



PUBLIC DISCLOSURE

July 08, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Community Bank
Charter Number 9868

102 East Drinker Street Dunmore, PA 18512

Office of the Comptroller of the Currency

60 Public Square, Suite 602 Wilkes-Barre, PA 18701

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- First National Community Bank's (FNCB) distribution of loans represents reasonable penetration among individuals of different income levels and businesses of different sizes.
- FNCB's geographical distribution of loans reflects a reasonable dispersion of loans throughout its combined assessment areas.
- A majority of FNCB's loan products were originated within the bank's combined assessment areas.
- FNCB's overall loan-to-deposit ratio is reasonable.
- FNCB's responsiveness to community development needs and opportunities in its combined assessment areas is adequate.

Scope of Examination

First National Community Bank (FNCB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, qualified investments, and community development services.

The lending test for FNCB covers its performance from January 1, 2009 through December 31, 2011, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from November 23, 2009 through July 6, 2013.

FNCB's primary loan products are home mortgage and small business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The reported HMDA data was tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's home mortgage performance. In addition, the bank collects, but does not report, CRA small business loan data. The small business collected data was also tested and found to be reliable, as well. This data was used to evaluate the bank's small business loan performance.

Selection of Areas for Full-Scope Review

FNCB has three assessment areas (AAs) all located in the state of Pennsylvania. We conducted a full-scope review of the Scranton-Wilkes-Barre, PA MSA #42540 AA, and we conducted a limited-scope review of the Wayne County, Non-MSA AA and the Monroe County, Non-MSA AA.

We conducted a full-scope review of the Scranton-Wilkes-Barre, PA MSA #42540 AA because 89.87% of the bank's deposits, 92.67% of the bank's total lending, and 17 of the bank's 21 branches were in this AA.

The Wayne County, Non-MSA AA was selected for a limited-scope review because only 7.08% of the bank's deposits, 5.67% of the bank's total lending, and only two branches were in this AA.

We conducted a limited scope review of the Monroe County, Non-MSA AA because only 2.29% of the bank's deposits, 1.66% of the bank's total lending, and two branches were in this AA.

The AAs are consistent with the requirements of the regulation, and do not arbitrarily exclude low- or moderate-income geographies.

Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. The Scranton-Wilkes-Barre, PA MSA #42540 AA received a full-scope review and was more heavily weighted because a majority of the lending and deposits were in this AA.

Description of Institution

First National Community Bank (FNCB) is a \$967.8 million intrastate community bank headquartered in Dunmore, Pennsylvania. FNCB is a wholly owned subsidiary of First National Community Bancorp, Inc., a one-bank holding company also headquartered in Dunmore, Pennsylvania with total assets of \$968.2 million as of December 31, 2012. FNCB has no affiliates or operating subsidiaries.

Since the last evaluation, FNCB has not opened or closed any branch offices. The bank did relocate their Wilkes-Barre Office to another facility within the same middle-income census tract. All of the bank's branches have drive through facilities, and full service Automated Teller Machines (ATMs) with the main office offering both a walk-up and drive-through ATM, eight branches offer extended Friday evening hours and seventeen have Saturday morning hours. In addition to the twenty-two ATMs that are located at the aforementioned branches, FNCB has seven stand-alone ATMs, which are cash dispensing only ATMs. During the evaluation period, one ATM was opened, and three ATMs were closed.

FNCB provides personal, small business and commercial banking services to individuals and businesses. Consumer products and services include checking accounts, savings accounts, money market accounts, certificates of deposit, personal loans, mortgages, home equity loans, and consumer loans. Commercial products and services include checking accounts, savings accounts, certificates of deposit, commercial and industrial loans, lines of credit, commercial real estate loans, letters of credit, and small business loans. FNCB provides access to account information 24 hours a day, 7 days a week through Telephone Banking (Account Link), Loan by Phone, Mortgage Link and FNCB online, which offers a full array of internet banking services. Consumer, small business, and commercial banking are FNCB's primary business focus.

As of December 31, 2012, FNCB had total assets of \$967.8 million, net loans of \$581 million or 60% of total assets and net tier one capital of \$69.9 million. The composition of the loan portfolio is: 60.8% commercial and commercial real estate, 18.7% one to four family residential real estate, 11% consumer, 3.5% municipal, and 4.64% construction and development loans.

Competition is very strong and includes local community banks, regional banks, and large national banks. FNCB's primary competitors are: PNC Bank NA, Wells Fargo Bank NA, Manufacturers and Traders Trust Company, and Penn Security Bank and Trust Co.

The bank has no financial or legal impediments to meeting the credit needs of the community. The bank was rated "Satisfactory" at the last CRA examination using large bank examination procedures dated November 23, 2009.

