolidated capital requirements.

Under the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in May 2018, federal banking agencies adopted the community bank leverage ratio ("CBLR") framework available to depository institutions having less than $10 billion in total assets and meeting certain other qualifying criteria. The CBLR rules provide that qualifying community banking organizations that adopt the CBLR framework and that maintain a CBLR in excess of 9% will be considered to have met the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules and the capital ratio requirements necessary to be considered "well capitalized." FNCB has not elected to use the CBLR framework at this time.

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, 2023, 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, 2023, 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 11.69%, a total capital to risk-weighted assets ratio of 12.66% and a leverage ratio of 8.76%. Similarly, at December 31, 2022, the Bank 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 11.94%, a total capital to risk-weighted assets ratio of 13.11% and a leverage ratio of 8.77%.

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 and Consumer Lending Regulation.* 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.

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.

Privacy and Data Security. The financial privacy provisions of the GLB Act generally prohibit financial institutions, including the Bank, from disclosing non-public personal financial information about customers to non-affiliated third parties unless customers have the opportunity to "opt out" of the disclosure and have not elected to do so. The Bank is required to comply with state laws regarding consumer privacy if they are more protective than the GLB Act.

The federal banking agencies have adopted guidelines for safeguarding confidential, personal customer information. The guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. In addition, various U.S. regulators have increased their focus on cyber security through guidance, examinations and regulations. Banking organizations are required to notify their primary federal regulator within 36 hours of becoming aware of a "computer-security incident" that rises to the level of a "notification incident."

In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations.

In July 2023, the SEC issued a final rule to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incident reporting by public companies that are subject to the reporting requirements of the Securities Exchange Act of 1934. Specifically, the final rule requires current reporting about material cybersecurity incidents, periodic disclosures about a registrant's policies and procedures to identify and manage cybersecurity risk, management's role in implementing cybersecurity policies and procedures, and the board of directors' oversight of cybersecurity risk. See Item 1C. Cybersecurity for a discussion of FNCB's cybersecurity risk management, strategy and governance.

Privacy and data security are expected to continue to receive increased attention at the federal level. An increasing number of state laws and regulations have been enacted in recent years to implement privacy and cybersecurity standards and regulations, including data breach notification and data privacy requirements. This trend of activity is expected to continue to expand, requiring continual monitoring of developments in the states in which FNCB's customers are located and ongoing investments in its information systems and compliance capabilities.

Community Reinvestment Act. The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit, making investments and providing community development services to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned one of four ratings. The Bank is subject to examination by the FDIC.

On October 24, 2023, the Office of the Comptroller of the Currency (“OCC”), Federal Reserve, and FDIC issued a final rule, effective April 1, 2024, to modernize their respective CRA regulations. The revised rules substantially alter the methodology for assessing compliance with the CRA, with most provisions of the new rule taking effect January 1, 2026 and revised data reporting requirements taking effect January 1, 2027. Among other things, the revised rules evaluate lending outside traditional assessment areas generated by the growth of non-branch delivery systems, such as online and mobile banking, apply a metrics-based benchmarking approach to assessment, and clarify eligible CRA activities. The final rules may make it more challenging and/or costly for the Bank to receive a rating of at least “satisfactory” on its CRA exam.

FDIC Insurance Premiums. The Bank’s deposits are insured through the Deposit Insurance Fund ("DIF"), which is administered by the FDIC, up to limits established by applicable law, currently $250,000 per depositor, per account ownership category, per bank. A bank’s assessment is calculated by multiplying its individual assessment rate by its assessment base (average consolidated total assets less average tangible equity), determined quarterly. Banks with assets less than $10 billion, such as the Bank, are assigned an individual rate based on a formula using financial data and the bank’s CAMELS (capital adequacy, assets, management capability, earnings, liquidity, and sensitivity) ratings. The FDIC has the discretion to adjust an institution’s risk rating and may terminate its insurance of deposits upon a finding that the institution engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The FDIC may also prohibit any FDIC-insured institution from engaging in any activity it determines to pose a serious risk to the DIF.

As of June 30, 2020, the DIF reserve ratio had fallen to 1.30%, below the statutory minimum of 1.35%. The FDIC, as required under the Federal Deposit Insurance Act, established a plan on September 15, 2020 to restore the DIF reserve ratio to meet or exceed the statutory minimum of 1.35% within eight years. On October 18, 2022, the FDIC adopted an amended restoration plan to increase the likelihood that the reserve ratio would be restored to at least 1.35% by September 30, 2028. The FDIC’s amended restoration plan increased the initial base deposit insurance assessment rate schedules uniformly by 2 basis points, which began the first quarterly assessment period of 2023. The FDIC could further increase the deposit insurance assessments for certain insured depository institutions, including the Bank, if the DIF reserve ratio is not restored as projected.

At December 31, 2023, the Bank was considered in the lowest risk category, for deposit insurance assessments and paid an annual assessment rate ranging from 2.5 basis points to 18 basis points on the assessment base of average consolidated total assets less the average tangible equity during the assessment period.

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

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. With this in mind, FNCB recognizes that the success of our organization is highly correlated to the effectiveness of the FNCB team. In order to attract, motivate and retain high-quality staff, the Bank must have a competitive, broad-based compensation plan. FNCB focuses on ensuring top talent is compensated appropriately and entry-level starting salaries are competitive and provide an opportunity for advancement.

As FNCB’s leadership culture and business model evolves, FNCB's policies, practices and programs must also evolve and support and reinforce our desired culture and business needs. The Compensation Committee of the Board of Directors evaluates and modifies policies, practices and programs on an ongoing basis to ensure compensation plans are competitive and do not encourage inappropriate risk taking. Market competitive and risk appropriate incentive plans have been fully implemented for management, commercial lending, branch banking, specialty sales functions and all staff positions. FNCB also has a Long-Term Incentive Plan designed to align shareholder goals with employee goals and to encourage retention of key officers.

FNCB is an Equal Opportunity and Affirmative Action Employer. We recruit, employ, train, compensate, and promote without regard to race, religion, creed, color, national origin, age, gender, sexual orientation, gender identity, marital status, disability, veteran status, or any other basis protected by applicable federal, state or local law.

In 2023, FNCB Bank was voted "The Best Place to Work" in northeastern Pennsylvania for the seventh consecutive year, as part of the annual Reader's Choice Awards survey conducted by a local newspaper. As of December 31, 2023, FNCB, including the Bank, employed 222 persons, including 21 part-time employees.

Available Information

FNCB files reports, proxy and information statements and other information electronically with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC’s website site address is https://www.sec.gov. FNCB makes its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available through its website at https://www.fncb.com. The information contained on our website is not included as a part of, or incorporated by reference in, this Annual Report on Form 10-K. These reports may also be obtained free of charge as soon as practicable after filing or furnishing them to the SEC upon request by sending an email to corporatesecretary@fncb.com. Information may also be obtained via written request to FNCB Bancorp, Inc. Attention: Chief Financial Officer, 102 East Drinker Street, Dunmore, PA 18512.

Item 1A. Risk Factors

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

Risks Related to FNCB's Business

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, and FNCB's financial condition and results of operations could be negatively impacted by changes in economic and market conditions and other factors that adversely affect FNCB's borrowers.

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 credit 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 and middle market customers. These businesses generally have fewer financial resources in terms of capital and borrowing capacity than larger entities and may have a heightened vulnerability to economic conditions and be less able to withstand competitive, economic and financial pressures. Changes in general economic conditions in the market area in which FNCB operates may negatively impact this important customer sector. Additionally, FNCB may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of personal circumstances, such as divorce, unemployment or death. Consequently, FNCB's financial condition and results of operations may be adversely affected. 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 credit losses ("ACL"), which could adversely affect FNCB's net income and profitability. 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 commercial lending activities, including loans to insiders and their related parties, generally have relatively larger balances and are concentrated within the Northeastern Pennsylvania market, which may present great risks than other types of loans.

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. All non-performing loans totaled $5.4 million, or 0.44% of total gross loans and leases, as of December 31, 2023, and $2.8 million, or 0.25%, of total gross loans and leases at December 31, 2022. Specifically, commercial real estate loans that were non-performing totaled $3.1 million, or 0.26%, of total gross loans and leases at December 31, 2023 and $1.5 million, or 0.14%, of total gross loans and leases at December 31, 2022. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for credit losses, or an increase in loan charge-offs, which could have an adverse impact on FNCB's results of operations and financial condition.

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, 2023, $713.3 million, or 58.5%, were secured by real estate, primarily commercial real estate, in Northeastern Pennsylvania. Management has taken steps to mitigate commercial real estate concentration risk through diversification of the types and characteristics of real estate collateral properties, sound underwriting practices, and ongoing portfolio monitoring and market analysis. Of total outstanding loans and leases, $59.9 million, or 4.9%, were construction, land acquisition and development loans. Based on FNCB's historical records, construction, land acquisition and development loans have had the highest risk of not being collected. An additional $183.8 million, or 15.1%, 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 market area, could adversely affect the quality and collectability of its loans and could increase the level of non-performing loans. An increase in non-performing loans could result in loss of earnings from these loans and increases in loan charge-offs and the provision for credit losses, all of which could have a material adverse effect on FNCB's financial condition and results of operations. 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, loan demand may be reduced and collateral values supporting loans may decline, which could also adversely affect FNCB's financial condition and results of operations.

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 $79.3 million as of December 31, 2023. At December 31, 2023, 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 12, “Related Party Transactions” of the notes to 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.

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”) and other repossessed assets, to determine asset 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 ACL may not reflect accurate loan impairments. Inaccurate valuation of OREO, other repossessed assets or inaccurate provisioning for credit 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 ACL is not sufficient to absorb actual losses or if increases to the ACL were required.

The lending activities in which the Bank engages carry the risk that the borrowers will be unable to meet 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 ACL, management reviews loans, loss and delinquency experience, and evaluates current economic conditions. If these assumptions prove to be incorrect, the ACL may not cover assumed 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, 2023, the ACL totaled $12.0 million, representing 0.98% of loans, net of unearned income and net deferred loan origination costs.

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 ACL and may require increases to the ACL or further loan charge-offs. Any increase in ACL or loan charge-offs as required by these regulatory agencies could have a material adverse effect on FNCB’s business, financial condition and results of operation.

The CECL model for determining the ACL could add volatility to FNCB's provision for credit losses and results of operations.

FNCB adopted the CECL model for calculating the ACL on January 1, 2023. Under GAAP, the CECL model requires financial institutions to present certain financial assets carried at amortized cost, including loans and held-to-maturity debt securities, at the net amount expected to be collected. Additionally, the CECL model requires the ACL for certain financial assets, including loans, held-to-maturity securities and certain off-balance sheet credit exposures, to be calculated based on current expected credit losses over the lives of the assets rather than incurred losses as of a point in time. FNCB estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, actual lifetime credit losses may be materially different than the amounts reported in the ACL due to the inherent uncertainty in the estimation process, including future loss estimates based upon FNCB's reasonable and supportable economic forecasts. Also, future credit losses could differ materially from those estimates due to changes in values and circumstances after the balance sheet date. Changes in such estimates could significantly impact FNCB's ACL, provision for credit losses and results of operations.

If management concludes that the decline in value of any of FNCB’s investment securities is impaired, 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 available-for-sale debt securities has declined below its carrying value, management is required to assess whether the decline represents impairment. Changes in the expected cash flows of securities in FNCB’s portfolio and/or prolonged price declines in future periods may result in impairment, which may 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’s risk management framework may not be effective in mitigating FNCB's 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 which could have a material adverse effect on FNCB's business, financial condition, results of operations or growth prospects. FNCB may also be subject to potentially adverse regulatory consequences.

FNCB is subject to interest rate risk, changes in interest rates could reduce income, cash flows and asset values, which could adversely affect its profitability.

FNCB’s earnings and cash flows, 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 FRB. 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, 2023 was characterized by maturities or repricing of assets and liabilities that were liability sensitive over the next 18 to 24 months, moving to an asset sensitivity position in subsequent years of the model. 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, or negative spread, 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, or inversion 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 ACL, which could have a material adverse effect on FNCB's business, financial condition and results of operations.

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

FNCB competes for loans, deposits and investments 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 results of operation. Refer to the section entitled "Competition" included in Item 1, "Business" to this Annual Report on Form 10-K for an additional discussion of FNCB's competitive environment.

FNCB could be subject credit risk related to derivative obligations.

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.

FNCB has minimum collateral posting thresholds with certain of its derivative counterparties for derivatives in a net liability position. As of December 31, 2023, FNCB had derivatives in a net liability position of $2.7 million. The termination value of derivatives in a net liability position, which includes accrued interest but excluded any adjustments for non-performance risk related to these agreements, was $259 thousand, FNCB has posted collateral of $400 thousand against its obligations under these agreements as of December 31, 2023.

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, 2023, FNCB had $1.529 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. 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. Any loss by FNCB of its deposit base could limit its lending ability resulting 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 its debt, pay its expenses, to repurchase shares of FNCB stock 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 of Pittsburgh, which provides members access to funding through advances collateralized with certain qualifying assets within the Bank's loan portfolio. In addition, FNCB's available-for-sale securities provide an additional source of liquidity. Disruptions in the 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.

FNCB held approximately $8.8 million in capital stock of the FHLB of Pittsburgh as of December 31, 2023. FNCB must own such capital stock to qualify for membership in the FHLB of Pittsburgh which enables it to borrow funds under the FHLB of Pittsburgh advance program. If the FHLB of Pittsburgh were to cease operations, FNCB's business, financial condition, results of operation, liquidity, and capital may be materially and adversely affected.

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, the 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, including its third-party service providers, 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 people 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.

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.

Damage to FNCB's reputation could significantly harm its business, 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 material legal matters.

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.

Risks Related to FNCB's Industry

FNCB may be adversely affected by the actions and lack of commercial soundness of other financial institutions.

FNCB's ability to engage in routine funding transactions could be adversely affected by the actions and lack of 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.

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, as well as "fair and responsible banking" laws designed to protect consumers, 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. In addition, 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.

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, updated guidance regarding current 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.

One example of updated guidance regarding legislation is that on October 26, 2022, the CFPB issued supervisory guidance which warned financial institutions that levying overdraft fees to consumers who would not reasonably anticipate the fees may constitute an unfair act or practice under the Consumer Financial Protection Act of 2010 ("CFPA"). In addition, the CFPB issued a compliance bulletin warning that certain depositor fees may similarly violate the CFPA. This guidance comes as a next step in the CFPB's "junk fee" initiative, launched in January 2022, through which the CFPB has endeavored to identify and take certain steps to curb potentially exploitative fees charged by banks and other financial institutions. While management does not believe that FNCB's overdraft fees are in violation of the CFPA, many larger financial institutions have eliminated overdraft charges on consumer accounts and the banking industry has recently announced a significant decrease in overdraft fee income in 2022. Competition from large banks and the imposition of restrictions on overdraft fees by the federal government, may result in FNCB having to change its overdraft fee structure, which could negatively impact future non-interest income run rates.

External events, including natural disasters, national or global health emergencies, and events of armed conflict in other countries, and terrorist threats could impact FNCB's ability to do business or otherwise adversely affect FNCB's business, operations or financial condition.

Financial institutions, like other businesses, are susceptible to the effects of external events that can compromise operating and communications systems and otherwise have adverse effects. Such events, should they occur, can cause significant damage, impact the stability of FNCB's operations or facilities, result in additional expense, or impair the ability of FNCB's borrowers to repay their loans. Although we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations. In addition, other external events, including natural disasters, health emergencies and epidemics or pandemics, such as the COVID-19 pandemic, and events of armed conflict in other parts of the world, such as the present armed conflict involving Ukraine and Russia, or the Middle East, could adversely affect the global or regional economies resulting in unfavorable economic conditions in the United States. Any such development could have an adverse effect on FNCB's business.

Risks related to the mergers

Because the market price of PFIS common stock will fluctuate, the value of the merger consideration to be received by our shareholders may change.

On September 27, 2023, FNCB announced the signing of the Merger Agreement with PFIS, pursuant to which FNCB will merge with and into PFIS, with PFIS as the surviving entity. Under the terms of the Merger Agreement, each share of FNCB common stock (other than certain shares held by FNCB or PFIS), will be converted into the right to receive 0.1460 shares of common stock of PFIS. The closing price of PFIS common stock on the date that the merger is completed may vary from the closing price of PFIS common stock on the date PFIS and FNCB announced the signing of the PFIS Merger Agreement and the date of the special meeting of FNCB shareholders regarding the merger. Because the merger consideration is determined by a fixed exchange ratio, FNCB shareholders will not know or be able to calculate the value of the shares of PFIS common stock they will receive upon completion of the merger. Any change in the market price of PFIS common stock prior to completion of the merger may affect the value of the merger consideration. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in the companies' respective businesses, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of PFIS and FNCB.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the transactions contemplated by the Merger Agreement may be completed, various approvals must be obtained from bank regulatory authorities. In determining whether to grant these approvals, the applicable regulatory authorities consider a variety of factors, including the competitive impact of the proposal in the relevant geographic markets; financial, managerial and other supervisory considerations of each party; convenience and needs of the communities to be served and the record of the insured depository institution subsidiaries under the Community Reinvestment Act of 1977 and the regulations promulgated thereunder; effectiveness of the parties in combating money laundering activities; any significant outstanding supervisory matters; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. These regulatory authorities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the mergers or of imposing additional costs or limitations on the combined companies following the mergers. The regulatory approvals may not be received at all, may not be received in a timely fashion, or may contain conditions on the completion of the mergers that are not anticipated or cannot be met. Furthermore, such conditions or changes may constitute a burdensome condition that may allow PFIS to terminate the Merger Agreement and PFIS may exercise its right to terminate the Merger Agreement. If the consummation of the mergers is delayed, including by a delay in receipt of necessary regulatory approvals, the business, financial condition and results of operations of FNCB may also be materially and adversely affected.

Failure of the merger to be completed, the termination of the Merger Agreement or a significant delay in the consummation of the merger could negatively impact FNCB.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the mergers. These conditions to the consummation of the mergers may not be fulfilled and, accordingly, the mergers may not be completed. In addition, if the mergers are not completed by September 27, 2024, either PFIS or FNCB may choose to terminate the Merger Agreement at any time after that date if the failure of the effective time to occur on or before that date is not caused by any breach of the Merger Agreement by the party electing to terminate the Merger Agreement. If the mergers are not consummated, the ongoing business, financial condition and results of operations of FNCB may be materially adversely affected and the market price of FNCB's common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the mergers will be consummated.

In addition, FNCB has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement. If the mergers are not completed, FNCB would have to recognize these expenses without realizing the expected benefits of the mergers. Any of the foregoing, or other risks arising in connection with the failure of or delay in consummating the merger, including the diversion of management attention from pursuing other opportunities and the constraints in the Merger Agreement on the ability to make significant changes to FNCB's ongoing business during the pendency of the mergers, could have a material adverse effect on FNCB's business, financial condition and results of operations. If the Merger Agreement is terminated and FNCB's board of directors seeks another merger or business combination, FNCB shareholders cannot be certain that FNCB will be able to find a party willing to engage in a transaction on more attractive terms than the merger with PFIS.

FNCB will be subject to business uncertainties and contractual restrictions while the mergers are pending.

Uncertainty about the effect of the merger on employees, customers (including depositors and borrowers), suppliers and vendors may have an adverse effect on the business, financial condition and results of operations of FNCB. These uncertainties may impair FNCB's ability to attract, retain and motivate key personnel and customers (including depositors and borrowers) pending the consummation of the mergers, as such personnel and customers may experience uncertainty about their future roles and relationships following the consummation of the mergers. Additionally, these uncertainties could cause customers (including depositors and borrowers), suppliers, vendors and others who deal with FNCB to seek to change existing business relationships with FNCB or fail to extend an existing relationship with FNCB. In addition, competitors may target FNCB's existing customers by highlighting potential uncertainties and integration difficulties that may result from the mergers.

The pursuit of the mergers and the preparation for the integration may place a burden on FNCB’s management and internal resources. Any significant diversion of management attention away from ongoing business concerns and any difficulties encountered in the transition and integration process could have a material adverse effect on FNCB’s business, financial condition and results of operations. In addition, the Merger Agreement restricts each party from taking certain actions without the other party’s consent while the mergers are pending. These restrictions could have a material adverse effect on FNCB’s business, financial condition and results of operations.

The Merger Agreement contains provisions that may discourage other companies from pursuing, announcing or submitting a business combination proposal to FNCB that might result in greater value to FNCB shareholders.

The Merger Agreement contains provisions that may discourage a third party from pursuing, announcing or submitting a business combination proposal to FNCB that might result in greater value to FNCB shareholders than the merger with PFIS. These provisions include a general prohibition on FNCB from soliciting, or, subject to certain exceptions, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions. Furthermore, if the Merger Agreement is terminated, under certain circumstances, FNCB may be required to pay PFIS a termination fee equal to $4.8 million. FNCB also has an obligation to submit its merger-related proposals to a vote by its shareholders, including if FNCB receives an unsolicited proposal that FNCB board of directors believes is superior to the mergers, unless the Merger Agreement is terminated by FNCB under certain conditions described in the Merger Agreement.

Litigation against FNCB or PFIS, or the members of FNCB's or PFIS's board of directors, could prevent or delay the completion of the mergers.

Shareholder plaintiffs or purported shareholder plaintiffs have asserted legal claims related to the pending mergers or may assert legal claims related to the mergers. The results of any such legal proceeding would be difficult to predict and such legal proceedings could delay or prevent the mergers from being completed in a timely manner. Moreover, any litigation could be time consuming and expensive, and could divert attention of FNCB's and PFIS's respective management teams away from their companies' regular business. Any lawsuit adversely resolved against FNCB, PFIS or members of their respective boards of directors, could have a material adverse effect on each party's business, financial condition and results of operations.

One of the conditions to the consummation of the mergers is the absence of any law, order, decree or injunction (whether temporary, preliminary or permanent) or other action taken by the governmental authority of competent jurisdiction that restricts, enjoins or prohibits or makes illegal the consummation of the transactions contemplated by the Merger Agreement, including the mergers. Consequently, if a settlement or other resolution is not reached in any lawsuit that is filed or any regulatory proceeding and a claimant secures injunctive or other relief or a governmental authority issues an order or other directive restricting, prohibiting or making illegal the completion of the transactions contemplated by the Merger Agreement, including the mergers, then such injunctive or other relief may prevent the mergers from being completed in a timely manner or at all.

Combining PFIS and FNCB may be more difficult, costly or time-consuming than expected, and PFIS and FNCB may fail to realize the anticipated benefits of the mergers.

An inability to realize the full extent of the anticipated benefits of the mergers and the other transactions contemplated by the Merger Agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the surviving corporation following the completion of the mergers, which may adversely affect the value of the common stock of the surviving corporation following the completion of the mergers. It is possible that the integration process could result in loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the mergers.

Following the mergers, the size of the business of the surviving corporation will increase beyond the current size of either PFIS' or FNCB's respective business. The surviving corporation's future success will depend, in part, upon its ability to manage the expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. In connection with the mergers, PFIS will assume FNCB's outstanding indebtedness. PFIS' existing debt, together with any future incurrence of additional indebtedness, and the assumption of FNCB's outstanding indebtedness, could have important consequences for the surviving corporation's creditors and the surviving corporation's shareholders, potentially limiting PFIS's capital and liquidity. There can be no assurances that the surviving corporation will be successful or that it will realize the expected operating efficiencies, revenue enhancements or other benefits currently anticipated from the mergers.

Risks Related to FNCB's Common Stock

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 impairment 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 or have their shares repurchased by FNCB.

Although FNCB has historically declared quarterly cash dividends on its common stock, and has from time-to-time implemented 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. 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.

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.

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. 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. 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.

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.

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.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

Cybersecurity Risk Management and Strategy

Cybersecurity risks are constantly evolving and becoming increasingly pervasive across all industries. To mitigate these risks and protect sensitive customer data, financial transactions and its information systems, FNCB has implemented a comprehensive cybersecurity risk management program, which is a component of its overarching Information Security Program. Key components of the Information Security Program include:

- Information Security Risk Assessment. An information security risk assessment is a process designed to identify and assess new and existing threats, vulnerabilities, attacks, probabilities of occurrence and outcomes;
- Information Security Strategy. The information security strategy, which is updated by management and reviewed and approved by the board of directors annually, seeks to mitigate risk by integrating technology with robust policies, procedures and training;
- Security Controls Implementation. Implementing security controls is a company-wide process that ensures that the acquisition, deployment and operation of technology to include risk appropriate controls through the assignment of specific duties and responsibilities to management and staff;
- Security Controls Training. Training is provided for managers and staff to ensure that all parties understand their responsibilities and have the knowledge and skills necessary to fulfill their duties. Training also includes an awareness program that keeps employees informed about cybersecurity threats and how to safely use electronic platforms such as email, internet and cloud-based environments;
- Security Monitoring. Security monitoring utilizes various methodologies, including the use of third-party services as necessary, to gain assurance that risk are appropriately assessed and mitigated, and to verify that significant controls are effective and performing as intended;
- Security Process Updating. This updating process is a continuous system of gathering and analyzing information regarding new threats and vulnerabilities, actual attacks on FNCB or others combined with the effectiveness of existing security controls that are maintained. Through monitoring and updating, the information security program becomes a continuous process rather than a one-time event; and
- Incident Response Plan. The incident response plan, which is modeled after the framework established by the National Institute of Standards and Technology, outlines the steps FNCB will take to respond to a cybersecurity incident. The incident response plan is tested on a periodic basis.

FNCB engages reputable third-party assessors to conduct various independent risk assessments on a regular basis, including but not limited to, maturity assessments and various tests. FNCB leverages both in-house resources and third-party service providers to implement and maintain processes and controls to manage and mitigate any identified risks.

FNCB's has a Vendor Risk Management Program that is designed to ensure that vendors providing services to FNCB meet its cybersecurity requirements. This includes conducting periodic risk assessments of vendors, requiring vendors to implement appropriate cybersecurity controls and monitoring vendor compliance with our cybersecurity requirements.

FNCB's cybersecurity risk management program and strategy are designed to ensure that FNCB's information and information systems are appropriately protected from a variety of threats, both natural and man-made. Periodic risk assessments are performed to validate control requirements and ensure that FNCB's information is protected at a level commensurate with its sensitivity, value, and criticality. Preventative and detective security controls are employed on all media where information is stored, the systems that process it, and infrastructure components that facilitate its transmission to ensure the confidentiality, integrity, and availability of FNCB's information. These controls include, but are not limited to access control, data encryption, data loss prevention, incident response, security monitoring, third party risk management, and vulnerability management.

FNCB's cybersecurity risk management program and strategy are regularly reviewed and updated to ensure that they are aligned with FNCB's business objectives and are designed to address evolving cybersecurity threats and satisfy regulatory requirements and industry standards.

Material Effects of Cybersecurity Threats

While cybersecurity risks have the potential to materially affect FNCB's business, financial condition, and results of operations, FNCB does not believe that risks from cybersecurity threats or attacks, including as a result of any previous cybersecurity incidents, have had a material affect on FNCB, including its business strategy, results of operations or financial condition. However, the sophistication of cyber threats continues to increase and evolve, and FNCB's cybersecurity risk management and strategy may be insufficient or may not be successful in protecting against all cyber incidents. Accordingly, no matter how well designed or implemented FNCB's controls are, it will not be able to anticipate all cyber security breaches, and it may not be able to implement effective preventive measures against such security breaches in a timely manner. For more information on how cybersecurity risk may materially affect FNCB's business strategy, results of operations or financial condition, refer to Part I, Item 1A. "Risk Factors" to this Annual Report on Form 10-K.

Governance

Board of Directors Oversight

FNCB's Board of Directors is charged with overseeing the establishment and execution of FNCB's risk management framework and monitoring adherence to related policies required by applicable statutes, regulations and principles of safety and soundness. Consistent with this responsibility the Board has delegated primary oversight responsibility over FNCB's risk management framework, including oversight of cybersecurity risk and cybersecurity risk management, to the Risk Management Committee of the Board of Directors. The Risk Management Committee has appointed the Executive Vice President and General Counsel, who serves as the Chairperson of FNCB's Enterprise Risk Management ("ERM") Committee, as the principal management-level designee for oversight of its risk management. Additionally, the Executive Vice President and Chief Financial Officer oversees FNCB's Technology Services Division. The Board of Directors receives regular updates on cybersecurity risks and incidents and the cybersecurity program through direct interaction with either of these two individuals who provide periodic updates regarding cybersecurity risks and the cybersecurity program. Additionally, awareness and training on cybersecurity topics is provided to the Board on an annual basis.

Management's Role

FNCB has an Information Technology Advisory Committee ("ITAC") that is responsible for implementing and maintaining its Information Security Program. Certain members of the IT Oversight Committee, a sub-committee of ITAC, have been designated collectively as FNCB's Information Security Officer. These members include, the Senior Vice President and Physical Security Officer who serves as Chairperson, the Executive Vice President and Chief Financial Officer and certain Technology Services Division personnel. The primary responsibility of the IT Oversight Committee, which meets monthly, is to ensure that information technology initiatives meet FNCB's cybersecurity objectives and are implemented securely, timely and transparently and for ensuring the protection of electronic and physical information through the identification and management of risk activities. As a governance and oversight function, the ITAC meets quarterly and measures and reports on the quality of information and cyber risk management across all functional areas of FNCB. The Executive Vice President and Chief Financial Officer presents information related to FNCB's Information Security Program to the Board of Directors at regular monthly meetings. Any breach or incident would be reported through ITAC, the ERM Committee and then to the Board of Directors. The IT Oversight Committeemakes a formal presentation to the Board of Directors on FNCB's Information Security Program at least annually.

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, 2023, FNCB also operated fifteen 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.

See Note 5, "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 25, 2023, FNCB's Board of Directors authorized a stock repurchase program under which up to 750,000 shares of FNCB's outstanding common stock may be acquired in the open market pursuant to a trading plan that was adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The repurchase program commenced on March 3, 2023 and was terminated in the third quarter of 2023, pursuant to a trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act of 1934. During 2023 no shares were repurchased under this plan. In 2022 and 2021, the Board of Directors authorized similar programs under which 384,830 and 330,759 shares were purchased at weighted-average prices per share of $9.45 and $7.21, respectively. Repurchases are funded from available working capital and the repurchased shares are returned to the status of authorized but unissued shares of common stock.

Holders

As of February 29, 2024, there were approximately 1,586 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 $7.1 million, or $0.36 per share, in 2023 and $6.5 million, or $0.33 per share, in 2022. The dividend payout ratio was 54.8% for the year ended December 31, 2023 and 32.0% for the year ended December 31, 2022. 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 15, “Regulatory Matters/Subsequent Events” in the notes to consolidated financial statements in this Annual Report on Form 10-K.

On January 24, 2024, the Board of Directors declared a dividend of $0.090 per share for the first quarter of 2024. The dividend is payable on March 15, 2024 to shareholders of record as of March 1, 2024.

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 Purchaser s

None.

Item 6. Reserved

None.

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 16 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 ESTIMATES AND 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 credit losses (“ACL”), securities’ valuation and impairment evaluation 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 ACL 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 Credit Losses

As of January 1, 2023, FNCB adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): “Measurement of Credit Losses on Financial Instruments,” which replaced 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, commonly referred to as Current Expected Credit Losses ("CECL") requires a financial asset (or a group of financial assets) to be measured at an amortized cost basis and presented at the net amount expected to be collected. The amendments in this update affect 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. Upon adoption of ASU 2016-13 on January 1, 2023, FNCB recorded an incremental decrease in the ACL through a cumulative effect adjustment to equity with subsequent adjustments charged to earnings through a provision for credit 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 ACL on a quarterly basis. The ACL 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 ACL, while recoveries of amounts previously charged off are credited to the ACL.

The ACL consists primarily of two components, a specific component and a general component. The specific component relates to loans and loan relationships in excess of $100 thousand that do not share risk characteristics with existing pools and are individually evaluated for impairment. 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. The general component of the ACL covers all other loans is based on pools of unimpaired loans segregated by loan segment. FNCB estimates expected credit losses using the discounted cash flow ("DCF") method for all loan portfolio segments measured on a collective or pool basis. For each loan segment, a cash flow projection is generated at the loan level. Probability of default and loss given default assumptions are applied to the pool’s projected model of cash flows taking into consideration the effects of prepayments and principal curtailment effects. The analysis produces expected cash flows for each loan in the pool by pairing loan-level term information (maturity date, payment amount, interest rate, etc.) with top-down pool assumptions (default rates and prepayment speeds).

Determining the amount of the ACL is considered a critical accounting estimate because it requires significant judgement 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 ACL, 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 ACL. Additionally, the ACL is determined, in part, by the composition and size of the loan portfolio.

See Note 2, “Summary of Significant Accounting Policies” and Note 4, “Loans and Leases” 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 ACL.

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 3, “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. The evaluation 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 be impaired 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 impairment on investment securities for years ended December 31, 2023 and 2022 within the consolidated statements of income.

See Note 2, "Summary of Significant Accounting Policies" and Note 3, "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 Management's valuation of securities.

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. Judgement 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 judgement 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 judgements 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, 2023 and 2022 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, 2023 and 2022, 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 11, "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, 2023 and accounting guidance that FNCB will adopt in future periods, see Note 2, "Summary of Significant Accounting Policies" of the notes to consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K.

EXECUTIVE OVERVIEW

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

On September 27, 2023, FNCB and Peoples Financial Services Corp. ("PFIS") (NASDAQ:PFIS) announced that both companies had entered into a strategic combination and executed an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which FNCB will merge with and into PFIS, with PFIS as the surviving entity. Immediately after the merger, the Bank will merge with and into Peoples Security Bank and Trust Company ("Peoples Bank") with Peoples Bank as the surviving bank and a wholly-owned subsidiary of PFIS. Pending regulatory and shareholder approvals, FNCB expects the consummation of the merger to be completed in the third quarter of 2024, however, there can be no assurance that the transaction will be consummated during this time period, or at all.

Monetary policy tightening actions by the Federal Open Market Committee ("FOMC"), changes in market interest rates and volatility within the financial services industry all impacted FNCB's operations and profitability in 2023 and financial position at December 31, 2023 as compared to the prior year. Management continued to navigate and adapt through a challenging rate environment. Additionally competition for deposits within FNCB's market area intensified as depositors became increasingly rate-sensitive. Management focused on prudent balance sheet, liquidity and funding cost management in 2023 to mitigate pressure on FNCB's net interest margin.

Results of Operations

Net income in 2023 amounted to $13.0 million, or $0.66 per diluted common share, a decrease of $7.5 million, or 36.5%, compared to $20.4 million, or $1.03 per diluted common share, in 2022. The decrease in 2023 net income compared to 2022 was primarily due to a decrease in net interest income, coupled with a reduction in non-interest income and an increase in non-interest expense. The magnitude and velocity of market rate increases, coupled with greater utilization of wholesale funding, resulted in a steep increase in interest expense of $27.4 million, or 406.9%, to $34.1 million in 2023, compared to $2.8 million in 2022. The increase in interest expense overshadowed a $21.2 million, or 35.0%, increase in interest income to $82.0 million in 2023 from $60.8 million in 2022. Non-interest income decreased $1.3 million, or 16.7%, to $6.6 million in 2023, from $7.9 million in 2022, primarily due to a $1.6 million net loss on equity securities, compared to a $34 thousand net loss on securities in 2022. Non-interest expense was $36.9 million in 2023, an increase of $1.4 million, or 4.1%, from 35.5 million in 2022, which largely reflected $1.5 million in merger and acquisition expenses recorded in 2023 associated with the pending merger with PFIS. The provision for credit losses decreased $82 thousand to $1.9 million in 2023, from $2.0 million in 2022. Income tax expense decreased $1.4 million, or 33.5%, to $2.7 million in 2023 as compared to $4.1 million in 2022 due primarily to the reduction in pre-tax net income.

Return on average assets and return on average shareholders' equity equaled 0.72% and 10.59%, respectively, in 2023, compared to 1.21% and 15.55%, respectively, in 2022. FNCB paid dividends to holders of common stock of $0.36 per share in 2023, an increase of $0.03 per share, or 9.1%, compared to $0.33 per share in 2022. Total dividends declared and paid in 2023 equated to a dividend yield of approximately 5.3% based on the closing stock price of $6.79 per share on December 31, 2023. The dividend payout ratio was 54.8% in 2023 compared to 31.9% in 2022.

