FNCB Bancorp, Inc.
Form 10-Q
May 03, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from to

Commission File No. 001-38408

FNCB BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 20,109,713 shares as of May 3, 2019

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Part I - Financial Information

Item 1 - Financial Statements

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

(in thousands, except share data)	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents:		
Cash and due from banks	$25,683	$26,673
Interest-bearing deposits in other banks	7,062	9,808
Total cash and cash equivalents	32,745	36,481
Available-for-sale debt securities, at fair value	274,114	296,032
Equity securities, at fair value	903	891
Restricted stock, at cost	3,120	3,123
Loans held for sale	609	820
Loans, net of allowance for loan and lease losses of $9,253 and $9,519	829,611	829,581
Bank premises and equipment, net	14,991	14,425
Accrued interest receivable	3,706	3,614
Bank-owned life insurance	31,146	31,015
Other real estate owned	919	919
Net deferred tax assets	9,194	10,693
Other assets	13,393	10,138
Total assets	$1,214,451	$1,237,732
Liabilities		
Deposits:		
Demand (non-interest-bearing)	$157,073	$156,600
Interest-bearing	883,017	939,029
Total deposits	1,040,090	1,095,629
Borrowed funds:		
Federal Home Loan Bank of Pittsburgh advances	28,988	18,930
Subordinated debentures	-	5,000
Junior subordinated debentures	10,310	10,310
Total borrowed funds	39,298	34,240
Accrued interest payable	339	338

Other liabilities	10,942	10,306
Total liabilities	1,090,669	1,140,513
Shareholders' equity		
Preferred shares ($1.25 par)		
Authorized: 20,000,000 shares at March 31, 2019 and December 31, 2018		
Issued and outstanding: 0 shares at March 31, 2019 and December 31, 2018	-	-
Common shares ($1.25 par)		
Authorized: 50,000,000 shares at March 31, 2019 and December 31, 2018		
Issued and outstanding: 20,108,560 shares at March 31, 2019 and 16,821,371 shares at December 31, 2018	25,135	21,026
Additional paid-in capital	80,827	63,547
Retained earnings	18,809	17,186
Accumulated other comprehensive loss	(989)	(4,540)
Total shareholders' equity	123,782	97,219
Total liabilities and shareholders’ equity	$1,214,451	$1,237,732

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

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

	Three Months Ended March 31,	
(in thousands, except share data)	**2019**	**2018**
Interest income		
Interest and fees on loans	$9,407	$8,288
Interest and dividends on securities:		
U.S. government agencies	893	890
State and political subdivisions, tax free	37	20
State and political subdivisions, taxable	1,021	1,024
Other securities	205	195
Total interest and dividends on securities	2,156	2,129
Interest on interest-bearing deposits in other banks	46	23
Total interest income	11,609	10,440
Interest expense		
Interest on deposits	2,238	1,067
Interest on borrowed funds:		
Interest on Federal Home Loan Bank of Pittsburgh advances	287	352
Interest on subordinated debentures	24	56
Interest on junior subordinated debentures	114	87
Total interest on borrowed funds	425	495
Total interest expense	2,663	1,562
Net interest income before (credit) provision for loan and lease losses	8,946	8,878
(Credit) provision for loan and lease losses	(154)	720
Net interest income after (credit) provision for loan and lease losses	9,100	8,158
Non-interest income		
Deposit service charges	685	702
Net gain on the sale of available-for-sale debt securities	160	-
Net gain (loss) on equity securities	12	(19)
Net gain on the sale of mortgage loans held for sale	56	49
Net gain on the sale of SBA guaranteed loans	-	251
Net gain on the sale of other real estate owned	-	38
Loan-related fees	79	84
Income from bank-owned life insurance	131	134
Other	392	280
Total non-interest income	1,515	1,519
Non-interest expense		
Salaries and employee benefits	3,899	3,666

Occupancy expense	550	603
Equipment expense	307	314
Advertising expense	197	113
Data processing expense	781	648
Regulatory assessments	168	201
Bank shares tax	278	267
Expense of other real estate owned	51	45
Professional fees	332	296
Insurance expense	126	135
Other losses	9	41
Other operating expenses	727	903
Total non-interest expense	7,425	7,232
Income before income tax expense	3,190	2,445
Income tax expense	555	426
Net income	$2,635	$2,019
Earnings per share		
Basic	$0.14	$0.12
Diluted	$0.14	$0.12
Cash dividends declared per common share	$0.05	$0.04
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	18,720,502	16,763,401
Diluted	18,733,652	16,789,336