Description of Assessment Area(S)

Scranton-Wilkes-Barre, PA MSA #42540 AA

Demographic Information for Full Scope Area: Scranton-Wilkes-Barre, PA MSA #42540 AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	161	0.62	13.04	73.29	13.04	0.00
Population by Geography	532,545	0.49	10.80	71.81	16.91	0.00
Owner-Occupied Housing by Geography	150,164	0.03	8.34	73.46	18.17	0.00
Business by Geography	50,103	3.09	8.91	68.78	19.21	0.00
Farms by Geography	874	0.34	4.58	64.53	30.55	0.00
Family Distribution by Income Level	140,741	19.04	18.71	22.85	39.40	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	53,133	0.39	15.50	73.84	10.27	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		43,893 58,100 12%	Median Housing Value Unemployment Rate (US bureau of L&S) Luzerne County (May 2013 US bureau of L&S) Lackawanna County (May 2013 US bureau of L&S)	87,056 9.2% 8.9%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2011 HUD updated MFI

FNCB's Scranton-Wilkes-Barre, PA MSA #42540 AA is a portion of the Scranton-Wilkes-Barre, PA MSA #42540. The Scranton-Wilkes-Barre, PA MSA #42540 includes Lackawanna, Luzerne, and Wyoming counties in Pennsylvania. FNCB designated Lackawanna and Luzerne Counties as its AA and excluded Wyoming County as they do not have branches in Wyoming County and therefore could not reasonably service Wyoming County.

The Scranton-Wilkes-Barre, PA MSA #42540 AA is comprised of 161 census tracts. Of these geographies, one (.62%) is low-income, 21 (13.04%) are moderate-income, 118 (73.29%) are middle-income, and 21 (13.04%) are upper-income geographies. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The 2000 U.S. Census reported the total population of the AA at 532,545. Within the AA, there were 216,907 households and 140,741 families. The 2000 median income was \$43,893, and the 2011 HUD updated median family income was \$58,100. Approximately 19% of the families are low-income, 19% are moderate-income, 23% are middle-income, and 39% are upper-income. Approximately 12% of households are below the poverty level.

There were 240,040 housing units in this AA. Of the total housing units, 62.5% or 150,164 were owner-occupied and 9.6% or 23,143 were vacant housing units. Of all

owner-occupied housing units, 0.03% was located in the low-income geography, 8.34% were located in moderate-income geographies, 73.46% were located in middle-income geographies, and 18.17% were located in upper-income geographies. The median housing cost was \$87,056.

According to the 2011 business demographics, there are a total of 50,103 businesses in the AA. Approximately 65% of the businesses reporting have revenues less than \$1 million, 3% have revenues greater than \$1 million, and the revenue was not reported for 31.5% of the businesses. Approximately 3.09% of the businesses are located in the low-income geography, 9% are located in the moderate-income geographies, 69% are located in the middle-income geographies, and 19% are located in the upper-income geographies.

FNCB has seventeen branches in this AA. All of the branches have drive-through facilities and full service Automated Teller Machines (ATMs) (Main Office offers two ATMs). Five branches offer extended Friday evening hours and twelve branches offer Saturday morning hours. In addition to the eighteen ATMs that are located at the aforementioned branches, FNCB has four stand-alone ATMs in this AA, that are cash dispensing only ATMs.

Competition within the Scranton-Wilkes-Barre, PA MSA #42540 AA is strong with 353 lenders originating loans. FNCB (is ranked twelve with 2.19% market share) faces competition from well-established local savings banks, larger national institutions, as well as several mortgage/finance companies. The Bank's competitors include: Wells Fargo Bank NA, (ranked 1 with 14.01% market share), PNC Bank NA, (ranked 2 with 7.15% market share), Bank of America NA, (ranked 3 with 5.56% market share), and Embrace Home Loans, Inc. (ranked 4 with 4.21% market share).

According to the June 30, 2012 FDIC Summary of Deposit Market Share report, FNCB was ranked fourth out of twenty-two institutions in the Scranton-Wilkes-Barre, PA MSA #42540 AA with a 7.13% deposit market share (17 branches). Competitors in this market include: PNC Bank NA, ranked first with a 24.46% deposit market share (33 branches), Wells Fargo Bank NA, ranked second with a 9.98% deposit market share (14 branches), Manufacturers and Traders Trust Company, ranked third with an 8.79% deposit market share (14 branches), and Penn Security Bank ranked fifth with a 6.12% deposit market share (9 branches).

The Scranton-Wilkes-Barre, PA economy continues in an economic downturn. Although the downturn is less severe than that seen nationally or in Pennsylvania, the metro areas are contracting because of rising joblessness and declining industrial production. Layoffs are primarily concentrated in manufacturing and transportation. The area's concentration in healthcare and federal defense spending provide some economic support, help limit the severity of economic conditions, and provide stability as the economy transitions to recovery. The contraction in the local economy combined with tough credit conditions has kept home sales at relatively lower levels.