Balance Sheet Profile

Total assets increased $135.5 million, or 7.8% **,** to $1.881 billion at December 31, 2023 from $1.746 billion at December 31, 2022. The balance sheet expansion primarily reflected increases in loans and leases, net of ACL, and cash and cash equivalents, partially offset by decreases in available-for-sale debt securities as security repayments were used to fund loan originations. Loans and leases, net of ACL, increased $98.2 million, or 8.8%, to $1.208 billion at December 31, 2023 from $1.110 billion at December 31, 2022. The increase in loans in leases was largely concentrated in commercial equipment financing loans. Cash and cash equivalents increased $66.0 million, or 157.3%, to $107.9 million at December 31, 2023, from $41.9 million at December 31, 2022. Meanwhile, available-for-sale debt securities decreased $25.3 million, or 5.3%, to $450.8 million at December 31, 2023 from $476.1 million at December 31, 2022. Total deposits increased $108.3 million, or 7.6%, to $1.529 billion at December 31, 2023 from $1.421 billion at December 31, 2022. FNCB experienced migration from non-maturity deposits, non-interest-bearing and interest-bearing demand and savings deposits, into time deposits, as customers have become increasingly rate-sensitive. In addition, to secure liquidity and for interest rate risk management purposes, FNCB increased utilization of brokered deposits. Total non-maturity deposits decreased $92.0 million, or 7.3%, to $1.171 billion at December 31, 2023 from $1.263 billion at December 31, 2022. Meanwhile, total time deposits increased $200.3 million, or 126.9%, to $358.2 million at December 31, 2023, from $157.9 million at December 31, 2022. Included in total time deposits were brokered deposits of $148.7 million at December 31, 2023, which was an increase of $124.8 million as compared to $23.9 million at December 31, 2022. Borrowed funds increased $17.9 million to $200.3 million at December 31, 2023, from $182.4 million at December 31, 2022, which included a $25.0 million advance under the Federal Reserve Bank's Bank Term Funding program ("BTFP").

Total shareholders' equity increased $15.7 million, or 13.2%, to $134.6 million at December 31, 2023 from $118.9 million at December 31, 2022. Tangible book value increased $0.76 per share, or 12.6%, to $6.80 per share at December 31, 2023 from $6.04 per share at December 31, 2022. The increases in capital and tangible book value were primarily due to a $7.8 million, or 16.4%, decrease in the accumulated other comprehensive loss, coupled with year-to-date net income of $13.0 million and a cumulative effect adjustment related to the adoption of ASU 2016-13 of $1.1 million. This was partially offset by year-to-date dividends declared and paid of $7.1 million. At December 31, 2023, FNCB Bank's total risk-based capital ratio and the Tier 1 leverage ratio were 12.66% and 8.76%, respectively, which exceeded the 10.00% and 5.00% thresholds required to be well capitalized under the prompt corrective action provisions of the Basel III capital framework for U.S. banking organizations.

In the fourth quarter of 2021, FNCB began offering commercial equipment financing including direct finance loans and leases and tax-exempt municipal leases to commercial and municipal customers under the brand 1st Equipment Finance. The product line has been very successful with outstanding loans and leases, net of unearned income and net deferred loan origination costs, of $163.6 million at December 31, 2023. On October 1, 2023, FNCB established 1st Equipment Finance, Inc. as a wholly owned subsidiary of the Bank. 1st Equipment Finance, Inc. operates out of the Exeter Community Office, located in Exeter, Luzerne County, Pennsylvania and services customers both within and outside FNCB's primary market area.

Focus for 2024

Management will continue to focus on balance sheet and interest rate risk management, while controlling funding costs and non-interest expenses. FNCB is working to satisfy the remaining conditions to closing the merger with PFIS, and is working with PFIS' team in accordance with the Merger Agreement to prepare for consummation of the merger and integration of our businesses.

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 interest 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 2023, 2022 and 2021.

In response to the economic uncertainty from the global COVID-19 pandemic, the FOMC lowered the federal funds rate 150 basis points in two emergency actions in March 2020. As a result, the target range for federal funds fell from 1.50%-1.75% at December 31, 2019 to 0.00%-0.25% at March 31, 2022, and had remained at these historically low levels through March 15, 2022. Supply chain constraints, the war in Ukraine, as well as increasing tension and unrest worldwide, has resulted in rapid rise in price inflation and these factors, as well as the recent conflict in the Middle East, could drive further inflation, placing additional strain on economic conditions in the United States, the banking industry and global markets. Thus far, as a result, the FOMC, in an effort to lower inflation to its 2.0% objective, began tightening U.S. monetary policy in 2022. Specifically, the FOMC increased the target range for the federal funds rate eleven times for a total of 525 basis points from March 15, 2022 through July 26, 2023, which included an additional four 25-baisis point increases in 2023, on February 1, 2023, March 2, 2023, May 3, 2023 and July 26, 2023. Corresponding with the increases in federal funds target rate, the national prime rate increased 525 basis points from 3.25% on March 15, 2022 to 8.50% on July 26, 2023 and has remaining at this level through December 31, 2023. This dramatic shift to tighten monetary policy has resulted in a rapid rise in general market interest rates. Competition for deposits within FNCB's market area has intensified, reflective of industry-wide liquidity pressures and rate-sensitivity of depositors. Additionally, FNCB has experienced margin compression in 2023, as higher interest rates and increased competition have caused deposit and wholesale funding costs to increase at a faster pace and greater magnitude than earning asset yields.

FNCB responded to competition within its market area and rate-sensitivity of depositors mentioned above by offering various promotional deposit products including certificate of deposit and money market products having promotional rates. Additionally, FNCB increased its utilization of wholesale funding, including brokered deposits and borrowing arrangements with FHLB of Pittsburgh and the FRB, as deposit gathering has been pressured by industry-wide liquidity constraints. FNCB's cost of funds may continue to increase as a result of further tightening by the FOMC and increased competition within FNCB's market area. Additionally, the replacement rates of existing certificates of deposit, other deposit products and wholesale funding instruments may be higher than current rates, which could negatively impact FNCB's cost of funds and result in further net interest margin and spreads contraction. Further contraction in margin and spread could have an unfavorable impact on profitability and future net interest levels. Management monitors FNCB's interest rate risk and sensitivity to changes in market interest rates through the Asset Liability Committee ("ALCO") and is committed to prudent and proactive balance sheet management with a focus on controlling funding costs in relation to funding needs and yields on earning assets in order to mitigate any potential unfavorable impact to FNCB's earnings and profitability.

Recent economic data suggest that the FOMC's goals for employment and inflation are more balanced. The FOMC as indicated that it remains attentive to inflation risks and does not expect to reduce the federal funds target range until there is greater confidence that inflation is moving sustainably towards its goal of 2.0%. However, there is no assurance that these trends with respect to employment and inflation will continue, or forecasts for these metrics will be indicative of actual results. The recent onset of conflict in the Middle East, as well as increasing tension and unrest worldwide, could drive further inflation and place additional strain on economic conditions in the United States, the banking industry and global markets. Should inflationary pressures persist, the FOMC may need to continue to increase interest rates which could result in higher funding costs and further contraction of FNCB's tax-equivalent net interest margin and rate spread.

Tax-equivalent net interest income de creased $6.2 million, or 11.2%, to $49.0 million in 2023 compared to $55.2 million in 2022. The decrease in tax-equivalent net interest income was due to an increase in tax-equivalent interest expense which resulted primarily from increased utilization of wholesale funding and higher funding costs that overshadowed the increase in interest income. The steep and rapid rise in market interest rates sustained in 2023 caused significant increases in funding costs and margin contraction throughout the banking industry. 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. FNCB's tax-equivalent net interest margin declined 57 basis points to 2.81% in 2023 compared to 3.38% in 2022. Additionally, the magnitude and velocity of the rate increases in 2023 has led to a decrease in FNCB's 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, as funding costs increased to a greater extent than asset yields. FNCB's rate spread was 2.27% in 2023, a decrease of 97 basis points as compared to 3.24% in 2022.

Tax-equivalent interest income increased $21.2 million , or 6.6%, to $83.1 million in 2023 from $61.9 million in 2022, which was largely caused by an increase in the tax-equivalent yield on average earning assets, coupled with growth in average earning assets. The tax-equivalent yield on earning assets increased 98 basis points to 4.77% in 2023 from 3.79%, which resulted in a corresponding increase in tax-equivalent interest income of $16.0 million. Specifically, FNCB's tax-equivalent yield on loans and leases increased 112 basis points to 5.55% in 2023 compared to 4.43% in 2022, resulting in a corresponding increase in tax-equivalent interest income of $12.8 million. In addition, the tax-equivalent yield on investment securities increased 47 basis points to 3.05% in 2023 from 2.58% in 2022 and caused a corresponding increase to tax-equivalent interest income of $2.5 million. Average earning assets increased $107.9 million, or 6.6%, to $1.740 billion in 2023 from $1.633 billion in 2022, resulting in a corresponding increase to tax-equivalent interest income of $5.2 million. Specifically, average loans and leases increased $112.9 million, or 10.5%, to $1.187 billion in 2023 from $1.074 million in 2022, which reflected strong growth in commercial equipment financing loans. Partially offsetting the increase in average loan volumes was a $17.6 million, or 3.2%, decrease in average investment securities to $532.5 million in 2023 from $550.1 million in 2022.

Meanwhile, interest expense increased $27.4 million, or 406.9%, to $34.1 million in 2023 from $6.7 million in 2022, which more than offset the increase in tax-equivalent interest income. The increase in interest expense was primarily due to higher funding costs, coupled with an increase in average borrowed funds. In 2023, following the rapid rise in market interest rates and change in overall market liquidity, competition for deposits intensified and depositors had become increasingly rate sensitive. FNCB responded to competitive pressures with increases in deposit rates and offered time deposit specials with promotional rates and terms. The cost of interest-bearing deposits increased 174 basis points to 2.10% in 2023 from 0.36% in 2022. Specifically, the cost of interest-bearing demand deposits increased 158 basis points while the cost of time deposit increased 280 basis points comparing 2023 and 2022, which resulted in corresponding increases to interest expense of $11.1 million and $8.5 million, respectively. In addition, liquidity constraints within the industry caused FNCB to increase utilization of wholesale funding, that typically carry higher interest rates. As a result, FNCB's cost of wholesale borrowings increased 237 basis points to 4.89% in 2023 from 2.52% in 2022, causing a corresponding increase to interest expense of $3.7 million. Overall, FNCB's cost of funds increased 196 basis points to 2.51% for the year-ended December 31, 2023 from 0.55% for the year ended December 31, 2022, which resulted in a corresponding increase in tax-equivalent interest expense of $23.6 million. Borrowed funds averaged $197.6 million in 2023, an increase of $88.0 million, or 80.4%, from $109.5 million in 2022, which resulted in a corresponding increase in interest expense of $3.2 million. Total interest-bearing deposits increased $44.9 million, or 4.0%, to $1.163 billion for 2023, compared to $1.118 billion for 2022, which resulted in a corresponding increase to interest expense of $651 thousand. FNCB experienced deposit migration from non-maturity deposits into time deposits. Additionally, FNCB utilized brokered deposits for various ALCO strategies to manage interest rate risk and to secure liquidity. Specifically, average time deposits increased $164.4 million, or 104.1%, to $322.4 million in 2023 from $158.0 million in 2022. Brokered time deposits averaged $116.9 million in 2023, an increase of $92.0 million, or 370.0%, from $24.9 million in 2022. Conversely, average interest-bearing demand deposits decreased $111.5 million, or 13.7%, to $704.1 million in 2023, compared to $815.6 million in 2022. Savings deposits averaged $136.3 million in 2023, a decrease of $8.0 million, or 5.5%, from $144.3 million in 2022.

The following table presents the components of net interest income for the three years ended December 31, 2023, 2022 and 2021:

Summary of Net Interest Income

	For the Year Ended December 31,								
	2023			2022			2021		
(dollars in thousands)	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets:									
Earning assets (2)(3)									
Loans and leases-taxable (4)	$ 1,131,072	$ 63,553	5.62%	$ 1,019,254	$ 45,696	4.48%	$ 905,237	$ 39,645	4.38%
Loans and leases-tax free (4)	56,118	2,293	4.09	55,058	1,895	3.44	45,217	1,777	3.93
Total loans and leases (1)(2)	1,187,190	65,846	5.55	1,074,312	47,591	4.43	950,454	41,422	4.36
Securities-taxable	436,774	13,442	3.08	439,824	10,830	2.46	346,204	8,476	2.45
Securities-tax free	95,743	2,794	2.92	110,238	3,370	3.06	83,437	2,641	3.17
Total securities (1)(5)	532,517	16,236	3.05	550,062	14,200	2.58	429,641	11,117	2.59
Interest-bearing deposits in other banks and federal funds sold	20,669	1,011	4.89	8,152	91	1.12	68,932	88	0.13
Total earning assets	1,740,376	83,093	4.77%	1,632,526	61,882	3.79%	1,449,027	52,627	3.63%
Non-earning assets	65,679			69,602			129,386		
Allowance for credit losses	(12,846)			(13,497)			(12,311)		
Total assets	$ 1,793,209			$ 1,688,631			$ 1,566,102		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities									
Interest-bearing demand deposits	$ 704,118	13,867	1.97%	$ 815,579	3,215	0.39%	$ 764,798	1,252	0.16%
Savings deposits	136,354	381	0.28	144,343	174	0.12	125,022	87	0.07
Time deposits	322,354	10,213	3.17	157,991	581	0.37	176,245	1,169	0.66
Total interest-bearing deposits	1,162,826	24,461	2.10	1,117,913	3,970	0.36	1,066,065	2,508	0.24
Borrowed funds and other interest-bearing liabilities	197,563	9,666	4.89	109,515	2,762	2.52	12,228	197	1.61
Total interest-bearing liabilities	1,360,389	34,127	2.51%	1,227,428	6,732	0.55%	1,078,293	2,705	0.25%
Demand deposits	287,471			314,105			315,181		
Other liabilities	22,696			15,609			13,892		
Shareholders' equity	122,653			131,489			158,736		
Total liabilities and shareholders' equity	$ 1,793,209			$ 1,688,631			$ 1,566,102		
Net interest income/interest rate spread (6)		48,966	2.27%		55,150	3.24%		49,922	3.38%
Tax equivalent adjustment		(1,069)			(1,106)			(928)	
Net interest income as reported		$ 47,897			$ 54,044			$ 48,994	
Net interest margin (7)			2.81%			3.38%			3.45%

(1) Interest income is presented on a tax-equivalent basis using a 21% rate.
(2) Loans and leases are stated net of unearned income.
(3) Non-accrual loans are included in loans within earning assets.
(4) Interest income on loans and leases includes net loan costs of $1,286 in 2023 and net loan fees of $68 in 2022, and $4,612 in 2021.
(5) The yields for securities that are classified as available for sale are based on the average historical amortized cost.
(6) Interest rate spread represents the difference between the average yield on interest-earning assets and the cost of average interest-bearing liabilities and is presented on a tax equivalent basis.
(7) Net interest income as a percentage of total average interest earning assets.

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

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

Rate Volume Analysis

	For the Year Ended December 31,					
	2023 vs. 2022			2022 vs. 2021		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
(in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income:						
Loans and leases-taxable	$ 5,397	$ 12,460	$ 17,857	$ 5,093	$ 958	$ 6,051
Loans and leases-tax free	37	361	398	356	(238)	118
Total loans and leases	5,434	12,821	18,255	5,449	720	6,169
Securities-taxable	(76)	2,688	2,612	2,305	49	2,354
Securities-tax free	(428)	(148)	(576)	822	(93)	729
Total securities	(504)	2,540	2,036	3,127	(44)	3,083
Interest-bearing deposits in other banks and federal funds sold	287	633	920	(139)	142	3
Total interest income	5,217	15,994	21,211	8,437	818	9,255
Interest expense:						
Interest-bearing demand deposits	(497)	11,149	10,652	88	1,875	1,963
Savings deposits	(10)	217	207	15	72	87
Time deposits	1,158	8,474	9,632	(111)	(477)	(588)
Total interest-bearing deposits	651	19,840	20,491	(8)	1,470	1,462
Borrowed funds and other interest-bearing liabilities	3,183	3,721	6,904	2,395	170	2,565
Total interest expense	3,834	23,561	27,395	2,387	1,640	4,027
Net interest income	$ 1,383	$ (7,567)	$ (6,184)	$ 6,050	$ (822)	$ 5,228

Provision for Credit Losses

The level of the ACL is a critical accounting estimate, which is subject to uncertainty. The provision for credit losses is a charge to earnings in an amount sufficient enough to maintain the ACL at a level deemed adequate by management. A credit to the provision for credit losses reflects the reversal of amounts previously charged to the ACL. Management closely monitors the loan portfolio and the adequacy of the ACL by considering the underlying financial performance of the borrower, collateral values and associated credit risks. FNCB recorded a provision for credit losses of $1.9 million for the year ended December 31, 2023, a decrease of $0.1 million, compared to $2.0 million for the year ended December 31, 2022. Future material adjustments may be necessary to the provision for credit losses and the ACL if economic conditions or loan performance differ substantially from the assumptions management considered in its evaluation of the ACL.

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Non-Interest Income

The following table presents the components of non-interest income for the years ended December 31, 2023 and 2022:

Components of Non-Interest Income

	Year Ended December 31,			
			Change	
(in thousands)	**2023**	**2022**	**$**	**%**
Deposit service charges	$ 4,537	$ 4,415	$ 122	2.8%
Net gain (loss) on the sale of available-for-sale debt securities	252	(223)	475	(213.0)
Net loss on equity securities	(1,601)	(34)	(1,567)	4,608.8
Net gain on the sale of mortgage loans held for sale	6	205	(199)	(97.1)
Loan-related fees	398	243	155	63.8
Income from bank-owned life insurance	752	710	42	5.9
Bank-owned life insurance settlement	-	273	(273)	(100.0)
Merchant services revenue	592	712	(120)	(16.9)
Wealth management services revenue	944	564	380	67.3
Loan referral fees	362	191	171	89.5
Other	403	925	(522)	(56.4)
Total non-interest income	$ 6,645	$ 7,981	$ (1,336)	(16.7)%

For the year ended December 31, 2023 , non-interest income decreased $1.3 million, or 16.7%, to $6.6 million compared to $7.9 million for the year ended December 31, 2022. The 16.7% decrease in non-interest income primarily from an unfavorable change in market value of equity securities, coupled with reductions in net gains on the sale of mortgages held for sale, and decreases in merchant services revenue and other non-interest income. FNCB's holdings of equity securities are comprised primarily of common stock of publicly traded bank holding companies. Stock market volatility, due to rising interest rates and several bank failures in early 2023, negatively impacted equity prices within this sector and resulted in FNCB recording a net loss on equity securities of $1.6 million in 2023, compared to a net loss of only $34 thousand recorded in 2022. Net gains on the sale of mortgages held for sale decreased $199 thousand, or 97.1%, to $6 thousand for the year ended December 31, 2023, compared to $205 thousand for the year ended December 31, 2022, as pricing margins on loans and the volume of loan sales decreased due to the rapid rise in market interest rates. Merchant services revenues and other non-interest income decreased $120 thousand, or 16.9%, to $592 thousand in 2023 from $712 thousand in 2022, while other non-interest income decreased $351 thousand, or 31.5%, to $765 thousand in 2023 from $1.1 million in 2022. Additionally, FNCB recorded income associated with BOLI death benefit claims of $273 thousand in 2022. There was no such BOLI claim in 2023.

Partially offsetting these decreases in non-interest income were increases in wealth management services revenue, deposit service charges, net gains on the sale of available-for-sale debt securities and loan related fees. Revenue generated from wealth management services increased $380 thousand, or 67.3%, to $944 thousand in 2023 from $564 thousand in 2022, which reflected FNCB's purchase of Chiaro Investment Services, LLC on September 30, 2022. Deposit service charges increased $122 thousand, or 2.8%, to $4.5 million in 2023, compared to $4.4 million in 2022, which was primarily due to increases in transactional-related charges, check card fees and wire transfer fees. FNCB recorded a net gain on the sale of available-for sale debt securities of $252 thousand in 2023, compared to a net loss of $223 thousand in 2022, an increase of $475 thousand, or 213.0%. Loan-related fees increased $155 thousand, or 63.8%, to $398 thousand in 2023 from $243 thousand in 2022.

Non-Interest Expense

The following table presents the major components of non-interest expense for the years ended December 31, 2023 and 2022:

Components of Non-Interest Expense

	Year Ended December 31,			
			Change	
(in thousands)	**2023**	**2022**	**$**	**%**
Salaries and employee benefits	$ 20,234	$ 19,283	$ 951	4.9%
Occupancy expense	2,156	2,093	63	3.0
Equipment expense	963	1,295	(332)	(25.6)
Advertising expense	836	801	35	4.4
Data processing expense	4,008	4,027	(19)	(0.5)
Regulatory assessments	1,115	811	304	37.5
Bank shares tax	509	915	(406)	(44.4)
Professional fees	1,093	1,273	(180)	(14.1)
(Credit) provision for unfunded commitments	(803)	366	(1,169)	(319.4)
Merger and acquisition expenses	1,480	-	1,480	-
Other operating expenses	5,331	4,610	721	15.6
Total non-interest expense	$ 36,922	$ 35,474	$ 1,448	4.1%

Non-interest expense totaled $36.9 million in 2023, an increase of $1.4 million, or 4.1%, from $35.5 million in 2022. The increase was primarily due to the recognition of $1.5 million in merger and acquisition expenses in 2023. FNCB also experienced increases in salaries and employee benefits, regulatory assessments and other operating expenses, which were partially offset by a credit for unfunded commitments and reductions in equipment expense and bank shares tax.

Salaries and employee benefits increased $951 thousand, or 4.9%, to $20.2 million in 2023 from $19.3 million in 2022. The increase in salaries and employee benefits was primarily due to increases in starting salaries and salary ranges to remain competitive in attracting and retaining quality staff, annual merit increases and higher payroll taxes, health insurance premiums and retirement contributions, partially offset by a reduction in incentive compensation. At the end of 2022, management engaged a third-party consultant to conduct a comprehensive evaluation of FNCB's salary and benefit structure and industry comparison. As a result of this study, FNCB had increased the minimum starting salary for new employees and adjusted salary ranges as appropriate to be competitive with its peers within its market area. Additionally, FNCB increased the 2023 annual cost of living/merit increase for employees.

Comparing 2023 and 2022, regulatory assessments increased $304 thousand, or 37.5%, due largely to balance sheet growth. Other operating expenses increased $721 thousand, or 15.6%, to $5.3 million in 2023, from $4.6 million in 2022, which reflected increases in insurance costs, legal fees, correspondent bank fees and servicing costs of purchased loans. These increases were slightly offset by a credit for unfunded commitments and a reduction in equipment expenses and bank shares tax expense. At December 31, 2023, FNCB recorded a credit for unfunded commitments of $803 thousand, compared to a provision for unfunded commitments of $366 thousand at December 31, 2022. Equipment expenses and bank shares tax expense decreased $332 thousand, or 25.6%, and $406 thousand, or 44.4%, respectively, comparing 2023 and 2022.

Provision for Income Taxes

FNCB recorded income tax expense of $2.8 million in 2023, a decrease of $1.4 million, or 33.5%, compared to $4.2 million in 2022. The decrease in income tax expense was due to lower taxable income in 2023 as compared to 2022. FNCB's effective tax rate increased to 17.52% at December 31, 2023, compared to 16.85% at December 31, 2022, which resulted primarily from a decrease in tax-exempt income and an increase in non-deductible interest expense.

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 net deferred tax assets 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, 2023 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, 2023 or 2022.

FINANCIAL CONDITION

Total assets increased $135.5 million, or 7.8%, to $1.881 billion at December 31, 2023 from $1.746 billion at December 31, 2022. The balance sheet expansion primarily reflected increases in loans and leases, net of ACL, and cash and cash equivalents, partially offset by decreases in available-for-sale debt securities as security repayments were used to fund loan originations. Loans and leases, net of ACL, increased $98.2 million, or 8.8%, to$1.208 billion at December 31, 2023 from $1.110 billion at December 31, 2022. FNCB experienced strong loan demand in the commercial sector with the majority of the increase in loans and leases concentrated in commercial equipment financing loans. Cash and cash equivalents increased $66.0 million, or 157.3%, to $107.9 million at December 31, 2023, from $41.9 million at December 31, 2022. Meanwhile, available-for-sale debt securities decreased $25.3 million, or 5.3%, to $450.8 million at December 31, 2023 from $476.1 million at December 31, 2022. Total deposits increased $108.3 million, or 7.6%, to $1.529 billion a December 31, 2023 from $1.421 billion at December 31, 2022. FNCB experienced migration from non-maturity deposits, non-interest-bearing and interest-bearing demand and savings deposits, into time deposits, as customers have become increasingly rate-sensitive. In addition, FNCB increased utilization of brokered deposits to secure liquidity and for interest rate risk management purposes. Total non-maturity deposits decreased $92.0 million, or 7.3%, to $1.171 billion at December 31, 2023 from $1.263 billion at December 21, 2022. Total time deposits increased $200.3 million, or 126.9%, to $358.2 million at the end of 2023, from $157.9 million at December 31, 2022. Included in time deposits were brokered deposits of $148.7 million at December 31, 2023, an increase of $124.8 million from $23.9 million at December 31, 2022. Borrowed funds increased $17.9 million to $200.3 million at December 31, 2023, compared to $182.4 million at December 31, 2022, which included a $25 million advance under the Federal Reserve Bank's Bank Term Funding Program ("BTFP").

Total shareholders ’ equity increased $15.7 million, or 13.2%, to $134.6 million at December 31, 2023 from $118.9 million at December 31, 2022. Tangible book value increased $0.76 per share, or 12.6%, to $6.80 per share at December 31, 2023 from $6.04 per share at December 31, 2022. The increases in capital and tangible book value were primarily due to a $7.8 million, or 16.4%, decrease in the accumulated other comprehensive loss, coupled with year-to-date net income of $13.0 million and a cumulative effect adjustment related to the adoption of ASU 2016-13 of $1.1 million. These increases to capital were partially offset by year-to-date dividends declared and paid of $7.1 million. At December 31, 2023 , FNCB Bank’s total risk-based capital ratio and the Tier 1 leverage ratio were 12.66% and 8.76%, respectively, which exceeded the 10.00% and 5.00% thresholds required to be well capitalized under the prompt corrective action provisions of the Basel III capital framework for U.S. banking organizations.

Cash and Cash Equivalents

Cash and cash equivalents increased $66.0 million, or 157.3%, to $ 107.9 million at December 31, 2023, from $41.9 million at December 31, 2022. The increase in cash and cash equivalents resulted primarily from cash provided by operating and financing activities, primarily an increase of $108.4 million in deposits, including brokered deposits, and net activity related to available-for-sale debt securities of $34.7 million. Funds received from deposits and investment activity were used to fund demand for FNCB's lending products, resulting in an increase in loans and leases, net of deferred loan origination fees and costs and unearned income, of $98.1 million. Partially offsetting this, FNCB paid cash dividends totaling $7.1 million, or $0.360 per share in 2023 compared to $6.5 million, or $0.330 per share, in 2022.

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 available-for-sale or held-to-maturity at the time of purchase based on management's intent. 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, while held-to-maturity securities are carried at amortized cost. At December 31, 2023 and 2022, 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, 2023, the investment portfolio was comprised principally of available-for-sale debt securities including, fixed-rate, taxable and tax-exempt obligations of state and political subdivisions and fixed-rate and floating-rate securities issued by U.S. government or U.S. government-sponsored agencies, which include mortgage-backed securities and residential and commercial collateralized mortgage obligations ("CMOs"). FNCB also holds investments, to a lesser extent, in private CMO's, corporate debt securities, asset-backed securities and U.S. Treasury securities. Additionally, FNCB holds equity investments in the common and preferred stock of certain publicly traded bank holding companies. 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, 2023.

The majority of FNCB's debt securities are fixed-rate instruments and inherently subject to interest rate risk, as the value of fixed-rate securities fluctuate with changes in interest rates. The 10-year Treasury rate was unchanged at 3.88% at both December 31, 2023 and 2022, while the 2-year Treasury rate, which was 4.41% at December 31, 2022, decreased 18 basis points to 4.23% at December 31, 2023. Generally, a security's value reacts inversely with changes in interest rates. Available-for-sale securities are carried at fair value, with unrealized gains or losses reported in the accumulated other comprehensive income or loss component of shareholder's equity net of deferred income taxes. At December 31, 2023, FNCB reported a net unrealized loss, included in accumulated other comprehensive loss, of $40.0 million, net of deferred income taxes of $10.6 million, a decrease of $8.8 million compared to the net unrealized holding loss of $48.8 million, net of deferred income taxes of $13.0 million, at December 31, 2022. Despite the improvement in the value of available-for-sale debt securities, market interest rate volatility remains. Any increases in interest rates could result in further depreciation in the fair value of FNCB’s securities portfolio and capital position. However, accumulated other comprehensive income and loss related to available-for-sale debt securities is excluded from regulatory capital and does not have an impact on FNCB's regulatory capital ratios.

The following table presents the carrying value of available-for-sale debt securities and equity securities, at fair value at December 31, 2023, 2022 and 2021:

Composition of the Investment Portfolio

	December 31,					
	2023		2022		2021	
(dollars in thousands)	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**	**Fair Value**	**% of Portfolio**
Available-for-sale debt securities						
U.S. Treasuries	$ 33,177	7.36%	$ 32,134	6.75%	$ 36,355	6.96%
Obligations of state and political subdivisions	199,796	44.32	220,782	46.37	244,372	46.76
U.S. Government-sponsored agency:						
Collateralized mortgage obligations - residential	74,207	16.46	80,407	16.89	100,710	19.27
Collateralized mortgage obligations - commercial	3,386	0.75	3,329	0.70	3,727	0.71
Residential mortgage-backed securities	16,446	3.65	20,663	4.34	25,506	4.88
Private Collateralized mortgage obligations	70,152	15.56	72,507	15.23	67,165	12.85
Corporate debt securities	31,286	6.94	30,672	6.44	32,063	6.14
Asset backed securities	21,690	4.81	14,941	3.14	11,932	2.28
Negotiable certificates of deposit	674	0.15	656	0.14	736	0.14
Total available-for-sale debt securities	$ 450,814	100.00%	$ 476,091	100.00%	$ 522,566	100.00%
Equity securities, at fair value	$ 4,786		$ 7,717		$ 4,922	

FNCB purchased 11 securities with an aggregate cost of $17.2 million and a weighted-average yield of 7.99% during the year ended December 31, 2023. Securities purchased included $9.0 million in private asset-backed securities, $6.6 million in private CMOs and $1.5 million in corporate debt securities. Principal repayments and a decrease in the fair value of the available-for-sale portfolio due to an increase in market interest rates entirely offset the increase due to the purchases. In 2023, FNCB also sold available-for-sale securities with an aggregate amortized cost of $10.1 million and a weighted-average yield of 3.85%. Gross proceeds received on the sales totaled $10.4 million and a realized net gain of $252 thousand upon the sale is included in non-interest income in 2023. The investment portfolio averaged $532.5 million in 2023, a decrease of $17.4 million, or 3.2%, from $550.1 million in 2023, as the majority of proceeds received from repayments were used to fund loan demand. The tax-equivalent yield on the investment securities increased 47 basis points to 3.05% in 2023 from 2.58% in 2022.

Management continually monitors the investment portfolio for credit worthiness, value, and yield. Semiannually, management engages a third-party consultant to review the municipal portfolio to determine if there is any undue credit risk within the portfolio. As part of the independent review, each municipal security is compared to a portfolio credit benchmark to identify which securities may contain more than a minimal risk of payment default. As of December 31, 2023, the third-party report concluded that each municipal security held within the portfolio met or exceeded the benchmark and that none of the securities required further review. Management also monitors municipal securities monthly using a third-party surveillance report that identifies events related to the issuer that may indicate a deterioration in credit quality. Management noted no such events during 2023.

The following table presents the weighted-average yields on available-for-sale debt securities by major category and maturity period at December 31, 2023. Yields are calculated on the basis of the amortized cost and 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.

	December 31, 2023					
	Within One Year	> 1 – 5 Years	6-10 Years	Over 10 Years	Collateralized Mortgage Obligations, Mortgage-Backed and Asset-Backed Securities	Total
Weighted-average yield						
U.S. Treasury	-%	1.17%	-%	-%	-%	1.17%
Obligations of state and political subdivisions	2.96	2.97	2.27	2.35	-	2.48
U.S. government/government-sponsored agencies:						
Collateralized mortgage obligations - residential	-	-	-	-	2.63	2.63
Collateralized mortgage obligations - commercial	-	-	-	-	2.00	2.00
Mortgage-backed securities	-	-	-	-	2.70	2.70
Private collateralized mortgage obligations	-	-	-	-	3.98	3.98
Corporate debt securities	-	5.42	4.84	-	-	4.93
Asset-backed securities	-	-	-	-	7.08	7.08
Negotiable certificates of deposit	-	1.02	-	-	-	1.02
Weighted-average yield	2.96%	2.28%	3.13%	2.35%	3.59%	3.01%

Evaluation for Credit Impairment

Management performed a review of all securities in an unrealized loss position as of December 31, 2023 and noted that there were 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 if 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, 2023. Based on the results of its review and considering the attributes of these debt securities, management concluded that changes in the fair value of the securities were consistent with movements in market interest rates and spreads relative to when the securities were purchased and not due to the credit quality of the securities or issuers. Accordingly, management determined that FNCB was not required to establish an ACL for any security in an unrealized loss position at December 31, 2023.

See Note 3, “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 management's credit impairment evaluation of available-for-sale debt securities.

Loans and Leases

For comparative purposes, loan and lease balances by loan segment at December 31, 2023 and 2022 are presented at amortized cost, net of deferred loan origination fees and costs and unearned income, in the following narrative analysis.

Total loans and leases, gross increased by $96.0 million, or 8.5%, to $1.220 billion at December 31, 2023 from $1.124 billion at December 31, 2022. The growth in the loan and lease portfolio primarily reflected strong demand for equipment financing under the 1st Equipment Finance brand, coupled with moderate organic growth in commercial real estate and state and political subdivision loan categories. Loans originated under the 1st Equipment Finance brand, were previously reported under commercial and industrial loans. On October 1, 2023, 1st Equipment Finance, Inc. was established as a wholly owned subsidiary of the Bank and is now reported as a separate loan segment, commercial equipment financing. The majority of equipment financing loans are transactional in nature and originated through indirect, third-party dealers. At December 31, 2023, simple interest loans and direct finance leases outstanding totaled $163.6 million, an increase of $83.1 million, or 103.2%, from $80.5 million at December 31, 2022. Municipal leases originated under this initiative were $4.7 million and 3.7 million, respectively, at December 31, 2023 and 2022 and are included in state and municipal subdivision loans and leases.

From a collateral standpoint, the 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 $20.7 million, or 3.0%, to $713.3 million at December 31, 2023 from $692.6 million at December 31, 2022. However, the percentage of real estate secured loans to total loans and leases decreased to 58.5% at December 31, 2023 from 61.6% at December 31, 2022, which primarily reflected diversification of the portfolio into commercial equipment financing.

Commercial real estate loans, which include long-term commercial mortgage financing and are primarily secured by first or second lien mortgages, increased $31.8 million, or 8.5%, to $408.1 million at December 31, 2023, from $376.3 million at December 31, 2022. Commercial and industrial loans consist primarily of working capital financing, revolving lines of credit and loans secured by cash and marketable securities. Commercial and industrial loans, excluding the commercial equipment financing loans decreased $8.0 million, or 4.2%, to $183.8 million at December 31, 2023 from $191.8 million at December 31, 2022. Construction, land acquisition and development loans decreased $6.3 million, or 9.5%, to $59.9 million at December 31, 2023 from $66.2 million at December 31, 2022.

Residential real estate loans include fixed-rate and variable-rate, amortizing mortgage loans, home equity lines of credit ("HELOCs") and HELCOs with a carve out feature. 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 propriety non-saleable mortgage product branded as the WOW mortgage. The WOW mortgage has maturity terms of 10 to 19.5 years and offers customers an attractive fixed interest rate and low closing costs. Due to the increase in market rates, demand mortgages declined significantly in 2023. As a result, residential real estate loans outstanding decreased $4.8 million, or 1.9%, to $245.3 million at December 31, 2023, from $250.1 million at December 31, 2022.