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

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

	Three Months Ended March 31,	
(in thousands)	**2019**	**2018**
Net income	$2,635	$2,019
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale debt securities	4,655	(4,976)
Taxes	(978)	1,044
Net of tax amount	3,677	(3,932)
Reclassification adjustment for gains included in net income	(160)	-
Taxes	34	-
Net of tax amount	(126)	-
Total other comprehensive income (loss)	3,551	(3,932)
Comprehensive income (loss)	$6,186	$(1,913)

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

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FNCB BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2019 and 2018
(unaudited)

(in thousands, except per share data)	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, December 31, 2017	16,757,963	$ 20,947	$ 63,210	$ 6,779	$ (1,745)	$ 89,191
Net income for the period	-	-	-	2,019	-	2,019
Cash dividends paid, $0.04 per share	-	-	-	(671)	-	(671)
Reclassification of unrealized loss on equity securities, net of tax	-	-	-	(65)	65	-
Restricted stock awards	-	-	72	-	-	72
Common shares issued through dividend reinvestment / optional cash purchase plan	8,637	11	53	(5)	-	59
Other comprehensive loss, net of tax of $1,044	-	-	-	-	(3,932)	(3,932)
Balances, March 31, 2018	16,766,600	$ 20,958	$ 63,335	$ 8,057	$ (5,612)	$ 86,738
Balances, December 31, 2018	16,821,371	$ 21,026	$ 63,547	$ 17,186	$ (4,540)	$ 97,219
Net income for the period	-	-	-	2,635	-	2,635
Cash dividends paid, $0.05 per share	-	-	-	(1,006)	-	(1,006)
Common shares issued for capital raise, net	3,285,550	4,107	17,201	-	-	21,308
Restricted stock awards	-	-	67	-	-	67
Common shares issued through dividend reinvestment / optional cash purchase plan	1,639	2	12	(6)	-	8
Other comprehensive income, net of tax of $944	-	-	-	-	3,551	3,551
Balances, March 31, 2019	20,108,560	$ 25,135	$ 80,827	$ 18,809	$ (989)	$ 123,782

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

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FNCB BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$2,635	$2,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities amortization, net	212	188
Equity in trust	(3)	(3)
Depreciation and amortization	802	674
Valuation adjustment for loan servicing rights	1	-
Stock-based compensation expense	67	72
(Credit) provision for loan and lease losses	(154)	720
Valuation adjustment for off-balance sheet commitments	21	(10)
Net gain on the sale of available-for-sale debt securities	(160)	-
Net (gain) loss on equity securities	(12)	19
Net gain on the sale of mortgage loans held for sale	(56)	(49)
Net gain on the sale of SBA guaranteed loans	-	(251)
Net gain on the sale of other real estate owned	-	(38)
Valuation adjustment of other real estate owned	-	17
Income from bank-owned life insurance	(131)	(134)
Proceeds from the sale of mortgage loans held for sale	1,858	2,878
Funds used to originate mortgage loans held for sale	(1,591)	(2,100)
Decrease in net deferred tax assets	555	424
Increase in accrued interest receivable	(92)	(196)
(Increase) decrease in prepaid expenses and other assets	(3,257)	548
Increase in accrued interest payable	1	43
Increase in accrued expenses and other liabilities	603	53
Total adjustments	(1,336)	2,855
Net cash provided by operating activities	1,299	4,874
Cash flows from investing activities:		
Maturities, calls and principal payments of available-for-sale debt securities	1,230	1,334
Proceeds from the sale of available-for-sale debt securities	25,130	-
Purchases of available-for-sale debt securities	-	(15,353)
Redemption (purchase) of the stock in Federal Home Loan Bank of Pittsburgh	3	(2,940)