The major industries in the Scranton-Wilkes-Barre area are: state and local government, general medical and surgical hospitals, restaurants, manufacturing, and retail trade. The major industries in Lackawanna County are finance, insurance, real estate, tourism, and health services, and the major industries in Luzerne County are manufacturing and retail trade. Some of the major employers in the Scranton-Wilkes-Barre area are: Tobyhanna Army Depot, Geisinger Health Care System, Allied Services, and Procter & Gamble.

According to the U. S. Bureau of Labor Statistics, the non-seasonally adjusted May, 2013 unemployment rate was 9.2% for Luzerne County, 8.9% for Lackawanna County, and 7.5% for the state of Pennsylvania.

During this examination, we performed a community contact with a local non-profit organization that serves the needs of the community by raising funds and redistributing them to local agencies to meet the needs of the community. During our interview, the community contact described the community profile as “a depressed area with high unemployment, higher than average poverty, and relatively lower wages”. The contact acknowledged a need for business investment in order to lower unemployment and expressed a need for higher home ownership. The contact stated that it is a “challenge for financial institutions to participate in the local community due to the absence of opportunities. His perception was that “local financial institutions have a number of individuals that serve on local boards”. However, he “does not see the activism within the banks to make real change within the community”.

Wayne County Non-MSA AA

Demographic Information for Limited Scope Area: Wayne County Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	14	0.00	0.00	100.00	0.00	0.00
Population by Geography	47,722	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	14,772	0.00	0.00	100.00	0.00	0.00
Business by Geography	5,023	0.00	0.00	100.00	0.00	0.00
Farms by Geography	278	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	12,967	18.93	19.83	25.36	35.87	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	5,027	0.00	0.00	100.00	0.00	0.00
Median Family Income		41,475	Median Housing Value		104,372	
HUD Adjusted Median Family Income for 2011		54,900	Unemployment Rate (May 2013 US Bureau of L&S)		6.9%	
Households Below Poverty Level		12%				

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2011 HUD updated MFI

FNCB’s Wayne County Non-MSA AA is comprised of all of Wayne County, located in northeastern Pennsylvania.

The Wayne County Non-MSA AA is comprised of 14 census tracts. Of these geographies, there are no low-, moderate-, or upper-income census tracts. All of the 14 census tracts, (100%) are middle-income geographies. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The 2000 U.S. Census reported the total population of the AA at 47,722. Within the AA, there were 18,300 households and 12,967 families. The 2000 median income was \$41,475 and the 2011 HUD updated median family income was \$54,900. Approximately 18.9% of the families are low-income, 19.83% are moderate-income, 25.36% are middle-income, and 35.8% are upper-income. Approximately 12% of households are below the poverty level.

There were 30,593 housing units in this AA. Of the total housing units, 48.29% or 14,772 were owner-occupied and 40% or 12,243 were vacant housing units. All owner-occupied housing units, 100% were located in middle-income geographies. The median housing cost was \$104,372.

According to the 2011 business demographics, there are a total of 5,301 businesses in the AA. Approximately 73% of the businesses reporting have revenues less than \$1 million, 2% have revenues greater than \$1 million, and the revenue was not reported for 25.2% of the businesses. All of the businesses (100%) are located in middle-income geographies.

FNCB has two branches in this AA. Both of the branches have drive-through facilities and full service Automated Teller Machines (ATMs). Both branches offer extended Friday evening hours and Saturday morning hours. FNCB has no stand alone ATMs in this AA.

Competition within the Wayne County Non-MSA AA is strong with 205 lenders originating loans within the AA and includes both regional and large national financial institutions. FNCB (ranked 21 within this AA with 1.08% market share) faces competition from well-established local savings banks, larger national institutions, as well as several mortgage/finance companies. The Bank's competitors include: Wells Fargo Bank NA, (ranked 1 with 11.85% market share), The Honesdale National Bank, (ranked 2 with 8.75% market share), the Dime Bank, (ranked 3 with 8.71% market share), and JP Morgan Chase NA, (ranked 4 with 6.27% market share).

According to the June 30, 2012 FDIC Summary of Deposit Market Share report, FNCB was ranked fifth out of eleven institutions in the Wayne County Non-MSA AA with a 5.06% deposit market share (2 branches). Competitors in this market include: The Dime Bank, ranked first with a 28.21% deposit market share (5 branches), The Honesdale National Bank, ranked second with a 24.50% deposit market share (3 branches), The Wayne Bank, ranked third with an 19.21% deposit market share (5 branches), and NBT Bank NA, ranked fourth with a 11.81% deposit market share (5 branches).

