Risk Factors Comparison 2024-03-08 to 2023-03-10 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

~~Changes which~~ **Financial institutions, like other businesses, are susceptible to the effects of external events that can compromise operating and communications systems and otherwise** have ~~been approved for future implementation include~~ **adverse effects. Such events, should** ~~the~~ **they** ~~calculation of~~ **occur, can cause significant damage, impact** the ~~allowance~~ **stability of FNCB' s operations** ~~for~~ - **or facilities, result in additional expense,** ~~loan and leases losses on the basis of the current expected credit losses over the lifetime of our~~ - **or impair the ability of FNCB' s borrowers to repay their** loans ~~, referred to as the CECL model, became applicable to us on January 1, 2023~~ . **Although we have established and** ~~The change in this calculation could adversely affect our capital, regulatory~~ -- **regularly** ~~capital ratios~~ **test disaster recovery procedures** , **the occurrence of any** ~~ability to make larger loans, earnings and performance metrics. Any~~ such ~~changes~~ **event** could have a material adverse effect on our business, financial condition and results of operations. ~~Under~~ **In addition,** ~~the~~ **other** ~~CECL model~~ **external events** , **including natural disasters, health emergencies and epidemics or pandemics** ~~banks will be required to present certain financial assets carried at amortized cost~~ , such as **the COVID** ~~loans held for investment and held~~ - **19 pandemic** ~~to- maturity debt securities~~ , **and** ~~at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past~~ events ~~, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability~~ of ~~the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the" incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses, and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of the allowance for loan losses. If we are~~ **armed conflict in** ~~required to materially increase the~~ **other** ~~level~~ **parts** of the **world** ~~allowance for loan losses for any reason~~ , such ~~increase~~ **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 ~~evaluated the impact the CECL accounting model~~ 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. 17The 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 ~~accounting~~ ongoing business or inconsistencies in standards , controls, procedures and policies that adversely ~~expects to recognize a one- time cumulative- effect~~ affect ~~adjustment to reduce~~ the ~~allowance~~ 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 ~~as of the beginning of the first reporting period~~ periods ~~in which~~ , to meet future regulatory capital requirements or for ~~the~~ other ~~new standard~~ 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 ~~effective. FNCB will recognize a cumulative effect adjustment to the opening retained earnings as~~ of ~~the adoption date. Management currently estimates the allowance~~ common stock, including securities that are convertible into or exchangeable for ~~credit losses will be in a range of $ 11. 5 million to $ 11. 8 million~~ , ~~decreasing~~ or that represent the right ~~allowance by approximately $ 2. 4 million~~ to receive ~~$ 2. 6 million. The estimated increase to equity~~ , common stock ~~net of tax, will range from $ 1~~ . ~~9 million~~ Because FNCB’ s decision to issue securities in any future offering ~~$ 2. 1 million. The actual impact~~ will depend on ~~a number~~ 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. 18An 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** ~~external~~ **internal** ~~factors~~ **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** ~~including~~ **concluding that** ~~: outstanding loan balances, characteristics of~~ FNCB ~~'~~ **'** s ~~loan~~ **internal control over financial reporting is effective and would preclude its independent auditors from expressing** ~~and~~ **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** ~~portfolios, macroeconomic conditions, forecast information and management' s judgement~~. 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~~ **19Provisions** 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. ~~18Item~~ -- **Item** 1B. Unresolved Staff Comments.