Net increase in loans to customers	(333)	(43,006)
Proceeds from the sale of SBA guaranteed loans	-	5,206
Proceeds from the sale of other real estate owned	-	465
Purchases of bank premises and equipment	(894)	(2,840)
Net cash provided by (used in) investing activities	25,136	(57,134)
Cash flows from financing activities:		
Net decrease in deposits	(55,539)	(47,195)
Net proceeds from Federal Home Loan Bank of Pittsburgh advances - overnight	8,400	59,325
Proceeds from Federal Home Loan Bank of Pittsburgh advances - term	8,478	27,631
Repayment of Federal Home Loan Bank of Pittsburgh advances - term	(6,820)	(10,439)
Principal reduction on subordinated debentures	(5,000)	-
Proceeds from issuance of common shares, net of discount	21,316	59
Cash dividends paid	(1,006)	(671)
Net cash (used in) provided by financing activities	(30,171)	28,710
Net decrease in cash and cash equivalents	(3,736)	(23,550)
Cash and cash equivalents at beginning of period	36,481	37,746
Cash and cash equivalents at end of period	$32,745	$14,196
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$2,662	$1,519
Income taxes	-	18
Other transactions:		
Lease liabilities arising from obtaining right-of-use assets	12	-

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

FNCB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note *1.* 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 (the "Bank"), as well as the Bank's wholly owned subsidiaries (collectively, "FNCB"). The accounting and reporting policies of FNCB conform to accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form *10*-Q and Article *10-01* of Regulation S-*X.* Accordingly, they do *not* include all the information and accompanying notes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included in the consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. Prior period amounts have been reclassified when necessary to conform to the current period's presentation. Such reclassifications did *not* have an impact on the operating results or financial position of FNCB. The operating results and financial position of FNCB for the *three* months ended *March 31, 2019, may not* be indicative of future results of operations and financial position.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term are the allowance for loan and lease losses ("ALLL"), securities' valuation and impairment evaluation, the valuation of other real estate owned ("OREO"), and income taxes.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in FNCB's audited financial statements, included in the Annual Report filed on Form *10*-K as of and for the year ended *December 31, 2018.*

Note *2.* New Authoritative Accounting Guidance

Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842): “Leases” requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by the lessee will primarily depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU requires both finance and operating leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The new disclosures include both qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public business entities. An entity may adopt the new guidance either by restating prior periods and recording a cumulative effect adjustment at the beginning of the earliest comparative period presented or by recording a cumulative effect adjustment at the beginning of the period of adoption. FNCB adopted this guidance on January 1, 2019 and applied the standard by recording a cumulative effect adjustment at that date. Management performed a comprehensive evaluation of the effect this guidance may have on its operating results or financial position, including working with various business units within the organization and reviewing contractual arrangements for embedded leases in an effort to identify FNCB’s full lease population. Based on management's evaluation, the adoption of ASU 2016-02 resulted in FNCB recording an aggregate lease liability and right of use ("ROU") asset of $3.6 million for its operating lease commitments.

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

Accounting Guidance to be Adopted in Future Periods

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): “Measurement of Credit Losses on Financial Instruments,” replaces the current loss impairment methodology under GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. Specifically, the amendments in this ASU will require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments in this update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income, including such financial assets as loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. On June 17, 2016, the four, federal financial institution regulatory agencies (the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency), issued a joint statement to provide information about ASU 2016-13 and the initial supervisory views regarding the implementation of the new standard. The joint statement applies to all banks, savings associations, credit unions and financial institution holding companies, regardless of asset size. The statement details the key elements of, and the steps necessary for, the successful transition to the new accounting standard. In addition, the statement notifies financial institutions that because the appropriate allowance levels are institution-specific amounts, the agencies will not establish benchmark targets or ranges for the change in institutions' allowance levels upon adoption of the ASU, or for allowance levels going forward. Due to the importance of ASU 2016-13, the agencies encourage financial institutions to begin planning and preparing for the transition and state that senior management, under the oversight of the board of directors, should work closely with staff in their accounting, lending, credit risk management, internal audit, and information technology functions during the transition period leading up to, and well after, adoption. ASU 2016-13 is effective for public business entities that are U.S. Securities and Exchange Commission ("SEC") filers 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. Accordingly, FNCB will adopt this guidance on January 1, 2020. FNCB has created a Current Expected Credit Loss ("CECL") task group comprised of members of its finance, credit administration, lending, internal audit, loan operations and information systems units. The CECL task group has become familiar with the provisions of ASU 2016-13 and is in the process of implementing the new guidance, which includes, but is not limited to: (1) identifying segments and sub-segments within the loan portfolio that have similar risk characteristics; (2) determining the appropriate methodology for each segment; (3) implementing changes that are necessary to its core operating system and interfaces to be able to capture appropriate data requirements; and (4) evaluating qualitative factors and economic to develop appropriate forecasts for integration into the model. FNCB plans to begin running parallel computations using the current GAAP incurred loss model in the second quarter of 2019. FNCB is currently evaluating the effect this guidance may have on its operating results and/or financial position, including assessing any potential impact on its capital.