Monroe County Non –MSA AA

Demographic Information for Limited Scope Area: Monroe County Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	23	0.00	0.00	39.13	60.87	0.00
Population by Geography	138,687	0.00	0.00	37.16	62.84	0.00
Owner-Occupied Housing by Geography	38,742	0.00	0.00	33.63	66.37	0.00
Business by Geography	12,891	0.00	0.00	39.54	60.46	0.00
Farms by Geography	283	0.00	0.00	26.15	73.85	0.00
Family Distribution by Income Level	36,602	12.72	14.39	19.97	52.92	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	9,922	0.00	0.00	42.85	57.15	0.00
Median Family Income		41,475	Median Housing Value		122,155	
HUD Adjusted Median Family Income for 2011		54,900	Unemployment Rate (May ,2013 US		9.4%	
Households Below Poverty Level		9%	Bureau of L&S)			

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

FNCB’s Monroe County Non-MSA AA is comprised of all of Monroe County, located in eastern Pennsylvania.

The Monroe County Non-MSA AA is comprised of 23 census tracts. Of these geographies, there are no low-or moderate-income census tracts. Nine (39.13%) are middle-income, and 14 (60.87%) are upper-income geographies. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

The 2000 U.S. Census reported the total population of the AA is 138,687. Within the AA, there were 49,508 households and 36,602 families. The 2000 median income was \$41,475 and the 2011 HUD updated median family income was \$54,900. Approximately 12.7% of the families are low-income, 14.39% are moderate-income, 19.97% are middle-income, and 52.92% are upper-income. Approximately 9% of households are below the poverty level.

There were 67,581 housing units in this AA. Of the total housing units, 57% or 38,742 were owner-occupied and 26.82% or 18,127 were vacant housing units. 27,257 owner-occupied housing units, or 33.63% were located in middle-income geographies and 40,324 owner-occupied units or 66.37% were located in upper-income geographies. The median housing cost was \$122,155.

According to the 2011 business demographics, there are a total of 13,174 businesses in the AA. Approximately 68% of the businesses reporting have revenues less than \$1 million, 2% have revenues greater than \$1 million, and the revenue was not reported for 29% of the businesses. All (100%) are located in middle- or upper-income geographies.

FNCB has two branches in this AA. Both of the branches have drive-through facilities and full service Automated Teller Machines (ATMs). One branch offers Saturday morning hours. FNCB has three stand-alone ATMs in this AA that are cash dispensing only ATMs.

Competition within the Monroe County Non-MSA AA is strong with 314 lenders originating loans within the AA and includes both regional and large national financial institutions. FNCB (is ranked 99 within this AA with .09% market share) faces competition from well-established local savings banks, larger national institutions, as well as several mortgage/finance companies. The Bank's competitors include: Wells Fargo Bank NA, (ranked 1 with 16.54% market share), Bank of America NA, (ranked 2 with 7.5% market share), JP Morgan Chase NA, (ranked 3 with 7.47% market share), and ESSA Bank & Trust, (ranked 4 with 7.28% market share).

According to the June 30, 2012 FDIC Summary of Deposit Market Share report, FNCB was ranked 15 out of 16 institutions in the Monroe County Non-MSA AA with a .81% deposit market share (2 branches). Competitors in this market include: ESSA Bank & Trust, ranked first with a 29.10% deposit market share (13 branches), PNC Bank NA, ranked second with a 20.4% deposit market share (9 branches), First Northern Bank & Trust Company, ranked third with an 11.09% deposit market share (5 branches), and Wells Fargo Bank NA, ranked fourth with a 7.90% deposit market share (3 branches).

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions

The bank's performance under the lending test is rated Satisfactory. Based on full-scope reviews, the bank's performance is considered adequate. A majority of FNCB's primary loan products are within the bank's combined assessment areas. In addition, FNCB's loan-to-deposit ratio is reasonable. Based on limited-scope reviews, the bank's performance under the lending test in the Wayne County Non-MSA AA is not inconsistent with the bank's overall "Satisfactory" performance. The bank's performance under the lending test in the Monroe County Non-MSA AA is weaker than the bank's overall Satisfactory performance.

Loan-to-Deposit Ratio

FNCB's net loan-to-deposit ratio is reasonable. The bank's net loan-to-deposit ratio averaged 81.42% over the last 12 quarters since the previous CRA examination. This ratio ranged from a quarterly low of 66.9% to a quarterly high of 100.87% during the period.

The bank's net loan-to-deposit ratio compares favorably with a custom peer group of other financial institutions of similar size, and product offerings located within the state

of Pennsylvania. The average net loan-to-deposit ratios for the other banks in the custom peer group over the same 12 quarters was 65.54% and ranged from 51% to 76%.

Lending in Assessment Area

FNCB originated a majority of loans in their combined assessment areas. During the evaluation period, 80.59% of the number of total home mortgage and small loans to businesses were originated within the bank's combined assessment areas.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Conclusions for Areas Receiving Full-Scope Reviews

The borrower distribution of FNCB's home mortgage reflects adequate penetration among borrowers of different income levels in the AA. The distribution of small loans to businesses is also adequate.

We considered demographic factors including the high cost of housing compared to the median family income of a low-income person, and the high percentage of individuals below the poverty level, in our home mortgage analysis.