Consumer loans totaled $85.7 million at December 31, 2023, a decrease of $8.8 million, or 9.3%, from $94.5 million at December 31, 2022. The decrease in consumer loans was largely due to runoff of individual loans and pools of personal installment loans purchased through third-party originators in 2022. FNCB did not purchase any consumer loans or loan pools in 2023. Loans to state and municipal governments increased $9.0 million, or 13.9%, to $73.9 million at December 31, 2023 from $64.9 million at December 31, 2022.

The following table presents loans and leases receivable, net by major category at December 31, 2023 and 2022:

Loan and Lease Portfolio Detail

	December 31,			
	2023		2022	
(in thousands)	Amount	% of Total Loans, Gross	Amount	% of Total Loans, Gross
Residential real estate	$ 245,282	20.10%	$ 250,106	23.86%
Commercial real estate	408,135	33.45	376,275	37.29
Construction, land acquisition and development	59,876	4.91	66,230	4.24
Commercial and industrial	183,794	15.06	272,361	19.67
Commercial equipment financing	163,605	13.41	-	-
Consumer	85,730	7.02	94,493	8.72
State and political subdivisions	73,843	6.05	64,852	6.22
Total loans and leases	1,220,265	100.00%	1,124,317	100.00%
Allowance for credit losses	(11,986)		(14,193)	
Loans and leases, net	$ 1,208,279		$ 1,110,124	

The following tables present the maturity distribution and interest rate information of the loan and lease portfolio by major category as of December 31, 2023:

Loans and Leases by Maturity and Interest Rate Sensitivity

	December 31, 2023				
(in thousands)	Within One Year	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
Residential real estate	$ 3,290	$ 9,113	$ 100,846	$ 132,033	$ 245,282
Commercial real estate	15,356	72,711	187,368	132,700	408,135
Construction, land acquisition and development	12,528	18,131	19,302	9,914	59,876
Commercial and industrial	79,237	60,116	44,441	-	183,794
Commercial equipment financing	636	133,566	29,403	-	163,605
Consumer	3,888	42,933	37,813	1,096	85,730
State and political subdivisions	2,053	13,859	31,446	26,485	73,843
Total loans and leases	$ 116,989	$ 350,429	$ 450,619	$ 302,228	$ 1,220,265

	December 31, 2023				
(in thousands)	Within One Year	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
Loans and leases with fixed rates					
Residential real estate	$ 580	$ 7,842	$ 70,257	$ 99,031	$ 177,710
Commercial real estate	1,728	66,943	16,584	361	85,616
Construction, land acquisition and development	88	10,908	8,078	310	19,384
Commercial and industrial	9,116	49,938	14,370	-	73,423
Commercial equipment financing	636	133,566	29,403	-	163,605
Consumer	3,850	42,847	37,745	1,096	85,538
State and political subdivisions	20	7,377	29,387	11,620	48,404
Total loans and leases with fixed rates	$ 16,018	$ 319,421	$ 205,824	$ 112,418	$ 653,681
Loans and leases with floating rates					
Residential real estate	$ 2,710	$ 1,271	$ 30,589	$ 33,002	$ 67,572
Commercial real estate	13,628	5,768	170,784	132,339	322,519
Construction, land acquisition and development	12,441	7,223	11,224	9,604	40,491
Commercial and industrial	70,121	10,178	30,071	-	110,371
Commercial equipment financing	-	-	-	-	-

Consumer	38	86	68	-	192
State and political subdivisions	2,033	6,482	2,059	14,865	25,439
Total loans and leases with floating rates	$ 100,971	$ 31,008	$ 244,795	$ 189,810	$ 566,584

Under industry regulations, a concentration is considered to exist when there are loans extended 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, 2023 and 2022. 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, 2023 and 2022:

Loan Concentrations

	December 31,			
	2023		2022	
(dollars in thousands)	Amount	% of Gross Loans	Amount	% of Gross Loans
General freight trucking	$ 48,477	3.97%	$ 25,052	2.23%
Retail space/shopping centers	58,517	4.80%	54,461	4.85%
1-4 family residential investment properties	119,393	9.78%	113,746	10.13%

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 ACL. The ACL is established through a provision for credit 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 ACL 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.

Non-performing loans are monitored on an ongoing basis as part of FNCB's loan review process. Additionally, work-out for non-performing loans, OREO and other repossessed assets 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.

Management actively manages loans rated special mention and substandard 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 credit losses.

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

Non-performing Assets

	December 31,				
(dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Non-accrual loans	$ 5,338	$ 2,763	$ 3,863	$ 5,581	$ 9,084
Loans past due 90 days or more and still accruing	38	79	-	-	-
Total non-performing loans	5,376	2,842	3,863	5,581	9,084
Other real estate owned	-	-	920	58	289
Other non-performing assets	2,067	1,773	1,773	1,900	1,900
Total non-performing assets	$ 7,443	$ 4,615	$ 6,556	$ 7,539	$ 11,273
Non-performing loans as a percentage of total loans	0.44%	0.25%	0.39%	0.62%	1.10%
Non-performing assets as a percentage of total assets	0.40%	0.26%	0.39%	0.51%	0.94%
Allowance for credit losses as a percentage of total loans and leases, net	0.98%	1.26%	1.27%	1.33%	1.08%
Allowance for credit losses to non-accrual loans and leases	224.54%	513.68%	321.41%	214.12%	98.52%
Allowance for credit losses to non-performing loans and leases	222.95%	499.40%	321.41%	214.12%	98.52%
Allowance for credit losses to non-performing assets	161.04%	307.54%	189.38%	158.51%	79.39%

Total non-performing assets increased $2.8 million, or 61.3%, to $7.4 million at December 31, 2023 from $4.6 million at December 31, 2022. The higher level of non-performing assets reflected increases in non-accrual loans and other non-performing assets. Non-performing loans, which include non-accrual loans and loans past due 90 days or more and still accruing, increased $2.6 million, or 89.2%, to $5.4 million at December 31, 2023 from $2.8 million at December 31, 2022. The increase in non-performing loans was primarily due to increases in non-accrual commercial real estate loans of $1.6 million, which involved three commercial loan relationships. In addition, FNCB experienced increases of $0.5 million in both non-accrual residential real estate loans and commercial equipment financing loans. With respect to commercial equipment financing loans, there were five loans secured by trucking equipment were on non-accrual status at December 31, 2023, while the increase non-accrual residential real estate loans was largely related to one borrower. At December 31, 2023, other non-performing assets was comprised primarily of a classified account receivable of $1.6 million and repossessed assets of $0.5 million, primarily tractor-trailers. At December 31, 2022, other non-performing assets was comprised solely of the classified account receivable of $1.8 million.

FNCB experienced some moderate asset quality stress as evidenced by an increase in total delinquent loan balances of $4.3 million to $9.2 million at December 31, 2023, from $4.9 million at December 31, 2022. Total delinquencies as a percentage of total loans and leases, increased to 0.75% at December 31, 2023, compared to 0.45% at December 31, 2022. In addition, net loan charge-offs increased $1.3 million to $1.5 million, or 0.12% of average loans and leases, compared to net charge-offs of $185 thousand, or 0.02% of average loans and leases for the same period of 2022. The increase in net charged-offs was primarily concentrated in the consumer and commercial equipment financing loan segments. Charge-offs of consumer loans were concentrated in third-party originated unsecured personal loans, reflective of inflationary pressures and higher interest rates, while charge-offs of commercial equipment financing loans were concentrated in loans collateralized by tractor-trailers following notable weakness within the transportation industry. In response to the stress, FNCB ceased purchasing unsecured personal loans from third-party originators and has tightened underwriting criteria in originating commercial equipment financing loans and leases through 1st Equipment Finance, Inc. FNCB's ratio of non-performing loans to total gross loans increased to 0.44% at December 31, 2023 from 0.25% at December 31, 2022. Similarly, FNCB's ratio of non-performing assets as a percentage of total assets increased to 0.40% at December 31, 2023 from 0.26% at December 31, 2022.

With regard to the classified account receivable, the balance outstanding of $1.6 million at December 31, 2023 is secured by an evergreen letter of credit that was received 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, Pennsylvania. 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 began improving and 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. To date, no single-unit lots have been sold, however, the developer completed the construction of a seven-unit building that houses timeshare units and owners began occupying the units in the fourth quarter of 2020. In 2020, management negotiated a repayment plan with the developer. FNCB received the first payment of $127 thousand in the second quarter of 2021. A second payment was received in the amount of $127 thousand in the second quarter if 2023. Management continues to closely monitor this project and has noted an increase in construction activity related to this project including the construction of two additional six- or eight-unit buildings and further site development including building pads for a new six-seven unit building and pool/spa building. Additionally, the developer has increased marketing and sales initiatives for the project. Subsequent to December 31, 2023, FNCB received a third payment of $127 thousand on February 1, 2024.

While FNCB's asset quality has remained favorable, management believes continued economic uncertainty related to supply-chain constraints, inflation, and the resulting increase in interest rates could affect borrower's ability to repay loans, which may have a negative impact on asset quality including, increases in loan delinquencies, non-performing loans, loan charge-offs and foreclosures. Additionally, as mentioned above, management is aware of weakness within the transportation industry, specifically trucking and freight hauling. Demand within this industry, which was inflated during the COVID-19 pandemic, fell sharply during 2023 reverting back to pre-pandemic levels. However, the drop and demand has caused a spike in unemployment within this industry marked by a decline in employment opportunities and fewer jobs for displaced drivers. Management is closely monitoring loans secured by trucking equipment and has tightened underwriting standards for lending to borrowers within this industry segment. The amortized cost of loans within the general freight trucking industry totaled $48.5 million, or 3.97% of total loans and leases, at December 31, 2023. Further weakness and stress within this industry could result in additional asset quality weakness including, increases in loan delinquencies, non-performing loans and loan charge-offs. Additional asset quality weakness could result in increases in the provision for credit losses which could have an adverse affect on FNCB's financial condition and results of operations.

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The following table presents the changes in non-performing loans and leases for the years ended December 31, 2023 and 2022 .

Changes in Non-performing Loans and Leases

(in thousands)	Year ended December 31, 2023	2022
Balance, January 1	$ 2,842	$ 3,863
Loans newly placed on non-accrual	7,235	2,325
Change in loans past due 90 days or more and still accruing	(41)	79
Loans returned to performing status	-	-
Loans charged-off	(3,238)	(1,237)
Loans sold	-	(925)
Loan payments received	(1,421)	(1,263)
Balance, December 31	$ 5,376	$ 2,842

The following table presents accruing loan delinquencies and non-accrual loans as a percentage of total loans and leases at December 31, 2023 and 2022 :

Loan Delinquencies and Non-accrual Loans

	December 31, 2023	2022
Accruing:		
30-59 days	0.27%	0.15%
60-89 days	0.04	0.05
90+ days	0.00	0.01
Non-accrual	0.44	0.25
Total delinquencies	0.75%	0.45%

Total delinquencies as a percentage of gross loans increased to 0.75% at December 31, 2023 from 0.45% at December 31, 2022. The most predominant factor contributing to the increase in total delinquencies was the $2.6 million increase in non-accrual loans.

Allowance for Credit Losses

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

The ACL equaled $12.0 million at December 31, 2023, a decrease of $2.2 million, or 15.6%, from $14.2 million at December 31, 2022. The decrease resulted from a $2.6 million adjustment from the impact of the adoption of ASU 2016-13, on January 1, 2023, coupled with a net charge-offs of $1.5 million, partially offset by a provision for credit losses of $1.9 million for the year ended December 31, 2023. The ratio of ACL as a percentage of total loans and leases, net of deferred origination fees and costs and unearned income, decreased to 0.98% at December 31, 2023 from 1.26% of total loans and leases at December 31, 2022.

The following table presents an allocation of the ACL by major loan category at December 31, for each of the last five years:

Allocation of the ACL

	December 31, 2023		2022		2021		2020		2019	
(dollars in thousands)	Allowance	Percentage	Allowance	Percentage	Allowance	Percentage	Allowance	Percentage	Allowance	Percentage
Residential real estate	$ 1,157	9.65%	$ 2,215	15.61%	$ 2,081	16.76%	$ 1,715	14.35%	$ 1,147	12.81%
Commercial real estate	2,831	23.62	4,193	29.54	4,530	36.49	4,268	35.71	3,198	35.73
Construction, land acquisition and development	1,154	9.63	747	5.26	392	3.16	538	4.50	271	3.03
Commercial and industrial	2,198	18.34	4,099	28.88	2,670	21.51	2,619	21.92	1,997	22.31
Commercial equipment financing subsidiary	3,129	26.11	-	-	-	-	-	-	-	-
Consumer	1,118	9.32	1,307	9.21	1,159	9.33	1,319	11.04	1,658	18.53
State and political subdivisions	399	3.33	503	3.54	455	3.66	405	3.39	253	2.83
Unallocated	-	-	1,129	7.95	1,129	9.09	1,086	9.09	426	4.76
Total	$ 11,986	100.00%	$ 14,193	100.00%	$ 12,416	100.00%	$ 11,950	100.00%	$ 8,950	100.00%

The following table presents an analysis of changes in the ACL and the ratio of net charge-offs (recoveries) to average loans by major loan category and certain credit ratios for each of the last five years:

Reconciliation of the ACL

	For the Year Ended December 31,				
(dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Balance, January 1,	$ 14,193	$ 12,416	$ 11,950	$ 8,950	$ 9,519
Impact of ASC 326	(2,636)	-	-	-	-
Balance at beginning of period, after adoption of ASC 326	11,557	12,416	11,950	8,950	9,519
Charge-offs:					
Residential real estate	67	3	14	-	27
Commercial real estate	-	-	11	336	-
Construction, land acquisition and development	-	-	-	-	18
Commercial and industrial	496	69	218	254	1,258
Commercial equipment financing	629	-	-	-	-
Consumer	2,149	1,234	543	975	1,311
State and political subdivision	-	-	-	-	-
Total charge-offs	3,341	1,306	786	1,565	2,614
Recoveries of charged-off loans:					
Residential real estate	-	3	17	43	9
Commercial real estate	495	293	467	846	32
Construction, land acquisition and development	-	10	13	-	82
Commercial and industrial	148	30	74	1,220	364
Commercial equipment financing	-	-	-	-	-
Consumer	1,247	785	515	515	761
State and political subdivision	-	-	-	-	-
Total recoveries	1,890	1,121	1,086	2,624	1,248
Net charge-offs (recoveries)	1,451	185	(300)	(1,059)	1,366
Provision for credit losses	1,880	1,962	166	1,941	797
Balance, December 31,	$ 11,986	$ 14,193	$ 12,416	$ 11,950	$ 8,950
Net charge-offs (recoveries) to average loans and leases					
Residential real estate	-%	-%	-%	(0.03)%	0.01%
Commercial real estate	(0.04)	(0.02)	(0.13)	(0.16)	(0.01)
Construction, land acquisition and development	-	-	(0.02)	-	(0.21)
Commercial and industrial	0.03	0.36	0.06	(0.43)	0.59
Commercial equipment financing	0.05	-	-	-	-
Consumer	0.08	0.04	0.03	0.42	0.37
State and political subdivision	-	-	-	-	-
Net charge-offs (recoveries) to average loans and leases	0.12%	0.02%	(0.03)%	(0.12)%	0.16%
Ratios:					
Allowance for credit losses to gross loans at period end	0.98%	1.26%	1.27%	1.33%	1.08%
Allowance for credit losses to non-accrual loans and leases	224.54%	513.68%	321.41%	214.12%	98.52%

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. Deposit gathering shifted in 2023 and posed many challenges, as FNCB experienced a return of cyclicality with respect to its municipal customers, while liquidity pressures throughout the industry and heightened competition were the primary factors that caused an increase in deposit rates.

Total deposits in creased $108.3 million, or 7.6%, to $1.529 billion at December 31, 2023 from $1.421 billion at December 31, 2022. Interest-bearing deposits increased $128.6 million, or 11.5%, to $1.243 billion at December 31, 2023 from $1.115 billion at December 31, 2022. Meanwhile, non-interest-bearing deposits decreased $20.3 million, or 6.6%, to $285.5 million at December 31, 2023 from $305.8 million at December 31, 2022. With regard to interest-bearing deposits, the increase was primarily concentrated in time deposits due to increased utilization of brokered deposits and some deposit migration from non-maturity deposits into certificates of deposit. Time deposits with balances of $250 thousand and over increased $28.4 million, or 114.1%, to $53.3 million at December 31, 2023, from $24.9 million at December 31, 2022, while other time deposits increased $171.9 million, or 129.3%, to $304.9 million at December 31, 2023 from $133.0 million at December 31, 2022. At December 31, 2023, other time deposits included $148.7 million in brokered time deposits outstanding, compared to $23.9 million at December 31, 2022. In total, interest-bearing demand deposits decreased $54.2 million, or 6.7%, to $754.3 million at December 31, 2023 from $808.5 million at December 31, 2022. Savings accounts decreased $17.5 million, or 11.8%, to $130.9 million at December 31, 2023 from $148.4 million at December 31, 2022.

Total deposits averaged $1.450 billion in 2023, an increase of $18.3 million, or 1.3%, compared to $1.432 billion in 2022. Non-interest-bearing demand deposits averaged $287.5 million in 2023, a decrease of $26.6 million, or 8.5% compared to $314.1 million in 2022. Interest-bearing deposits averaged $1.163 billion in 2023, an increase of $44.9 million, or 4.0%, from $1.118 billion in 2022. The increase was concentrated in average time deposits which increased $164.4 million, or 104.1%, to $322.4 million in 2023 from $158.0 million in 2022. Meanwhile, average interest-bearing demand deposits, decreased $111.5 million, or 13.7%, to $704.1 million, from $815.6 million in 2022. Average savings deposits decreased $8.0 million, or 5.5%, to $136.4 million in 2023 from $144.3 million in 2022. FNCB’s deposit funding costs increased 174 basis points, to 2.10% in 2023 from 0.36% in 2022. Rates on interest-bearing demand and savings deposits increased by 158 basis points and 16 basis points, respectively, while time deposit rates increased by 280 basis points, comparing 2023 and 2022. Should competition for deposits within FNCB's market area intensify, management anticipates that FNCB's funding costs may continue to increase.

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,					
	2023		2022		2021	
(dollars in thousands)	**Average Balance**	**Rate**	**Average Balance**	**Rate**	**Average Balance**	**Rate**
Interest-bearing deposits:						
Demand	$ 704,118	1.97%	$ 815,579	0.39%	$ 764,798	0.16%
Savings	136,354	0.28	144,343	0.12	125,022	0.07
Time	322,354	3.17	157,991	0.37	176,245	0.66
Total interest-bearing deposits	1,162,826	2.10%	1,117,913	0.36%	1,066,065	0.24%
Non-interest-bearing deposits	287,471		314,105		315,181	
Total deposits	$ 1,450,297		$ 1,432,018		$ 1,381,246	

The following table presents the maturity distribution of time deposits in excess of insurance limit at December 31, 2023 and 2022:

Maturity Distribution of Time Deposits $250,000 or More

	December 31,	
(in thousands)	**2023**	**2022**
3 months or less	$ 31,708	$ 10,009
Over 3 through 6 months	13,966	4,524
Over 6 through 12 months	6,979	7,362
Over 12 months	666	3,007
Total	$ 53,319	$ 24,902

Borrowings

FNCB has an agreement with the FHLB of Pittsburgh which allows for borrowings, either overnight or term, up to a maximum borrowing capacity based on a percentage of qualifying loans pledged under a blanket pledge agreement. In addition to pledging loans, FNCB is required to purchase FHLB of Pittsburgh stock based upon the amount of credit extended. Loans that were pledged to collateralize borrowings under this agreement with the FHLB of Pittsburgh were $506.2 million at December 31, 2023 and $482.1 million at December 31, 2022. FNCB's maximum borrowing capacity was $373.6 million at December 31, 2023. At December 31, 2023 and 2022, there were $91.5 million and $47.5 million, respectively, in letters of credit to secure municipal deposits outstanding under this agreement. There were $16.0 million in overnight advances and $149.0 million in term advances through the FHLB of Pittsburgh outstanding at December 31, 2023. At December 31, 2022, there were $139.4 million in overnight advances and $32.7 million in term advances outstanding, through the FHLB of Pittsburgh. FNCB had a remaining borrowing availability at the FHLB of Pittsburgh of $115.7 million at December 31, 2023.

Advances through the Federal Reserve Bank Discount Window generally include short-term advances which are fully collateralized by certain pledged loans under the Federal Reserve Bank's Borrower-in-Custody ("BIC") program. At December 31, 2023, FNCB had loans pledged under the BIC program of $187.0 million. There were no advances outstanding under the BIC program at December 31, 2023 and 2022. At December 31, 2023, FNCB had borrowing capacity available under the BIC program of $158.4 million. On March 12, 2023, the Federal Reserve Bank established the Bank Term Funding Program ("BTFP"), a program through the Discount Window designed to provide additional funding to eligible depository institutions during a period of stress. The BTFP is collateralized by high-quality securities valued at par including U.S. Treasury securities, U.S. government agency debt and mortgage-backed securities and other qualifying securities. At December 31, 2023, FNCB had securities pledged of $27.8 million and an outstanding advance under the BTFP of $25.0 million. On January 24, 2024, the Federal Reserve Bank announced that it would cease making new loans under this program on March 11, 2024.

FNCB also had $10.3 million of junior subordinated debentures outstanding at December 31, 2023 and 2022. The interest rate on the debentures will reset quarterly at a spread of 1.67% above 3-month CME Term SOFR plus 0.26161%. CME Term SOFR are administered by CME Group Benchmark Administration Limited (CBA) which is registered under Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (SI 2019/657) is authorized and supervised by the UK Financial Conduct Authority (FCA) and is aligned to the IOSCO Principles for Financial Benchmarks. The average interest rate paid on the junior subordinated debentures in 2023 was 7.02%, compared to 3.47% in 2022.

Average borrowed funds increased $88.1 million to $197.6 million in 2023 from 109.5 million in 2022. The average rate paid on borrowed funds increased 237 basis points to 4.89% in 2023 from 2.52% in 2022. The increase in rate on borrowed funds reflected higher average volumes of overnight and short-term borrowings through the FHLB of Pittsburgh and advances through the Federal Reserve BTFP program in 2023 as compared to 2022. Average borrowed funds in 2022 was comprised mainly of overnight advances through the FHLB of Pittsburgh.

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 and lease origination volumes, loan, lease 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 fluctuations in FNCB's liquidity position daily and forecasts future liquidity needs. Additionally, management performs periodic stress tests on FNCB's liquidity position that attempt to model in varying degrees of stress in order to proactively develop strategies to ensure adequate liquidity at all times. Additionally, management regularly monitors FNCB's wholesale funding sources taking into consideration the cost of funds, diversification between funding sources and asset/liability management strategies. FNCB utilizes brokered deposits, including one-way purchases through the IntraFi℠ Network, deposits acquired through a national listing service, as well as overnight and term advances through the FHLB of Pittsburgh as wholesale sources of funds to supplement its deposit gathering initiatives.

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. Cash and cash equivalents totaled $107.9 million at December 31, 2023, an increase of $66.0 million, or 157.3%, from $41.9 million at December 31, 2022, as net cash inflows from operating and financing activities more than offset net cash outflows for investing activities.

Financing activities provided $119.2 million in net cash, which resulted primarily from the $108.3 million increase in deposits. The proceeds from net term advances through the FHLB of Pittsburgh, of $116.3 million were more than entirely offset by $123.4 million in net repayments of overnight advances through the FHLB of Pittsburgh. In addition, net proceeds from the Federal Reserve Discount Window advances totaled $25 million. These inflows were slightly offset by net cash used to pay dividends to shareholder dividends of $7.1 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 of cash flows from operations. In 2023, operating activities provided FNCB with $15.8 million in net cash, which reflected net income of $13.0 million, net of a reduction for non-cash positive adjustments of $2.8 million.

Net cash outflows from investing activities used $69.0 million of cash and cash equivalents during the year ended December 31, 2023. Accounting for the majority of the net cash outflow was a net increase in loans and leases of $98.1 million, which reflected strong organic loan demand. Also contributing to the net cash outflow for investing activities were purchases of $269 thousand in restricted stock, $245 thousand in premises and equipment, $160 thousand in equity securities, and $6.6 million for an investment in a Federal Low-Income Housing Tax Credit program. Partially offsetting these cash outflows was a net cash inflow of $34.9 million related to activity from FNCB's portfolio of available-for-sale debt securities and proceeds from the sale of equity securities of $1.5 million.

Management is actively monitoring FNCB's liquidity position and capital adequacy in light of the changing circumstances related to economic uncertainty, liquidity constraints, current inflation levels, rising interest rates and increased competition. Management believes that FNCB’s current liquidity position is sufficient to meet its cash flow needs as of December 31, 2023. In addition to cash and cash equivalents of $107.9 million at December 31, 2023, FNCB had ample sources of additional liquidity including approximately $115.1 million in available borrowing capacity with the FHLB of Pittsburgh, and available borrowing capacity through The Federal Reserve Discount Window of $158.4 million under the BIC program. In addition, FNCB had $75.0 million in federal fund lines of credit available through correspondent banks at December 31, 2023, as well as access to wholesale deposit markets. While management believes FNCB has adequate liquidity to meet its cash flow needs, they are keenly aware that changes in general economic conditions, including inflation, further increases in interest rates and competition, among other factors, could pose potential stress on liquidity should deposits begin exiting the Bank and/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 continually monitors FNCB's liquidity positions and sources of available liquidity in relation to funding and cash flow need and evaluates potential sources of additional liquidity.

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 15, “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, 2023 and 2022, 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, 2023					
Total capital (to risk-weighted assets)	$ 175,296	12.66%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	161,896	11.69%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	161,896	11.69%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	161,896	8.76%	4.00%	4.00%	5.00%
Total risk-weighted assets	1,384,710				
Total average assets	1,848,752				

	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, 2022					
Total capital (to risk-weighted assets)	$ 169,984	13.11%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	154,842	11.94%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	154,842	11.94%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	154,842	8.77%	4.00%	4.00%	5.00%
Total risk-weighted assets	1,296,618				
Total average assets	1,765,251				

FNCB’s total regulatory capital increased $5.3 million to $175.3 million at December 31, 2023 from $170.0 million at December 31, 2022. 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, 2023 and 2022. There are no conditions or events since this notification that management believes have changed this category.

As of December 31, 2023, FNCB had 30,212,969 shares of common stock available for future sale or share dividends. 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, 2023 and 2022.

On January 25, 2023, FNCB's Board of Directors authorized the repurchase of up to 750,000 shares of FNCB's outstanding common stock may be acquired in the open market commencing on March 3, 2023 and expiring on December 31, 2023 pursuant to a trading plan that was adopted in accordance with rule 10b5-1 of the Exchange Act. The repurchase program was terminated in the third quarter of 2023. Repurchases under this program are administered through an independent broker and are subjected to SEC regulations as well as certain price, market volume and timing constraints specified in the trading plan. In 2022 and 2021, the Board of Directors had authorized a similar program under which 384,830 and 330,759 common shares were repurchased, respectively. No shares were repurchased in 2023 under this plan.

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 2023 and 2022 were $0.36 per share and $0.23 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2023 and 2022 dividend reinvestment shares were purchased in open market transactions, while 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 13,348 and 5,089 for the years ended December 31, 2023 and 2022, respectively. Subsequent to December 31, 2023, on January 24, 2024, FNCB declared a $0.090 per share dividend payable on March 15, 2024 to shareholders of record on March 1, 2024.

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, 2023, 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 13, “Commitments, Contingencies, and Concentrations” to the Notes to 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, 2023 and 2022. 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, 2023 expire within one year of their respective contract dates.

Off-Balance Sheet Commitments

	December 31,	
(in thousands)	**2023**	**2022**
Commitments to extend credit	$ 335,032	$ 301,300
Standby letters of credit	16,908	17,923

In order to provide for probable losses inherent in these instruments, FNCB recorded reserves for unfunded commitments of $803 thousand and $949 thousand at December 31, 2023 and 2022, respectively, which were included in other liabilities in the consolidated statements of financial condition.

Impact of Inflation and Changing Prices

The preparation of financial statements in conformity with GAAP requires management to measure the FNCB’s financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on FNCB's operations is primarily related to increases in operating expenses. Management considers changes in interest rates to impact our financial condition and results of operations to a far greater degree than changes in prices due to inflation. Although interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or to the same magnitude as the inflation rate. FNCB manages interest rate risk in several ways. Refer to “Interest Rate Risk” in Item 7A for further discussion. There can be no assurance that FNCB will not be materially adversely affected by future changes in interest rates, as interest rates are highly sensitive to many factors that are beyond its control. Additionally, inflation may adversely impact the financial condition of FNCB's borrowers and could impact their ability to repay their loans, which could negatively affect FNCB's asset quality through higher delinquency rates and increased charge-offs. Management will carefully consider the impact of inflation and rising interest rates on FNCB borrowers in managing credit risk related to the loan and lease portfolio.

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

Interest Rate Risk

Interest Rate Sensitivity

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

Asset and Liability Management

The ALCO, comprised of members of the Bank's board of directors, executive management and 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, 2023 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, 2023 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	(2.9)%	(12.5)%	(4.8)%	(20.0)%	(0.3)%	(10.0)%
Economic value at risk:						
Percent change in economic value of equity	(3.1)%	(20.0)%	(7.2)%	(35.0)%	(0.3)%	(10.0)%

Model results at December 31, 2023 indicated that FNCB's asset/liability position was liability-rate sensitive over the next 18-24 months. At December 31, 2023, the model indicated that FNCB's net interest income is expected to decrease 2.9% under a +200-basis point interest rate shock, as compared to the base case, caused by spread compression due to increased wholesale funding and deposit migration into higher-yielding alternatives and certificate of deposit specials. Under this scenario, projected net interest income is expected to improve in years 3 through 5 of the 5-year simulation driven by asset cashflows replaced into higher assumed replacement rates outpacing the increase in funding costs from certificate of deposit maturities rolling into higher-costing specials. The percentage change in net interest income in under the +200 and +400-basis point shock scenarios exceed policy guidelines at December 31, 2023. As part of its ALCO initiatives, management is currently evaluating various strategies to reduce FNCB's liability sensitivity and will execute such strategies as appropriate. Model results also indicate a 0.3% decrease to net interest income from the base case over the next 12 months under a rate shock of -100 basis points, as asset yields less of a decline as compared to overnight funding costs. Additionally, with respect to FNCB's EVE, all modeled exposures are within policy guidelines.

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

As previously mentioned, as part of its ongoing monitoring, ALCO requires quarterly back testing of modeling results, which involves after-the-fact comparisons of projections with FNCB's actual performance to measure the validity of assumptions used in the modeling techniques. As part of its quarterly review, management compared tax-equivalent net interest income recorded for the three months ended December 31, 2023 with tax-equivalent net interest income that was projected for the period. There was a positive variance between actual and projected tax-equivalent net interest income for the three months ended December 31, 2023 of approximately $0.1 million, or 0.50%. The minor variance primarily reflected a difference in the assumption for applying the effect of interest rate hedges on net interest income. ALCO performs a detailed rate/volume analysis between actual and projected results to continue to improve the accuracy of its simulation models.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of FNCB Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows, for the years then ended and the related notes (collectively, 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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

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 Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates 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 the critical audit matter 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 matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Factor Adjustments

Critical Audit Matter Description

As discussed above, on January 1, 2023, the Company adopted ASC Topic 326, *Financial Instruments – Credit Losses*, which resulted in a decrease in the allowance for credit losses (ACL) for loans and leases of $2.6 million, an increase in the ACL for unfunded commitments of $1.3 million, and an increase in retained earnings, net of deferred taxes, by $1.3 million through a cumulative-effect adjustment. As described in Notes 2 and 4 to the consolidated financial statements, management estimates the ACL for loans and leases based on information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount.

The ACL is made up of both a quantitative modeled component as well as a qualitative component. The methodology for determining the quantitative component includes (1) a pooled component for loans and leases that exhibit similar risk characteristics and (2) identifying loans and leases that do not share risk characteristics with existing pools that are evaluated on an individual basis. For loans and leases exhibiting similar risk characteristics, the Company uses a discounted cash flow ("DCF") methodology for all loan and lease portfolio segments measured on a collective or pool basis to estimate credit losses over the expected life of the loan and lease. For each loan and lease segment, a cash flow projection is generated at the instrument level. The DCF methodology combines the probability of default, and loss given default assumption that are applied to the pool's projective model of cash flows taking into consideration the effects of prepayments and principal curtailment effects to estimate a reserve for each loan and lease. Loss given default is estimated based on peer loss experience. Probability of default is estimated utilizing a statistical regression model that incorporates a macroeconomic driver, the national unemployment rate. The model utilizes the forecast factor with a four quarter reasonable and supportable forecast period and different reversion techniques in order to estimate the probability of default for each loan and lease portfolio segment.

Quantitative loss factors are also supplemented by certain qualitative risk factors reflecting management's evaluation of various conditions. Management applies judgment in determining the extent of qualitative factors used in the qualitative component to adjust the loss rates for loan and lease segments to reflect the impact these factors may have on expected losses in the loan and lease portfolio. Management's evaluation of these factors includes a weighted rate and risk range category assigned to each factor. The qualitative factors include (1) changes in the credit quality trends of a respective segment which may be measured by risk ratings, FICO scores, delinquency rates, and payment performance, (2) changes in independent third-party loan reviews and regulatory exam ratings, (3) changes in local unemployment rates, (4) portfolio segment growth rates and concentrations, and (5) other external factors that may affect bank lending and operations such as a pandemic, natural disaster, or loss of a major employer, among others. The Company's loan and lease portfolio totaled $1.2 billion as of December 31, 2023, and the associated ACL was $12.0 million.

We identified the qualitative factor component of the ACL on loans and leases collectively evaluated for credit loss as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

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

- Obtaining an understanding of the relevant controls related to the ACL on loans and leases and tested such controls for design and operating effectiveness, including controls related to management's establishment, review, and approval of the qualitative factors, and the completeness and accuracy of data used in determining qualitative factors.
- Evaluation of the appropriateness of management's methodology for estimating the ACL on loans and leases.
- Testing of the completeness and accuracy of data used by management in determining qualitative factor adjustments.
- Evaluating the reasonableness of management's judgments related to the qualitative loss factors to determine if the loss factors are calculated in accordance with management's policies and were consistently applied from the point of adoption to year end.