Refer to Note *2* to FNCB's consolidated financial statements included in the *2018* Annual Report on Form *10*-K for a discussion of additional accounting guidance applicable to FNCB that will be adopted in future periods.

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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 *March 31, 2019* and *December 31, 2018:*

	March 31, 2019			
(in thousands)	**Amortized Cost**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses**	**Fair Value**
Available-for-sale debt securities:				
Obligations of state and political subdivisions	$132,165	$ 807	$ 848	$132,124
U.S. government/government-sponsored agencies:				
Collateralized mortgage obligations - residential	34,365	83	496	33,952
Collateralized mortgage obligations - commercial	75,948	8	813	75,143
Mortgage-backed securities	21,104	113	105	21,112
Private collateralized mortgage obligations	2,782	28	3	2,807
Corporate debt securities	5,000	49	56	4,993
Asset-backed securities	1,573	-	13	1,560
Negotiable certificates of deposit	2,428	-	5	2,423
Total available-for-sale debt securities	$275,365	$ 1,088	$ 2,339	$274,114

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

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 *March 31, 2019.*

At *March 31, 2019* and *December 31, 2018,* securities with a carrying amount of *$264.8* million and *$286.4* million, respectively, were pledged as collateral to secure public deposits and for other purposes.

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

	March 31, 2019	
(in thousands)	**Amortized Cost**	**Fair Value**
Amounts maturing in:		
One year or less	$1,734	$1,731
After one year through five years	56,360	56,370
After five years through ten years	77,470	77,490
After ten years	4,029	3,949
Collateralized mortgage obligations	113,095	111,902
Mortgage-backed securities	21,104	21,112
Asset-backed securities	1,573	1,560
Total	$275,365	$274,114

Gross proceeds from the sale of available-for-sale debt securities were $25.1 million for the three months ended March 31, 2019, with gross gains and losses of $176 thousand and $16 thousand, respectively realized upon the sale. There were *no* sales of available-for-sale debt securities during the *three* months ended *March 31, 2018.*

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

	March 31, 2019								
	Less than 12 Months			**12 Months or Greater**			**Total**		
(dollars in thousands)	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**
Obligations of state and policitical subdivisions	2	$761	$ 10	54	$63,226	$ 838	56	$63,987	$ 848
U.S. government/government-sponsored agencies:									
Collateralized mortgage obligations - residential	-	-	-	11	24,424	496	11	24,424	496
	-	-	-	23	71,655	813	23	71,655	813

Collateralized mortgage obligations - commercial									
Mortgage-backed securities	-	-	-	6	10,453	105	6	10,453	105
Private collateralized mortgage obligations	1	874	3	-	-	-	1	874	3
Corporate debt securities	1	998	2	1	1,946	54	2	2,944	56
Asset-backed securities	-	-	-	2	1,560	13	2	1,560	13
Negotiable certificates of deposit	-	-	-	10	2,423	5	10	2,423	5
Total available-for-sale debt securities	4	$2,633	$ 15	107	$175,687	$ 2,324	111	$178,320	$ 2,339

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

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

There were *111* securities in an unrealized loss position at *March 31, 2019,* including 56 obligations of state and political subdivisions, *40* securities issued by a U.S. government or government-sponsored agency, *10* negotiable certificates of deposit, t*wo* asset-backed securities, two corporate debt securities and one private collateralized mortgage obligation. Management performed a review of all securities in an unrealized loss position as of *March 31, 2019* and determined that changes in the fair values of the securities were consistent with movements in market interest rates. In addition, as part of its review, management noted that there was *no* material change in the credit quality of any of the issuers or any other event or circumstance that *may* cause a significant adverse effect on the fair value of these securities. Moreover, to date, FNCB has received all scheduled principal and interest payments and expects to fully collect all future contractual principal and interest payments on all securities in an unrealized loss position at *March 31, 2019.* FNCB does *not* intend to sell the securities, nor is it more likely than *not* that it will be required to sell the securities, prior to recovery of their amortized cost. Based on the results of its review and considering the attributes of these debt securities, management concluded that the individual unrealized losses were temporary and OTTI did *not* exist at *March 31, 2019.*