In our analysis, we considered the lack of affordability for a low-income family to purchase a home. The average median housing value in this AA was \$87,056, and a low-income family earns less than \$29,050. Additionally, 12% of the households in this AA are below the poverty level and are considered very low-income. This lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low-income individuals and families; therefore, we placed more emphasis on the moderate-income performance.

Scranton-Wilkes-Barre, PA MSA #42540 AA

The distribution of loans for the Scranton-Wilkes-Barre, PA MSA #42540 AA reflects adequate penetration among individuals of different income levels and businesses of different sizes.

Home Loans

Overall, the distribution of home loans to borrowers reflects adequate penetration among borrowers of different income levels.

The bank's percentage of home purchase loans made to low-income borrowers is significantly less than the percent of low-income families in the Scranton-Wilkes-Barre, PA MSA #42540 AA. Considering that while the 2011 HUD updated Median family income is \$58,100 in this AA and that a low-income family earns less than \$29,050 while the median housing value for this same period is \$87,056, this performance is considered reasonable.

The bank's percentage of home purchase loans made to moderate-income borrowers is somewhat less than the percentage of loans made to moderate-income families in this AA. Considering that while the 2011 HUD updated Median family income is \$58,100 in this AA and that a moderate-income family earns less than \$46,480 while the Median housing value for this same period is \$87,087, this performance is considered reasonable.

The bank's percentage of home improvement loans made to low-income borrowers is somewhat less than the percent of low-income families in the AA. The bank's percentage of home improvement loans made to low-income borrowers reflects reasonable penetration considering prevailing economic conditions in this AA detailed above.

The bank's percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of loans made to moderate-income families in the AA. The bank's percentage of home improvement loans to moderate-income borrowers reflects excellent penetration considering economic conditions in the AA.

The bank's percentage of home refinance loans made to low-income borrowers is lower than the percent of low-income families in the AA. The bank's percentage of home refinance loans made to low-income borrowers reflects reasonable penetration when considering current demographic information.

The bank's percentage of home refinance loans made to moderate-income borrowers is less than the percentage of moderate-income families in the County AA. The bank's percentage of home refinance loans made to moderate-income borrowers reflects adequate penetration considering prevailing economic conditions in this AA detailed above.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2009 through December 31, 2011 as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Families	% of Bank Loans	% of Families	% of Bank Loans	% of Families	% of Bank Loans	% of Families	% of Bank Loans
Home Purchase	19.04	3.47	18.71	13.90	22.85	19.31	39.4	63.32
Home Improvement	19.04	12.94	18.71	22.94	22.85	24.12	39.4	40.
Home Refinance	19.04	3.54	18.71	9.55	22.85	18.03	39.4	68.88

Source: HMDA data for 1/1/2009-12/31/2011 and HUD-updated 2000 U.S. Census data

Business Loans

The distribution of small loans to businesses is excellent when considering the distribution by size of loan and the strong competition from larger, nationwide lenders that offer small business credit.

The percentage of small loans to businesses (businesses with gross annual revenues of \$1 million or less) is higher than the percentage of businesses in the AA. This is a good indication that business lending is primarily to small businesses. Additionally, the distribution by size of loan shows that 73.08% of the loan originations are for \$100,000 or less and 11.18% are \geq \$100 thousand but less than \$250,000.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Total Small Loans to Businesses		Businesses with Revenues \leq \$1 million		Loans by Amount Regardless of Business Size		
#	% of Total	% of Businesses	% of Bank Loans	\$100,000 or less	\$100,000 to \$250,000	\$250,000+
483	95.45	64.86	74.95	73.08	11.18	15.73

Source: CRA small business data for 1/1/2009 to 12/31/2011 and 2000 U.S. Census data

Wayne County Non-MSA AA

The borrower penetration of FNCB’s home mortgage loans is not inconsistent with the bank’s overall “Satisfactory” performance in the full scope assessment area.

Monroe County Non-MSA AA

The borrower penetration of FNCB’s home mortgage loans is weaker than the bank’s overall “Satisfactory” performance primarily resulting from its poor record of originating home purchase and home refinance loans to low- and moderate-income borrowers.

However, based on the bank’s limited presence and limited deposit and lending activity in this AA these results had little impact on the banks overall rating. FNCB has two branches in this AA and 0.09 percent market share of mortgage originations.

Geographic Distribution of Loans

Conclusions for Areas Receiving Full-Scope Reviews

The borrower distribution of FNCB’s home mortgage, small loans to businesses loans reflects adequate dispersion throughout this AA.

Scranton-Wilkes-Barre, PA MSA #42540 AA

The geographic distribution of loans reflects a reasonable dispersion throughout the Scranton-Wilkes-Barre, PA MSA AA; however, this portion of the test was not given as much weight as the AA contains only one low-income census tract and 21 moderate-income census tracts.

There were only 46 owner-occupied housing units, 1,168 households, and 1,549 businesses in the one low-income geography in this AA, which limits FNCB's opportunity to lend in the low-income geography, especially when taking into consideration the competition from other large national financial institutions. Therefore, we placed more emphasis on FNCB's lending in moderate-income geographies.