/s/ Baker Tilly US, LLP

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

Baker Tilly US, LLP
Iselin, New Jersey
March 8, 2024

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

(in thousands, except share data)	December 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 27,819	$ 26,588
Interest-bearing deposits in other banks	80,049	15,328
Total cash and cash equivalents	107,868	41,916
Available-for-sale debt securities	450,814	476,091
Equity securities, at fair value	4,786	7,717
Restricted stock, at cost	8,814	8,545
Loans held for sale	-	60
Loans and leases, net of allowance for credit losses of $11,986 and $14,193	1,208,279	1,110,124
Bank premises and equipment, net	14,546	15,616
Accrued interest receivable	7,085	5,957
Bank-owned life insurance	37,251	36,499
Other assets	41,543	43,005
Total assets	$ 1,880,986	$ 1,745,530
Liabilities		
Deposits:		
Demand (non-interest-bearing)	$ 285,548	$ 305,850
Interest-bearing	1,243,434	1,114,797
Total deposits	1,528,982	1,420,647
Borrowed funds:		
Federal Reserve Discount Window advances	25,000	-
Federal Home Loan Bank of Pittsburgh advances	164,962	172,050
Junior subordinated debentures	10,310	10,310
Total borrowed funds	200,272	182,360
Accrued interest payable	1,355	171
Other liabilities	15,778	23,403
Total liabilities	1,746,387	1,626,581
Shareholders' equity		
Preferred stock ($1.25 par)		
Authorized: 20,000,000 shares at December 31, 2023 and December 31, 2022		
Issued and outstanding: 0 shares at December 31, 2023 and December 31, 2022	-	-
Common stock ($1.25 par)		
Authorized: 50,000,000 shares at December 31, 2023 and December 31, 2022		
Issued and outstanding: 19,787,031 shares at December 31, 2023 and 19,681,644 shares at December 31, 2022	24,733	24,602
Additional paid-in capital	78,253	77,502
Retained earnings	71,782	64,873
Accumulated other comprehensive loss	(40,169)	(48,028)
Total shareholders' equity	134,599	118,949
Total liabilities and shareholders’ equity	$ 1,880,986	$ 1,745,530

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, 2023	2022
Interest income		
Interest and fees on loans and leases	$ 65,364	$ 47,193
Interest and dividends on securities:		
Taxable	12,451	10,281
Tax-exempt	2,207	2,662
Dividends	991	549
Total interest and dividends on securities	15,649	13,492
Interest on interest-bearing deposits in other banks	1,011	91
Total interest income	82,024	60,776
Interest expense		
Interest on deposits	24,461	3,970
Interest on borrowed funds:		
Federal Reserve Bank Discount Window advances	308	3
Federal Home Loan Bank of Pittsburgh advances	8,634	2,401
Junior subordinated debentures	724	358
Total interest on borrowed funds	9,666	2,762
Total interest expense	34,127	6,732
Net interest income before provision for credit losses	47,897	54,044
Provision for credit losses	1,880	1,962
Net interest income after provision for credit losses	46,017	52,082
Non-interest income		
Deposit service charges	4,537	4,415
Net gain (loss) on the sale of available-for-sale debt securities	252	(223)
Net loss on equity securities	(1,601)	(34)
Net gain on the sale of mortgage loans held for sale	6	205
Loan-related fees	398	243
Income from bank-owned life insurance	752	710
Bank-owned life insurance settlement	-	273
Merchant services revenue	592	712
Wealth management services revenue	944	564
Other	765	1,116
Total non-interest income	6,645	7,981
Non-interest expense		
Salaries and employee benefits	20,234	19,283
Occupancy expense	2,156	2,093
Equipment expense	963	1,295
Advertising expense	836	801
Data processing expense	4,008	4,027
Regulatory assessments	1,115	811
Bank shares tax	509	915
Professional fees	1,093	1,273
(Credit) provision for unfunded commitments	(803)	366
Merger and acquisition expenses	1,480	-
Other operating expenses	5,331	4,610
Total non-interest expense	36,922	35,474
Income before income tax expense	15,740	24,589
Income tax expense	2,757	4,144
Net income	$ 12,983	$ 20,445
Earnings per share		
Basic	$ 0.66	$ 1.04
Diluted	$ 0.66	$ 1.03
Cash dividends declared per common share	$ 0.36	$ 0.33
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	19,740,493	19,744,477
Diluted	19,742,618	19,762,566

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

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

	For the Year Ended December 31,	
(in thousands)	**2023**	**2022**
Net income	$ 12,983	$ 20,445
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale debt securities	11,485	(69,809)
Taxes	(2,412)	14,660
Net of tax amount	9,073	(55,149)
Reclassification adjustment for (gains) losses included in net income	(252)	223
Taxes	53	(47)
Net of tax amount	(199)	176
Derivative adjustments	(1,285)	750
Taxes	270	(157)
Net of tax amount	(1,015)	593
Total other comprehensive income (loss)	7,859	(54,380)
Comprehensive income (loss)	$ 20,842	$ (33,935)

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, 2023 and 2022					
(in thousands, except share data)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, December 31, 2021	19,989,875	$ 24,987	$ 80,128	$ 50,990	$ 6,352	$ 162,457
Net income	-	-	-	20,445	-	20,445
Cash dividends paid, $0.33 per share	-	-	-	(6,520)	-	(6,520)
Restricted stock awards	-	-	448	-	-	448
Repurchase of common shares	(384,830)	(481)	(3,155)	-	-	(3,636)
Common shares issued under long-term incentive compensation plan	71,510	89	46	-	-	135
Common shares issued through dividend reinvestment/optional cash purchase plan	5,089	7	35	(42)	-	-
Other comprehensive loss net of tax benefit of $14,456	-	-	-	-	(54,380)	(54,380)
Balances, December 31, 2022	19,681,644	$ 24,602	$ 77,502	$ 64,873	$ (48,028)	$ 118,949
Cumulative effect adjustment due to adoption of ASU 2016-13	-	-	-	1,080	-	1,080
Net income	-	-	-	12,983	-	12,983
Cash dividends paid, $0.36 per share	-	-	-	(7,110)	-	(7,110)
Restricted stock awards	-	-	583	-	-	583
Common shares issued as consideration for an asset purchase	6,874	8	46			54
Common shares issued under long-term incentive compensation plan	85,165	106	57	-	-	163
Common shares issued through dividend reinvestment/optional cash purchase plan	13,348	17	65	(44)	-	38
Other comprehensive income, net of tax expense of $2,089	-	-	-	-	7,859	7,859
Balances, December 31, 2023	19,787,031	$ 24,733	$ 78,253	$ 71,782	$ (40,169)	$ 134,599

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

FNCB BANCORP, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
(in thousands)	**2023**	**2022**
Cash flows from operating activities:		
Net income	$ 12,983	$ 20,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	1,906	2,883
Equity in trust	(22)	(11)
Depreciation of bank premises and equipment	1,290	1,565
Amortization of loan origination fees	918	(466)
Valuation adjustment for loan servicing rights	-	(3)
Stock-based compensation expense	746	583
Provision for credit losses	1,880	1,962
(Credit) provision for unfunded commitments	(803)	366
Net (gain) loss on the sale of available-for-sale debt securities	(252)	223
Net loss on equity securities	1,601	34
Net gain on the sale of mortgage loans held for sale	(6)	(205)
Net gain on other real estate owned	-	(3)
Loss on the disposition of bank premises and equipment	25	-
Bank-owned life insurance settlement	-	(273)
Income from bank-owned life insurance	(752)	(710)
Proceeds from the sale of mortgage loans held for sale	426	9,444
Funds used to originate mortgage loans held for sale	(360)	(9,299)
Increase in net deferred tax assets	(129)	(573)
Increase in accrued interest receivable	(1,128)	(1,314)
Increase in other assets	(432)	(1,163)
Increase in accrued interest payable	1,184	122
Decrease in other liabilities	(3,252)	(3,637)
Total adjustments	2,840	(475)
Net cash provided by operating activities	15,823	19,970
Cash flows from investing activities:		
Maturities, calls and principal payments of available-for-sale debt securities	41,612	37,876
Proceeds from the sale of available-for-sale debt securities	10,394	14,004
Purchases of available-for-sale debt securities	(17,150)	(78,097)
Purchase of equity securities	(160)	(3,188)
Purchase of restricted stock	(269)	(6,634)
Proceeds from the sale of equity securities	1,490	359
Net increase in loans and leases to customers	(98,108)	(144,506)
Proceeds from the sale of other real estate owned	-	695
Proceeds received from bank-owned life insurance settlement	-	978
Purchase of bank-owned life insurance	-	(3,000)
Investment in low-income housing tax credit program	(6,610)	(2,203)
Purchases of bank premises and equipment	(245)	(871)
Net cash used in investing activities	(69,046)	(184,587)
Cash flows from financing activities:		
Net increase (decrease) in deposits	108,335	(34,381)
Proceeds from Federal Reserve Discount Window advances	50,000	-
Repayment of Federal Reserve Discount Window advances	(25,000)	
(Repayment) proceeds from Federal Home Loan Bank of Pittsburgh advances - overnight	(123,400)	139,400
Proceeds from Federal Home Loan Bank of Pittsburgh advances - term	452,015	42,650
Repayment of Federal Home Loan Bank of Pittsburgh advances - term	(335,703)	(30,000)
Repurchase of common shares	-	(3,636)
Proceeds from issuance of common shares, net of discount	38	-
Cash dividends paid	(7,110)	(6,520)
Net cash provided by financing activities	119,175	107,513
Net increase (decrease) in cash and cash equivalents	65,952	(57,104)
Cash and cash equivalents at beginning of year	41,916	99,020
Cash and cash equivalents at end of year	$ 107,868	$ 41,916
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$ 32,943	$ 6,610

Taxes	3,570	4,616
Other transactions:		
Commitment in low-income housing tax credit program	-	8,811
OREO transferred to bank premises and equipment	-	228
Common shares issued as consideration for asset purchase	54	-
Lease liabilities arising from obtaining right-of-use assets	19	559

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 1st Equipment Finance, Inc., 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 16 full-service branch locations, as of December 31, 2023, 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, 2023 and 2022.

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.

On June 5, 2023, the Bank filed a Bank Subsidiary Notice with the Pennsylvania Department of Banking and Securities ("PADOBS") to inform the PADOBS that the Bank planned to establish 1 st Equipment Finance, Inc. as a wholly-owned subsidiary for the purpose of providing commercial equipment loans and leases to customers. The Bank began offering these products to customer in 2021 under the brand, 1 st Equipment Finance. On July 5, 2023, the Bank received written notification from the PADOBS that it did not object to the establishment of the subsidiary pursuant to Section 203(d) of the Pennsylvania Banking Code of 1965, and the establishment for the subsidiary must be completed by January 2, 2024. On October 1, 2023, 1 st Equipment Finance, Inc., was established as a wholly-owned subsidiary of the Bank. Upon establishment of the subsidiary, the Bank contributed capital to the new subsidiary which included the outstanding balance of loans and leases, net of deferred origination fees and costs and unearned income, previously originated under this brand, an allowance for credit losses ("ACL"), accrued interest, premises and equipment, net deferred tax assets and other assets totaling $158.5 million.

Agreement and Plan of Merger

On September 27, 2023, FNCB entered into an Agreement and Plan of Merger (the "Merger Agreement") with Peoples Financial Services Corp. ("PFIS") pursuant to which FNCB will merge with and into PFIS as the surviving entity. Immediately after such merger, the Bank will merge with and into Peoples Security Bank and Trust Company ("Peoples Bank"), with Peoples Bank as the surviving bank and a wholly-owned subsidiary of the PFIS. Under the terms of the Merger Agreement, which has been unanimously approved by the boards of directors of both companies, shareholders of FNCB will be entitled to receive a fixed exchange ratio of 0.1460 shares of PFIS common stock for each share of FNCB's common stock. On October 27, 2023, FNCB filed a Federal Deposit Insurance Corporation ("FDIC") Interagency Bank Merger Application with the FDIC New York and a Pennsylvania Bank Merger Application with the PADOBS. The PADOBS approved the merger application on February 1, 2024. Completion of the merger requires, among other things, the approval from the FDIC, as well as FNCB's shareholders.

The Merger Agreement provides certain termination rights for both PFIS and FNCB and further provides that a termination fee of $4.8 million will be payable by either PFIS or FNCB, as applicable, upon termination of the Merger Agreement under certain circumstances. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Definitive Merger Agreement filed by FNCB as Exhibit 2.1 to the Current Report on Form 8-K on September 27, 2023. Pending regulatory and shareholder approvals, FNCB expects the consummation of the merger to be completed in the third quarter of 2024, however, there can be no assurance that the transaction will be consummated during this time period, or at all.

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 ACL, the valuation and impairment evaluation of FNCB's investments, and income taxes.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include cash on hand and amounts due from banks. 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, 2023 and 2022, the amount of these balances were $1.6 million and $2.1 million, respectively.

Securities

Debt Securities and Equity Securities with Readily Determinable Fair Values

FNCB classifies its investments in debt securities as either available-for-sale or held-to-maturity at the time of purchase. 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 (loss) income, net of tax. 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. 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, 2023 and 2022.

Equity securities with readily determinable fair values are reported at fair value with net unrealized gains and losses recognized in non-interest income 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 Stock

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 ("FHLB") of Pittsburgh and Atlantic Community Bankers Bank ("ACBB").

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.

ACL on Available-for-Sale Debt Securities

Upon adoption of CECL, effective January 1, 2023, management evaluates available-for-sale securities in an unrealized loss position quarterly for credit impairment. As part of its evaluation, management first assesses whether FNCB intends to sell, or would be more likely than not required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the amortized cost basis of the security is written down to fair value through income. For available-for-sale securities that do not meet either criteria, management evaluates whether the decline in fair value has resulted from a credit loss or other factors. In making its assessment, management considers, among other factors, the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party credit support, credit ratings, interest rate changes since purchase, volatility of the security’s fair value and historical loss information for financial assets secured with similar collateral. The assessment involves a high degree of subjectivity and judgment that is based on the information available to management at a point in time. If management determines that the decline in fair value of a security resulted from a credit loss, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected from the security is less than its amortized cost basis, a credit loss exists and an ACL is recorded. The ACL recorded is limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance is recognized in other comprehensive income (loss).

FNCB's estimate of expected credit losses includes a measure of the expected risk of credit loss even if that risk is remote. However, FNCB does not measure expected credit losses on an investment security in which historical credit loss information adjusted for current conditions and reasonable and supportable forecast results in an expectation that nonpayment of the amortized cost basis is zero. Management does not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the security but instead, also considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral. FNCB performed an analysis that determined that the following securities have a zero expected credit loss: U.S. government agencies, mortgage-backed securities of U.S. government and government sponsored agencies, as all the U.S. government agencies and U.S. government agency backed securities have the full faith and credit backing of the United States Government or one of its agencies.

Changes in the ACL are recorded as a provision for (or reversal of) credit losses in the consolidated statements of income. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale debt security is confirmed based on the above-described analysis or when either of the criteria regarding the intent or requirement to sell is met. As of December 31, 2023, and January 1, 2023 (i.e. ASU 2016-13 adoption), no allowance was required for FNCB's available-for-sale debt securities.

Accrued interest receivable on available-for-sale debt securities, included in accrued interest receivable on the consolidated statements of condition, is excluded from the estimate of credit losses.

Loans and Leases

Loans and leases that FNCB 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, unamortized premiums or discounts on loans purchased through third-party originators, unearned income and partial charge-offs. Loans and leases receivable are presented net of the allowance for credit 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 generally, when the become 90 days past due and/or when management believes that the collection of principal and interest is doubtful. 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.

ACL on Loans and Leases

The ACL on the loan portfolio is a significant accounting estimate used in the preparation of FNCB's consolidated financial statements. Upon adoption of ASU 2016-13, FNCB replaced the incurred loss impairment model that recognized losses when it became probable that a credit loss would be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. Loans and leases, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The allowance is comprised of reserves measured on a collective or pool basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Arriving at an appropriate level of ACL involves a high degree of judgment. While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance.

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

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

Commercial Real Estate - 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 - 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. 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.

Commercial Equipment Financing - These loans and leases consist of various equipment financing originated through the Bank's wholly-owned subsidiary, 1st Equipment Finance, Inc. The majority of the loans and leases are originated through third party dealers or equipment manufacturers located outside FNCB's primary market area. Generally, a collateral lien is placed on the collateral supporting the loan. Prior to establishing the subsidiary on October 1, 2023, these loans and leases were included in the commercial and industrial loan segment for establishing the ACL.

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

Residential Real Estate - 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 offers home equity loans, home equity lines of credit (“HELOCs”) and HELOCs with a "carve out" feature 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 these home equity loan products, are generally smaller in size and are considered homogeneous as they exhibit similar characteristics.

Consumer – 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.

FNCB estimates expected credit losses using the discounted cash flow ("DCF") method for all loan portfolio segments measured on a collective or pool basis. For each loan segment, a cash flow projection is generated at the loan level. Probability of default ("PD") and loss given default ("LGD") assumptions are applied to the pool’s projective model of cash flows taking into consideration the effects of prepayments and principal curtailment effects. The analysis produces expected cash flows for each loan in the pool by pairing loan-level term information (maturity date, payment amount, interest rate, etc.) with top-down pool assumptions (default rates and prepayment speeds).

For LGD assumptions, management has determined that peer loss experience provides the best basis for its assessment of expected credit losses to determine the ACL. FNCB utilizes peer call report data to measure historical credit loss experience with similar risk characteristics within the segments over an economic cycle. Management reviews the historical loss information to appropriately adjust for differences in current asset specific risk characteristics. With regard to PD assumptions, management also considered further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that existed for the period over which historical information was evaluated. For all segment models for collectively evaluated loans, FNCB incorporates one macroeconomic driver, the national unemployment rate, using a statistical regression modeling methodology. Management determined that four quarters currently represents a reasonable and supportable forecast period. For the contractual term that extend beyond the reasonable and supportable forecast period, FNCB reverts to historical loss information within eight quarters using a straight-line approach. Management may apply different reversion techniques depending on the economic environment for the financial asset portfolio and as of the current period has utilized a linear reversion technique.

Management also considers the following qualitative factors in its evaluation of expected credit losses for each of the major portfolio segments: (i) changes in the credit quality a respective segment which are measured by risk ratings for commercial loans and FICO scores for residential real estate loans and consumer loans, (ii) changes in independent third-party loan reviews and regulatory exam ratings, (iii) changes in local unemployment rates, (iv) changes in the level of delinquent loans and nonaccrual loans as a percentage of the portfolio segment, (v) segment growth rates, (vi) concentrations as a percentage of Tier I Capital plus the ACL, and (vii) other external factors that may affect bank lending and operations such as a pandemic, natural disaster, or loss of a major employer, among others. For the commercial and industrial loans, commercial real estate loans, construction, land acquisition and development loans, commercial equipment finance loans and leases and state and political subdivision loans and leases management also considers the percentage of criticized loans to total loans by segment. For commercial equipment financing loans and leases management considers concentrations of loan deliquencies by NACIS code. Qualitative factors are weighted equally and stratified by no risk, minor risk and major risk for each portfolio segment.

Accrued interest receivable on loans and leases, included in accrued interest receivable on the consolidated statements of condition, is excluded from the estimate of credit losses.

Individually Evaluated Loans

Prior to the adoption of ASU 2016-13 on January 1, 2023, a loan was individually evaluated when the loan was considered impaired. A loan was considered to be impaired when based on current information and events, it was probable that FNCB would not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments.

With the adoption of ASU 2016-13, loans that do not share risk characteristics with existing pools are evaluated on an individual basis. FNCB considers a loan to be collateral dependent when management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the financial asset to expected to be provided substantially through the operation or sale of the collateral. When repayment is expected to be from the operation of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the net present value from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

ACL for Unfunded Commitments

The exposure is a component of other liabilities on FNCB's consolidated statement of financial condition and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unused portions of lines of credit, availability on construction and land development loans and standby and commercial letters of credit. The process used to determine the ACL for these exposures is consistent with the process for determining the allowance for loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge (credit) to provision for unfunded commitments on the consolidated statements of income is made to account for the change in the ACL on unfunded commitment exposures between reporting periods.

Impact of Adoption of ASU 2016-13

The following table below presents the impact of the adoption of ASU 2016-13 on the consolidated statements of financial condition:

	January 1, 2023		
(in thousands)	**As reported Under ASU 2016-13**	**Pre-ASU 2016-13**	**Impact of ASU 2016-13**
Assets:			
ACL on loans and leases:			
Residential real estate	$ (1,187)	$ (2,215)	$ 1,028
Commercial real estate	(2,579)	(4,193)	1,614
Construction, land acquisition and development	(1,814)	(747)	(1,067)
Commercial and industrial	(3,887)	(4,099)	212
Consumer	(1,677)	(1,307)	(370)
State and political subdivisions	(413)	(503)	90
Unallocated	-	(1,129)	1,129
Total ACL on loans	$ (11,557)	(14,193)	$ 2,636
Deferred income taxes	$ 15,759	$ 16,046	$ (287)
Liabilities:			
Liability for credit losses for unfunded commitments	$ (2,217)	$ (948)	$ (1,269)
Shareholders' equity:			
Retained earnings	$ (65,953)	$ (64,873)	$ (1,080)

Concurrently with adopting ASU 2016-13, FNCB adopted ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): "Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminated the troubled debt restructuring ("TDR") recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. This guidance also enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, including FNCB, ASU 2022-02 requires that an entity disclose current-period gross charge-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross charge-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

Mortgage Banking Activities, Loan Sales and Servicing

FNCB originates 1- 4 family mortgage loans for sale on the secondary market. Mortgage loans originated and held for sale are carried at the lower of aggregate cost or fair value determined on an individual loan basis. In 2023, FNCB entered into a correspondent relationship with a third-party mortgage company and began selling 1- 4 family mortgage loans through this company with servicing released. 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 on 1- 4 family mortgages originated and sold prior to 2023 were 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 ACL. 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. There were no properties held in OREO at December 31, 2023 and 2022.

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 2020.

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, 2023 and 2022.

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 FNCB Bancorp, Inc. Equity Incentive Plan ("EIP"), formerly 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 $104 thousand and $101 thousand at December 31, 2023 and 2022, 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 collateral-dependent loans, other securities, OREO and other repossessed assets.

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 records revenue from contracts with customers in accordance with ASC 606, "Revenue from Contracts with Customers." 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, investment securities and other financial instruments, which are not within the scope of ASC 606. FNCB has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. In general, FNCB fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed and charged either on a periodic basis or based on activity. FNCB earns non-interest income from various banking services offered by the Bank and other transactions that are within the scope of ASC 606 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. 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 (losses) on the sale of available-for-sale debt securities - Gains or losses realized from the sale of available-for-sale debt securities are recorded to non-interest income on the settlement date.
- Net gains (losses) on the sale of equity securities - Gains or losses realized from the sale of equity securities are recorded to non-interest income on the settlement date.
- Net gains (losses) on the sale of mortgage loans held for sale - Gains or losses realized on the sale of mortgages held for sale are recorded to non-interest income on the settlement date.
- Loan-related fees - include servicing fees received on loans sold for which FNCB has retained the servicing, net of amortization for mortgage servicing rights.
- Merchant services revenue - Merchant services fees represent interchange revenue generated from the processing of merchant card payments on behalf of certain business customers. Merchant services fee income is transactional in nature and is recognized in income monthly when FNCB’s performance obligation is complete, which is generally the time that payment is received.
- Wealth management services revenue - Wealth management services revenue 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. Wealth management services revenue is transactional in nature and is recognized in income monthly when FNCB’s performance obligation is complete, which is generally the time that payment is received.
- Other income – primarily includes interest rate swap revenue and title insurance revenue. Interest rate swap revenue represents net fees FNCB receives from a counterparty for completing loan swap transactions, which FNCB receives at the time the loan closes. Interest rate swap revenue is non-refundable, is not tied to the loan and FNCB has no future obligation to the counterparty related to such fees. Accordingly, FNCB records interest rate swap revenue in non-interest income upon receipt. 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 (Loss)

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 (loss).

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments," replaced 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 CECL and requires that 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. 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. As a smaller reporting company, FNCB adopted this guidance on January 1, 2023. The adoption of ASU 2016-13 primarily changed the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. FNCB completed implementation including the development of formal policies and procedures and governance and internal control documentation. In addition, FNCB had the model tested and validated by an independent third-party consultant pre- and post-implementation. FNCB applied the new guidance using the modified-retrospective approach. Related to the implementation, FNCB recorded a reduction in the ACL on loans and leases of $2.6 million, additional reserves for unfunded commitments of $1.3 million, a reduction in deferred tax assets of $287 thousand, and an increase to retained earnings of $1.1 million. The adoption of ASU 2016-13 did not have a material effect on FNCB's available-for-sale debt securities.

ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): "Troubled Debt Restructurings and Vintage Disclosures," eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, these amendments require that an entity disclose current-period gross charge-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross charge-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. These amendments should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, which an entity has the option to apply a modified retrospective transition method resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. Early adoption is permitted if an entity has adopted ASU No. 2016-13, including adoption in an interim period. If an entity elects to early adopt ASU No. 2022-02 in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. FNCB adopted ASU 2022-02 on January 1, 2023. The adoption of these guidance did not have a material impact on FNCB's operating results or financial or financial position.

ASU No. 2023-02 "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method" ("ASU 2023-02") permits companies to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The amendments in this standard will be effective for FNCB on January 1, 2024. FNCB does not believe this standard will have a material impact on its consolidated financial statements.

ASU No. 2023-06 "Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" ("ASU 2023-06") amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. FNCB does not believe this standard will have a material impact on its consolidated financial statements.

ASU No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07") improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this standard will be effective for FNCB for the fiscal year ended December 31, 2024 and subsequent interim periods. The amendments will be applied retrospectively to all prior periods in the consolidated financial statements. FNCB does not believe this standard will have a material impact on its consolidated financial statements and related disclosures.

ASU No. 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09") requires enhanced income tax disclosures primarily related to the rate reconciliation and income taxes paid information to provide more transparency by requiring (i) consistent categories and greater disaggregation of information in the rate reconciliation table and (ii) income taxes paid, net of refunds, to be disaggregated by jurisdiction based on an established threshold. The amendments in this standard will be effective for FNCB on January 1, 2025. FNCB is currently evaluating the impact the amendments will have on its consolidated financial statements and related disclosures.

Note 3. 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, 2023 and 2022:

	December 31, 2023			
(in thousands)	**Amortized Cost**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses**	**Fair Value**
Available-for-sale debt securities:				
U.S. Treasury	$ 36,852	$ -	$ 3,675	$ 33,177
Obligations of state and political subdivisions	220,181	52	20,437	199,796
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	87,405	-	13,198	74,207
Collateralized mortgage obligations - commercial	3,613	-	227	3,386
Mortgage-backed securities	18,872	4	2,430	16,446
Private collateralized mortgage obligations	76,912	78	6,838	70,152
Corporate debt securities	35,055	-	3,769	31,286
Asset-backed securities	21,768	67	145	21,690
Negotiable certificates of deposit	744	-	70	674
Total available-for-sale debt securities	$ 501,402	$ 201	$ 50,789	$ 450,814

	December 31, 2022			
(in thousands)	**Amortized Cost**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses**	**Fair Value**
Available-for-sale debt securities:				
U.S. Treasury	$ 36,801	$ -	$ 4,667	$ 32,134
Obligations of state and political subdivisions	250,244	90	29,552	220,782
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	93,577	-	13,170	80,407
Collateralized mortgage obligations - commercial	3,649	-	320	3,329
Mortgage-backed securities	23,332	1	2,670	20,663
Private collateralized mortgage obligations	80,648	-	8,141	72,507
Corporate debt securities	33,630	-	2,958	30,672
Asset-backed securities	15,287	5	351	14,941
Negotiable certificates of deposit	744	-	88	656
Total available-for-sale debt securities	$ 537,912	$ 96	$ 61,917	$ 476,091

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, 2023 or 2022.

Investment securities with a carrying value of $326.9 million at December 31, 2023 and $357.2 million at December 31, 2022 were pledged to collateralize certain municipal deposits. In addition, FNCB obtains letters of credit from the FHLB of Pittsburgh to secure certain municipal deposits of school district customers who agree to the use of the FHLB letters of credit. These FHLB letters of credit totaled $91.5 million and $47.5 million at December 31, 2023 and 2022, respectively.

The following table presents the maturity information of FNCB's available-for-sale debt securities at December 31, 2023. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Because collateralized mortgage obligations, mortgage-backed securities and asset-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	December 31, 2023	
(in thousands)	**Amortized Cost**	**Fair Value**
Available -for-sale debt securities:		
Amounts maturing in:		
One year or less	$ 16,143	$ 15,954
After one year through five years	80,109	75,005
After five years through ten years	90,632	78,161
After ten years	105,948	95,813

Collateralized mortgage obligations	167,930	147,745
Mortgage-backed securities	18,872	16,446
Asset-backed securities	21,768	21,690
Total	$ 501,402	$ 450,814

The following table presents the gross proceeds received and gross realized gains and losses on the sale and redemption of available-for-sale debt securities for the years ended December 31, 2023 and 2022:

(in thousands)	Year Ended December 31, 2023	Year Ended December 31, 2022
Available-for-sale debt securities:		
Gross proceeds received on sales	$ 10,394	$ 14,004
Gross realized gains on sales	252	78
Gross realized losses on sales	-	(301)

The following tables present the number, fair value and gross unrealized losses of available-for-sale debt securities in an unrealized loss position at December 31, 2023 and 2022, aggregated by investment category and length of time the securities have been in an unrealized loss position:

	December 31, 2023								
	Less than 12 Months			12 Months or Longer			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
U.S. Treasuries	-	$ -	$ -	17	$ 33,177	$ 3,675	17	$ 33,177	$ 3,675
Obligations of state and political subdivisions	1	2,121	16	193	195,153	20,421	194	197,274	20,437
U.S. government/government-sponsored agencies:									
Collateralized mortgage obligations - residential	-	-	-	42	74,207	13,198	42	74,207	13,198
Collateralized mortgage obligations - commercial	-	-	-	3	3,386	227	3	3,386	227
Mortgage-backed securities	1	3,800	54	12	12,552	2,376	13	16,352	2,430
Private collateralized mortgage obligations	3	5,670	131	52	58,846	6,707	55	64,516	6,838
Corporate debt securities	1	1,467	33	29	29,819	3,736	30	31,286	3,769
Asset-backed securities	2	3,482	15	10	9,660	130	12	13,142	145
Negotiable certificates of deposit	-	-	-	3	674	70	3	674	70
Total	8	$ 16,540	$ 249	361	$417,474	$ 50,540	369	$434,014	$ 50,789

	December 31, 2022								
	Less than 12 Months			12 Months or Longer			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
U.S. Treasuries	-	$ -	$ -	17	$ 32,134	$ 4,667	17	$ 32,134	$ 4,667
Obligations of state and political subdivisions	128	146,932	12,751	94	69,872	16,801	222	216,804	29,552
U.S. government/government-sponsored agencies:									
Collateralized mortgage obligations - residential	16	26,826	3,407	26	53,581	9,763	42	80,407	13,170
Collateralized mortgage obligations - commercial	2	1,911	94	1	1,418	226	3	3,329	320
Mortgage-backed securities	7	8,569	219	7	11,998	2,451	14	20,567	2,670
Private collateralized mortgage obligations	29	27,705	1,213	28	42,819	6,928	57	70,524	8,141
Corporate debt securities	18	21,325	1,805	11	9,347	1,153	29	30,672	2,958
Asset-backed securities	5	7,295	179	5	3,988	172	10	11,283	351
Negotiable certificates of deposit	-	-	-	3	656	88	3	656	88
Total	205	$240,563	$ 19,668	192	$225,813	$ 42,249	397	$466,376	$ 61,917

Evaluation for Credit Impairment - Available-for-Sale Debt Securities

Quarterly, or more frequently if market conditions warrant, management evaluates securities for impairment where there has been a decline in fair value of a security below its amortized cost basis to determine whether the decline in fair value has resulted from a credit loss, or if it is entirely the result of noncredit-related factors. At December 31, 2023, there were 369 available-for-sale debt securities in an unrealized loss position. As part of its quarterly evaluation of these securities for impairment at December 31, 2023, management first determined that FNCB did not intend to sell, nor was it more likely than not that it would be required to sell, any security in an unrealized loss position prior to recovery of its amortized cost. Management then considered, among other things, the length of time a security's fair value is less than its amortized cost, the severity of decline, any adverse conditions related to the security, an industry or geographic area, any adverse changes to the rating of any security by a rating agency, whether or not any issuer has failed to make contractual principal and interest payments, or if there are any indications that an issuer would not be able to make future contractual principal and interest payments. Management also 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. 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, 2023. Based on the results of its review and considering the attributes of these debt securities, management concluded that changes in the fair values of the securities were consistent with movements in market interest rates and spreads relative to when the securities were purchased and not due to the credit quality of the securities or issuers. Accordingly, management determined that FNCB was not required to establish an ACL on available-for-sale debt securities in an unrealized loss position at December 31, 2023.

Equity Securities

Included in equity securities with readily determinable fair values at December 31, 2023 and December 31, 2022 were investments in the common or preferred stock of publicly traded bank holding companies and an investment in a mutual fund comprised of 1-4 family residential mortgage-backed security collateralized by properties within FNCB's market area. 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.

The following table presents unrealized and realized gains and losses recognized in net income on equity securities for the years ended December 31, 2023 and 2022:

	Year Ended December 31,	
(in thousands)	**2023**	**2022**
Net loss recognized on equity securities	$ (1,601)	$ (34)
Less: net (loss) gain recognized on equity securities sold/acquired	(278)	118
Unrealized loss recognized on equity securities	$ (1,323)	$ (152)

Equity Securities and Equity Securities without Readily Determinable Fair Value

At December 31, 2023 and December 31, 2022, equity securities without readily determinable fair values consisted of a $500 thousand investment in a fixed-rate, non-cumulative perpetual preferred stock of a privately-held bank holding company, 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%. 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. As part of its qualitative assessment, management engaged an independent third party to provide valuations of this investment as of December 31, 2023 and 2022. Based on the results of its assessment, management determined that no adjustment for impairment was required at December 31, 2023 and December 31, 2022.

Restricted Stock

The following table presents FNCB's investment in restricted securities at December 31, 2023 and 2022. Restricted securities have limited marketability and are carried at cost. Management noted no indicators of impairment for FHLB of Pittsburgh or ACBB stock at December 31, 2023 and 2022:

	December 31,	
(in thousands)	**2023**	**2022**
Stock in Federal Home Loan Bank of Pittsburgh	$ 8,804	$ 8,535
Stock in Atlantic Community Bankers Bank	10	10
Total restricted securities, at cost	$ 8,814	$ 8,545

Note 4. LOANS AND LEASES

The following table summarizes loans and leases by portfolio segment at December 31, 2023 and 2022. In accordance with the adoption of ASC 2016-13, as of December 31, 2023, the table presents the amortized cost basis of each portfolio segment, which includes net deferred costs of $2.4 million, unearned income of $921 thousand and unamortized premiums on purchased loans of $170 thousand. FNCB does not include accrued interest receivable in amortized cost basis for loans disclosed throughout this footnote. As of December 31, 2023 and 2022, accrued interest receivable for loans was $3.6 and $2.6 million, respectively, and is included in "accrued interest receivable" in the consolidated statements of financial condition.

	December 31,	
(in thousands)	**2023**	**2022**
Residential real estate	$ 245,282	$ 250,221
Commercial real estate	408,135	376,976
Construction, land acquisition and development	59,876	66,555
Commercial and industrial	183,794	272,024
Commercial equipment financing	163,605	-
Consumer	85,730	92,612
State and political subdivisions	73,843	64,955
Total loans and leases, gross	1,220,265	1,123,343
Unearned income	-	(810)
Net deferred origination fees	-	1,784
Allowance for credit losses	(11,986)	(14,193)
Loans and leases, net	$ 1,208,279	$ 1,110,124

In 2021, the Bank began offering commercial equipment financing under the brand 1st Equipment Finance. On October 1, 2023, 1st Equipment Finance Inc., was established as a wholly-owned subsidiary of the Bank. Upon establishment of the subsidiary, the Bank contributed capital to the new subsidiary which included, among other assets, the outstanding amortized cost of loans and leases previously originated under this brand, a corresponding ACL and accrued interest. The amortized cost of loans and leases transferred upon establishment of the subsidiary were $160.5 million with a corresponding ACL of $2.4 million.

1st Equipment Finance Inc. continues to offer commercial equipment financing, through simple interest loans, direct finance leases and municipal leases. Simple interest loans and direct finance leases were $163.6 million at December 31, 2023, and included under the commercial equipment financing segment. Prior to October 1, 2023, these loans and leases were included in commercial and industrial loans and totaled $79.3 million at December 31, 2022. Tax-free municipal leases were $4.7 million at December 31, 2023 and $4.4 million at December 31, 2022.

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 Notes to Consolidated Financial Statements.

For information about credit concentrations within FNCB’s loan portfolio, refer to Note 13, “Commitments, Contingencies and Concentrations” to these Notes to Consolidated Financial Statements.

FNCB originates 1- 4 family residential mortgage loans for sale in the secondary market. In 2023, FNCB entered into a correspondent relationship with a third-party mortgage company and began selling 1- 4 family residential mortgage loans with servicing released through this company. The aggregate principal balance of 1- 4 family residential mortgages sold on the secondary market were $0.4 million for the year ended December 31, 2023. Prior to 2023, FNCB sold 1- 4 family mortgage loans directly on a secondary market and retained servicing. The principal balance of 1- 4 family mortgages sold for the year ended December 31, 2022 totaled $9.2 million. Net gains on the sale of residential mortgage loans were $6 thousand in 2023 and $205 thousand in 2022. FNCB retains servicing rights on mortgages sold in the secondary market. At December 31, 2023, there were no 1 - 4 family residential mortgage loans held for sale. At December 31, 2022 there were $60 thousand in 1- 4 family residential mortgage loans held for sale.

The unpaid principal balance of loans serviced for others, including residential mortgages and SBA-guaranteed loans were $75.8 million and $78.7 million at December 31, 2023 and 2022, 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, judgements, and bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios.

FNCB provides for loan and lease losses based on the consistent application of its documented ACL methodology. Loan and lease losses are charged to the ACL and recoveries are credited to it. Additions to the ACL are provided by charges against income based on various factors which, in management’s judgement, deserve current recognition of estimated probable losses. Loan and lease 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 ACL in accordance with GAAP. The ACL consists primarily of the following two components:

(1) Specific allowances are established for loans and loan relationships in excess of $100 thousand, that do not share risk characteristics with existing pools and are independently evaluated for impairment. 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 pool basis for loans that are collectively evaluated for impairment. FNCB divides its portfolio into the previously defined seven loan segments for loans exhibiting similar risk characteristics.