Equity Securities

FNCB's investment in equity securities consists entirely of a mutual fund investment comprised of *one*- to *four*-family residential mortgage-backed securities collateralized by properties within FNCB's geographical market. At *March 31, 2019,* this mutual fund had an amortized cost of *$1.0* million and an unrealized loss of *$96* thousand, resulting in a fair value of $903 thousand. In accordance with ASU *2016-01,* Financial Instruments – Overall (Subtopic *825-10*): "Recognition and Measurement of Financial Assets and Financial Liabilities" which became effective *January 1, 2018,* FNCB recognizes any changes in the fair value of this equity security in the consolidated statements of income on a prospective basis. Upon the adoption of this new accounting guidance on *January 1, 2018,* FNCB recorded a *one*-time reclassification between retained earnings and accumulated other comprehensive loss for the unrealized loss on this mutual fund, net of taxes, of *$65* thousand. The following table presents unrealized and realized gains and losses recognized in net income on equity securities for the *three* months ended *March 31, 2019 and 2018.*

(in thousands)	**March 31, 2019**	**March 31, 2018**
Net gains (losses) recognized on equity securities	$ 12	$ (19)
Less: net gains (losses) recognized on equity securities sold	-	-
Unrealized gains (losses) on equity securities held	$ 12	$ (19)

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Restricted Securities

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

(in thousands)	March 31, 2019	December 31, 2018
Stock in Federal Home Loan Bank of Pittsburgh	$3,110	$ 3,113
Stock in Atlantic Community Banker's Bank	10	10
Total restricted securities, at cost	$3,120	$ 3,123

Management noted *no* indicators of impairment for the Federal Home Loan Bank of Pittsburgh or Atlantic Community Banker's Bank stock at *March 31, 2019* and *December 31, 2018.*

Equity Securities without Readily Determinable Fair Values

FNCB owns a *$1.7* million investment in the common stock of a privately-held bank holding company. The common stock was purchased during *2017* as part of a private placement pursuant to an exemption from the registration requirements of the Securities Act of *1933, as amended* for offerings *not* involving any public offering. The common stock of such bank holding company is *not* currently traded on any established market and is *not* expected to be traded in the near future on any securities exchange or established over-the-counter market. FNCB has elected to account for this transaction as an investment in an equity security without a readily determinable fair value. An equity security without a readily determinable fair value shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value. The *$1.7* million investment is included in other assets in the consolidated statements of financial condition at *March 31, 2019 and December 31, 2018. As part of its qualitative assessment, m*anagement engaged an independent *third* party to provide a valuation of this investment as of *March 31, 2019, which indicated that the* investment was *not* impaired. Management determined that *no* adjustment for impairment was required at *March 31, 2019.*

Note *4.* Loans

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

(in thousands)	**March 31, 2019**	**December 31, 2018**
Residential real estate	$161,938	$164,833
Commercial real estate	266,617	262,778
Construction, land acquisition and development	22,388	20,813
Commercial and industrial	156,521	150,962
Consumer	168,119	176,784
State and political subdivisions	59,784	59,037
Total loans, gross	835,367	835,207
Unearned income	(68)	(70)
Net deferred loan costs	3,565	3,963
Allowance for loan and lease losses	(9,253)	(9,519)
Loans, net	$829,611	$829,581

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 6, "Related Party Transactions" to these consolidated financial statements.

FNCB originates *one-* to *four*-family mortgage loans for sale in the secondary market. During the quarter ended *March 31, 2019, one*-to *four*-family mortgages sold on the secondary market were *$1.9* million. Net gains on the sale of residential mortgage loans for the *three* months ended *March 31, 2019* and *2018* were *$56* thousand and *$49* thousand, respectively. FNCB retains servicing rights on mortgages sold on the secondary market. At *March 31, 2019* and *December 31, 2018,* there were *$609* thousand and *$820 thousand* in *one*-to *four*-family residential mortgage loans held for sale, respectively.