Home Loans

The geographic distribution of home loans in FNCB's AA reflects a reasonable dispersion throughout the AA.

FNCB made no home purchase loans in this AA in the one low-income geography. However, considering only .03% of the housing units in this geography are owner occupied, this performance is considered reasonable.

The percentage of lending for home purchase loans in the moderate-income geographies is lower than the percent of owner-occupied housing in these geographies. Considering the updated median price of housing in this AA is \$87,056 while a low income family earns less than \$46,480, the percentage of lending for home purchase loans in this AA is considered reasonable.

FNCB made no home improvement loans in this AA in the one low-income geography. Considering only .03% of the housing units in this geography are owner-occupied, this performance is considered reasonable.

The percentage of lending for home improvement loans in the moderate-income geographies exceeds the percent of owner-occupied housing in these geographies. Considering the updated median price of housing in this AA is \$87,056 while a moderate-income family earns less than \$46,480, the percentage of lending for home improvement loans in this AA is considered excellent.

The percentage of lending for home refinance loans in this AA in the one low-income geography exceeds the percentage of owner-occupied units in this geography. Considering only .03% of the housing units in this geography are owner-occupied, this performance is considered excellent.

The percentage of home refinance loans in this AA in moderate-income geographies is less than the percentage of owner-occupied units. Considering the updated median price of housing cost in this AA is \$87,056 while a moderate-income family earns less than \$46,480, the percentage of lending for home refinance loans in this AA, is considered reasonable.

Following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 – Geographic Distribution of Residential Real Estate Loans in Scranton-Wilkes-Barre, PA MSA #42540 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Units	% of Bank Loans	% of Owner Occupied Units	% of Bank Loans	% of Owner Occupied Units	% of Bank Loans	% of Owner Occupied Units	% of Bank Loans
Home Purchase	0.03	0.00	8.34	3.89	73.46	74.56	18.17	21.55
Home Improvement	0.03	0.00	8.34	9.89	11.11	66.37	66.37	88.89
Home Refinance	0.03	0.15	8.34	3.00	73.46	68.22	18.17	28.64

Source: HMDA data for 1/1/2009-12/31/2011 and 2000 U.S. Census data

Business Loans

The percentage of small business loans FNCB originated in low-income census tracts exceeds the percentage of small businesses located in the one low-income geography in this AA. This performance is considered excellent given the relatively low number of total businesses (3.09%) located in the one low-income census tract.

The percentage of small business loans FNCB originated in moderate-income census tracts was lower than the percentage of small businesses located in moderate-income census tracts. FNCB’s performance is considered reasonable given the relatively low number of total businesses (8.91%) located in the moderate-income census tracts. In addition, strong competition from larger national and regional banks make it difficult for a bank of FCNB’s size to originate loans of this type in this AA.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses in the Scranton-Wilkes-Barre, PA MSA #42540 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	Assessment Area	% of Businesses	% of Bank Loans	% of Businesses	% of Bank Loans	% of Businesses	% of Bank Loans	% of Businesses
	3.09	4.35	8.91	4.14	68.78	63.98	19.21	27.54

Source: CRA small business data for 1/1/2009 to 12/31/2011 and 2000 U.S. Census data.

Conclusions for Areas Receiving Limited-Scope Reviews

There were no low- or moderate-income geographies located in either the Wayne County Non-MSA AA, or the Monroe County Non-MSA AA. Therefore an analysis of the geographic distribution of home loans and small business loans would not be meaningful and was not performed.

Responses to Complaints

FNCB did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated Satisfactory. FNCB's community development activities demonstrate adequate responsiveness to the Community Development needs in each of the bank's AAs, when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AAs.

Number and Amount of Community Development Loans

Conclusions for Areas receiving Full-Scope Reviews

The bank's performance under the community development lending test is rated outstanding. Based on a full-scope review in the Scranton-Wilkes-Barre, PA MSA # 42540 AA the bank's performance is considered excellent.

Scranton-Wilkes-Barre, PA MSA #42540 AA

The banks performance in community development lending in the Scranton-Wilkes-Barre, PA MSA #42540 AA was excellent. FNCB made a high level of community development loans throughout the evaluation period in this AA.

During this evaluation period, FNCB originated 9 community development loans to 7 different organizations benefitting low- and moderate-income individuals and/ or low- and moderate geographies within the Scranton-Wilkes-Barre, PA MSA #42540 AA. The amount originated totaled \$ 18.9 million.