For additional information about FNCB's ACL methodology, see Note 2, "Summary of Significant Accounting Policies - ACL on Loans and Leases" of these Notes to Consolidated Financial Statements.

Management evaluates the credit quality of the loan portfolio on an ongoing basis and performs a formal review of the adequacy of the ACL 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 ACL, 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 ACL 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 ACL, 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 ACL.

Credit Risk Profiles – Commercial Loans

Management continuously monitors and evaluates the credit quality of FNCB's commercial loans and leases 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 and lease 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 credit losses and the ACL.

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.

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 Risk Profiles – Other Loans

Certain residential real estate loans, consumer loans, and commercial and municipal 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 presents the credit risk profile of loans and leases summarized by portfolio segment and year of origination at December 31, 2023:

Credit Risk Profiles
For Year Ended December 31, 2023
Term Loans By Origination Fiscal Year

(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total Loans
Commercial real estate								
Risk rating								
Pass	$ 35,520	$ 99,392	$ 75,005	$ 38,562	$ 66,065	$ 71,664	$ 7,102	$ 393,310
Special mention	-	-	4,703	99	27	4,552	1,776	11,157
Substandard	156	287	497	-	-	2,728	-	3,668
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial real state	35,676	99,679	80,205	38,661	66,092	78,944	8,878	408,135
Construction, land acquisition and development								
Risk rating								
Pass	14,027	18,832	24,815	208	323	893	594	59,692
Special mention	-	-	184	-	-	-	-	184
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total construction, land acquisition and development	14,027	18,832	24,999	208	323	893	594	59,876
Commercial and industrial								
Risk rating								
Pass	42,104	20,644	22,898	9,522	10,730	10,098	55,939	171,935
Special mention	493	19	318	595	24	137	4,108	5,694
Substandard	45	2,588	-	1,200	-	211	2,121	6,165
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial and industrial	42,642	23,251	23,216	11,317	10,754	10,446	62,168	183,794
Commercial equipment financing								
Risk rating								
Pass	94,967	63,807	3,711	-	-	-	-	162,485
Special mention	628	15	-	-	-	-	-	643
Substandard	342	135	-	-	-	-	-	477
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial equipment financing	95,937	63,957	3,711	-	-	-	-	163,605
State and political subdivisions								
Risk rating								
Pass	16,025	11,659	21,606	2,389	15,852	4,279	2,033	73,843
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total state and political subdivisions	16,025	11,659	21,606	2,389	15,852	4,279	2,033	73,843
Credit Risk Profiles - Other Loans								
Residential real estate								
Performing	11,878	41,104	76,574	37,162	11,748	42,181	23,387	244,034
Non-performing	-	67	142	-	229	699	111	1,248
Total residential real estate	11,878	41,171	76,716	37,162	11,977	42,880	23,498	245,282
Consumer								

Performing	27,180	30,098	18,994	3,060	1,609	4,401	35	85,377
Non-performing	-	89	72	22	123	47	-	353
Total consumer	27,180	30,187	19,066	3,082	1,732	4,448	35	85,730
Total loans and leases	$ 243,365	$ 288,736	$ 249,519	$ 92,819	$ 106,730	$ 141,890	$ 97,206	$ 1,220,265

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The following table presents gross charge-offs by portfolio segment and year of origination at December 31, 2023:

	Gross Charge-Offs by Origination Year For the Year Ended December 31, 2023							
(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total
Residential real estate	$ -	$ 63	$ -	$ -	$ -	$ 4	$ -	$ 67
Commercial real estate	-	-	-	-	-	-	-	-
Construction land acquisition and development	-	-	-	-	-	-	-	-
Commercial and industrial	284	108	-	-	-	-	104	496
Commercial equipment financing	309	316	4	-	-	-	-	629
Consumer	67	1,205	765	22	22	68	-	2,149
State and political subdivision loans	-	-	-	-	-	-	-	-
Total gross charge-offs	$ 660	$ 1,692	$ 769	$ 22	$ 22	$ 72	$ 104	$ 3,341

The following table presents the recorded investment in loans and leases receivable by major category and credit and credit quality indicators at December 31, 2022, prior to the adoption of ASU 2016.13:

	Credit Quality Indicators December 31, 2022									
	Commercial Loans						Other Loans			
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Subtotal Commercial	Accruing Loans	Non-accrual Loans	Subtotal Other	Total Loans
Residential real estate	$ 43,188	$ 434	$ 99	$ -	$ -	$ 43,721	$ 205,887	$ 613	$ 206,500	$ 250,221
Commercial real estate	367,866	7,082	2,028	-	-	376,976	-	-	-	376,976
Construction, land acquisition and development	62,965	797	-	-	-	63,762	2,793	-	2,793	66,555
Commercial and industrial	260,358	829	8,875	-	-	270,062	1,962	-	1,962	272,024
Consumer	-	-	-	-	-	-	92,251	361	92,612	92,612
State and political subdivisions	64,955	-	-	-	-	64,955	-	-	-	64,955
Total	$ 799,332	$ 9,142	$ 11,002	$ -	$ -	$ 819,476	$ 302,893	$ 974	$ 303,867	$ 1,123,343

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The following table summarizes activity in the ACL by major category for the years ended December 31, 2023:

Allowance for Credit Losses by Loan Category
December 31, 2023

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction, Land Acquisition and Development	Commercial and Industrial	Commercial Equipment Financing	Consumer	State and Political Subdivisions	Unallocated	Total
Allowance for credit losses:									
Beginning balance, January 1, 2023	$ 2,215	$ 4,193	$ 747	$ 4,099	$ -	$ 1,307	$ 503	$ 1,129	$ 14,193
Impact of ASU-2016-13	(1,028)	(1,614)	1,067	(212)	-	370	(90)	(1,129)	(2,636)
Reclassification (1)	-	-	-	(2,390)	2,390	-	-	-	-
Charge-offs	(67)	-	-	(496)	(629)	(2,149)	-	-	(3,341)
Recoveries	-	495	-	148	-	1,247	-	-	1,890
Provisions (credits)	37	(243)	(660)	1,049	1,368	343	(14)	-	1,880
Ending balance, December 31, 2023	$ 1,157	$ 2,831	$ 1,154	$ 2,198	$ 3,129	$ 1,118	$ 399	$ -	$ 11,986
Specific reserve	$ -	$ 51	$ -	$ -	$ 70	$ -	$ -	$ -	$ 121
General reserve	$ 1,157	$ 2,780	$ 1,154	$ 2,198	$ 3,059	$ 1,118	$ 399	$ -	$ 11,865
Loans and leases receivable:									
Individually evaluated for impairment	$ 830	$ 2,663	$ -	$ 104	$ 308	$ 337	$ -	$ -	$ 4,242
Collectively evaluated for impairment	244,452	405,472	59,876	183,690	163,297	85,393	73,843	-	1,216,023
Total loans and leases, gross at December 31, 2023	$ 245,282	$ 408,135	$ 59,876	$ 183,794	$ 163,605	$ 85,730	$ 73,843	$ -	$1,220,265

(1) Represents ACL associated with loans and leases originated under the brand, 1st Equipment Finance, and included in capital contributed to 1st Equipment Finance, Inc. on October 1, 2023, the date it was established as a wholly-owned subsidiary of the Bank.

The following table summarizes activity in the ALLL for the year ending December 31, 2022, ending loan and lease balances and related ALLL by portfolio segment and impairment methodology at December 31, 2022, prior to the adoption of ASU 2016-13.

Allowance for Loan and Lease Losses by Loan Category
December 31, 2022

(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 credit losses:								
Beginning balance, January 1, 2022	$ 2,081	$ 4,530	$ 392	$ 2,670	$ 1,159	$ 455	$ 1,129	$ 12,416
Charge-offs	(3)	-	-	(69)	(1,234)	-	-	(1,306)
Recoveries	3	293	10	30	785	-	-	1,121
Provisions (credits)	134	(630)	345	1,468	597	48	-	1,962
Ending balance, December 31, 2022	$ 2,215	$ 4,193	$ 747	$ 4,099	$ 1,307	$ 503	$ 1,129	$ 14,193
Specific reserve	$ 17	$ 15	$ -	$ 2	$ -	$ -	$ -	$ 34
General reserve	$ 2,198	$ 4,178	$ 747	$ 4,097	$ 1,307	$ 503	$ 1,129	$ 14,159
Loans and leases receivable:								
Individually evaluated for impairment	$ 1,472	$ 5,766	$ -	$ 362	$ -	$ -	$ -	$ 7,600
Collectively evaluated for impairment	248,749	371,210	66,555	271,662	92,612	64,955	-	1,115,744
Total loans and leases, gross at December 31, 2022	$ 250,221	$ 376,976	$ 66,555	$ 272,024	$ 92,612	$ 64,955	$ -	$1,123,343

The following table presents the amortized cost of collateral-dependent loans and leases by portfolio segment and type of collateral as of December 31, 2023:

	December 31, 2023			
	Type of Collateral			
(in thousands)	Residential Real Estate	Commercial Real Estate	Business Assets	Total
Loans and leases:				
Residential real estate	$ 830	$ -	$ -	$ 830
Commercial real estate	-	2,663	-	2,663
Construction, land acquisition and development	-	-	-	-
Commercial and industrial	-	-	-	-
Commercial equipment financing	-	-	308	308
Consumer	-	-	-	-
State and political subdivisions	-	-	-	-
Total collateral dependent loans and leases	$ 830	$ 2,663	$ 308	$ 3,801

The following tables present the delinquency status of past due and non-accrual loans and leases at December 31, 2023 and 2022:

	December 31, 2023					
	Delinquency Status					
(in thousands)	30-89 Days Past Due	>/= 90 Days Past Due	Nonaccrual Loans	Total Past Due	Current	Total
Loans and leases:						
Residential real estate	$ 580	$ -	$ 1,248	$ 1,828	$ 243,454	$ 245,282
Commercial real estate	117	-	3,113	3,230	404,905	408,135
Construction, land acquisition and development	-	-	-	-	59,876	59,876
Commercial and industrial	211	-	148	359	183,435	183,794
Commercial equipment financing	1,811	-	477	2,288	161,317	163,605
Consumer	1,095	38	352	1,485	84,245	85,730
State and political subdivisions	-	-	-	-	73,843	73,843
Total loans and leases	$ 3,814	$ 38	$ 5,338	$ 9,190	$ 1,211,075	$ 1,220,265

	December 31, 2022					
	Delinquency Status					
(in thousands)	30-89 Days Past Due	>/= 90 Days Past Due	Nonaccrual loans	Total Past Due	Current	Total
Loans and leases:						
Residential real estate	$ 555	$ -	$ 713	$ 1,268	$ 248,953	$ 250,221
Commercial real estate	-	-	1,545	1,545	375,431	376,976
Construction, land acquisition and development	-	-	-	-	66,555	66,555
Commercial and industrial	113	-	144	257	271,767	272,024
Consumer	1,378	79	361	1,818	90,794	92,612
State and political subdivisions	-	-	-	-	64,955	64,955
Total loans and leases	$ 2,046	$ 79	$ 2,763	$ 4,888	$ 1,118,455	$ 1,123,343

Included in loans and leases 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 $5.3 million at December 31, 2023 and $2.8 million at December 31, 2022. Generally, loans are placed on non-accrual status when they become 90 days or more delinquent. Once a loan is placed on non-accrual status it remains on non-accrual status until it has been brought current, has six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exists. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent, and still be on a non-accrual status. There were $38 thousand and $79 thousand, in consumer loans that were past 90 days or more and still accruing at December 31, 2023, and December 31, 2022, respectively, which comprise entirely of unsecured personal loans purchased from a third-party originator.

Total non-accrual loans, with balances less than the $100 thousand loan relationship threshold that were evaluated collectively for impairment were $1.1 million at December 31, 2023 and $0.7 million at December 31, 2022.

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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, 2022, prior to the adoption of ASU 2016-13. Non-accrual loans, with balances less than the $100 thousand loan relationship threshold were 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.

	December 31, 2022		
(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no allowance recorded:			
Residential real estate	$ 431	$ 509	$ -
Commercial real estate	1,071	1,339	-
Construction, land acquisition and development	-	-	-
Commercial and industrial	218	218	-
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with no related allowance recorded	1,720	2,066	-
With a related allowance recorded:			
Residential real estate	1,041	1,041	17
Commercial real estate	4,695	4,695	15
Construction, land acquisition and development	-	-	-
Commercial and industrial	144	362	2
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans with a related allowance recorded	5,880	6,098	34
Total of impaired loans:			
Residential real estate	1,471	1,550	17
Commercial real estate	5,766	6,034	15
Construction, land acquisition and development	-	-	-
Commercial and industrial	363	580	2
Consumer	-	-	-
State and political subdivisions	-	-	-
Total impaired loans	$ 7,600	$ 8,164	$ 34

The following table presents the average balance and interest income by loan segment recognized on impaired loans for the year ended December 31, 2022:

	2022	
(in thousands)	**Average Balance**	**Interest Income (1)**
Residential real estate	$ 1,640	$ 65
Commercial real estate	6,614	251
Construction, land acquisition and development	-	-
Commercial and industrial	482	19
Consumer	-	-
State and political subdivisions	-	-
Total impaired loans	$ 8,736	$ 335

(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 to $175 thousand for year ended December 31, 2022.

Loan Modifications to Borrowers Experiencing Financial Difficulty

ASU 2022-02 eliminated the accounting guidance for TDRs while enhancing disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. In accordance with the new guidance, FNCB no longer evaluates loans with modifications made to borrowers experiencing financial difficulty individually for impairment, nor establishes a related specific reserve for such loans, but rather these loans are included in their respective portfolio segment and evaluated collectively for impairment to establish an ACL.

There was one modification made to a borrower experiencing financial difficulty during the year ended December 31, 2023. The modification involved a 12-month extension of term for a loan secured by residential real estate with an amortized cost basis of $79 thousand. There were no loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2022.

Residential Real Estate Loan Foreclosures

There were three residential real estate loans with an aggregate recorded investment of $202 thousand that were in the process of foreclosure at December 31, 2023. There were three residential real estate loans with an aggregate recorded investment of $215 thousand that were in the process of foreclosure at December 31, 2022. FNCB did not have any residential real estate properties in OREO at December 31, 2023 and 2022.

Note 5. BANK PREMISES AND EQUIPMENT

The following table summarizes bank premises and equipment at December 31, 2023 and 2022:

(in thousands)	December 31, 2023	December 31, 2022
Land	$ 2,930	$ 2,930
Buildings and improvements	14,416	14,408
Furniture, fixtures and equipment	11,216	11,048
Leasehold improvements	3,328	3,328
Total	31,890	31,714
Accumulated depreciation	(17,344)	(16,098)
Net	$ 14,546	$ 15,616

Depreciation and amortization expense of premises and equipment amounted to $1.3 million for 2023 and $1.6 million for 2022.

Note 6. OTHER ASSETS

The following table summarizes the major components of other assets at December 31, 2023 and 2022:

(in thousands)	December 31, 2023	December 31, 2022
Investment in low-income housing tax credit program	$ 11,014	$ 11,014
Right of use assets	2,933	3,226
Mortgage servicing rights	175	254
Interest rate swaps	1,919	1,946
Net deferred tax assets	14,579	16,827
Equity securities without readily determined fair value	500	500
Repossessed assets	420	-
Other assets	10,003	9,238
Total	$ 41,543	$ 43,005

Note 7. DEPOSITS

The following table summarizes deposits by major category at December 31, 2023 and 2022:

(in thousands)	December 31, 2023	December 31, 2022
Demand (non-interest bearing)	$ 285,548	$ 305,850
Interest-bearing:		
Interest-bearing demand	754,296	808,497
Savings	130,957	148,426
Time ($250,000 and over)	53,319	24,902
Other time	304,862	132,972
Total interest-bearing	1,243,434	1,114,797
Total deposits	$ 1,528,982	$ 1,420,647

Included in other time deposits were brokered deposits of $148.7 million at December 31, 2023 and $23.9 million at December 31, 2022.

The aggregate amount of deposits reclassified as loans was $75 thousand at December 31, 2023 and $124 thousand at December 31, 2022. Management evaluates transaction accounts that are overdrawn for collectability as part of its evaluation for credit losses. During 2023 and 2022, 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, 2023:

(in thousands)	$250,000 and Over	Other Time Deposits	Total
2024	$ 52,653	$ 208,053	$ 260,706
2025	666	59,190	59,856
2026	-	15,303	15,303
2027	-	12,093	12,093
2028	-	10,223	10,223

Total	$ 53,319	$ 304,862	$ 358,181

Note 8. BORROWED FUNDS

FNCB has an agreement with the FHLB of Pittsburgh which allows for borrowings, either overnight or term, up to a maximum borrowing capacity based on a percentage of qualifying loans pledged under a blanket pledge agreement. In addition to pledging loans, FNCB is required to purchase FHLB of Pittsburgh stock based upon the amount of credit extended. Loans that were pledged to collateralize borrowings under this agreement were $506.2 million at December 31, 2023 and $482.1 million at December 31, 2022. FNCB's maximum borrowing capacity was $373.6 million at December 31, 2023. At December 31, 2023 and 2022, there were $91.5 million and $47.5 million, respectively, in letters of credit to secure municipal deposits outstanding under this agreement. There were $16.0 million in overnight advances and $149.0 million in term advances through the FHLB of Pittsburgh outstanding at December 31, 2023. At December 31, 2022, there were $139.4 million in overnight advances and $32.7 million in term advances outstanding, through the FHLB of Pittsburgh. FNCB had a remaining borrowing availability at the FHLB of Pittsburgh of $115.7 million at December 31, 2023.

Advances through the Federal Reserve Bank Discount Window generally include short-term advances which are fully collateralized by certain pledged loans under the Federal Reserve Bank's Borrower-in-Custody ("BIC") program. At December 31, 2023, FNCB had loans pledged under the BIC program of $187.0 million. There were no advances outstanding under the BIC program at December 31, 2023 and 2022. At December 31, 2023, FNCB had borrowing capacity available under the BIC program of $158.4 million. On March 12, 2023, the Federal Reserve Bank established the Bank Term Funding Program ("BTFP"), a program through the Discount Window designed to provide additional funding to eligible depository institutions during a period of stress. The BTFP is collateralized by high-quality securities valued at par including U.S. Treasury securities, U.S. government agency debt and mortgage-backed securities and other qualifying securities. At December 31, 2023, FNCB had securities pledged of $27.8 million and an outstanding advance under the BTFP of $25.0 million. On January 24, 2024, the Federal Reserve Bank announced that it would cease making new loans under this program on March 11, 2024.

The following tables present borrowings, by type, outstanding at December 31, 2023 and 2022.

	As of and for the Year Ended December 31, 2023				
(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 - term	$ 148,962	$ 109,979	$ 148,962	4.78%	5.01%
FHLB of Pittsburgh advances - overnight	16,000	69,792	196,900	5.20	5.68
Federal Reserve discount window BIC advances	-	85	-	4.98	-
Federal Reserve discount window BTFP advances	25,000	1,164	25,000	4.89	4.89
Junior subordinated debentures	10,310	10,310	10,310	7.02	7.32

	As of and for the Year Ended December 31, 2022				
(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 - term	$ 32,650	$ 5,830	$ 32,650	4.51%	4.45%
FHLB of Pittsburgh advances - overnight	139,400	93,309	170,350	2.56	4.45
Federal Reserve discount window BIC advances	-	66	-	3.77	-
Junior subordinated debentures	10,310	10,310	10,310	3.47	6.44

On December 14, 2006, the Issuing Trust issued $10.0 million of trust preferred securities (the "Trust Securities") at a variable interest rate, initially equal to 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 to 3-month CME Term SOFR plus a spread adjustment of 0.26161% and a margin of 1.67%. The average interest rate paid on the Debentures was 7.02% in 2023 and 3.47% in 2022. 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, 2023 and 2022 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, 2023 and 2022. At December 31, 2023 and 2022, accrued and unpaid interest associated with the Debentures amounted to $36 thousand and $31 thousand, respectively.

The following table presents the contractual maturities of borrowed funds at December 31, 2023:

(in thousands)	December 31, 2023
2024	$ 118,850
2025	29,567
2026	5,000
2027	22,357
2028	14,188
2029 and thereafter	10,310
Total	$ 200,272

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 bu 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. FNCB's existing credit derivatives result from loan participations arrangements, therefore, are not used to manage interest rate risk in FNCB's assets or liabilities.

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, such derivatives were used to hedge the variable cash flows associated with forecasted issuances of debt in 2023 and 2022.

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 loss 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 $604 thousand will be reclassified as a decrease to interest expense.

Fair Value Hedges of Interest Rate Risk

FNCB is exposed to changes in the fair value of pools of fixed-rate assets due to changes in benchmark interest rates. FNCB uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for FNCB receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

The following table presents amounts recorded in the consolidated statements of financial condition related to the carrying amount and cumulative basis adjustment for fair value hedges at December 31, 2023:

	Carrying Amount of the Hedged Assets (Liabilities) December 31,		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities) December 31,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Line Item in the Statement of Financial Condition in Which the Hedged Item is Included				
Fixed Rate Loans (1)	$ 35,549	-	$ 549	-
Total	$ 35,549	-	$ 549	-

(1) These amounts include the amortized cost basis of closed portfolios of fixed rate loans used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At December 31, 2023, the amortized cost basis of the closed portfolios used in these hedging relationships was $90.0 million; the cumulative basis adjustments associated with these hedging relationships was $549 thousand; and the amounts of the designated hedged items were $35 million. There were no such hedging relationships at December 31, 2022.

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. FNCB's existing credit derivatives result from participations out of interest rate swaps provided to external lenders as part of loan participation arrangements, therefore, are not used to manage interest rate risk in FNCB's assets or liabilities. Derivatives not designated as hedges are not speculative and result from a service FNCB provides to certain lenders which participate in loans.

Fair Values of Derivative Instruments on the Balance Sheet

The following table presents the fair value of FNCB's derivative financial instruments and the classification on the consolidated statements of financial condition at December 31, 2023 and December 31, 2022:

		Derivative Assets					Derivative Liabilities			
		As of December 31, 2023		As of December 31, 2022			As of December 31, 2023		As of December 31, 2022	
(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	$ 10,000	Other assets	$ 650	Other assets	$ 1,173	$ 85,000	Other liabilities	$ 1,253	Other liabilities	$ -
Total derivatives designated as hedging instruments			650		1,173			1,253		-
Derivatives not designated as hedging instruments										
Interest rate swaps	$ 38,828	Other assets	1,438	Other assets	931	$ 38,828	Other liabilities	1,438	Other liabilities	931
Risk participation transaction	$ 13,672		-		-			-		-
Total derivatives not designated as hedging instruments			1,438		931			1,438		931
Net Derivatives on the Balance Sheet			2,088		2,104			2,691		931
Gross amounts not offset in the Statement of Financial Position										
Financial instruments			-		-			-		-
Cash collateral (1)			-		1,946			-		-
Net derivative amounts			$ 2,088		$ 158			$ 2,691		$ 931

(1) Cash 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. Cash collateral 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 collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

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

The following table presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income as of December 31, 2023 and 2022. Amounts disclosed are gross and not net of taxes:

	Year Ended December 31, 2023						
(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	$ (1,513)	$ (1,513)	$ -	Interest expense	$ 302	$ 302	$ -
Total	$ (1,513)	$ (1,513)	$ -		$ 302	$ 302	$ -

	Year Ended December 31, 2022						
(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	$ 46	$ 46	$ -	Interest expense	$ 176	$ 176	$ -
Total	$ 46	$ 46	$ -		$ 176	$ 176	$ -

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

The following table presents the effect of the FNCB's derivative financial instruments on the consolidated statements of income for the years ended December 31, 2023 and 2022:

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships Year Ended December 31,	
	2023	**2022**
(in thousands)	**Interest Expense**	**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	$ 302	$ 176
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	302	176
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	302	176
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 years ended December 31, 2023 and 2022.

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.

FNCB has minimum collateral posting thresholds with certain of its derivative counterparties for derivatives in a net liability position. As of December 31, 2023, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustments for nonperformance risk, related to these agreements was $259 thousand, FNCB has minimum collateral posting thresholds with certain of its derivative counterparties and has posted cash collateral of $400 thousand against its obligations under these agreements at December 31, 2023. As of December 31, 2022, FNCB had no derivatives in a net liability position and accordingly was not required to post any collateral with its counterparts.

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 2023 and 2022. Discretionary matching contributions under the 401(k) feature of the Profit Sharing Plan totaled $580 thousand in 2023 and $481 thousand in 2022.

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 to $1.1 million and $1.3 million at December 31, 2023 and December 31, 2022, respectively.

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 $181 thousand in 2023 and $370 thousand in 2022. The total liability associated with the SERP was $1.9 million at December 31, 2023 and $1.5 million at December 31, 2022.

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, 2023 and 2022:

	For the Year Ended December 31,	
(in thousands)	**2023**	**2022**
Current tax provision		
Federal	$ 2,785	$ 4,569
State	101	77
Total current tax provision	2,886	4,646
Deferred tax expense (benefit)		
Federal	23	(502)
State	(152)	-
Total deferred tax benefit	(129)	(502)
Total tax expense	$ 2,757	$ 4,144

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, 2023 and December 31, 2022:

	For the Year Ended December 31,			
	2023		2022	
(dollars in thousands)	Amount	%	Amount	%
Provision at statutory tax rates	$ 3,305	21.00%	$ 5,164	21.00%
Add (deduct):				
Tax effects of tax free interest income	(819)	(5.20)%	(874)	(3.55)%
Non-deductible interest expense	408	2.59%	85	0.35%
Bank-owned life insurance	(158)	(1.00)%	(206)	(0.84)%
Other items, net	21	0.13%	(25)	(0.11)%
Income tax provision	$ 2,757	17.52%	$ 4,144	16.85%

The following table summarizes the components of net deferred tax assets at December 31, 2023 and 2022:

	December 31,	
(in thousands)	2023	2022
Allowance for credit losses	$ 2,814	$ 3,180
Deferred compensation	756	650
Lease liability	672	736
Other real estate owned valuation	72	72
Employee benefits	22	352
Accrued interest	7	7
Deferred income	5	29
Derivative liabilities	54	-
Unrealized holding losses on securities available-for-sale	10,624	12,982
Unrealized holding losses on equity securities	278	32
Other deferred tax assets	184	-
Gross deferred tax assets	15,488	18,040
Deferred loan origination costs	(149)	(137)
Right of use asset	(616)	(677)
Derivative assets	-	(215)
Mortgage servicing rights	(37)	(53)
Depreciation	(107)	(130)
Gross deferred tax liabilities	(909)	(1,213)
Net deferred tax assets	$ 14,579	$ 16,827

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. Management performed an evaluation of FNCB's deferred tax assets at December 31, 2023 taking into consideration all available positive and negative evidence at that time. Based on this evaluation, management believes that FNCB's future taxable income will be sufficient to utilize its deferred tax assets. There was no valuation allowance for deferred tax assets at December 31, 2023 and December 31, 2022.

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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, 2023 and 2022:

(in thousands)	For the Year Ended December 31, 2023	2022
Balance January 1,	$ 79,144	$ 71,437
Additions, new loans and advances	229,481	96,978
Repayments	(229,298)	(89,271)
Balance December 31,	$ 79,327	$ 79,144

Advances and repayments on commercial lines of credit to related parties are presented gross in the above table. At December 31, 2023 and 2022 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, 2023 and 2022 amounted to $114.1 million and $133.0 million, respectively. Interest paid on the deposits amounted to $1.9 million in 2023 and $502 thousand in 2022.

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 legal services, rent, vehicle repair services and dealer reserve payments. For 2022, goods and services acquired from related parties also included fidelity bond and errors and omissions insurance. FNCB recorded payments to related parties for goods and services of $134 thousand and $526 thousand for the years ending December 31, 2023 and 2022, 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 $2.9 million and $3.2 million, respectively, at December 31, 2023 and $3.2 million and $3.5 million, respectively, at December 31, 2022.

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 is included in equipment expense in the consolidated statements of income. Total rental expense under leases amounted to $408 thousand and $391 thousand, respectively, at December 31, 2023 and 2022.

The following table summarizes the maturity of remaining operating lease liabilities as of December 31, 2023:

(in thousands)	December 31, 2023
2024	$ 417
2025	388
2026	387
2027	388
2028	370
2029 and thereafter	1,901
Total lease payments	3,851
Less: imputed interest	649
Present value of operating lease liabilities	$ 3,202

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

(dollars in thousands)	December 31, 2023	December 31, 2022
Weighted-average remaining lease term (in years)	10.7	9.9
Weighted-average discount rate	3.26%	3.33%
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 423	$ 402

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Commitments

On October 1, 2022, FNCB issued a signed letter of intent to make an equity investment of approximately $11.0 million in a limited partnership interest, to build and operate a senior low-income housing development located in Scranton, Lackawanna County, Pennsylvania. One hundred percent (100.0%) of the rental units will qualify for Federal Low-Income Housing Tax Credits as provided for in Section 42 of the Internal Revenue Code of 1986, as amended. FNCB made an initial contribution of $2.2 million in the fourth quarter of 2022, upon closing the partnership agreement. In 2023, contributions totaled $6.6 million, in accordance with the construction schedule. The remaining obligation of $2.2 million, which is included in other liabilities in the consolidated statements of financial condition at December 31, 2023, will be contributed over a series of draws over the remaining 6-month period according to the construction schedule.

Financial Instruments with unfunded commitments

FNCB is a party to financial instruments with unfunded commitments 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 consolidated statements of financial condition. 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.

The following table summarizes financial instruments whose contract amounts represent credit risk at December 31, 2023 and 2022:

	December 31,	
(in thousands)	**2023**	**2022**
Commitments to extend credit	$ 335,032	$ 301,300
Standby letters of credit	16,908	17,923

In order to provide for probable losses inherent in these instruments, FNCB established reserves for unfunded commitments of $1.4 million and $949 thousand at December 31, 2023 and 2022, respectively, which were included in other liabilities on the consolidated statements of financial condition. FNCB recorded a credit for unfunded commitments of $803 thousand in 2023 and a provision for unfunded commitments of $366 thousand in 2022.

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, 2023, FNCB serviced payments on $11.7 million of first lien residential loan principal under these terms for the FHLB. At December 31, 2023, the maximum credit enhancement obligation for such guarantees by FNCB would be approximately $655 thousand if total foreclosure losses on the entire pool of loans exceed the FLA of approximately $70 thousand. There was no reserve established for this guarantee at December 31, 2023 and 2022.

Concentrations of Credit Risk

Cash Concentrations: The Bank maintains cash balances at several correspondent banks. FNCB engages in a primary correspondent banking relationship with PNC Bank. At December 31, 2023 and 2022, FNCB had balances with PNC Bank of $1.4 million and $1.7 million, respectively. There were no other due from bank accounts in excess of the $250 thousand limit covered by the Federal Deposit Insurance Corporation ("FDIC") at December 31, 2023 and 2022.

Loan and Lease Concentrations: FNCB attempts to limit its exposure to concentrations of credit risk by diversifying its loan and lease portfolios and closely monitoring any concentrations of credit risk. The commercial real estate and construction, land acquisition and development portfolios comprised $468.0 million, or 38.4% of total outstanding loans and leases at December 31, 2023 and $443.5 million, or 39.5% of outstanding loans and leases, at December 31, 2022. 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 collateral outside its primary market area of $188.0 million, or 15.4%, of total outstanding loans and leases at December 31, 2023 and $123.4 million, or 11.0% of outstanding loans and leases at December 31, 2022.
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, 2023 and 2022:

	December 31, 2023		December 31, 2022	
(in thousands)	**Amount**	**% of Gross Loans**	**Amount**	**% of Gross Loans**
General freight trucking	$ 48,477	3.97%	$ 25,052	2.23%
Retail space/shopping centers	58,517	4.80%	54,461	4.85%
1-4 family residential investment properties	119,393	9.78%	113,746	10.13%

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 had a Long-Term Incentive Compensation Plan ("LTIP") for directors, executive officers and key employees that authorized 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 units, performance units and performance shares. During the years ended December 31, 2023 and 2022, the Board of Directors granted 140,445 and 71,860 shares of restricted stock, respectively, under the LTIP. Upon adoption of the Equity Plan (as defined below), FNCB will make no further awards under the LTIP. For the years ended December 31, 2023 and 2022, stock-based compensation expense, which is included in salaries and benefits expense in the consolidated statements of income, totaled $583 thousand and $448 thousand, respectively. Total unrecognized compensation expense related to unvested restricted stock awards was $1.6 million and $1.2 million at December 31, 2023 and 2022, respectively. Unrecognized compensation expense related to unvested shares of restricted stock is expected to be recognized over a weighted-average period of 3.6 years.

On March 22, 2023, the Board of Directors formally approved and adopted the EIP, which replaced the LTIP. The EIP authorizes 2,000,000 shares of FNCB's common stock plus 455,584 shares of FNCB's common shares that were remaining reserved but unissued under the LTIP. The EIP provides the Compensation Committee or the Board of Directors with the authority to offer several types of awards including stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The EIP was approved by a majority vote by FNCB shareholders at the Annual Meeting of Shareholders on May 17, 2023.

On July 3, 2023, 2,454 shares of FNCB's common stock were granted under the EIP to each of the Bank's ten non-employee directors or 24,540 shares in aggregate. The shares vested immediately to each director upon grant, and the fair value per share on the grant date was $6.11. Directors' fees totaling $150 thousand associated with this grant were recognized on July 3, 2023.

In addition, on July 3, 2023, 100 shares of FNCB's common stock were granted under the EIP to each of the Bank's twenty-two advisory board members or 2,200 shares in aggregate. The shares vested immediately to each director upon grant, and the fair value per share on the grant date was $6.11. FNCB recognized advisory board fees of $13 thousand associated with this grant on July 3, 2023.

At December 31, 2023, there were 2,435,076 shares of FNCB common stock available for award under the EIP.

The following table summarizes the activity related to FNCB 's unvested restricted stock awards during the years ended December 31, 2023 and 2022:

	For the Years Ended December 31,			
	2023		2022	
(dollars in thousands)	**Restricted Shares**	**Weighted-Average Grant Date Fair Value**	**Restricted Shares**	**Weighted-Average Grant Date Fair Value**
Unvested restricted stock awards:				
Total outstanding, beginning of period	185,965	$ 8.22	174,297	$ 7.37
Awards granted	140,445	7.51	71,860	9.64
Forfeitures	(6,232)	7.87	(5,503)	8.17
Shares vested	(58,425)	8.01	(54,689)	7.38
Total outstanding, end of period	261,753	$ 7.89	185,965	$ 8.22

Note 15. REGULATORY MATTERS

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 principal regulatory agency. Cash dividends declared and paid by FNCB during 2023 and 2022 were $0.36 per share and $0.33 per share, respectively. FNCB offers a Dividend Reinvestment and Stock Purchase plan ("DRP") to its shareholders. For the years ended December 31, 2023 and 2022, 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 13,348 and 5,089 for the years ended December 31, 2023 and 2022, respectively. Subsequent to December 31, 2023, on January 24, 2024, FNCB declared a $0.090 per share dividend payable on March 15, 2024 to shareholders of record as of March 1, 2024.

The holding 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 that as of December 31, 2023, 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, 2023 and 2022:

	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, 2023					
Total capital (to risk-weighted assets)	$ 175,296	12.66%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	161,896	11.69%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	161,896	11.69%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	161,896	8.76%	4.00%	4.00%	5.00%
Total risk-weighted assets	1,384,710				
Total average assets	1,848,752				

	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, 2022					
Total capital (to risk-weighted assets)	$ 169,984	13.11%	8.00%	10.50%	10.00%
Tier I capital (to risk-weighted assets)	154,842	11.94%	6.00%	8.50%	8.00%
Tier I common equity (to risk-weighted assets)	154,842	11.94%	4.50%	7.00%	6.50%
Tier I capital (to average assets)	154,842	8.77%	4.00%	4.00%	5.00%
Total risk-weighted assets	1,296,618				
Total average assets	1,765,251				

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 the U.S. government, obligations of state and political subdivisions, government-sponsored agency CMOs and mortgage-backed securities, private collateralized mortgage obligations, asset-backed securities, negotiable certificates of deposit and certain corporate debt securities 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, 2023, FNCB owned 30 corporate debt securities with an aggregate amortized cost and fair value of $35.1 million and $31.3 million, respectively. The market for four of these securities at December 31, 2023 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 market approach that incorporates identifying a population of transactions for similar instruments and an evaluation to capture credit risk associated with these bonds. Management takes measures to validate the service provider's analysis and is actively involved in the valuation process, including reviewing and verifying the population and evaluation of credit risk. Management believes this approach to be a conservative approach as it takes into consideration securities that have longer maturities or longer call dates, issuers with smaller asset sizes, and securities with smaller issue amounts. These factors are typically considered to be factors that would add credit spread to a bond, thus resulting in a higher yield. Management believes the valuation results from this market approach to be consistent with pricing and data for similar deals at December 31, 2023. FNCB considers the inputs used in the market approach to be observable Level 3 inputs because, while inputs are based on actual transactions, the relative number of transactions in the population is small and subjective assumptions are used in considering factors considered to incorporate credit spreads into price determination. 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 FNCB's third-party service provider.