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There were *no* sales of guaranteed loans during the *three* months ended *March 31, 2019.* During the *three* months ended *March 31, 2018,* FNCB sold the guaranteed principal balance of loans that were guaranteed by the Small Business Administration ("SBA") totaling *$5.0* million. Net gains realized upon the sales for the period ended *March 31, 2018* and included in non-interest income totaled *$251* thousand. FNCB retained the servicing rights on these loans. The unpaid principal balance of loans serviced for others, including residential mortgages and SBA guaranteed loans were *$107.6* million at *March 31, 2019* and *$108.4* million at *December 31, 2018.*

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

There were *no* material changes to the risk characteristics of FNCB's loan segments, loan classification and credit grading systems and methodology for determining the adequacy of the ALLL during the *three* months ended *March 31, 2019.* Refer to Note *2,* "Summary of Significant Accounting Policies" to FNCB's consolidated financial statements included in the *2018* Annual Report on Form *10*-K for information about the risk characteristics related to FNCB's loan segments, loan classification and credit grading systems and methodology for determining the adequacy of the ALLL.

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

The following table summarizes activity in the ALLL by loan category for the *three* months ended *March 31, 2019* and *2018.*

(in thousands)	**Residential**	**Commercial**	**Construction, Land Acquisition and Development**	**Commercial**	**Consumer**	**State and Political Subdivisions**	**Unallocated**	**Total**

	Real Estate	Real Estate		and Industrial				
Three months ended March 31, 2019:								
Allowance for loan losses:								
Beginning balance, January 1, 2019	$ 1,175	$ 3,107	$ 188	$ 2,552	$ 2,051	$ 417	$ 29	$9,519
Charge-offs	-	-	-	(139)	(315)	-	-	(454)
Recoveries	4	-	81	84	173	-	-	342
Provisions (credits)	(24)	(56)	(163)	2	54	6	27	(154)
Ending balance, March 31, 2019	$ 1,155	$ 3,051	$ 106	$ 2,499	$ 1,963	$ 423	$ 56	$9,253
Three months ended March 31, 2018:								
Allowance for loan losses:								
Beginning balance, January 1, 2018	$ 1,236	$ 3,499	$ 209	$ 2,340	$ 1,395	$ 355	$ -	$9,034
Charge-offs	(63)	-	-	(77)	(260)	-	-	(400)
Recoveries	6	1	30	72	99	-	-	208
Provisions (credits)	70	(158)	17	170	588	33	-	720
Ending balance, March 31, 2018	$ 1,249	$ 3,342	$ 256	$ 2,505	$ 1,822	$ 388	$ -	$9,562

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The following table represents the allocation of the ALLL and the related loan balance, by loan category, disaggregated based on the impairment methodology at *March 31, 2019* and *December 31, 2018:*

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction, Land Acquisition and Development	Commercial and Industrial	Consumer	State and Political Subdivisions	Unallocated	Total
March 31, 2019								
Allowance for loan losses:								
Individually evaluated for impairment	$ 13	$ 40	$ -	$ 851	$ 2	$ -	$ -	$ 906
Collectively evaluated for impairment	1,142	3,011	106	1,648	1,961	423	56	8,347
Total	$ 1,155	$ 3,051	$ 106	$ 2,499	$ 1,963	$ 423	$ 56	$ 9,253
Loans receivable:								
Individually evaluated for impairment	$ 1,834	$ 9,631	$ 81	$ 1,546	$ 380	$ -	$ -	$ 13,472
Collectively evaluated for impairment	160,104	256,986	22,307	154,975	167,739	59,784	-	821,895
Total	$ 161,938	$ 266,617	$ 22,388	$ 156,521	$ 168,119	$ 59,784	$ -	$ 835,367
December 31, 2018								
Allowance for loan losses:								
Individually evaluated for impairment	$ 14	$ 41	$ -	$ 600	$ 2	$ -	$ -	$ 657
Collectively evaluated for impairment	1,161	3,066	188	1,952	2,049	417	29	8,862
Total	$ 1,175	$ 3,107	$ 188	$ 2,552	$ 2,051	$ 417	$ 29	$ 9,519
Loans receivable:								
Individually evaluated for impairment	$ 1,847	$ 9,408	$ 82	$ 697	$ 383	$ -	$ -	$ 12,417
Collectively evaluated for	162,986	253,370	20,731	150,265	176,401	59,037	-	822,790

impairment								
Total	$ 164,833	$ 262,778	$ 20,813	$ 150,962	$ 176,784	$ 59,037	$ -	$ 835,207

Credit Quality Indicators – Commercial Loans

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

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

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

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

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

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

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

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

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

Credit Quality Indicators – Other Loans

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

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

	Credit Quality Indicators March 31, 2019 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	$31,536	$252	$235	$ -	$ -	$32,023	$129,194	$721	$129,915	$161,938
Commercial real estate	254,254	1,661	10,702	-	-	266,617	-	-	-	266,617
Construction, land acquisition and development	20,343	-	-	-	-	20,343	2,027	18	2,045	22,388
Commercial and industrial	147,059	463	3,028	-	-	150,550	5,971	-	5,971	156,521
Consumer	2,389	-	-	-	-	2,389	165,290	440	165,730	168,119
State and political subdivisions	57,993	1,760	-	-	-	59,753	31	-	31	59,784
Total	$513,574	$4,136	$13,965	$ -	$ -	$531,675	$302,513	$1,179	$303,692	$835,367

	Credit Quality Indicators December 31, 2018 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	$33,573	$291	$154	$ -	$ -	$34,018	$130,132	$683	$130,815	$164,833
Commercial real estate	250,674	1,858	10,246	-	-	262,778	-	-	-	262,778
Construction, land acquisition and development	17,704	-	757	-	-	18,461	2,352	-	2,352	20,813
Commercial and industrial	137,888	4,193	2,448	-	-	144,529	6,421	12	6,433	150,962
Consumer	2,024	-	-	-	-	2,024	174,373	387	174,760	176,784
State and political subdivisions	57,345	1,665	27	-	-	59,037	-	-	-	59,037

Total	$499,208	$8,007	$13,632	$ -	$ -	$520,847	$313,278	$1,082	$314,360	$835,207

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment in these non-accrual loans was *$6.2* million and *$4.7* million at *March 31, 2019* and *December 31, 2018,* respectively. 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 exist. Therefore, loans *may* be current in accordance with their loan terms, or *may* be less than *90* days delinquent and still be on a non-accrual status. There were *no* loans past due *90* days or more and still accruing at *March 31, 2019* and *December 31, 2018.*

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

	March 31, 2019 Delinquency Status				
(in thousands)	**0-29 Days Past Due**	**30-59 Days Past Due**	**60-89 Days Past Due**	**>/= 90 Days Past Due**	**Total**
Performing (accruing) loans:					
Residential real estate	$160,753	$219	$156	$-	$161,128
Commercial real estate	262,514	774	-	-	263,288
Construction, land acquisition and development	22,219	151	-	-	22,370
Commercial and industrial	153,731	1,177	35	-	154,943
Consumer	165,683	1,804	192	-	167,679
State and political subdivisions	59,784	-	-	-	59,784
Total performing (accruing) loans	824,684	4,125	383	-	829,192
Non-accrual loans:					
Residential real estate	569	-	109	132	810
Commercial real estate	1,160	434	-	1,735	3,329
Construction, land acquisition and development	-	-	18	-	18
Commercial and industrial	1,296	-	278	4	1,578
Consumer	163	52	13	212	440
State and political subdivisions	-	-	-	-	-
Total non-accrual loans	3,188	486	418	2,083	6,175
Total loans receivable	$827,872	$4,611	$801	$2,083	$835,367

	December 31, 2018 Delinquency Status				
(in thousands)	**0-29 Days Past Due**	**30-59 Days Past Due**	**60-89 Days Past Due**	**>/= 90 Days Past Due**	**Total**
Performing (accruing) loans:					
Residential real estate	$163,690	$319	$136	$ -	$164,145
Commercial real estate	259,904	-	-	-	259,904
Construction, land acquisition and development	20,813	-	-	-	20,813
Commercial and industrial	150,108	87	20	-	150,215
Consumer	173,890	2,221	286	-	176,397
State and political subdivisions	59,037	-	-	-	59,037

Total performing (accruing) loans	827,442	2,627	442	-	830,511
Non-accrual loans:					
Residential real estate	443	-	136		