A summary of the CD loans follows:

- \$1.2 million term loan refinance used to renovate an office building located in a low-income census tract. This loan will help revitalize and stabilize the low-income census tract in which it is located by maintaining existing business and services within this geography.
- \$1.2 million term loan to finance the purchase of an office building located in a low-income census tract. This loan will help to stabilize this geography by maintaining several small businesses within this geography.
- \$1 million line of credit increase to a community based residential program that provides residential and vocational services to children and adults with developmental disabilities.
- \$2.5 million construction mortgage to finance the construction of a commercial building in a moderate-income geography in connection with a Redevelopment Capital Assistance program grant from the state of Pennsylvania. The building will have office and retail space for tenants including a non-profit organization that provides legal services for the poor and a physical therapy company.
- \$6.5 million construction loan to finance the construction of nine buildings containing 36 apartments, which will provide affordable housing in a moderate-income geography.
- \$1million term loan to a healthcare company located in a low-income census tract for the purchase of software to better serve their clients. The business also provides healthcare services to a high volume of elderly low- and moderate-income clients.
- \$200 thousand term loan to a healthcare company located in a low-income census tract for the purchase of software to better serve their clients. The business also provides health care services to a high volume of elderly low- and moderate-income clients.
- \$330 thousand term loan for improvements to the offices of a healthcare company located in a low-income census tract.
- \$5.04 million loan to construct a memory impairment center that provides personal care services as well as programs for those low- and moderate-income elderly clients suffering from cognitive diseases.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on the limited-scope reviews, the bank's performance under community development lending test in the Wayne County Non-MSA AA and the Monroe County Non-MSA AA is weaker than the bank's overall "Satisfactory" performance under the community development test in the full-scope review AAs of Scranton-Wilkes-Barre, PA MSA #42540 AA. There were no community development loans, made within these

AAs. However, the bank's weaker performance in these AAs had minimal impact on the overall community development test rating, as we considered that these AAs are very small in size and opportunities to originate CD loans are extremely limited.

Number and Amount of Qualified Investments

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated Satisfactory. Based on full-scope reviews, the bank's performance in the Scranton-Wilkes-Barre, PA MSA #42540 AA is adequate.

Scranton-Wilkes-Barre, PA MSA #42540 AA

FNCB has an adequate level of qualified investments and grants and exhibits adequate responsiveness to meeting the identified needs of the AA.

FNCB has an adequate level of qualified CD investments and donations, considering investment opportunities are limited and FNCB is competing with several larger regional and multinational institutions for these investment opportunities.

During a prior evaluation period, FNCB invested \$1 million in a community investment mutual fund. This fund specializes in purchasing mortgage-backed securities that are secured by mortgages that were originated to primarily low- and moderate-income individuals in Luzerne and Lackawanna counties. The investment has no maturity date and new investments are purchased as the existing investments are repaid. (The balance during this evaluation period remains at \$1million.)

Also during a prior evaluation period, FNCB made a \$1.1 million investment in a mortgage-backed revenue bond. The proceeds of this revenue bond were used to purchase a pool of 12 mortgages that were originated to primarily low- and moderate-income individuals residing in Lackawanna, Luzerne, and Monroe counties. Seven of the remaining mortgages, totaling \$205 thousand, continue to benefit the Scranton-Wilkes-Barre, PA MSA #42540 AA, and five of the remaining mortgages, totaling \$189 thousand, continue to benefit the Monroe County Non-MSA AA. The investment is not considered innovative or complex in nature.

During the prior evaluation period, FNCB invested \$1 million in four separate Pennsylvania housing revenue bonds. (The balance during this evaluation period remains at \$1 million.)The proceeds of each of these revenue bonds were used to originate or purchase mortgage loans for single family residences for persons or families of low- and moderate-income in Pennsylvania and/or to finance the purchase of mortgage loans for residences in targeted areas in Pennsylvania. The majority of persons or individuals residing in the targeted areas are of low- and moderate-income. These investments have the potential to benefit the Scranton-Wilkes-Barre, PA MSA

#42540 AA, the Monroe County Non-MSA AA, and the Wayne County Non-MSA AA. The investment is not considered innovative or complex in nature.

During the current evaluation period no new investments were made in this AA.

During the evaluation period, FNCB made 75 qualifying grants and donations totaling approximately \$64 thousand in the AA. These grants and donations were made to benefit low- and moderate-income individuals and families as well as small businesses within the assessment area.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on the limited-scope review, the bank's performance under the community development investment test in the Wayne County Non-MSA AA and the Monroe County Non-MSA AA are weaker than the bank's overall "Satisfactory" performance under the community development investment test in the full-scope review of the Scranton-Wilkes-Barre, PA MSA #42540 AA. There were no community development investments, originated during the evaluation period and minimal grants made within these AAs. However, the bank's weaker performance in these AAs had minimal impact on the overall community development test rating, as both of these AAs are relatively small in size and opportunities to provide CD grants and investments are limited.

Extent to Which the Bank Provides Community Development Services

The bank's performance under the Service Test is rated Satisfactory. Based on a full-scope review in the Scranton-Wilkes-Barre, PA MSA # 42540 AA the bank's performance is considered adequate.