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, interest rates, forward rates and rate volatility. Derivative contracts create exposure to interest rate movements as well 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, 2023 and 2022, and the fair value hierarchy of the respective valuation techniques utilized to determine the fair value:

	Fair Value Measurements at December 31, 2023			
(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:				
U.S. Treasury securities	$ 33,177	$ -	$ 33,177	$ -
Obligations of state and political subdivisions	199,796	-	199,796	-
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	74,207	-	74,207	-
Collateralized mortgage obligations - commercial	3,386	-	3,386	-
Mortgage-backed securities	16,446	-	16,446	-
Private collateralized mortgage obligations	70,151	-	70,151	-
Corporate debt securities	31,286	-	24,312	6,974
Asset-backed securities	21,690	-	21,690	-
Negotiable certificates of deposit	674	-	674	-
Total available-for-sale debt securities	450,814	-	443,840	6,974
Equity securities, at fair value	4,786	4,786	-	-
Derivative assets	2,088	-	2,088	-
Total financial assets	$ 457,688	$ 4,786	$ 445,928	$ 6,974
Financial liabilities:				
Derivative liabilities	$ 2,691	$ -	$ 2,691	$ -
Total financial liabilities	$ 2,691	$ -	$ 2,691	$ -

	Fair Value Measurements at December 31, 2022			
(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:				
U.S. Treasury securities	$ 32,134	$ -	$ 32,134	$ -
Obligations of state and political subdivisions	220,782	-	220,782	-
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	80,407	-	80,407	-
Collateralized mortgage obligations - commercial	3,329	-	3,329	-
Mortgage-backed securities	20,663	-	20,663	-
Private collateralized mortgage obligations	72,507	-	72,507	-
Corporate debt securities	30,672	-	22,736	7,936
Asset-backed securities	14,941	-	14,941	-
Negotiable certificates of deposit	656	-	656	-
Total available-for-sale debt securities	476,091	-	468,155	7,936
Equity Securities, at fair value	7,717	7,717	-	-
Derivative assets	2,104	-	2,104	-
Total financial assets	$ 485,912	$ 7,717	$ 470,259	$ 7,936
Financial liabilities:				
Derivative liabilities	$ 931	$ -	$ 931	$ -
Total financial liabilities	$ 931	$ -	$ 931	$ -

There were two corporate debt security transferred from Level 3 hierarchy to Level 2 during the year ended, December 31, 2023 and there was one corporate debt security transferred from Level 3 hierarchy to Level 2 during the year ended December 31, 2022. Prior to the transfer from Level 3 to Level 2, the market for the transferred securities was not active and management obtained fair values of the securities from an independent third party. The valuation method employed utilized significant other unobservable inputs in determining fair values. Subsequently, in the period of transfer, management was able to obtain fair values for these securities from the independent pricing service used to price the remainder of the portfolio using significant other observable inputs.

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, 2023 and 2022:

Fair Value Measurements
Using Significant Unobservable Inputs (Level 3)

(in thousands)	Corporate Debt Securities For the Year Ended December 31, 2023	2022
Balance at January 1,	$ 7,936	$ 12,345
Additions	-	-
Redemptions	-	(2,066)
Transfer to Level 2	(853)	(756)
Total gains or losses (realized/unrealized):		
Included in earnings	-	-
Included in other comprehensive income	(109)	(1,587)
Balance at December 31,	$ 6,974	$ 7,936

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, 2023 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, 2023					
	Fair Value Measurement			Quantitative Information		
(in thousands)	Recorded Investment	Valuation Allowance	Fair Value	Valuation Technique	Unobservable Inputs	Value/ Range
Individually evaluated loans - collateral dependent	$ 3,801	$ 121	$ 3,680	Appraisal of collateral	Selling costs	10.0%
Individually evaluated loans - other	441	-	441	Discounted cash flows	Discount rate	0.00% - 16.06%
Repossessed assets	420	-	420	Discounted cash flows	Discount rate	10.0%

The following table presents assets and liabilities measured at fair value on a non-recurring basis at December 31, 2022, prior to the adoption of ASU 2016-3, and additional quantitative information about the valuation techniques and inputs utilized by FNCB to determine fair value. ALL assets were measured using Level 3 inputs.

	December 31, 2022					
	Fair Value Measurement			Quantitative Information		
(in thousands)	Recorded Investment	Valuation Allowance	Fair Value	Valuation Technique	Unobservable Inputs	Value/ Range
Impaired loans - collateral dependent	$ 1,902	$ 8	$ 1,894	Appraisal of collateral	Selling costs	10.0%
Impaired loans - other	5,698	26	5,672	Discounted cash flows	Discount rate	3.00% - 10.25%

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.

Repossessed assets include business assets and equipment and are recorded at the liquidation value, less estimated cost to sell, obtained from an independent third party. Liquidation values are obtained from independent third party when FNCB takes possession of, or receives title to, the asset. Subsequent to acquisition of the assets, the balance may be written down further.

The following table summarizes the estimated fair values of FNCB's financial instruments at December 31, 2023 and 2022. 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.

	Fair Value	December 31, 2023		December 31, 2022	
(in thousands)	Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Cash and short term investments	Level 1	$ 107,868	$ 107,868	$ 41,916	$ 41,916
Available-for-sale debt securities	See previous table	450,814	450,814	476,091	476,091
Equity securities	Level 1	4,786	4,786	7,717	7,717
Restricted stock	Level 2	8,814	8,814	8,545	8,545
Loans held for sale	Level 2	-	-	60	60
Loans, net	Level 3	1,208,279	1,152,257	1,110,124	1,079,266
Accrued interest receivable	Level 2	7,085	7,085	5,957	5,957
Servicing rights	Level 3	175	570	254	621
Derivative assets	Level 2	1,919	2,088	1,946	2,104
Financial liabilities:					
Deposits	Level 2	1,528,982	1,526,672	1,420,647	1,416,272
Borrowed funds	Level 2	200,272	200,724	182,360	182,108
Accrued interest payable	Level 2	1,355	1,355	171	171
Derivative liabilities	Level 2	2,726	2,691	921	931

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, 2023 and 2022 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, 2023 and 2022:

	For the Year Ended December 31,	
(in thousands, except share data)	2023	2022
Net income	$ 12,983	$ 20,445
Basic weighted-average number of common stock outstanding	19,740,493	19,744,477
Plus: common share equivalents	2,125	18,089
Diluted weighted-average number of common stock outstanding	19,742,618	19,762,566
Income per share of common stock:		
Basic	$ 0.66	$ 1.04
Diluted	$ 0.66	$ 1.03

Note 18. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022:

	For the year Ended December 31, 2023	
(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	$ (252)	Net gain (loss) on the sale of available-for-sale securities
Taxes	53	Income taxes
Net of tax amount	$ (199)	

	For the year Ended December 31, 2022	
(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 losses reclassified into net income	$ 223	Net gain (loss) on the sale of available-for-sale securities
Taxes	(47)	Income taxes
Net of tax amount	$ 176	

The following table summarizes the changes in accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2023 and 2022:

	For the Year Ended December 31,	
(in thousands)	**2023**	**2022**
Balance, January 1,	$ (48,028)	$ 6,352
Other comprehensive income (loss) before reclassifications	8,058	(54,556)
Amounts reclassified from accumulated other comprehensive income (loss)	(199)	176
Net other comprehensive income (loss) during the period	7,859	(54,380)
Balance, December 31,	$ (40,169)	$ (48,028)

Note 19. CONDENSED FINANCIAL INFORMATION — PARENT COMPANY ONLY

The following tables present condensed parent company only financial information:

Condensed Statements of Financial Condition

	December 31,	
(in thousands)	**2023**	**2022**
Assets:		
Cash	$ 15,515	$ 12,779
Investment in statutory trust	464	442
Investment in subsidiary (equity method)	121,742	106,837
Equity securities, at fair value	3,996	6,937
Other assets	3,850	2,409
Total assets	$ 145,567	$ 129,404
Liabilities and Shareholders' Equity:		
Junior subordinated debentures	$ 10,310	$ 10,310
Accrued interest payable	36	31
Other liabilities	622	114
Total liabilities	10,968	10,455
Shareholders' equity	134,599	118,949
Total liabilities and shareholders' equity	$ 145,567	$ 129,404

Condensed Statements of Income

(in thousands)	For the Year Ended December 31, 2023	2022
Income:		
Dividends from subsidiaries	$ 10,000	$ 15,000
Interest and dividend income	680	204
(Losses) gains on equity securities	(1,611)	92
Trust income	22	11
Other income	49	-
Total income	9,140	15,307
Expense:		
Interest on junior subordinated debt	724	358
Merger and acquisition expenses	1,480	-
Other operating expenses	536	513
Total expenses	2,740	871
Income before income tax benefit	6,400	14,436
Income tax benefit	(616)	(133)
Income before equity in undistributed net income of subsidiary	7,016	14,569
Equity in undistributed net income of subsidiary	5,967	5,876
Net income	$ 12,983	$ 20,445

Condensed Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 12,983	$ 20,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(5,967)	(5,876)
Equity in trust	(22)	(11)
Loss (gain) on equity securities	1,611	(92)
Increase in other assets	(694)	(25)
Increase in accrued interest payable	5	22
Increase (decrease) in other liabilities	562	(122)
Net cash provided by operating activities	8,478	14,341
Cash flows from investing activities:		
Sale of equity securities	1,490	359
Purchases of equity securities	(160)	(3,188)
Net cash provided by (used in) investing activities	1,330	(2,829)
Cash flows from financing activities:		
Proceeds from issuance of common shares	38	-
Repurchase of common shares	-	(3,636)
Cash dividends paid	(7,110)	(6,520)
Net cash used in financing activities	(7,072)	(10,156)
Net increase in cash	2,736	1,356
Cash at beginning of year	12,779	11,423
Cash at end of year	$ 15,515	$ 12,779

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, 2023.

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, 2023.

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, 2023, 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, 2023.

/s/ Gerard A. Champi	/s/ James M. Bone, Jr., CPA
Gerard A. Champi	James M. Bone, Jr., CPA
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

Item 9B. Other Information

(a) None

(b) None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

In accordance with Section 2.02 of FNCB's bylaws, FNCB has a classified Board of Directors with staggered three-year terms of office. The Board is divided into three classes, with each class to be as nearly equal in number as possible. The terms of the separate classes expire in successive years. Thus, at each annual meeting of shareholders, successors to the class of directors whose term then expires are elected to hold office for a term of three years. Therefore, the term of office of one class of directors expires in each year. The Board of Directors is authorized to change the number of directors that constitutes the whole Board of Directors provided that the total number of directors in each class remains relatively proportionate to the others. The Board of Directors currently consists of eleven (11) members and is divided into three classes, with one class of directors elected each year.

The table below sets forth certain information regarding members of our Board of Directors and executive officers who are not directors, including the terms of office of board members.

Name	Position(s) Held with FNCB Bancorp, Inc.	Age (1)	Director Since	Class	Current Term Expires
BOARD MEMBERS					
William G. Bracey	Director	69	2014	B	2024
Gerard A. Champi	President and Chief Executive Officer	63	2016	A	2026
Joseph Coccia	Secretary	69	1998	C	2025
William P. Conaboy, Esquire	Director	65	2022	C	2025
Dominick L. DeNaples	Director	86	2023	B	2024
Joseph L. DeNaples, Esquire	Director	45	2017	C	2025
Louis A. DeNaples	Chairman of the Board	83	2013	A	2026
Louis A. DeNaples, Jr., M.D.	Vice Chairman of the Board	56	2008	B	2024
Keith W. Eckel	Director	77	2014	A	2026
Kathleen McCarthy Lambert, CPA	Director	62	2017	A	2026
Thomas J. Melone, CPA	Director	65	2011	B	2024
EXECUTIVE OFFICERS WHO ARE NOT BOARD MEMBERS					
James M. Bone, Jr., CPA	Executive Vice President and Chief Financial Officer/Treasurer and PFO	62	N/A	N/A	N/A
James F. Burke	Executive Vice President and Chief Banking Officer	55	N/A	N/A	N/A
James P. Chiaro, CMFC	Executive Vice President and Chief Investment Services Officer	48	N/A	N/A	N/A
Mary Griffin Cummings, Esquire	Executive Vice President and General Counsel	61	N/A	N/A	N/A
Aaron J. Cunningham	Executive Vice President and Chief Credit Officer	47	N/A	N/A	N/A
Richard D. Drust	Senior Vice President and Retail Banking Officer	63	N/A	N/A	N/A
Mary Ann Gardner, CRCM	Senior Vice President and Compliance Officer	66	N/A	N/A	N/A
Dawn D. Gronski	Senior Vice President and Human Resources Officer	53	N/A	N/A	N/A
Lisa L. Kinney	Senior Vice President and Retail Lending Officer	54	N/A	N/A	N/A
Cathy Loomis	Senior Vice President and Credit Administration Officer	50	N/A	N/A	N/A
Brian C. Mahlstedt	Executive Vice President and Chief Lending Officer	64	N/A	N/A	N/A
William A. McGuigan, CPA	Senior Vice President and Audit Officer	74	N/A	N/A	N/A
Stephanie A. Westington, CPA	Senior Vice President and Chief Accounting Officer	58	N/A	N/A	N/A
Donna Yanuzzi	Executive Vice President and Equipment Finance Officer	63	N/A	N/A	N/A

The biographies of each of the board members and executive officers are set forth below. With respect to directors, the biographies also contain information regarding the person's business experience and the experiences, qualifications, attributes or skills that caused the Nominating Committee to determine that the person should serve as a director. Each director of FNCB Bancorp, Inc. is also a director of FNCB Bank.

Directors

Mr. William G. Bracey has served on the Board of Directors since 2014. Mr. Bracey owns and operates three ShopRite Supermarkets, one in Daleville, Pennsylvania, one in Moosic, Pennsylvania and one in Mount Pocono, Pennsylvania, as well as several retail businesses including two Ace Hardware Stores, one in Daleville, Pennsylvania and one in Moosic, Pennsylvania, one Hallmark Gold Crown Store, and Plociniak Fuel Services. Mr. Bracey is an active member of several business and community organizations, including a current board member and past Chairman of the Pennsylvania Food Merchants, current board member of Johnson College, past board member and Chairman of Affiliated Foods, past board member and Co-Chairman of Associated Wholesale and past board member of Scranton Preparatory School. Mr. Bracey's over 40 years of entrepreneurial and corporate management experience, strong network of community relationships and partnerships, and significant knowledge of the retail business climate in the region qualifies him to serve as director of FNCB.

Mr. Gerard A. Champi has been President and Chief Executive Officer and a member of the Board of Directors of FNCB and the Bank since July 1, 2016. Prior to holding this position, Mr. Champi was Chief Operating Officer of the Bank from March 2011 to June 2016. Mr. Champi also served as Interim President and Chief Executive Officer of FNCB and the Bank and as a director of the Bank from March 2010 until February 2011. Mr. Champi has been with the Bank since 1991 and has served in various leadership roles in the Retail, Commercial Sales and Executive Divisions. He currently serves as a Board member of Leadership Northeast, the Lackawanna Blind Association, the Pennsylvania Bankers Association, and as an Advisory Board member of Penn State Worthington Scranton, a campus of the Pennsylvania State University. He also serves on the Wilkes-Barre Law & Library Association's Executive Committee's Lay Advisory Committee and is a lifetime member of Pennsylvania State University Alumni Association. Mr. Champi has been appointed as President of Lackawanna Industrial Fund Enterprises (LIFE) and serves on the Board of Directors of the Greater Scranton Chamber of Commerce and the Executive Committee of the Chamber. Jerry is also past President of the Boards of Directors of the Northeastern Pennsylvania Council Boy Scouts of America, the Greater Pittston Chamber of Commerce, and the Luzerne County Community College Foundation. Mr. Champi's extensive knowledge of FNCB and the Bank, his time as President and Chief Executive Officer and other various leadership positions with the Bank and extensive community and charitable involvement qualify him to serve as a director of FNCB.

Mr. Joseph Coccia has served on the Board of Directors since 1998. Mr. Coccia is President of Coccia Ford, Inc. (doing business as Coccia Ford Lincoln), a car dealership in Wilkes-Barre, Pennsylvania. Mr. Coccia is a member of the Board of Directors of AllOne Charities and NEPA Highmark's Advisory Board. Mr. Coccia also served on the Lincoln Mercury Dealer Association Board. Mr. Coccia's strong business background and knowledge of owning and operating a large local business, his broad community involvement, and his service as a director of FNCB and Bank since 1998 qualify him to serve as a director of FNCB.

Attorney William P. Conaboy, Esquire has served on the Board of Directors since October 2022. Attorney Conaboy currently serves as President and Chief Executive Officer of Allied Services Integrated Health System and has served in this role since 2009. Prior to serving as President and Chief Executive Officer of Allied Services Integrated Health System between 1992 and 2008 he served in various capacities including Senior Vice President and General Counsel, Chief Corporate Compliance Officer and Chief Operations Officer. Attorney Conaboy serves as a member of the Board of Directors for Pennsylvania Rehabilitation and Community Providers Association and a member of the Board of Directors of The Scranton Area Foundation. He serves as Chairman of the Board at Northeast Regional Cancer Institution. Attorney Conaboy's strong business leadership background and extensive community and charitable involvement qualify him to serve as a director of FNCB.

Mr. Dominick L. DeNaples previously served as the Chairman of the Board of Directors of FNCB and Bank from May 2010 until May 2019. Mr. DeNaples was appointed and served as Director Emeritus from May 2019 until February 2023, when he was reappointed as a director. Mr. DeNaples also served as Vice Chairman of the Boards of Directors of FNCB and Bank from December 2009 until he was elected Chairman in May 2010. Mr. DeNaples is President of Rail Realty Corporation, Vice President of DeNaples Auto Parts Inc., and Vice President of Keystone Landfill, Inc., each of which he is also co-owner with his brother Louis A. DeNaples. Mr. DeNaples currently serves on the Board and Finance Committee of St. Joseph's Center and St. Joseph's Foundation. He also serves on the Board of Geisinger Health Services, Hospice of the Sacred Heart and on the Advisory Board of Penn State University – Worthington campus. He formerly served as Chairman of the Board and Chairman of the Finance Committee of Lackawanna College, President of the Council and Chairman of Finance of the Northeastern Pennsylvania Council of Boy Scouts of America, and currently serves as a Board member. He also served as former Vice Chairman of the Board and Finance Committee of Scranton Preparatory School. Mr. DeNaples' extensive business background, years of community and charitable involvement and service as a Director of FNCB and the Bank for many years qualify him to serve as Director of FNCB. Mr. DeNaples is the father of director, Joseph L. DeNaples, Esq., brother of director, Louis A. DeNaples, and the uncle of director, Louis A. DeNaples, Jr. M.D.

Attorney Joseph L. DeNaples, Esquire has served on the Board of Directors since 2017. Attorney DeNaples is a partner at the law firm of Cipriani & Werner, PC and is Director of Risk Management for Mount Airy Resort and Casino. He focuses his law practice in banking, commercial, real estate, gaming, corporate, secured transactions and bankruptcy law. Attorney DeNaples also serves as Solicitor for both the Lackawanna County Sheriff's Office and the County of Lackawanna Transit System Authority. Attorney DeNaples is a member of the Lackawanna County Bar Association and is admitted to practice in Pennsylvania as well as the United States District Court for the Middle District of Pennsylvania and the United States Bankruptcy Court for the Middle District of Pennsylvania. Attorney DeNaples serves on the Boards of Northeastern Pennsylvania Council Boy Scouts of America and the Saint Francis of Assisi Kitchen. Attorney DeNaples received his Juris Doctorate degree from the Villanova University School of Law. Attorney DeNaples extensive business and legal background, and community and charitable involvement qualify him to serve as a director of FNCB. Attorney DeNaples is the son of director, Dominick L. DeNaples, the nephew of director and Chairman of the Board of Directors, Louis A. DeNaples and cousin of director and Vice Chairman of the Board of Directors, Louis A. DeNaples, Jr., M.D.

Mr. Louis A. DeNaples has been a director of the Bank since 1972 and served as Chairman of the Board of Directors of FNCB from 1998 until he took a leave of absence from involvement with FNCB and the Bank in February 2008. In 2013, Mr. DeNaples returned from a leave of absence and rejoined the Bank's Board on December 23, 2013. He was re-elected to FNCB's Board of Directors on May 21, 2014 and was appointed Chairman of the Boards of FNCB and the Bank on May 15, 2019. Mr. DeNaples is President of DeNaples Auto Parts, Inc., President of Keystone Landfill Inc. and Vice President of Rail Realty, Inc., each of which he co-owns with his brother, Dominick L. DeNaples. Mr. DeNaples serves on the boards of AllOne Foundation, AllOne Charities, AllOne Health Resources and Allied Services Foundation. Mr. DeNaples also serves as Chairman of the Community Advisory Board for Geisinger Commonwealth School of Medicine, a member of NEPA Highmark's Advisory Board and was past Chairman of the University of Scranton Board of Trustees. Mr. DeNaples' extensive business knowledge, community and charitable involvement, and association with the Bank for many years qualify him to serve as a director of FNCB. Mr. DeNaples is the brother of director, Dominick L. DeNaples, the father of director and Vice Chairman of the Board of Directors, Louis A. DeNaples, Jr., M.D. and uncle of director, Joseph L. DeNaples, Esquire.

Dr. Louis A. DeNaples, Jr., M.D. has served on the Board of Directors since 2008. Dr. DeNaples is a board-certified emergency physician and practices emergency medicine at Geisinger-Community Medical Center Emergency Department in Scranton, Pennsylvania. Dr. DeNaples serves as board member of the Goodwill Industries of Northeastern Pennsylvania and the Scranton Preparatory School. Dr. DeNaples also serves as a Board Member on the Council of The Pennsylvania Society and is a volunteer staff member at the Geisinger Commonwealth School of Medicine. Dr. DeNaples' understanding of the medical industry, and considerable community and charitable involvement qualifies him to serve as director of FNCB. Dr. DeNaples is the son of director and Chairman of the Board of Directors, Louis A. DeNaples, the nephew of director, Dominick L. DeNaples and cousin of director, Joseph L. DeNaples, Esquire.

Mr. Keith W. Eckel is the sole owner and Chief Executive Officer of Fred W. Eckel and Sons and President of Eckel Farms, Inc. Mr. Eckel serves as an Emeritus Trustee of The Pennsylvania State University and serves a chair of Trustees of Countryside Community Church. Mr. Eckel formerly served as Board member and Chairman of Nationwide Mutual Insurance Company, a Fortune 100 insurance provider, and Allied Group, Inc., a subsidiary of Nationwide Mutual Insurance Company. Mr. Eckel also previously served as Board Member of International Food and Agricultural Development, an organization that advises the United States Agency for International Development on agricultural priorities and issues, former President of the Pennsylvania Farm Bureau, and Board Member and Chairman of Gartmore Global Asset Management Trust. Mr. Eckel's strong business background, extensive knowledge in the insurance industry and agribusiness, and community and charitable involvement qualify him to serve as a director of FNCB.

Mrs. Kathleen McCarthy Lambert, CPA has served on the Board of Directors since 2017. Mrs. Lambert is an owner of McCarthy Tire Service Company and Subsidiaries where she serves as Chief Financial Officer and Corporate Secretary. She also serves as Chairperson of the Board for Wilkes-Barre General Hospital, Vice Chairperson of the Board of King's College, and Board Member of the Beatrice Eck Foundation. Mrs. Lambert is a member of the Executive Committee and past Chairman of the Board of Northeast Sight Services and past Board Member of the Greater Wilkes-Barre Chamber of Business and Industry and the Scranton Diocesan Financial Council. Mrs. Lambert is also actively involved in fundraising activities for numerous non-profit organizations, including the United Way, American Heart Association, St. Vincent DePaul Soup Kitchen, King's College, the Catholic Youth Center, Holy Redeemer High School, John Heinz Rehab, Big Brothers/Big Sisters and Volunteers in Medicine. Mrs. Lambert, a licensed Certified Public Accountant and a graduate of King's College, is a past recipient of the Athena Award and Top 25 Businesswomen in Northeastern Pennsylvania Award. Mrs. Lambert's extensive business background and community and charitable involvement qualify her to serve as a director of FNCB.

Mr. Thomas J. Melone, CPA has served on the Board of Directors since 2011. Mr. Melone is a Partner with the Albert B. Melone Company Certified Public Accountants, a leading provider of accounting, tax and consulting services throughout the Northeastern Pennsylvania region. Mr. Melone, who has been with this firm since 1981, leads the firm's Tax Preparation and Advisory Services line as well as its Small Business Advisory and Consulting Services line. Additionally, he has extensive experience in the financial management of public-school districts operating in the Commonwealth of Pennsylvania. Mr. Melone is also an owner of Pro-Data Processing, Inc. Mr. Melone is an active member of several professional, business and community organizations including the American Institute of Certified Public Accountants, Pennsylvania Institute of Certified Public Accountants and the Allied Services Board, an integrated health system, specifically serving as Chairman of the Allied Institute of Rehabilitation Medicine and the John Heinz Institute of Rehabilitation Medicine, and as Vice Chairman of the Allied Services Foundation. Mr. Melone's community involvement, extensive business and accounting experience and service as a director of FNCB and the Bank qualify him to serve as a director of FNCB.

Executive Officers Who Are Not Directors

Mr. James M. Bone, Jr., CPA is Executive Vice President and Chief Financial Officer/Treasurer of FNCB and the Bank, a position he has held since September 2012. Mr. Bone has been with the Bank since 1986 and has served in various leadership roles in Finance, Retail and Commercial Sales, Compliance, Operations and Technology and Internal Audit. Mr. Bone is a licensed Certified Public Accountant and is an active member of several professional, business and community organizations including the American Institute of Certified Public Accountants and Pennsylvania Institute of Certified Public Accountants. Mr. Bone is a former member of the Issuer Advisory Council of the OTCQX and a former member of the Advisory Board for the Federal Home Loan Bank of Pittsburgh. Mr. Bone is also active in the community with King's College and currently serves as Vice President of Finance and Board Member of the Northeastern Pennsylvania Council Boy Scouts of America.

Mr. James F. Burke is Executive Vice President and Chief Banking Officer, a position he has held since February 2021. Mr. Burke has more than 29 years of managerial and sales experience in banking. Prior to joining the Bank, he was the Executive Vice President, Chief Lending Officer at Wayne Bank from October 2013 to February 2021 where he was responsible for the overall sales, service, and operations of the Commercial Banking Division in Pennsylvania and New York. Mr. Burke currently serves as Chairperson to Jay S. Sidhu School of Business and Leadership Advisory Board at Wilkes University.

Mr. James P. Chiaro, CMFC is Executive Vice President and Chief Investment Officer, a position he has held since September 2022. Mr. Chiaro has 20 years of experience in the financial services industry and prior to joining FNCB, Mr. Chiaro was the principal of Chiaro Investment Services, LLC. Mr. Chiaro holds the following professional designations and registrations (securities registrations held through LPL Financial): Series 7, General Securities Representative; Series 65, Uniform Investment Advisor Representative; Series 6, Investment Company Products/Variable Contracts Representative; Series 63, Uniform Securities Agent State Law; Pennsylvania Life Insurance License CMFC; Chartered Mutual Fund Counselor; and College for Financial Planning.

Ms. Mary Griffin Cummings, Esquire is Executive Vice President and General Counsel of the Bank, a position she has held since October 1, 2012. Prior to joining the Bank, she was Associate General Counsel, Resident Counsel and General Counsel for Wyoming Valley Health Care System, Inc. ("WVHCS"), a large health care system previously located in Wilkes-Barre, Pennsylvania, from May 2000 to May 2009. From May 2009 through October 2012, Ms. Cummings practiced law both in her own private practice and for Wyoming Valley Health and Education Foundation and WVHCS Retention Company. Ms. Cummings is a licensed attorney and admitted to practice law in the Courts of the Commonwealth of Pennsylvania and the United States District Court for the Middle District of Pennsylvania. She is a member of the Wilkes-Barre Law and Library Association and the Pennsylvania Bar Association. Ms. Cummings serves on the Board of Directors of the Pennsylvania Bankers Association Services Corporation and the Board of Governors, serving as Chairperson, of Bankers Settlement Services–Capital Region, a title agency wherein FNCB Bank has an equity interest. Ms. Cummings serves as Chair and Board member of the Catherine McAuley Center, Scranton, PA and Board Member and Chair of the Nominating and Governance Committee of the McGlynn Learning Center, Wilkes-Barre, PA. Ms. Cummings serves on the Northeastern PA Board of Directors of the American Red Cross and is a life-time member of the Pennsylvania State University Alumni Association.

Mr. Aaron J. Cunningham is Executive Vice President and Chief Credit Officer of the Bank, a position he has held since June 7, 2018. Prior to joining the Bank, he was employed by Penns Woods Bancorp, Inc., a bank holding company operating Jersey Shore State Bank and Luzerne Bank. He served as Senior Vice President and Chief Credit Officer of Penns Woods Bancorp, Inc. from November 2015 through May 2018, and Vice President/Credit Department Manager from 2010 through November 2015. In total, he has 25 years banking experience in various roles. Mr. Cunningham served in various leadership roles with Leadership Lycoming, Habitat for Humanity and Valley Prevention Services, and contributed as a business partner with Lock Haven University's Business Program.

Mr. Richard D. Drust is Senior Vice President and Retail Banking Officer of the Bank, a position he has held since February 2014. Mr. Drust has over 35 years of banking experience serving in various retail banking management positions for several different banks. Mr. Drust serves on the board of Wyoming Valley Challenger Baseball and NEPA Inclusive both serving individuals in the community with intellectual disabilities.

Ms. Mary Ann Gardner is Senior Vice President and Compliance Officer of the Bank, a position she has held since April 2013. Ms. Gardner also serves as the Bank Secrecy Act ("BSA") Officer and Community Reinvestment Act ("CRA") Officer for the Bank. Ms. Gardner is a Certified Regulatory Compliance Manager ("CRCM") and has been an employee of the Bank since 1976 with previous roles including Vice President and Compliance, BSA and CRA Officer from April 2013 to April 2014, Assistant Vice President, Compliance and CRA Officer from June 2011 to April 2013 and Assistant Vice President and Regulatory Compliance Manager from June 2010 to June 2011.

Ms. Dawn D. Gronski is Senior Vice President and Human Resources Officer, a position she has held since March 2017. Ms. Gronski has been an employee of the Bank since 1998, with her previous roles including Vice President and Compensation and Benefits Officer from April 2013 to March 2017; and Assistant Vice President and Payroll/HRIS Administrator from June 2010 to March 2013. Ms. Gronski serves as the treasurer of the Scranton Civic Ballet Company and has served as a member of its Board since 2009.

Ms. Lisa L. Kinney is Senior Vice President and Retail Lending Officer of the Bank, a position she has held since September 2008. Ms. Kinney has been an employee of the Bank since 1994, with her previous roles including Vice President and Indirect Lending Manager from January 2007 to September 2008; Vice President and Indirect Lending Officer from December 2005 to December 2006; and Assistant Cashier and Indirect Lending Officer from May 1998 to November 2005. Ms. Kinney serves as a Board Member of the Dunmore Lions Club and has served as Past-President.

Ms. Cathy J. Loomis is Senior Vice President and Credit Administration Officer of the Bank, a position she has held since September 2013. Ms. Loomis has been with the Bank since 1995. Her previous roles include Senior Vice President and Credit Administration Manager from 2010 until September 2013 and Vice President, Credit Department Manager from 2004 to 2009.

Mr. Brian C. Mahlstedt is Executive Vice President and Chief Lending Officer of the Bank, a position he has held since September 2013. Mr. Mahlstedt first joined the Bank in 1999 and served as Senior Vice President and Commercial Loan Officer until 2009. From 2011 to September 2013, when he rejoined the Bank, Mr. Mahlstedt was a Senior Vice President, Senior Commercial Loan Officer at Wayne Bank. Mr. Mahlstedt also served as Vice President, Senior Loan Officer at Pennstar Bank from 2009 to 2011.

Mr. William A. McGuigan, CPA is Senior Vice President and Audit Officer of the Bank, a position he has held since June 2016. Previously, Mr. McGuigan was Audit Manager of the Bank from March 2012 to June 2016. Prior to joining the Bank, Mr. McGuigan was a partner in a local public accounting firm serving the Banking and Small Business sectors. He also spent 10 years leading corporate audit and accounting departments. Mr. McGuigan is a licensed Certified Public Accountant.

Ms. Stephanie A. Westington, CPA is Senior Vice President and Chief Accounting Officer of the Bank, a position she has held since January 2022. Ms. Westington has been an employee of the Bank since July 2012, with her previous role as Senior Vice President and Controller until January 2022. Prior to joining the Bank, Ms. Westington was Director of Finance for Physicians Health Alliance, a physician's group that was a member of the former Moses Taylor Health Care System, from March 2011 to July 2012. Ms. Westington is a licensed Certified Public Accountant and has previous banking experience from her time as Vice President of Finance at the former Community Bank and Trust Company from January 1998 to March 2011 and Assistant Vice President and Controller at the former LA Bank, N.A. from September 1990 to December 1997. Ms. Westington currently serves as President of the Board of Trustees of the Howard Gardner Multiple Intelligence Charter School, Scranton, PA.

Ms. Donna Yanuzzi is Senior Vice President and Director of Equipment Finance of the Bank, a position she has held since November 2021 when she joined the Bank. Prior to joining the Bank, Ms. Yanuzzi was Managing Director of Sales and Marketing for F.N.B. Equipment Finance from July 2020 to November 2021, and Director of Vendor and Small Business Banking at F.N.B. Equipment Finance from September 2016 to July 2020. Ms. Yanuzzi is a member of the Board of Trustees of the Equipment Leasing and Finance Foundation.

Code of Ethics

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.

Audit Committee

The Board of Directors has a standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Board of Directors has determined that each of the members of the Audit Committee is independent, as that term is defined by the SEC and in the NASDAQ listing standards related to audit committees. The current Audit Committee charter is available in the Investor Relations section on FNCB's website at *investors.fncb.com* by clicking on Governance, Governance Documents and then selecting "Audit Committee Charter." The principal duties of the Audit Committee, as set forth in its charter, include reviewing and discussing the audited financial statements with management and the independent registered public accounting firm and, based on such reviews and discussions, recommending to the Board of Directors that the audited financial statement be included in FNCB's annual report on Form 10-K; reviewing significant audit and accounting principles, policies and practices; reviewing the effectiveness of the internal audit function and internal controls over financial reporting; reviewing reports of examination received from regulatory authorities; and reviewing the performance and independence of and recommending, annually, to the Board of Directors the engagement of an independent registered public accounting firm.
Currently, the Board has identified Thomas J. Melone, CPA and Kathleen McCarthy Lambert, CPA as Audit Committee financial experts. Mr. Melone qualifies as a financial expert based on his extensive accounting experience as a certified public accountant and as a partner of the Albert B. Melone Company Certified Public Accountants. Ms. Lambert qualifies as a financial expert based on her extensive accounting experience as a certified public accountant and as Chief Financial Officer of McCarthy Tire Service Company and its subsidiaries.

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Item 11. Executive Compensation.

Executive Officer Compensation

Summary Compensation Table.
The following table sets forth the total compensation paid to Gerard A. Champi, who served as principal executive officer of FNCB Bancorp, Inc Shown below is also information concerning the total compensation awarded to, earned by, or paid to each of the and the total compensation paid to FNCB's two other most highly compensated executive officers who earned total compensation in excess of $100,000 for the year ended December 31, 2023. Each individual listed in the table below is referred to as a named executive officer ("NEO").

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Non Equity Incentive Plan Awards (2)	Non-qualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
Gerard A. Champi, President and Chief Executive Officer of FNCB and the	2023	$ 416,448	$ 25,000	$ 121,990	$ -	$ 53,624	$ 57,402	$ 674,464
Bank	2022	$ 384,899	$ -	$ 115,583	$ 153,500	$ 38,891	$ 176,417	$ 869,290
James M. Bone, Jr., Executive Vice President	2023	$ 289,791	$ 30,000	$ 69,896	$ -	$ 20,586	$ 46,647	$ 456,920
and Chief Financial Officer/Treasurer of FNCB and the Bank	2022	$ 266,346	$ -	$ 48,007	$ 65,000	$ 14,766	$ 85,685	$ 479,804
James F. Burke, Executive Vice President	2023	$ 263,521	$ 25,000	$ 63,249	$ -	$ 5,735	$ 41,834	$ 399,338
and Chief Banking Officer of the Bank	2022	$ 241,963	$ -	$ 43,621	$ 59,500	$ 2,759	$ 78,575	$ 426,418

(1) The amounts listed represent the grant date fair market value of the shares computed in accordance with ASC Topic 718. Additional information about FNCB's accounting for stock-based compensation is contained in Note 2, "Summary of Significant Accounting Policies" and Note 14, "Stock Compensation Plans" to the Notes to Consolidated Financial Statements included in Item 8 "Financial Statements and Supplementary Data" to this Annual Report on Form 10-K.

(2) 2023 performance metrics did not meet required thresholds; therefore, no award was earned under the EIP for the 2023 fiscal year.

(3) The amounts listed reflect on the earnings on the balances in the named executive officers non-qualified deferred compensation plan and supplemental retirement plan accounts.

(4) The following table provides the detail for the amount presented under "All Other Compensation" paid to or earned by each of FNCB's named executive officers for the 2023 fiscal year.

Benefits and Perquisites	Gerard A. Champi	James M. Bone, Jr.	James F. Burke
FNCB annual contributions to SERP	$ 35,000	$ 25,000	$ 20,000
FNCB contributions to 401 (k) Plan	10,001	11,210	12,688
Automobile allowance	3,782	3,687	3,726
Country club dues	8,327	6,490	5,420
Other	292	260	-
Total	$ 57,402	$ 46,647	$ 41,834

Outstanding Equity Awards at Fiscal Year End. The following table summarizes the equity awards FNCB has made to our 2023 NEOs which were outstanding at December 31, 2023. All options were granted with an exercise or base price of 100% of market value as determined in accordance with the applicable plan. The number of shares subject to each award as well as the exercise and/or base price has been adjusted to reflect all stock dividends and stock splits effected after the date of such award but have not otherwise been modified.

	Outstanding Equity Awards at Fiscal Year End					
	Option Awards				Stock Awards	
Name and Principal Position	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#) (1)	Market Value of Shares or Units of Stock that Have Not Vested ($) (2)
Gerard A. Champi, President and Chief Executive Officer	-	-	$ -		42,174	$ 286,361

James M. Bone, Jr., Executive Vice President and Chief Financial Officer	-	-	$	-	20,215	$	137,260
James F. Burke, Executive Vice President and Chief Banking Officer	-	-	$	-	12,792	$	86,858

(1)Shares of restricted stock granted to all the named executive officers generally vest in five equal installments over a five-year period on May 15 of each year.

(2)Based on the closing market value of FNCB's common stock on December 29, 2023, of $6.79 per share, as reported on Nasdaq for the last trading day of the year.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table summarizes information, as of December 31, 2023, with respect to compensation plans under which equity securities of FNCB are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	-	N/A	2,435,076
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	-	N/A	2,435,076

Employment Arrangements

FNCB and the Bank have entered into an Employment Agreement with named executive officer, Mr. Bone, and the Bank has entered into Employment Agreements with named executive officer, Mr. Champi, and FNCB Bank's Chief Lending Officer, Brian J. Mahlstedt. Employment Agreements are commonly used by the banking industry and by FNCB's peer group to retain key executives and define an overall compensation package that is aligned with shareholder interests. Below is a summary of each named executive officer's and Mr. Mahlstedt's Employment Agreement.

The provisions under the Employment Agreements include the named executive officer's initial base salary, subject to annual review adjustments by the Compensation Committee and the Board. Each of the Employment Agreements also state that the named executive officer is eligible to participate in FNCB's Executive Incentive Plan and Long-Term Incentive Plan according to the terms of those Plans. Each such Employment Agreement also states that each named executive officer will be provided with a Supplemental Retirement Plan. Each such Employment Agreement specifies that each named executive officer will be reimbursed for annual country club dues and use of a Bank provided automobile. Each named executive officer's Employment Agreement has a term of three years, with consideration for an annual renewal of an additional three years on March 31st of each calendar year. Each named executive officer's Employment Agreement includes a non-compete clause which will be in effect for twelve months after an involuntary separation by the Bank or after a Change of Control termination as defined in his Agreement.

On September 27, 2023, the compensation committee of the board of directors of FNCB approved an Amendment to Employment Agreement (the "Bone Employment Agreement Amendment") among FNCB, FNCB Bank and Mr. Bone. The Bone Employment Agreement Amendment amends that certain Employment Agreement entered into by Mr. Bone, FNCB, and FNCB Bank as of October 1, 2015 (the "Original Bone Employment Agreement"). Pursuant to the Bone Employment Agreement Amendment, Mr. Bone's severance is amended such that, in the event of a termination of his employment by FNCB and FNCB Bank other than for "Cause" (as defined in the Original Bone Employment Agreement) or a resignation by Mr. Bone for "Good Reason" (as defined in the Bone Employment Agreement Amendment), Mr. Bone would receive a total severance payment equal to two (2) years base salary at the highest rate in effect during the twelve (12) month period immediately preceding his last day of employment plus the average cash award paid to him over the last three preceding years from the Executive Incentive Plan. In addition, the Bone Employment Agreement Amendment also provides that, in the event Mr. Bone is not named Chief Financial Officer of PFIS within fourteen (14) months following the closing of the merger with PFIS, he would receive a total severance payment equal to 2.99 years base salary at the highest rate in effect during the twelve (12) month period immediately preceding his last day of employment plus the average cash award paid to him over the last three preceding years from the Executive Incentive Plan.

Executive Incentive Plan

FNCB has a formal Executive Incentive Plan that links cash bonus awards to Bank-specific targets and individual performance factors. Under the terms of the Executive Incentive Plan, each year the Board of Directors establishes the Bank-wide financial targets which are utilized to trigger funding of the Executive Incentive Plan. Under the Executive Incentive Plan, Mr. Champi is eligible for a bonus of 30.0% of his base salary at target levels and each of the other named executive officers is eligible for a bonus of 18.0% of his or her base salary at target levels. For 2023, the Board of Directors approved net income, weighted 95.0%, and individual performance, weighted 5.0%, as the bank wide performance factors. The Board of Directors believe that these performance factors align the interests of our executives with those of our shareholders and FNCB's Strategic Plan. For 2023, the net income target was not achieved and no cash bonus awards were paid under the Executive Incentive Plan.

Potential Payments upon Termination or Change in Control

In the event of a Change of Control during which his employment with the Bank is terminated "without cause" (as defined in the Employment Agreements), i) within 120 days immediately prior to and in conjunction with a Change in Control or within one year following consummation of a Change in Control or ii) the terms and conditions of his position are substantially altered as defined in the Employment Agreement, each named executive officer will receive a total severance payment equal to 2.99 years base salary at the highest rate in effect during the 12-month period immediately preceding his last day of employment plus the average Executive Incentive Plan cash award received over the last three preceding years. Each named executive officer will remain eligible to participate in the Bank's medical benefits program while receiving severance. Pursuant to the employment agreement of Mr. Bone, in the event (x) of (i) a termination of his employment without cause within the 120-day period immediately prior to the closing of a Change in Control or within one year following the consummation of a Change in Control or (ii) within one year following a Change in Control the terms and conditions of his position are substantially altered as described in his employment agreement or (y) Mr. Bone is not named Chief Financial Officer of PFIS within 14 months following the closing of the

Merger, he would receive (a) total severance payments equal to 2.99 years base salary at the highest rate in effect during the 12 month period immediately preceding his last day of employment plus the average cash award paid to him over the last three preceding years from the Executive Incentive Plan, and (b) health and medical insurance benefits substantially similar to those which Mr. Bone receives immediately prior to the closing.

In the event that the named executive officer is released "without cause" while the Employment Agreement is in effect, he will receive a total severance payment equal to 2.99 years base salary at the highest rate in effect during the 12-month period immediately preceding his last day of employment plus the average cash award paid to him over the last three preceding years from the Executive Incentive Plan.

Each named executive officer will remain eligible to participate in the Bank's medical benefits program while receiving severance from either involuntary separation not for cause or because of a Change of Control (as defined in the Employment Agreements).

Each named executive officer's Employment Agreement would terminate upon his death except that any remaining separation payments due to the named executive officer as a result of a change of control or involuntary separation not for cause will be paid to the named executive officer's beneficiary.

Mr. Burke entered into a Change In Control Agreement ("CIC Agreement") with the Bank. In the event of a Change In Control as defined in the CIC Agreement, Mr. Burke shall be entitled to a cash compensation equal to two (2) year's salary at the highest rate in effect during the twelve (12) month period immediately preceding his last day of employment plus any average cash award paid to him over the last three (3) years from the Executive Incentive Plan. Mr. Burke will remain eligible to participate in the Bank's medical benefits program while receiving severance.

Notwithstanding any other provisions of the EIP, and except as otherwise provided in an award agreement, if there is a change in control, all stock-based awards granted under the EIP will immediately vest 100% for each Participant, including incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units. However, no stock-based award granted or made during a period when FNCB is subject to FDIC Part 359 golden parachute requirements will be subject to acceleration of vesting pursuant to the EIP. In addition, no stock-based awards, whenever granted or made, will vest if the Change in Control occurs during a period when FNCB is subject to FDIC Part 359.

The foregoing narrative regarding payments on a change in control or other termination of employment does not reflect payments that would be provided to each named executive officer under the 401(k) Plan following termination of employment, or under FNCB's disability or life insurance plan in the event of death or disability, as applicable, on the last business day of the fiscal year ended December 31, 2023 because these plans are generally available to all regular salaried employees.

Director Compensation

The following table sets forth information regarding compensation paid to, or earned by, non-employee directors of FNCB during the fiscal year ended December 31, 2023 for service as members of FNCB's and the Bank's Boards of Directors as applicable. Directors who also are FNCB or Bank employees (currently Mr. Champi) do not receive any compensation or other fees for service as a Board member.

Name	Fees Earned or Cash Paid	Stock Awards (2)	Total
William G. Bracey	$ 32,500	$ 15,000	$ 47,500
Gerard A. Champi	-	-	-
Joseph Coccia	32,500	15,000	47,500
William P. Conaboy, Esquire	30,000	15,000	45,000
Dominick L. DeNaples (1)	28,750	15,000	43,750
Joseph L. DeNaples, Esquire	30,500	15,000	45,500
Louis A. DeNaples	32,000	15,000	47,000
Louis A. DeNaples, Jr., M.D.	30,000	15,000	45,000
Keith W. Eckel	37,500	15,000	52,500
Kathleen McCarthy Lambert	34,500	15,000	49,500
Thomas J. Melone, CPA	37,000	15,000	52,000

(1) Dominick L. DeNaples was re-appointed to the Board on February 22, 2023. Prior to this date. Mr. DeNaples served as Director Emeritus and received a monthly stipend of $1,250.

(2) The amounts listed represent the grant date fair market value of the shares computed in accordance with ASC Topic 718. Additional information about FNCB's accounting for stock-based compensation is contained in Note 2, "Summary of Significant Accounting Policies" and Note 14, "Stock Compensation Plans" to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," to this Annual Report on Form 10-K.

Directors are not paid for their attendance at FNCB's board meetings. All non-employee members of the Bank's Board of Directors receive an annual retainer of $30,000 paid on a per month basis, for each month or portion thereof that the director serves as a director of the Bank. Non-employee directors who are members of the Bank's Director's Loan Committee receive an annual retainer of $2,000, paid on a per month basis for each month or portion thereof that he/she serves on the committee. Additionally, non-employee directors who serve as committee chairperson receive the following annual retainers, which are paid on a per month basis for each month or portion thereof that he/she serves as chairperson: 1) Audit Committee and Director's Loan Committee chairpersons each receive $5,000; and 2) ALCO Committee, Compensation Committee, Nominating and Governance Committee and Risk Management Committee chairpersons each received $2,500. The aggregate amount of director fees, including stock awards and advisory board and director emeritus fees, paid in 2023 was $501,131.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding ownership of FNCB's common stock as of February 29, 2024 by: (i) each director; (ii) each of FNCB's named executive officers; and (iii) all executive officers and directors of FNCB as a group. The address of each of the beneficial owners identified is 102 E. Drinker Street, Dunmore, PA 18512. Except as otherwise indicated, each person included in this table owns his or her shares directly and possesses sole voting and sole investment power with respect to all such shares, none of which are pledged as security. Persons and groups who beneficially own in excess of 5.0% of shares of FNCB's common stock are required to file certain reports with the SEC regarding such ownership. Except as set forth below, FNCB knows of no other person or persons who beneficially owns more than 5.0% of FNCB's common stock.

Name of Beneficial Owner	Position	Total Shares Beneficially Owned	Percentage of Total Shares Beneficially Owned (10)
William G. Bracey (1)	Director	178,445	*
Joseph Coccia (2)	Director, Secretary	240,067	1.21%
William P. Conaboy, Esquire (3)	Director	4,454	*
Dominick L. DeNaples (4)	Director, Former Director Emeritus and Former Chairman of the Board	99,605	*
Joseph L. DeNaples, Esquire	Director	341,688	1.73%
Louis A. DeNaples (5)	Director, Chairman of the Board	2,151,716	10.87%
Louis A. DeNaples, Jr., M.D. (6)	Director, Vice Chairman of the Board	326,079	1.65%
Keith W. Eckel	Director	22,323	*
Kathleen McCarthy Lambert, CPA (7)	Director	17,968	*
Thomas J. Melone, CPA	Director	15,267	*
Gerard A. Champi (8)	Director, President and Chief Executive Officer	93,025	*
James M. Bone, Jr., CPA (9)	Executive Vice President and Chief Financial Officer/Treasurer	49,339	*
James F. Burke	Executive Vice President and Chief Banking Officer	1,474	*
All current directors and executive officers as a group (25 persons)		3,696,899	18.91%

* Indicates ownership of less than 1%.

(1) Includes: 30,159 shares held individually by Mr. Bracey; and 148,286 shares held by a business which is 100.00% owned by Mr. Bracey.

(2) Includes: 24,764 shares held individually by Mr. Coccia; and 215,303 shares held by a family limited partnership.

(3) Shares held jointly with Attorney Conaboy's spouse.

(4) Includes: 9,040 shares held individually by Mr. DeNaples; 88,126 shares held jointly with Mr. DeNaples' spouse; and 2,439 shares held by a business in which he is a 33.33% owner with his brother, Louis A. DeNaples.

(5) Includes: 2,124,521 shares held individually by Mr. DeNaples; 18,553 shares owned individually by his spouse; 6,203 shares owned jointly with Mr. DeNaples' spouse; and 2,439 shares held by a business in which he is a 33.33% owner with his brother, Dominick L. DeNaples.

(6) Includes: 290,274 shares held individually by Dr. DeNaples, Jr.; 30,643 shares held jointly with Mr. DeNaples' spouse and children; 3,558 shares as custodian for Dr. DeNaples' children under the Uniform Transfer to Minors Act ("UTMA"); and 1,604 shares as custodian for Dr. DeNaples' nephew under UTMA.

(7) Includes: 15,468 shares held individually by Mrs. Lambert; and 2,500 shares owned jointly with Mrs. Lambert's spouse.

(8) Includes: 56,046 shares held individually by Mr. Champi; and 36,979 shares held jointly with Mr. Champi's spouse.

(9) Includes: 23,141 shares held individually by Mr. Bone; 19,115 shares held jointly with Mr. Bone's spouse; 6,100 shares held jointly with Mr. Bone's father and three of his siblings; and 983 shares held individually by Mr. Bone's spouse.

(11) Percentages are calculated in accordance with Rule 13d-3 under the Exchange Act, and represent a percentage of the sum of 19,787,031 shares issued, outstanding and entitled to vote as of February 29, 2024. Certain shares beneficially owned by FNCB's directors and executive officers may be held in accounts with third-party firms, where such shares may from time to time be subject to a security interest for margin credit provided in accordance with such firm's policies.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

FNCB and the Bank have engaged in and intend to continue to engage in banking and financial transactions in the ordinary course of business with directors and officers of FNCB and the Bank and their affiliates on comparable terms and with similar interest rates as those prevailing from time to time for other customers not related to FNCB or the Bank. FNCB's Code of Business Conduct and Ethics applies to all directors, officers, and employees of FNCB and provides guidelines for those covered persons who may have a potential or apparent conflict of interest. Pursuant to the Code, a "conflict of interest" exists any time a covered person's private interest interferes/conflicts, or even appears to interfere/conflict, in any way with the interests of FNCB and the Bank. Under the Code, if a conflict of interest arises, the Board must act with care to avoid even the appearance that any actions were not in the best interest of FNCB and the Bank.

Board of Directors' approval is required for FNCB to do business with a company in which a member of the Board of Directors, an officer, an employee or a family member of a director, officer or employee owns, directly or indirectly, an interest. To identify related party transactions, each year, FNCB submits and requires its directors and officers to complete Director and Officer Questionnaires identifying any transaction with FNCB or any of its subsidiaries in which the officer or director or their family members have an interest. The Board of Directors reviews related party transactions due to the potential for a conflict of interest. Each year, FNCB's directors and executive officers also review our Code.

Additionally, FNCB has further obligations for the review and approval of loans that are made to directors and officers pursuant to Regulation O (Loans to Executive Officers, Directors and Principal Shareholders of Member Banks) and FNCB's written Loan Policy. Any business dealing, including extensions of credit, between FNCB or the Bank and a director or officer of FNCB or the Bank, or with an affiliate of a director or officer, other than a deposit, trust service or other product or service provided by a bank in the ordinary course of business, is required to be approved by a majority of disinterested directors. In considering a proposed insider transaction, the disinterested directors are to reasonably determine whether the transaction would be in the best interest of FNCB or the Bank and whether the terms and conditions, including price, are substantially the same as those prevailing at the time for comparable transactions with non-insiders. The responsibility for monitoring compliance with Regulation O rests with the Bank's Credit Administration Unit and Internal Auditor as required by the Bank's Loan Policy.

There were no loan transactions originated during 2023 which were required to be reported where such policy and procedures were not followed. Loans to directors, executive officers and their related parties (i) were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to FNCB or Bank and (iii) did not involve more than the normal risk of collection or present other unfavorable features.

In the course of its operations, FNCB acquires goods and services from and transacts business with various companies of related parties. FNCB believes these transactions were made on the same terms as those for comparable transactions with unaffiliated parties. FNCB recorded aggregate payments for these services of $0.5 million in 2023 and $0.5 million in 2022. None of these transactions exceeded $120 thousand, except as described below.

Independence of the Board of Directors

Currently, the Board of Directors has eleven (11) members. FNCB evaluates the independence of directors under the SEC and Nasdaq stock market's standards for independence. The Nasdaq standards require the Board of Directors be comprised of a majority of independent directors. The Nasdaq standards also require that, except for exceptional and limited circumstances, the Board of Directors maintain an audit committee comprised only of independent directors and that director nominees must be selected either by independent directors comprising a majority of the Board's independent directors in a vote in which only independent directors participate, or by a nominations committee comprised solely of independent directors. The Nominating and Governance Committee of FNCB's Board has responsibility for selecting director nominees and is comprised solely of independent directors. Nasdaq corporate governance standards also require that the Board maintain a Compensation Committee comprised of at least two members, each of whom is an independent director. The Board of Directors of FNCB has appointed a Compensation Committee, currently comprised of four directors, each of whom the Board has determined is independent.

Independence is reviewed at least annually to determine whether all existing and potential committee members are independent. The Board of Directors has determined that William G. Bracey, Joseph Coccia, William P. Conaboy, Esq., Dominick L. DeNaples, Joseph L. DeNaples, Esq., Louis A. DeNaples, Louis A. DeNaples, Jr. M.D., Keith W. Eckel, Kathleen McCarthy Lambert, CPA, and Thomas J. Melone, CPA met the standards for independence.

In making its independence determinations, the Board considers all relevant facts and circumstances, and not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. The Board considered that in the ordinary course of business FNCB and the Bank may provide commercial banking and other services to some of the independent directors and to business organizations and to individuals associated with them. The Board also considered that in the ordinary course of business some business organizations with which an independent director is associated may provide products and services to FNCB and the Bank. The Board has determined that, based on the information available to the Board, none of these relationships were material.

Joseph L. DeNaples, Esquire, a director, is a partner at the law firm of Cipriani & Werner, which provided legal services to FNCB during 2023. The Board has considered this relationship and determined that it did not impair Mr. DeNaples' independence as it relates to his membership as a Director on the Boards of FNCB and the Bank and membership on the Compensation and Nominating and Governance Committees.

Item 14. Principal Accounting Fees and Services.

The following table sets forth the aggregate fees billed to FNCB by Baker Tilly US, LLP for services rendered for the fiscal years ended December 31, 2023 and 2022.

Description	2023	2022
Audit fees (1)	$ 362,152	$ 295,171
Audit-related fees	-	-
Tax fees	61,775	27,060
All other fees	-	-

The Audit Committee has considered whether, and determined that, the provision of services rendered above was compatible with maintaining the independence of Baker Tilly US, LLP in 2023 and 2022 as the independent registered public accounting firm. The Audit Committee concluded that the independence of the firm was maintained.

Pursuant to the Audit Committee Charter, FNCB is required to obtain pre-approval by the Audit Committee for all audit and permissible non-audit services obtained from its independent registered public accounting firm to the extent required by applicable law. In accordance with this pre-approval policy, the Audit Committee pre-approved all audit and tax services for fiscal years 2023 and 2022.

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 (PCAOB ID 23)
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 2.1	Agreement and Plan of Merger, dated September 27, 2023 - filed as Exhibit 2.1 to FNCB's Current Report on Form 8-K September 27, 2023, is hereby 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 3.3 to FBNCB's Form 10-K for the year ended December 31, 2022, as filed on March 10, 2023, 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, SEC file number 333-24121, is hereby incorporated by reference.
EXHIBIT 4.4	Description of Securities – filed as Exhibit 4.4 to FNCB's Form 10-K for the year ended December 31, 2022, as filed on March 10, 2023, is hereby incorporated by reference.
EXHIBIT 10.1	Amended and Restated Declaration of Trust by and among Wilmington Trust Company First National Community Bancorp, Inc. and with individuals as administrators, dated as of December 14, 2006 – filed as Exhibit 10.1 to FNCB's 8-K on December 19, 2006 is hereby incorporated by reference.
EXHIBIT 10.2	Guarantee Agreement by and between First National Community Bancorp, Inc. and Wilmington Trust Company, dated as of December 14, 2006 - filed as Exhibit 10.4 to FNCB's Current Report on Form 8-K on December 19, 2006, SEC file number 333-24121, is hereby incorporated by reference.
EXHIBIT 10.3*+	Directors' and Officers' Deferred Compensation Plan

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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 10-8 to FBNCB's Form 10-K for the year ended December 31, 2022, as filed on March 10, 2023, 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+	Amendment to Employment Agreement, dated September 27, 2023 by and among FNCB Bancorp, Inc., FNCB Bank and James M. Bone, Jr. CPA – filed as Exhibit 10.1 to FNCB's Current Report on Form 8-K on September 27, 2023 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 10.12+	Form of Change in Control Agreement - filed as Exhibit 10.12 to FNCB's Annual Report on Form 10-K for the year ended December 31, 2021, as filed on March 11, 2022, is hereby incorporated by reference.
EXHIBIT 10.13+	FNCB Bancorp, Inc. 2023 Equity Incentive Plan - filed as Exhibit 99.1 to FNCB's Registration Statement on Form S-8 on June 23, 2023, 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 97.1*	FNCB Bancorp, Inc. Clawback Policy, adopted by the Board of Directors on November 30, 2023
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 8, 2024
Gerard A. Champi President and Chief Executive Officer	Date

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gerard A. Champi and James M. Bone, Jr., jointly and severally, his or her attorney-in-fact, each with the full power of substitutes, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Gerard A. Champi	March 8, 2024
Gerard A. Champi President and Chief Executive Officer	Date
/s/ James M. Bone, Jr.	March 8, 2024
James M. Bone, Jr., CPA Executive Vice President and Chief Financial Officer Principal Financial Officer	Date
/s/ Stephanie A. Westington	March 8, 2024
Stephanie A. Westington, CPA Senior Vice President and Chief Accounting Officer Principal Accounting Officer	Date

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Directors:

/s/ William G. Bracey	March 8, 2024	/s/ Gerard A. Champi	March 8, 2024
William G, Bracey	Date	Gerard A. Champi	Date
/s/ Joseph Coccia	March 8, 2024	/s/ William P. Conaboy	March 8, 2024
Joseph Coccia	Date	William P. Conaboy	Date
/s/ Dominick L. DeNaples	March 8, 2024	/s/ Joseph L. DeNaples	March 8, 2024
Dominick L. DeNaples	Date	Joseph L. DeNaples	Date
/s/Louis A. DeNaples	March 8, 2024	/s/ Louis A. DeNaples, Jr.	March 8, 2024
Louis A. DeNaples	Date	Louis A. DeNaples, Jr.	Date
/s/ Keith W. Eckel	March 8, 2024	/s/ Kathleen McCarthy Lambert	March 8, 2024
Keith W. Eckel	Date	Kathleen McCarthy Lambert	Date
/s/ Thomas J. Melone	March 8, 2024		
Thomas J. Melone	Date		

EXHIBIT 10.3

THE FIRST NATIONAL COMMUNITY BANK
AMENDED AND RESTATED
DIRECTORS' AND OFFICERS' DEFERRED COMPENSATION PLAN

THE FIRST NATIONAL COMMUNITY BANK, whose principal office is located at 102 East Drinker Street, Dunmore, PA ("Bank") hereby establishes this Amended and Restated Directors' and Officers' Deferred Compensation Plan effective January 1, 2005, for the purpose of promoting in its Directors and Officers the strongest interest in the successful operation of the Bank and to provide its Directors and Officers with deferred benefits upon retirement.

WITNESSETH:

WHEREAS, the Bank established a Directors' and Officers' Deferred Compensation Plan effective April 1, 1994 ("Plan"); and

WHEREAS, the Plan was subsequently amended effective July 1, 2003; and

WHEREAS, the Bank intends hereby to make certain modifications to the Plan to ensure its continuing compliance with all applicable provisions of the tax laws, including Internal Revenue Code Section 409A ("Section 409A").

NOW, THEREFORE, effective January 1, 2005, the Plan is restated in its entirety as follows:

ARTICLE I
Definitions

1.1 **Bonus Deferral Agreement** – "Bonus Deferral Agreement" shall mean a written agreement between a Participant and the Bank, whereby a Participant agrees to defer a portion of bonus Compensation pursuant to the provisions of the Plan.

1.2 **Compensation** – "Compensation" shall mean a Director's fee, including but not limited to, annual fees, meeting fees, committee fees, bonuses and other payments for services rendered by a Director to the Bank during a calendar year. With regard to Officers, Compensation shall include all salary and bonus amounts earned during a calendar year.

1.3 **Deferral Agreement** – "Deferral Agreement" shall mean a written agreement between a Participant and the Bank, whereby a Participant agrees to defer a portion of Compensation, excluding bonus Compensation, pursuant to the provisions of the Plan.

1.4 **Disability** – "Disability" shall mean the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

1.5 **Distribution Election** – "Distribution Election" shall mean a written agreement between a Participant and the Bank, whereby a Participant elects the method of payment of the amounts deferred by the Participant under the Plan.

1.6 **Normal Retirement Date** – "Normal Retirement Date" shall mean the date on which a Participant reaches age sixty (60) or the Participant's Termination of Service, whichever is later.

1.7 **Participant** – "Participant" shall mean a Director or Officer of the Bank who has entered into a Deferral Agreement, Bonus Deferral Agreement and/or, under the terms of the Plan prior to this amendment and restatement, a Deferred Compensation Agreement, with the Bank.

1.8 **Plan Year** – "Plan Year" shall mean the calendar year.

1.9 **Specified Employee** – "Specified Employee" shall mean a key employee, as defined in Internal Revenue Code Section 416(i) (without regard to Internal Revenue Code Section 416(i)(5)), of the Bank.

1.10 **Stated Deferral** – "Stated Deferral" shall mean the amount of Compensation the Participant agrees to defer under a Deferral Agreement or Bonus Deferral Agreement, or had previously deferred under a Deferred Compensation Agreement.

1.11 **Termination of Service** – "Termination of Service" shall mean the Participant's ceasing to serve as a Director or Officer of the Bank for any reason whatsoever, voluntary or involuntary; provided, however, that such shall be construed consistent with the definition of "separation from service" under Section 409A.

ARTICLE II
Eligibility

All Directors serving on the Bank's Board of Directors shall be entitled to participate in the Plan as of the January 1 coincident with or next following the Director's commencement of service on the Board. All Officers who have been employed at the beginning of a Plan Year for at least two (2) years in any capacity by the Bank and whose annualized pay for the Plan Year exceeds $40,000 shall be entitled to participate as of the January 1 coincident with or next following the Officer's second anniversary date of employment with the Bank. Nothing shall preclude an individual from participating both as an Officer and a Director in this Plan. A Participant, including a newly eligible Participant, must execute a Deferral Agreement prior to the beginning of the Plan Year for which any part of the Participant's Compensation is to be deferred.

ARTICLE III
Compensation Deferrals

3.1 **Deferrals** – Any election to defer Compensation hereunder shall be made no later than December 31 of the year prior to the Plan Year in which the Compensation to be deferred is earned; provided, however, that elections to defer bonuses constituting performance-based compensation under the rules of Section 409A shall be made no later than June 30 of the Plan Year with respect to which the bonus is earned. Notwithstanding the foregoing, an election to defer bonus Compensation cannot be made after such bonus Compensation has become both substantially certain to be paid and readily ascertainable in amount. Further, an election to defer bonus Compensation with respect to a Plan Year may be made only if the amount of, or entitlement to, the bonus Compensation is contingent on the satisfaction of organizational or individual performance criteria relating to the entire Plan Year in which the Participant performs services and such criteria are established in writing within the first ninety (90) days of the Plan Year, provided the outcome is substantially uncertain at the time the criteria are established.

3.2 **Procedure for Deferral** – The Participant shall make the elections provided for in Section 3.1 by executing a Deferral Agreement or a Bonus Deferral Agreement, as applicable, in the form provided by the Bank. The Deferral Agreement or Bonus Deferral Agreement shall set forth the Stated Deferral. The Stated Deferral shall be subtracted from the Compensation otherwise payable to the Participant during the Plan Year of the deferral; provided, however, that bonus Compensation shall in all events be paid, and any Stated Deferral amount relating to such bonus Compensation subtracted, after December 31 of the Plan Year in which the services giving rise to the bonus Compensation were performed. Further, all bonus Compensation shall be paid, and any Stated Deferral amount relating to such bonus Compensation subtracted, on or before March 15 of the year following the Plan Year in which the services giving rise to the bonus Compensation were performed. Deferral Agreement elections shall remain effective for future Plan Years, and shall become irrevocable as of December 31 of each immediately preceding Plan Year, until such time as the Participant changes the Stated Deferral by execution of another Deferral Agreement; provided, however, that any such change shall not be effective until the Plan Year following the year in which the new Deferral Agreement is made. A Participant must execute a Bonus Deferral Agreement every year for which any portion of bonus Compensation is to be deferred.

3.3 **Limitation on Deferral** –

Directors – A participating Director may defer up to 50% of Compensation in any Plan Year.

Officers – A participating Officer who has been employed at the beginning of a Plan Year for at least ten (10) years in any capacity by the Bank may defer up to 25% of Compensation for such Plan Year. Any other participating Officer may defer up to 15% of Compensation for the Plan Year.

Nothing shall preclude an individual from participating both as a Director and an Officer.

3.4 **Election to Defer Irrevocable** – A Participant's election to defer Compensation shall be irrevocable during the period for which it is made; provided, however, that in the event of an unforeseeable emergency constituting a severe financial hardship of the Participant or the Participant's beneficiary resulting from an illness or accident of the Participant or beneficiary, the Participant's or beneficiary's spouse or the Participant's or beneficiary's dependent (as defined in Code Section 152(a)); loss of the Participant's or beneficiary's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant or beneficiary, the Participant, by written instructions to the Bank, may cancel future deferrals under the Plan. Subsequent to such cancellation, the Participant may elect to make additional deferrals upon filing a new Deferral Agreement setting forth the amounts to be deferred; provided, however, that any such new election will not be effective before the beginning of the Plan Year following the year in which such election is made.

ARTICLE IV
Deferred Compensation Accounts

4.1 **Deferred Compensation Account** – The Bank shall establish a bookkeeping account ("Deferred Compensation Account") for each Participant which shall be credited with the Stated Deferral on the date such Compensation would have been paid to the Participant had no election to defer been made.

4.2 **Interest on the Deferred Compensation Account** – Each Participant's Deferred Compensation Account shall be credited with interest on December 31 of each Plan Year on the amount in the Participant's Deferred Compensation Account as of said December 31. In addition, any Stated Deferral of bonus Compensation relating to services performed during the Plan Year and paid after December 31 of the Plan Year shall be credited with interest for the period of the Plan Year.

4.3 **Interest Rate** − The rate of interest credited on the amounts described in Section 4.2 shall be 200% of the one-year Treasury Bill rate in effect not more than thirty (30) days nor less than fifteen (15) days prior to the last day of the Plan Year to which the interest applies; provided, however, that in no event shall the rate be less than 8% per annum. Beginning with the sixth Plan Year of a Participant's participation in the Plan, the rate of interest shall be increased to 1% above the rate determined under the foregoing formula or 9%, whichever is greater.

4.4 **Purpose of Deferred Compensation Account** – The purpose of the Deferred Compensation Account shall be to determine the amount of benefits to be paid to the Participant at times hereinafter specified, and the Bank shall not segregate any asset in order to satisfy any obligations under the Plan. A Participant's Deferred Compensation Account shall not constitute nor be treated as a trust fund of any kind. It is expressly understood that all amounts credited to any Deferred Compensation Account shall be for the sole and exclusive purpose of bookkeeping; that all amounts shall remain the sole property of the Bank; and that the Participant shall have no ownership rights thereto. The Participant's rights are expressly limited to the right to receive payments as hereinafter provided, and the Participant's rights with respect thereto are merely those of a general unsecured creditor of the Bank.

4.5 **Vesting** – Each Participant shall at all times be one hundred percent (100%) vested in the Participant's Deferred Compensation Account.

ARTICLE V
Payment of Benefits

5.1 **Election as to Method of Payment** – On or before the date of the Participant's first Stated Deferral election pursuant to a Deferral Agreement or a

Bonus Deferral Agreement executed after January 1, 2006, the Participant must complete and submit to the Bank a Distribution Election electing one of the following methods of payment of the Participant's entire Deferred Compensation Account:

a. Equal annual payments for five (5) years.
b. Equal annual payments for ten (10) years.
c. Equal annual payments for fifteen (15) years.
d. Equal annual payments for twenty (20) years.
e. Equal annual payments for twenty-five (25) years.
f. Equal annual payments for thirty (30) years.
g. Equal monthly payments for sixty (60) months.
h. Equal monthly payments for one hundred twenty (120) months.
i. Equal monthly payments for one hundred eighty (180) months.
j. Equal monthly payments for two hundred forty (240) months.
k. Equal monthly payments for three hundred (300) months.
l. Equal monthly payments for three hundred sixty (360) months.
m. Single lump sum payment.

Notwithstanding the foregoing, a Participant may not make any election that would have the effect of deferring payment to a later year of an amount that would otherwise be payable in 2006 or that would have the effect of causing a payment to be made in 2006 that would otherwise be paid after 2006, and any such purported election by a Participant shall be ineffective to the extent of any such proscribed acceleration or postponement. Any financial health payment triggers are hereby voided for all Deferred Compensation Account amounts, regardless of when credited. A separate election from among the foregoing options may be made on the Distribution Election by a Participant for payments in the event of the Participant's Disability.

5.2 **Change in Election of Payment Method** – A Participant may change a distribution election established pursuant to Section 5.1 with respect to the Participant's entire Deferred Compensation Account, and earnings thereon, provided that such change (i) may not take effect until at least twelve (12) months after the date on which the new election is made; (ii) defers payment for a period of not less than five (5) years from the date such payment would otherwise have been made; and (iii) in the case of any election related to a payment based upon a specified time or fixed schedule may not be made less than twelve (12) months prior to the date of the first scheduled payment. For purposes of changing a Participant's distribution election, if the Participant had elected an installment form of payment, the installments shall be treated as a single payment occurring on the date of the first installment, and subject to the other rules for changes in distribution elections as set forth above, the Participant may elect to receive a lump sum payment five years after the first installment payment would otherwise have been made.

5.3 **Amount of Payments** – A Participant electing installment payments shall receive equal monthly or annual installments over the period elected pursuant to Section 5.1, the amount of such payments being determined by annuitizing the Participant's Deferred Compensation Account, including interest at an annual rate as established under Section 4.3 until such account is fully paid.

5.4 **Time of Payments** – The benefit payments to be made pursuant to a Participant's election shall begin on the first business day of the month after the Participant's Normal Retirement Date. Notwithstanding the foregoing, in the event that the Participant is determined to be a Specified Employee, any payment that is made on account of a Termination of Service shall be delayed until the first business day of the month after six months from the date of the Participant's Termination of Service. In the event that any installment payments are delayed pursuant to this Section 5.4, such delayed payments will be accumulated and paid in one lump sum on the delayed payment date and any remaining payments shall be made in accordance with the otherwise applicable schedule of payments.

5.5 **Recipients of Payments: Designation of Beneficiary** – All payments to be made pursuant to this Plan shall be made to the Participant, if living. If a Participant dies before receiving all payments the Participant would be entitled to receive, all remaining payments shall be paid to the designated beneficiary or beneficiaries of the Participant. The participant shall designate a beneficiary by filing a written notice of such designation with the Bank in such form as the Bank prescribes. A Participant may change a beneficiary designation at any time. The Participant's beneficiary designation shall be deemed automatically revoked in the event of the death of the beneficiary or in the event of dissolution of marriage, if the beneficiary is the Participant's spouse. If no designation is in effect when benefits due under this Plan are payable, the beneficiary shall be the Participant's spouse, if living, and if the spouse is deceased, the legal representative of the Participant's estate. Any payments made pursuant to this paragraph shall begin within sixty (60) days after the Participant's death.

5.6 **Pre-Retirement Death Benefit** – If a Participant's Termination of Service prior to the Normal Retirement Date is due to death, the Participant's beneficiary, or the legal representative of the Participant's estate if no beneficiary designation is in effect, shall be paid the Participant's Deferred Compensation Account as of the date of death, together with interest as provided in Section 5.3, pursuant to the election made by the Participant in Section 5.1 or, if applicable, Section 5.2. Payment of the Participant's Deferred Compensation Account in the event of the Participant's death prior to the Normal Retirement Date shall begin within sixty (60) days after the Participant's death.

5.7 **Hardship Distribution** – Upon the Bank's determination (following petition by the Participant) that the Participant has suffered an unforeseeable emergency, as described in Section 3.4, the Participant shall be paid all or a portion of the Participant's Deferred Compensation Account balance, as determined by the Bank, but in no event shall the distribution amount exceed the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution). A distribution on account of an unforeseeable emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not cause severe financial hardship) or by cessation of deferrals under Section 3.4, and determination of the amount reasonably necessary to satisfy the emergency need shall take into account any additional compensation available to the Participant as a result of a cessation of deferrals.

5.8 **Disability Distribution** – Upon certification by the Bank of a Participant's Disability, as defined in Section 1.4, prior to the Normal Retirement Date, the Participant will receive payment of the Participant's Deferred Compensation Account pursuant to the method elected by the Participant for distributions in the event of Disability. Payment of the Participant's Deferred Compensation Account in the event of the Participant's Disability prior to the Normal Retirement Date shall commence beginning the first day of the month following certification of the Participant's Disability.

5.9 **De Minimis Distributions** – Notwithstanding anything in this Plan to the contrary, upon a Participant's Termination of Service, the entire amount of the Participant's Deferred Compensation Account will be paid in a lump sum on or before the later of (i) December 31 of the calendar year in which the Termination of Service occurs or (ii) the fifteenth day of the third month following the Participant's Termination of Service, provided the amount of the Participant's Deferred Compensation Account on such payment date does not exceed ten thousand dollars ($10,000) and such payment is accompanied by the termination of the Participant's entire interest in the Plan and in any similar arrangement constituting a non-qualified deferred compensation plan under Section 409A. Furthermore, if a Participant's Deferred Compensation Account balance exceeds ten thousand dollars ($10,000) at the time payments are to commence under the otherwise applicable terms of the Plan, the entire amount of the Participant's Deferred Compensation Account will be paid in a lump sum at that time, provided the amount of the Participant's Deferred Compensation Account on such date does not exceed twenty-five thousand dollars ($25,000).

5.10 **Plan Failure** – Notwithstanding anything in this Plan to the contrary, in the event that a Participant must include in income any portion of the Participant's Deferred Compensation Account as a result of the Plan's failure to meet the requirements of Section 409A, distribution of the amount so includible shall be made to the Participant within sixty (60) days after the Bank determines that such a failure has occurred and that such income inclusion is necessary.

ARTICLE VI
Funding and Life Insurance

6.1 **Funding** – The Bank's obligation under the Plan shall be an unfunded and unsecured promise to pay. The Bank shall not be obligated to fund any obligations arising hereunder, but the Bank may, in its sole discretion, elect to segregate assets for the purpose of paying Plan benefits. Any such assets shall remain solely the property of the Bank until paid to the Participant or the Participant's beneficiary.

6.2 **Insurance Policies** – The Bank in its discretion may apply for and procure, as owner and for its own benefit, insurance on the life of the Participant, in such amounts and in such form as the Bank may choose. The Participant shall have no interest whatsoever in any such policy or policies, but at the request of the Bank shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Bank has applied for insurance. The rights of the Participant, or the Participant's beneficiary or estate, to benefits under the Plan shall be solely those of an unsecured creditor of the Bank. Any insurance policy or other assets acquired by or held by the Bank in connection with the liabilities assumed by it pursuant to the Plan shall not be deemed to be held under any trust for the benefit of the Participant, or the Participant's beneficiary or estate, or to be security for the performance of the obligations of the Bank, but shall be and remain, a general, unpledged and unrestricted asset of the Bank.

ARTICLE VII
Administration and Interpretation of the Plan

7.1 **Administrative Committee** – The Board of Directors shall appoint an Administrative Committee comprising the same persons serving on the Retirement (Profit Sharing) Plan Committee to administer and interpret the Plan. Interpretation by the Administrative Committee shall be final and binding upon a Participant. The Administrative Committee may adopt rules and regulations relating to the administration of the Plan as it may deem necessary.

7.2 **Claims Procedure** – If a Participant or a Participant's beneficiary (hereinafter referred to as a "Claimant") is denied all or a portion of an expected benefit under this Plan for any reason, he or she may file a claim with the Administrative Committee. The Administrative Committee shall notify the Claimant within sixty (60) calendar days (forty-five (45) calendar days in the event of a claim for Disability payments) of allowance or denial of the claim, unless the Claimant receives written notice from the Administrative Committee prior to the end of such period stating that special circumstances require an extension of the time for decision, as well as the date by which a decision is expected. In no event may such an extension exceed an additional sixty (60) calendar days (thirty (30) calendar days for Disability claims). The notice of the Administrative Committee's decision shall be in writing, sent by mail to the Claimant's last known address, and, if a denial of the claim, must contain the following information:

a. the specific reasons for the denial;

b. a specific reference to pertinent provisions of the Plan upon which the denial is based; and

c. if applicable, a description of any additional information or material necessary to perfect the claim, an explanation of why such information or material is necessary and an explanation of the claims review procedure.

7.3 **Review Procedure** – A Claimant is entitled to request a review of any denial of a claim by the Administrative Committee. The request for review must be submitted in writing within sixty (60) days (one hundred eighty (180) days for Disability claims) of receipt of the notice of the denial. Absent a request for review within such period, the claim will be deemed to be conclusively denied. The Claimant or the Claimant's representative shall be entitled to review all pertinent documents, and to submit issues and comments orally and in writing. If the request for review by a Claimant concerns the interpretation and application of the provisions of the Plan and the Bank's obligations, then the review shall be conducted by a separate committee consisting of three persons designated or appointed by the Administrative Committee. The separate committee shall afford the Claimant a hearing and the opportunity to review all pertinent documents and submit issues and comments orally and in writing and shall render a review decision in writing, all within sixty (60) days (forty-five (45) days for Disability claims) after receipt of a request for review, provided that, in special circumstances (such as the necessity of holding a hearing) the committee may extend the time for decision by not more than sixty (60) days upon written notice to the Claimant. The Claimant shall receive written notice of the separate committee's review decision, together with specific reasons for the decision and reference to the pertinent provisions of the Plan.

ARTICLE VIII
Taxes

The Company shall deduct from all payments made hereunder all applicable federal and state taxes required by law to be withheld from such payments.

ARTICLE IX
Governing Law

The Plan shall be construed according to the laws of the Commonwealth of Pennsylvania. Further, the provisions of this Plan shall be construed consistent with Section 409A and all applicable guidance thereunder so as not to result in the inclusion in the Participant's income of any benefit under this Plan by reason of the application of such section.

ARTICLE X
Forms of Communication

Any election, application, claim, notice or other communication required or permitted to be made by a Participant to the Bank shall be made in writing and in such form as the Bank shall prescribe. Such communication shall be effective upon mailing, if sent by first class mail, postage pre-paid, and addressed to the Bank's office at 102 East Drinker St., Dunmore, PA 18512.

ARTICLE XI
Effect on Other Bank Benefit Plans

Nothing contained in this Plan shall affect the right of the Participant to participate in or be covered by any qualified or non-qualified pension, profit sharing, group bonus or other supplemental compensation or fringe benefit plans constituting a part of the Bank's existing or future compensation structure.

ARTICLE XII
Assignment or Pledge

The Participant's Deferred Compensation Account and any amount payable at any time pursuant to this Plan shall not be assignable or subject to pledge or hypothecation nor shall said payments be subject to seizure for the payment of any debts, judgments, alimony or separate maintenance, or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise except to the extent as provided by law. Upon the occurrence of any event in violation or attempted violation of this paragraph, any payments thereafter payable hereunder shall, in the sole discretion of the Bank, be subject to cancellation; whereupon, the Bank may, but need not, make such payments to someone else deemed by it to be a natural object of the bounty of the Participant.

ARTICLE XIII
Continuation as Director or Officer

Neither this Plan nor the payment of any benefits hereunder shall be construed as giving to the Participant any rights to be retained as a member of the Board of Directors or continue as an Officer of the Bank.

ARTICLE XIV
Plan Termination

The Bank is instituting this Plan upon the assumption that certain existing tax laws will continue in effect in substantially their current form. If there are any changes in the laws relating to the allowance of tax-free accumulation of earnings within a life insurance policy, the income tax-free payment of proceeds from life insurance policies or the deduction from income of interest payments on certificates of deposits issued by banking institutions, the Bank shall have the option to terminate or modify this Plan; provided, however, that in the event of such a Plan termination, a Participant shall receive payment of amounts credited to the Participant's Deferred Compensation Account under the same terms and conditions as though the Plan were still in effect. In addition, the Bank may terminate the Plan in its discretion and distribute Participants' Deferred Compensation Accounts in the following circumstances: (i) within twelve (12) months of a corporate dissolution taxed under Internal Revenue Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. 503(b)(1)(A), provided that each Participant's Deferred Compensation Account is distributed by the later of the end of the Plan Year in which the Plan termination occurs or the first Plan Year in which such distribution is administratively practicable; (ii) within the thirty (30) days preceding or the twelve (12) months following a change in control (as defined under Section 409A) of the Bank, provided that all substantially similar arrangements sponsored by the Bank are terminated, such that each Participant and all participants under any substantially similar arrangements will receive all amounts of deferred compensation and earnings under the terminated arrangements within twelve (12) months of the date of termination of the arrangements; or (iii) where (a) all arrangements that would be (if a Participant also participated in such other arrangements) aggregated with the Plan for purposes of Section 409A are also terminated; (b) no payments other than payments that would otherwise have been made under the Plan or other arrangements (had they not been terminated) are made within twelve (12) months of their terminations; (c) all amounts payable under the Plan and the other arrangements are distributed within twenty-four (24) months of their terminations; and (d) the Bank does not adopt a new arrangement that would be aggregated with any terminated arrangement under the rules of Section 409A (if any individual participated in more than one such arrangement) at any time within five (5) years following the date of termination of the Plan.

ARTICLE XV
Modification

Any changes to the Plan must be in writing and executed by an authorized representative of the Bank.

ARTICLE XVI
Captions

The captions at the head of an Article or a paragraph of this Plan are designed for convenience of reference only and are not to be resorted to for the purpose of interpreting any provision of this Plan.

ARTICLE XVII
Severability

The invalidity of any provision of this Plan shall not invalidate the remainder thereof, and said remainder shall continue in full force and effect.

Dated this ____ day of _______________, 2006.

THE FIRST NATIONAL COMMUNITY BANK

By: ____________________________________
Signature

____
Print Name

____
Title

____
Secretary

:192030

FIRST AMENDMENT TO THE FIRST NATIONAL COMMUNITY BANK AMENDED AND RESTATED DIRECTORS' AND OFFICERS' DEFERRED COMPENSATION PLAN

This Amendment to The First National Community Bank ("Bank") Amended and Restated Directors' and Officers' Deferred Compensation Plan is made this 28th day of March, 2007.

WHEREAS, The First National Community Bank established a Directors' and Officers' Deferred Compensation Plan ("the Plan") effective April 1, 1994, for the purpose of promoting in its Directors and Officers the strongest interest in the successful operation of the Bank and to provide the Directors and Officers with deferred benefits upon retirement;

WHEREAS, the Plan was subsequently amended on July 1, 2003;

WHEREAS, to make certain modifications to the Plan to ensure its continuing compliance with all applicable provisions of the Internal Revenue Code and the regulations promulgated thereunder, the Plan, effective January 1, 2005, was restated in its entirety;

WHEREAS, the Bank wishes to clarify certain provisions of the Amended and Restated Directors' and Officers' Deferred Compensation Plan;

NOW, THEREFORE, in accordance with Article XV of Amended and Restated Directors' and Officers' Deferred Compensation Plan, the Plan is amended, effective the date hereof, as follows:

1. Article IV, Deferred Compensation Accounts, Section 4.3 Interest Rate shall be amended to read as follows:

4.3 **Interest Rate**- The rate of interest credited on the amounts described in Section 4.2 shall be 200% of the one-year Treasury Bill rate in effect not more than thirty (30) days nor less than fifteen (15) days prior to the last day of the Plan Year to which the interest applies; provided, however, that in no event shall the rate be less than 8% per annum. Beginning with the sixth Plan Year of a Participant's participation in the Plan, the rate of interest shall be increased to 1% above the rate determined under the foregoing formula or 9%, whichever is greater.

Upon the retirement of a director or officer, interest shall continue to accrue in accordance with paragraphs 4.2 and this 4.3.

2. Article V Payments of Benefits, Section 5.1 shall be amended in its entirety to read as follows:

5.1 **Election as to Method of Payment** – On or before the date of the Participant's first Stated Deferral election pursuant to a Deferral Agreement or a Bonus Deferral Agreement executed after January 1, 2006, the Participant must complete and submit to the Bank a Distribution Election electing one of the following methods of payment of the Participant's entire Deferred Compensation Account:

a. Annual payments for five (5) years.
b. Annual payments for ten (10) years.
c. Annual payments for fifteen (15) years.
d. Annual payments for twenty (20) years.
e. Annual payments for twenty-five (25) years.
f. Annual payments for thirty (30) years.
g. Monthly payments for sixty (60) months.
h. Monthly payments for one hundred twenty (120) months.
i. Monthly payments for one hundred eighty (180) months.
j. Monthly payments for two hundred forty (240) months.
k. Monthly payments for three hundred (300) months.
l. Monthly payments for three hundred sixty (360) months.
m. Single lump sum payment.

Notwithstanding the foregoing, a Participant may not make any election that would have the effect of deferring payment to a later year of an amount that would otherwise be payable in 2006 or that would have the effect of causing a payment to be made in 2006 that would otherwise be paid after 2006, and any such purported election by a Participant shall be ineffective to the extent of any such proscribed acceleration or postponement. Any financial health payment triggers are hereby voided for all Deferred Compensation Account amounts, regardless of when credited. A separate election from among the foregoing options may be made on the Distribution Election by a Participant for payments in the event of the Participant's Disability.

3. Article V Payments of Benefits, Section 5.3 **Amount of Payments** shall be amended as follows:

5.3 **Amount of Payments** -- Each year after interest is credited to a Participant's account under Section 4.2, the amount of a Participant's monthly payments or annual installments shall be recalculated to reflect the current interest credited. A Participant electing installment payments shall receive monthly or annual installments over the period elected pursuant to Section 5.1, the amount of such payments being determined by annuitizing the Participant's Deferred Compensation Account after considering the current year interest crediting.

4. The Distribution Election, as defined in Section 1.5, shall be amended to reflect the amendment of Section 5.1 by removing the word "equal" from the election of payments.

SECOND AMENDMENT TO THE FIRST NATIONAL COMMUNITY BANK AMENDED AND RESTATED DIRECTORS' AND OFFICERS'
DEFERRED COMPENSATION PLAN

This Amendment to The First National Community Bank ("Bank") Amended and Restated Directors' and Officers' Deferred Compensation Plan is made this 25th day of March, 2009.

WHEREAS, The First National Community Bank established a Directors' and Officers' Deferred Compensation Plan ("the Plan") effective April 1, 1994, for the purpose of promoting in its Directors and Officers the strongest interest in the successful operation of the Bank and to provide the Directors and Officers with deferred benefits upon retirement;

WHEREAS, the Plan was amended and restated on January 1, 2005 and subsequently amended on March 28, 2007;

WHEREAS, the Bank wishes to clarify a provision of the Amended and Restated Directors' and Officers' Deferred Compensation Plan;

NOW, THEREFORE, in accordance with Article XV of Amended and Restated Directors' and Officers' Deferred Compensation Plan, the Plan is amended, effective the date hereof, as follows:

1. Article IV, Deferred Compensation Accounts, Section 4.2 Interest on the Deferred Compensation Amount shall be amended to read as follows:

4.2 **<u>Interest on the Deferred Compensation Amount</u>** – Each Participant's Deferred Compensation Account shall be credited with interest on December 31st of each Plan Year on the amount in the Participant's Deferred Compensation Account as of December 31st ; provided that if any withdrawals, for any reason, are made from the Participant's Account throughout the Plan Year the amount of such withdrawal is not taken into account in determining the balance of the Participant's Account as of December 31st for the calculation of interest. Any Stated Deferral of bonus Compensation relating to services performed during the Plan Year and paid after December 31st of the Plan Year shall be credited with interest for the period of the Plan Year. Should a Participant die, each Participant's Deferred Compensation Account shall be credited with interest as of the Participant's date of death on the amount in the Participant's Deferred Compensation Account as of the Participant's date of death; provided that if any withdrawals, for any reason, are made from the Participant's Account during the Plan Year but prior to death the amount of such withdrawal is not taken into account in determining the balance of the Participant's Account as of the date of death.

Robert J. Mancuso

<u>THIRD AMENDMENT TO THE FIRST NATIONAL COMMUNITY BANK AMENDED AND RESTATED DIRECTORS' AND OFFICERS' DEFERRED COMPENSATION PLAN</u>

This Amendment to the First National Community Bank (the "Bank") Amended and Restated Directors' and Officers' Deferred Compensation Plan (the "Plan") is made this 29th day of December, 2010.

WHEREAS, the Bank established the Plan effective April 1, 1994, for the purpose of promoting in its Directors and Officers the strongest interest in the successful operation of the Bank and to provide the Directors and Officers with deferred benefits upon retirement;

WHEREAS, the Plan was amended and restated on January 1, 2005 and subsequently amended on March 28, 2007 and December 25, 2009;

WHEREAS, the Bank wishes to modify the rate of interest to be credited to Deferred Compensation Accounts under the Plan;

WHEREAS, interest is credited to Deferred Compensation Accounts on December 31st of each Plan Year;

WHEREAS, the Bank wishes to modify the rate of interest to be credited with respect to the entire 2010 Plan Year and for Plan Years thereafter;

NOW, THEREFORE, in accordance with Article XV of Amended and Restated Directors' and Officers' Deferred Compensation Plan, the Plan is amended, effective for the 2010 Plan Year and for Plan Years thereafter, as follows:

1. Article IV, Deferred Compensation Accounts, Section 4.3 Interest Rate shall be amended to read as follows—

4.3 **<u>Interest Rate</u>** – The rate of interest credited on the amounts described in Section 4.2 for the Plan Year ending December 31, 2010 and for Plan Years thereafter shall be equal to the sum of (i) 1% and (ii) the average of the one-year Treasury Bill rates in effect on and between December 1 and December 15 of the Plan Year to which the rate of interest applies.

Upon the retirement of a director or officer, interest shall continue to accrue in accordance with paragraphs 4.2 and this 4.3.

2. In all other respects, the terms of the Plan are hereby affirmed.

FOURTH AMENDMENT TO THE
FIRST NATIONAL COMMUNITY BANK

AMENDED AND RESTATED DIRECTORS' AND OFFICERS' DEFERRED COMPENSATION PLAN

THIS FOURTH AMENDMENT to the First National Community Bank Amended and Restated Directors' and Officers' Deferred Compensation Plan (the "Plan") is made this 15th day of January, 2017, by FNCB Bank (the "Bank"), formerly known as First National Community Bank, a state-chartered bank organized and existing under the laws of the Commonwealth of Pennsylvania.

RECITALS:

WHEREAS, First National Community Bank established the initial plan on April 1, 1994, and subsequently amended and restated the Plan on January 1, 2005, with further amendments on March 28, 2007; December 25, 2009; and December 29, 2010; and

WHEREAS, First National Community Bank converted to a Pennsylvania state-chartered bank and changed its name to FNCB Bank on June 29, 2016; and

WHEREAS, the conversion and name change will have no impact on the Plan and the Bank will continue to perform all obligations under the Plan as the plan sponsor; and

WHEREAS, the Bank has the authority to amend the Plan under Article X; and

WHEREAS, the Bank now deems it desirable to amend the Plan to: (i) reflect the change of sponsorship of the Plan from First National Community Bank to the Bank; (ii) revise Plan eligibility requirements; and (iii) modify the rate of interest to be credited with respect to the entire 2017 Plan Year and for Plan Years thereafter;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. By renaming the Plan the "FNCB Bank Amended and Restated Directors' and Officers' Deferred Compensation Plan;"

2. By deleting the phrase "First National Community Bank Amended and Restated Directors' and Officers' Deferred Compensation Plan" and inserting in its place "FNCB Bank Amended and Restated Directors' and Officers' Deferred Compensation Plan" wherever the former phrase occurs in the Plan;

3. By deleting the phrase "First National Community Bank" and inserting in its place "FNCB Bank" wherever the former phrase occurs in the Plan.

4. By amended and restating Article II in its entirety as follows:

ARTICLE II <u>Eligibility</u>

All Directors serving on the Bank's Board of Directors shall be entitled to participate in the Plan as of the January 1 coincident with or next following the Director's commencement of service on the Board. All Officers who are eligible to participate in the Bank's Executive Incentive Plan and who have been employed at the beginning of a Plan Year for at least two (2) years shall be entitled to participate in the Plan as of the January 1 coincident with or next following the Officer's second anniversary date of employment with the Bank. Nothing shall preclude an individual from participating both as an Officer and a Director in this Plan. A Participant, including a newly eligible Participant, must execute a Deferral Agreement prior to the beginning of a Plan Year for which any part of the Participant's Compensation is to be deferred.

5. By amending and restating Section 4.3 in its entirety as follows:

4.3 **<u>Interest Rate</u>** – The rate of interest credited on the amounts described in Section 4.2 for the Plan Year ending December 31, 2017, and for all subsequent Plan Years, shall be a rate determined by the Bank in its sole and absolute discretion. The Bank shall review the interest rate described in this section on an annual basis at the end of each Plan Year and may prospectively change the rate for a subsequent Plan Year(s).

Except as otherwise amended by this Fourth Amendment, all provisions of the Plan shall remain in full force and effect and the Plan and this Fourth Amendment shall be construed together and considered one and the same agreement.

IN WITNESS WHEREOF, the Bank executes this Fourth Amendment as of the date first written above.

FNCB BANK:

By: ________________________________

Printed Name: ________________________________

Title: ________________________________

FIFTH AMENDMENT
TO THE
FNCB BANK AMENDED AND RESTATED DIRECTORS' AND OFFICERS' DEFERRED COMPENSATION PLAN

THIS FIFTH AMENDMENT to the FNCB Bank Amended and Restated Directors' and Officers' Deferred Compensation Plan (the "Plan") is made November 30, 2022, by FNCB Bank (the "Bank"), a statechartered bank organized and existing under the laws of the Commonwealth of Pennsylvania.

RECITALS:

A. The Plan was established on April 1, 1994, and subsequently amended and restated on January 1, 2005, with further amendments on March 28, 2007; December 25, 2009; December 29, 2010; and February 22, 2017.

B. The Bank changed its name from First National Community Bank to FNCB Bank on June 29, 2016.

C. The Bank has the authority to amend the Plan under Article X.

D. The Bank desires to amend the Plan to modify the Disability definition.

NOW, THEREFORE, the Plan is hereby amended as follows:

Section 1.4 is deleted in its entirety and replaced with the following:

1.4 **Disability** – "Disability" shall be defined as a condition of a Participant whereby he or she either: (a) has been deemed disabled by the Social Security Administration or (b) determined to be disabled in accordance with a disability insurance program of the Bank that covers the Participant, provided that the definition of disability applied under such disability insurance program complies with Code Section 409A. Upon the request of the Plan Administrator, the Participant must submit proof to the Plan Administrator of the Social Security Administration's or insurance provider's determination.

Section 5.8 is deleted in its entirety and replaced with the following:

5.8 **Disability Distribution** – Upon a Participant's Disability, as defined in Section 1.4, prior to the Normal Retirement Date, the Participant will receive payment of the Participant's Deferred Compensation Account pursuant to the method elected by the Participant for distributions in the event of a Disability. Payment of the Participant's Deferred Compensation Account in the event of the Participant's Disability prior to the Normal Retirement Date shall commence on the first day of the month following the Participant's Disability determination.

Except as otherwise amended by this Fifth Amendment, all provisions of the Plan shall remain in full force and effect and the Plan and all amendments shall be construed together and considered one and the same agreement.

The Bank executes this Fifth Amendment as of the date first written above.

FNCB BANK:

By: ________________________________

Printed Name: __________________________

Title: ________________________________

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-193545) and Forms S-3 (Nos. 333-260114 and 333-145032) of FNCB Bancorp, Inc. and Subsidiaries of our report dated March 8, 2024, relating to the consolidated financial statements, which appears in this annual report on Form 10-K for the year ended December 31, 2023.

/s/ Baker Tilly US, LLP

Baker Tilly US, LLP
Iselin, New Jersey
March 8, 2024

EXHIBIT 31.1

CERTIFICATION

I, Gerard A. Champi, certify that:

1. I have reviewed this annual report on Form 10-K of FNCB Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2024

By: /s/ Gerard A. Champi
Gerard A. Champi
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, James M. Bone, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of FNCB Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2024

By: /s/ James M. Bone, Jr.
James M. Bone, Jr., CPA
Executive Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of FNCB Bancorp, Inc. (“the Company”) on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerard A. Champi, President and Chief Executive Officer of the Company, and I, James M. Bone, Jr., Executive Vice President and Chief Financial Officer of the Company, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes –Oxley Act of 2002, that to the best of our knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the year ended December 31, 2023.

Date: March 8, 2024	By:	/s/ Gerard A. Champi Gerard A. Champi President and Chief Executive Officer
Date: March 8, 2024	By:	/s/ James M. Bone, Jr. James M. Bone, Jr., CPA Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 97.1

FNCB Bancorp, Inc.
Clawback Policy

The Board of Directors (the "Board") of FNCB Bancorp, Inc. (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (this "Policy"), which provides for the recovery of certain incentive-based compensation upon the occurrence of certain events, including an Accounting Restatement (as defined below). This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10D-1 promulgated under the Exchange Act ("Rule 10D-1") and Nasdaq Listing Rule 5608 (the "Listing Standards").

1. **Administration.** Except as specifically set forth herein, this Policy shall be administered by the Compensation Committee of the Board or, if so designated by the Board via a duly adopted resolution of the Board, the Board or another committee of the Board (the Board or such committee charged with administration of this Policy, the "Administrator"). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. Any determinations made by the Administrator shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority. Subject to any limitation at applicable law, the Administrator may authorize and empower any officer or employee of the Company or any authorized agent of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee)

2. **Definitions.** As used in this Policy, the following definitions shall apply:

   - "Accounting Restatement" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Notwithstanding the foregoing, the following types of changes to the Company's financial statements do not represent error corrections, and therefore would likewise not trigger application of this Policy:

     - Retrospective application of a change in accounting principle;
     - Retrospective revision to reportable segment information due to a change in the structure of the Company's internal organization;
     - Retrospective reclassification due to a discontinued operation;
     - Retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and
     - Retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

   - "Administrator" has the meaning set forth in **Section 1** hereof.

   - "Applicable Period" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year).

   - The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (a) the date the Board, an authorized committee of the Board (e.g., the Audit Committee), or the officer or officers of the Company authorized to take such action if Board action is not required concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.

   - "Commission" means the U.S. Securities and Exchange Commission.

   - "Covered Executives" means the Company's current and former executive officers, as determined by the Administrator in accordance with the definition of executive officer set forth in Rule 10D-1 and the Listing Standards.

   - "Erroneously Awarded Compensation" has the meaning set forth in **Section 5** of this Policy.

   - A "Financial Reporting Measure" is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure, whether or not such Financial Reporting Measure is included in a filing with the Commission. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): price of the Company's securities listed on a securities exchange; total shareholder return ("TSR"); revenues; net income; operating income; profitability of one or more reportable segments; financial ratios (e.g., accounts receivable turnover and inventory turnover rates); earnings before interest, taxes, depreciation and amortization ("EBITDA"); funds from operations and adjusted funds from operations; liquidity measures (e.g., working capital, operating cash flow); return measures (e.g., return on invested capital, return on assets); earnings measures (e.g., earnings per share); sales per square foot or same store sales, where sales is subject to an Accounting Restatement; revenue per user, or average revenue per user, where revenue is subject to an Accounting Restatement;

cost per employee, where cost is subject to an Accounting Restatement; any of such Financial Reporting Measures relative to a peer group, where the Company's Financial Reporting Measure is subject to an Accounting Restatement; and tax basis income. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the Commission.

- "Incentive-Based Compensation" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure, including, without limitation, (i) non-equity incentive plan awards that are earned based wholly or in part on satisfying a Financial Reporting Measure performance goal; (ii) bonuses paid from a "bonus pool," the size of which is determined based wholly or in part on satisfying a Financial Reporting Measure performance goal; (iii) other cash awards based on satisfaction of a Financial Reporting Measure performance goal; (iv) restricted stock, restricted stock units, performance share units, stock options, and stock appreciation rights that are granted or become vested based wholly or in part on satisfying a Financial Reporting Measure performance goal; and (v) proceeds received upon the sale of shares acquired through an incentive plan that were granted or vested based wholly or in part on satisfying a Financial Reporting Measure performance goal.

- Incentive-Based Compensation is "received" for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period. All conditions to an award for Incentive-Based Compensation need not be satisfied for the Incentive-Based Compensation to be deemed received under this Policy. Incentive-Based Compensation is deemed received even if there is a contingent right to payment at that time or payment remains subject to ministerial acts, such as calculating the amount earned or obtaining the approval of the Administrator or the Board.

3. **Covered Executives Incentive-Based Compensation.** Except as set forth in **Section 11** of this Policy, this Policy applies to Incentive-Based Compensation received by a Covered Executive (a) after beginning services as a Covered Executive; (b) if that person served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

4. **Required Recoupment of Erroneously Awarded Compensation in the Event of an Accounting Restatement.** In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to **Section 5** hereof, during the Applicable Period.

5. **Erroneously Awarded Compensation: Amount Subject to Recovery.** The amount of "Erroneously Awarded Compensation" subject to recovery under this Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation received by the Covered Executive that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts. Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation. With respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

   For Incentive-Based Compensation based on stock price or TSR: (a) the Administrator shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and (b) the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market ("Nasdaq").

6. **Method of Recoupment.** The Administrator shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, as well as a reasonable amount of interest, as determined by the Administrator, to compensate the Company for the time-value of the Erroneously Awarded Compensation and reimbursement of direct expenses to recover the Erroneously Awarded Compensation, including without limitation any legal fees incurred by the Company, which may include without limitation (a) seeking reimbursement of all or part of any cash or equity-based award, (b) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, (c) cancelling or offsetting against any planned future cash or equity-based awards, (d) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder and (e) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive.

   The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Administrator has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

   - The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to Nasdaq;

   - Recovery would violate home country law of the Company where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law of the Company, the Administrator must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and the Listing Standards; or

   - Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

7. **No Indemnification of Covered Executives.** Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement

with any Covered Executive that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executives to fund potential clawback obligations under this Policy.

8. **Administrator Indemnification.** Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

9. **Effective Date; Retroactive Application.** This Policy shall be effective as of October 2, 2023 (the "Effective Date"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Effective Date, even if such Incentive-Based Compensation was approved, awarded, granted or paid to Covered Executives prior to the Effective Date. Without limiting the generality of **Section 6** hereof, and subject to applicable law, the Administrator may affect recovery under this Policy from any amount of compensation approved, awarded, granted, payable or paid to the Covered Executive prior to, on or after the Effective Date.

10. **Amendment; Termination.** The Board may amend, modify, supplement, rescind or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a national securities exchange on which the Company's securities are listed.

11. **Other Recoupment Rights; Company Claims.** The Board intends that this Policy shall be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company under applicable law or pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

    Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages or other legal remedies the Company or any of its affiliates may have against a Covered Executive arising out of or resulting from any actions or omissions by the Covered Executive.

    Notwithstanding anything set forth in this Policy, by signing the acknowledgement below, the Company's Chief Executive Officer and Chief Financial Officer acknowledge that in the event the Company is required to prepare an accounting restatement subject to Section 304 of the Sarbanes-Oxley Act of 2002, as amended ("Section 304"), she or he shall forfeit such amounts required pursuant to Section 304.

12. **Successors.** This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

13. **Governing Law, Dispute Resolution and Venue.** This Policy and all acts and transactions pursuant hereto and the rights and obligations of the Parties hereto will be governed, construed and interpreted in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to such state's conflict of laws rules.

    Any and all disputes relating to, concerning or arising from this Policy, or relating to, concerning or arising from the relationship between the parties evidenced by this Policy, will be brought and heard exclusively in the United States District Court for the Eastern District of Pennsylvania or the state courts of the Commonwealth of Pennsylvania in and for Lackawanna County. Each of the Company and each person subject to this Policy hereby represents and agrees that such party is subject to the personal jurisdiction of said courts; hereby irrevocably consents to the jurisdiction of such courts in any legal or equitable proceedings related to, concerning, or arising from such dispute, and waives, to the fullest extent permitted by law, any objection which such party may now or hereafter have that the laying of the venue of any legal or equitable proceedings related to, concerning, or arising from such dispute which is brought in such courts is improper or that such proceedings have been brought in an inconvenient forum.

14. **Exhibit Filing Requirement.** A copy of this Policy and any amendments thereto shall be posted on the Company's website and filed as an exhibit to the Company's annual report on Form 10-K.

[TO BE SIGNED BY THE COMPANY'S EXECUTIVE OFFICERS:]

Clawback Policy Acknowledgment

I, the undersigned, agree and acknowledge that, in consideration of good a valuable consideration, I am fully bound by, and subject to, all of the terms and conditions of the FNCB Bancorp, Inc.'s Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy"). In the event of any inconsistency between the Policy and the terms of any employment agreement, offer letter or similar arrangement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. In the event it is determined by the Administrator that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement. Any capitalized terms used in this Acknowledgment without definition shall have the meaning set forth in the Policy.

By: _____
[Name]
[Title]