Scranton-Wilkes-Barre, PA MSA #42540 AA

Retail Banking Services

FNCB's delivery systems are accessible to geographies and individuals of different income levels. Currently, FNCB has 17 branches in this AA. There is one branch located in the low-income geography, there is one branch located in a moderate-income geography, there are thirteen branches located in middle-income geographies, and there are two branches located in upper-income geographies. The percentage of branches located in the low-income geography exceeds the percentage of the population located in this geography. The percentage of branches located in moderate-income geographies is somewhat lower than the percentage of the population located in these geographies.

In addition to the 17 branches, FNCB has 22 Automated Teller Machines (ATMs) within the assessment area. Eighteen ATMs are attached to the aforementioned branches, and four are stand alone ATMs capable of only dispensing cash. All 22 ATMs have 24-

hour accessibility. None of the stand alone ATMs are located in low- and moderate-income geographies.

FNCB did not open or close any branches during the evaluation period. Opening and closing of ATMs during this same time period did not adversely affect the accessibility of FNCB's delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals. Three stand alone ATMs, which were located in middle-income geographies, were closed due to low volume of activity and one stand alone ATM was opened in an upper-income geography.

Hours and services do not vary in a way that inconveniences portions of the assessment area, particularly the low- and moderate-income geographies and the low- and moderate-income individuals. All seventeen branches have banking hours Monday through Friday, five branches have extended Friday evening hours, and twelve branches have Saturday morning hours.

All seventeen branches offer a full line of traditional banking products and services. FNCB offers a variety of checking account products and loan products. One of the checking account products is a no minimum balance and no monthly service charge basic checking account, which allows low- and moderate-income individuals to maintain regular checking accounts.

One of the flexible loan products is the First Time Homebuyer Program, which is tailored to assist low- and moderate-income individuals and families. FNCB will finance up to 90% of the purchase or appraised value of the home, and borrowers are given a reduced interest rate. In order to be eligible, the customer must be a first time homebuyer, the property must be in FNCB's AA, and the customer must meet FNCB's income limitation test.

FNCB provides alternative systems for delivering retail banking services to its community through full service Internet banking and bank by phone, which are available 24 hours a day. Since FNCB could not provide specific information on how low- and moderate-income individuals have benefited from these services, no weight was placed on alternative delivery systems.

Community Development Services

Scranton-Wilkes-Barre, PA MSA #42540 AA

FNCB provides an adequate level of community development services within this assessment area. Bank directors, management, and employees provided financial and technical expertise to 15 separate and qualified community development organizations. Their community development services focused on small business and economic development, affordable housing for low- and moderate-income individuals, and community services targeted to low- and moderate-income individuals. The following

details the community development services that were provided during the evaluation period:

- One employee provides financial and technical assistance by chairing the public relations committee for a non-profit organization that provides crisis intervention services to child victims of abuse and neglect from low-and moderate-income families.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that provides parenting education and workforce support with a focus on economic self- sufficiency for low- and moderate-income families.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that provides education, training and career services for people with physical, emotional and mental disabilities.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that builds and rehabilitates housing for low- and moderate-income individuals.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that provides job preparedness training, job placement and support services for adult residents who are unemployed.
- One employee provides financial and technical assistance by serving on the Board of a foundation that provides benefits to students who demonstrate financial need.
- One employee provides financial and technical assistance by serving in a lender pool of a non-profit organization providing input for underwriting policies for first time homebuyers who are low- and moderate-income borrowers.
- One employee provides financial and technical assistance by serving on the finance, personnel, pension and audit committees of an agency that provides health services to low-income women.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that purchases homes and remodels them to meet the LMI standards for Section 8 families to rent.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that is dedicated to economic development in the AA primarily using the SBA 504 loan program.
- One employee provides financial and technical assistance by serving as chairman of the board of a non-profit organization that provides personal financial management training for low- and moderate-income individuals.
- One employee provides financial and technical assistance by serving on the Board of an organization that provides economic development of small business in a low-income census tract.
- One director provides financial and technical assistance by serving as Chairman of the Board of a non-profit organization that provides social and medical services to physically and mentally challenged individuals and other individuals who cannot afford the services.

- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that provides affordable housing for low- and moderate-income individuals.
- One employee provides financial and technical assistance by serving on the Board of a non-profit organization that provides a variety of medical and related services for low- and moderate-income individuals.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on a limited-scope review, the bank's performance under the community development test in both the Wayne County Non-MSA AA and the Monroe County Non-MSA AA is weaker than the bank's overall "Satisfactory" performance under the community development test. There were no community development services provided in these AAs. However, the bank's weaker performance in these AAs had minimal impact on the overall community development test rating, as these AAs are relatively small in size and the bank has only two branch offices in each AA thus opportunities to provide CD services are limited.

Responsiveness to Community Development Needs

Given the bank's capacity and availability of community development opportunities in the AA, FNCR demonstrates adequate responsiveness to community development needs in its AA through community development loans, qualified donations, and community services.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

"We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs."