

FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
August 10, 2012
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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 September 30, 2011

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. 000-53869

FIRST NATIONAL COMMUNITY BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Common Stock, \$1.25 par value
(Title of Class)

16,442,119 shares
(Outstanding at August 6, 2012)

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PART I Financial Information

Item 1. Financial Statements.

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(unaudited)**

(in thousands, except share data)	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 23,396	\$ 18,934
Interest-bearing deposits in other banks	150,249	55,571
Total cash and cash equivalents	173,645	74,505
Securities		
Available-for-sale, at fair value	204,213	251,072
Held-to-maturity, at amortized cost (fair value \$2,139 and \$1,857)	2,068	1,994
Stock in Federal Home Loan Bank of Pittsburgh, at cost	8,841	10,311
Loans held for sale	1,969	3,557
Loans, net of allowance for loan and lease losses of \$23,106 and \$22,575	657,850	735,813
Bank premises and equipment, net	18,933	19,310
Accrued interest receivable	2,515	3,119
Refundable federal income taxes	12,445	12,409
Intangible assets	839	963
Bank-owned life insurance	26,577	25,982
Other real estate owned	7,830	9,633
Other assets	11,740	18,630
Total Assets	\$ 1,129,465	\$ 1,167,298
Liabilities		
Deposits:		
Demand	\$ 138,063	\$ 93,215
Interest-bearing demand	330,300	349,185
Savings	88,454	90,037
Time (\$100,000 and over)	206,916	189,526
Other time	218,089	260,473
Total deposits	981,822	982,436
Borrowed funds:		
FHLB advances	51,911	101,887
Subordinated debentures	25,000	25,000
Junior subordinated debentures	10,310	10,310
Other debt	188	407
Total borrowed funds	87,409	137,604
Accrued interest payable	3,776	2,763
Other liabilities	17,524	12,440
Total liabilities	1,090,531	1,135,243
Shareholders Equity		
Common Shares (\$1.25 par)		
Authorized: 50,000,000 shares as of September 30, 2011 and December 31, 2010		
Issued and outstanding: 16,441,319 shares as of September 30, 2011 and 16,433,020 shares as of December 31, 2010	20,551	20,541
Additional paid-in capital	61,556	61,539
Accumulated deficit	(38,653)	(37,882)
Accumulated other comprehensive loss		

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Unrealized holding gain (loss) on available-for-sale securities, net of taxes	526	(6,174)
Unrealized non-credit holding loss on OTTI available-for-sale securities, net	(5,046)	(5,969)
Total accumulated other comprehensive loss, net of taxes	(4,520)	(12,143)
Total shareholders' equity	38,934	32,055
Total Liabilities and Shareholders' Equity	\$ 1,129,465	\$ 1,167,298

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

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

(In thousands, except share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income				
Interest and fees on loans	\$ 8,360	\$ 10,830	\$ 26,396	\$ 34,447
Interest and dividends on securities				
U.S. Treasury and government agencies	743	1,282	2,492	4,079
State and political subdivisions, tax-free	1,262	1,383	4,078	4,187
State and political subdivisions, taxable	12	13	38	45
Other securities	72	10	174	240
Total interest and dividends on securities	2,089	2,688	6,782	8,551
Interest on federal funds sold	34	44	96	111
Total interest income	10,483	13,562	33,274	43,109
Interest expense				
Deposits				
Interest-bearing demand	232	825	1,383	2,720
Savings	60	132	242	396
Time (\$100,000 and over)	375	838	1,737	2,672
Other time	1,253	1,638	3,661	5,343
Total interest on deposits	1,920	3,433	7,023	11,131
Interest on borrowed funds				
Interest on FHLB advances	513	1,298	2,179	4,097
Interest on subordinated debentures	575	575	1,706	1,682
Interest on junior subordinated debentures	51	57	153	158
Interest on other debt		1		1
Total interest on borrowed funds	1,139	1,931	4,038	5,938
Total interest expense	3,059	5,364	11,061	17,069
Net interest income before provision for loan and lease losses	7,424	8,198	22,213	26,040
Provision (credit) for loan and lease losses	(462)	7,311	2,047	16,993
Net interest income after provision (credit) for loan and lease losses	7,886	887	20,166	9,047
Non-interest income (loss)				
Service charges	803	890	2,313	2,503
Net gain (loss) on the sale of securities	926	(2,869)	3,228	(1,694)
Gross other-than-temporary impairment (OTTI) gains (losses)	639	(45)	430	(973)
Portion of (gain) loss recognized in OCI (before taxes)	(639)	(1,158)	(779)	(3,133)
Other-than-temporary-impairment losses recognized in earnings		(1,203)	(349)	(4,106)
Net gain on the sale of loans held for sale	142	440	440	843
Net (loss) gain on the sale of other real estate owned	(31)	44	2,536	92
Net (loss) gain on the sale of other assets		(88)	20	(60)
Bank owned life insurance income	200	198	595	581
Other	300	411	996	1,162
Total non-interest income (loss)	2,340	(2,177)	9,779	(679)
Non-interest expense				
Salaries and employee benefits	3,563	3,375	10,418	9,712
Occupancy expense	765	582	2,263	1,746
Equipment expense	436	423	1,230	1,309
Advertising expense	142	129	485	462
Data processing expense	519	535	1,538	1,517
FDIC assessment	714	989	2,090	1,960
Bank shares tax	275	255	827	765

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Expense of other real estate	1,333	2,185	2,021	3,490
Provision for off-balance sheet commitments	(61)	(200)	(252)	(171)
Legal expense	837	292	2,238	573
Professional fees	868	368	4,313	868
Insurance expense	260	239	457	239
Other operating expenses	1,009	1,367	3,088	3,752
Total non-interest expense	10,660	10,539	30,716	26,222
Loss before income taxes	(434)	(11,829)	(771)	(17,854)
Provision for income taxes				
Net loss	\$ (434)	\$ (11,829)	\$ (771)	\$ (17,854)
Loss Per Share				
Basic	\$ (0.03)	\$ (0.72)	\$ (0.05)	\$ (1.09)
Diluted	\$ (0.03)	\$ (0.72)	\$ (0.05)	\$ (1.09)
Cash Dividends Declared Per Common Share	\$	\$	\$	\$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	16,441,319	16,383,848	16,438,781	16,328,598
Diluted	16,441,319	16,383,848	16,438,781	16,328,598

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

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

For the Nine Months Ended September 30, 2011 and 2010 (in thousands)

(Unaudited)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
BALANCES, DECEMBER 31, 2009	16,289,970	\$ 20,362	\$ 61,190	\$ (6,162)	\$ (12,306)	\$ 63,084
Net loss for the period				(17,854)		(17,854)
Other comprehensive income (loss), net of tax:						
Net change in unrealized gains and losses on securities available for sale (AFS), net of tax of \$828					1,607	
Non-credit related losses on OTTI securities not expected to be sold, net of tax benefit of \$3,858					3,697	
Reclassification adjustment for losses included in net loss, net of tax of \$1,972					3,828	
Other comprehensive income					9,132	9,132
Total comprehensive loss						(8,722)
Proceeds from issuance of common shares through dividend reinvestment plan	138,281	173	340			513
Balances, September 30, 2010	16,428,251	\$ 20,535	\$ 61,530	\$ (24,016)	\$ (3,174)	\$ 54,875
BALANCES, DECEMBER 31, 2010	16,433,020	\$ 20,541	\$ 61,539	\$ (37,882)	\$ (12,143)	\$ 32,055
Net loss for the period				(771)		(771)
Other comprehensive income, net of tax:						
Net change in unrealized gains and losses on securities available for sale (AFS), net of tax of \$4,641					9,009	
Non-credit related gains on OTTI securities not expected to be sold, net of tax benefit of \$265					514	
Reclassification adjustment for gains in net loss, net of tax of \$979					(1,900)	
Other comprehensive income					7,623	7,623
Total comprehensive income						6,852
	8,299	10	17			27

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Proceeds from issuance of
common shares through
dividend reinvestment plan

Balances, September 30, 2011	16,441,319	\$	20,551	\$	61,556	\$	(38,653)	\$	(4,520)	\$	38,934
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The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents**FIRST NATIONAL COMMUNITY BANCORP, INC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

(In Thousands)	Nine months ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net Loss	\$ (771)	\$ (17,854)
Reconciliation of Net Loss to Net Cash Provided by Operating Activities:		
Investment securities accretion, net	(931)	(2,053)
Equity in trust	(3)	(1)
Depreciation and amortization	1,163	1,258
Provision for loan and lease losses	2,047	16,993
Provision for off balance sheet commitments	(252)	(171)
(Gain) loss on sale of investment securities	(3,228)	1,694
Other-than temporary impairment losses	349	4,106
Gain on the sale of loans held for sale	(440)	(843)
Loss on sale of other assets		88
Gain on the sale of other real estate owned	(2,536)	(92)
Write-down of other real estate owned	1,134	2,533
Gain on sale of bank premises and equipment	(20)	(28)
Bank owned life insurance income	(595)	(581)
Proceeds from the sale of loans held for sale	19,494	29,859
Funds used to originate loans held for sale	(17,466)	(29,007)
Increase (decrease) in interest payable	1,013	(371)
Decrease in other liabilities	(154)	(569)
Decrease in interest receivable	604	902
Increase (decrease) in refundable federal income taxes	(36)	3,324
Decrease in prepaid expenses and other assets	6,890	2,242
Net Cash Provided by Operating Activities	6,262	11,429
Cash Flows from Investing Activities:		
Investment Securities :		
Proceeds from maturities, calls and principal payments	22,142	32,741
Proceeds from sales	50,624	36,620
Purchases	(5,133)	(86,302)
Purchases of Federal Reserve Bank stock		(336)
Redemption of FHLB stock	1,470	
Net decrease in loans to customers	68,617	112,041
Proceeds from the sale of other real estate owned	6,544	3,340
Purchases of bank premises and equipment	(636)	(925)
Proceeds from the sale of other assets	32	97
Net Cash Provided by Investing Activities	143,660	97,276
Cash Flows from Financing Activities:		
Net increase in demand deposits, money market demand, interest-bearing demand accounts, and savings accounts	24,380	42,721
Net decrease in time deposits	(24,994)	(60,568)
Proceeds from issuance of subordinated debentures		1,900
Proceeds from FHLB advances	112,362	121,048
Repayment of FHLB advances	(162,338)	(153,973)
Repayment of other borrowed funds	(219)	(29)

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Proceeds from issuance of common shares - dividend reinvestment plan	27	513
Net Cash Used in Financing Activities	(50,782)	(48,388)
Net increase in Cash and Cash Equivalents	99,140	60,317
Cash & Cash Equivalents at beginning of period	74,505	86,364
Cash & Cash Equivalents at end of period	\$ 173,645	\$ 146,681
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 10,048	\$ 17,440
Other transactions:		
Securities purchased but not settled	5,489	
Principal balance of loans transferred to OREO	3,339	5,782
Transfer from loans held for sale to other assets	947	
Transfer from other assets to loans		1,905
Transfer from loans held for sale to loans	1,969	

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

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FIRST NATIONAL COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

The consolidated financial statements of the Company include the accounts of First National Community Bancorp, Inc. and its wholly-owned subsidiary, First National Community Bank (the Bank), as well as the Bank's wholly-owned subsidiaries (collectively, the Company). All inter-company transactions and balances have been eliminated. The accounting and reporting policies of the Company conform to U.S. Generally Accepted Accounting Principles (GAAP) and general practices within the financial services industry. In the opinion of management, all adjustments necessary to a fair statement of the results for the quarterly period ended September 30, 2011 have been included.

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change are the allowance for loan and lease losses (ALLL), security valuations, the evaluation of deferred income taxes, and the impairment of securities. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2010 audited financial statements filed on Form 10-K and the Company's March 31, 2011 and June 30, 2011 unaudited financial statements filed on Form 10-Q.

Note 2. New Authoritative Accounting Guidance

In January 2010, the FASB issued an update (Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*). The update provides clarification regarding existing disclosures and requires additional disclosures regarding fair value measurements. Specifically, the guidance now requires reporting entities to disclose the amounts of significant transfers between levels and the reasons for the transfers. In addition, the reconciliation should present separate information about purchases, sales, issuances and settlements. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value. The new standard is effective for reporting periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances and settlements which are not effective until reporting periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. The disclosures required by this update are included in Note 7 to the consolidated financial statements.

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In July 2010, the FASB issued an update (Accounting Standards Update No. 2010-20, *Receivables, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*). This update expands the disclosures that an entity must provide about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class, certain existing disclosures, and to provide certain new disclosures about its financing receivables and related allowances for credit losses. The disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendment does not require comparative disclosures for earlier reporting periods that ended before adoption; however, an entity should provide comparative disclosures for those reporting periods after initial adoption. The adoption of this amendment did not have a material effect on the Company's consolidated financial statements. The disclosures required by this update are included in Note 4 to the consolidated financial statements.

In January 2011, the FASB issued an update (Accounting Standards Update No. 2011-01, *Receivables*) which temporarily delayed the effective date of the disclosures about trouble debt restructurings in Update 2010-20 for public entities. The delay was intended to allow the Board time to complete its deliberations on what constitutes a trouble debt restructuring. The effective date of the new disclosures about troubled debt restructurings and the guidance for determining what constitutes a troubled debt restructuring was effective for interim and annual periods ending after June 15, 2011.

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In April 2011, the FASB issued an update (Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*) which clarifies when creditors should classify loan modifications as troubled debt restructurings. The new guidance was effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. A provision in Update 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by Update 2010-20. The Company elected to adopt Update 2011-02 in the quarter ending March 31, 2011. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance to be Adopted In Future Periods

In May 2011, the FASB issued an update (Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*). This update results in common fair value measurement and disclosure requirements among U.S. GAAP and International Financial Reporting Standards. The amendments in Update 2011-04 include clarifications about the application of existing fair value measurement requirements and changes to principles for measuring fair value. This update also requires additional disclosures about fair value measurements, is required to be applied prospectively, and is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of adoption of Update 2011-04 on the Company's consolidated financial statements.

In June 2011, the FASB issued an update (Accounting Standards Update 2011-05, *Presentation of Comprehensive Income*). This update was issued to improve the comparability, consistency and transparency of financial reporting. The amendment provides the entity an option to present the total of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income. Update 2011-05 is required to be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011. Update 2011-05 is an update only for presentation and as such will not impact the Company's consolidated financial statements.

In December 2011, the FASB issued an update (Accounting Standards Update No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*). The objective of this update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this update. The amendments require enhanced disclosures by requiring expanded information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

In December 2011, the FASB issued ASU No. 2011-12 - Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. This update defers only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this update supersede certain pending paragraphs in ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

Reclassification of Prior Year Financial Statements

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation. Such reclassifications had no impact on results of operations.

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Note 3. Regulatory Matters

The Bank is under a Consent Order (the *Order*) from the Office of the Comptroller of the Currency (*OCC*) dated September 1, 2010. The Company is also subject to a written Agreement (the *Agreement*) with the Federal Reserve Bank of Philadelphia (the *Reserve Bank*) dated November 24, 2010.

OCC Consent Order. The Bank, pursuant to a Stipulation and Consent to the Issuance of a Consent Order dated September 1, 2010 without admitting or denying any wrongdoing, consented and agreed to the issuance of the Order by the OCC, the Bank's primary regulator. The Order requires the Bank to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The Order is based on the results of an examination of the Bank as of March 31, 2009. Since the examination, management has engaged in discussions with the OCC and has taken steps to improve the condition, policies and procedures of the Bank. Compliance with the Order is to be monitored by a committee (the *Committee*) of at least three directors, none of whom is an employee or controlling shareholder of the Bank or its affiliates or a family member of any such person. The Committee is required to submit written progress reports on a monthly basis and the Agreement requires the Bank to make periodic reports and filings with the OCC. The members of the Committee are John P. Moses, Joseph Coccia, Joseph J. Gentile and Thomas J. Melone. The material provisions of the Order are as follows:

(i) By October 31, 2010, the Board of Directors of the Bank (the *Board*) is required to adopt and implement a three-year strategic plan which must be submitted to the OCC for review and prior determination of no supervisory objection; the strategic plan must establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development, and market segments that the Bank intends to promote or develop, and is to include strategies to achieve those objectives; if the strategic plan involves the sale or merger of the Bank, it must address the timeline and steps to be followed to provide for a definitive agreement within 90 days after the receipt of a determination of no supervisory objection;

(ii) by October 31, 2010, the Board is required to adopt and implement a three year capital plan, which must be submitted to the OCC for review and prior determination of no supervisory objection;

(iii) by November 30, 2010, the Bank is required to achieve and thereafter maintain a total risk-based capital equal to at least 13% of risk-weighted assets and a Tier 1 capital equal to at least 9% of adjusted total assets;

(iv) the Bank may not pay any dividend or capital distribution unless it is in compliance with the higher capital requirements required by the Order, the Capital Plan, applicable legal requirements and, then only after receiving a determination of no supervisory objection from the OCC;

(v) by November 15, 2010, the Committee must review the Board and the Board's committee structure; by November 30, 2010, the Board must prepare or cause to be prepared an assessment of the capabilities of the Bank's executive officers to perform their past and current duties, including those required to respond to the most recent examination report, and to perform annual performance appraisals of each officer;

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(vi) by October 31, 2010, the Board must adopt, implement and thereafter ensure compliance with a comprehensive conflict of interest policy applicable to the Bank's and the Company's directors, executive officers, principal shareholders and their affiliates and such person's immediate family members and their related interests, employees, and by November 30, 2010, conduct a review of existing relationships with such persons to identify those, if any, not in compliance with the policy; and review all subsequent proposed transactions with such persons or modifications of transactions;

(vii) by October 31, 2010, the Board must develop, implement and ensure adherence to policies and procedures for Bank Secrecy Act (BSA) compliance; and account opening and monitoring procedures compliance;

(viii) by October 31, 2010, the Board must ensure the BSA audit function is supported by an adequately staffed department or third party firm; adopt, implement and ensure compliance with an independent BSA audit; and assess the capabilities of the BSA officer and supporting staff to perform present and anticipated duties;

(ix) by October 31, 2010, the Board is required to adopt, implement and ensure adherence to a written credit policy, including specified features, to improve the Bank's loan portfolio management;

(x) the Board is required to take certain actions to resolve certain credit and collateral exceptions;

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(xi) by October 31, 2010, the Board is required to establish an effective, independent and ongoing loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits; by October 31, 2010, to adopt and adhere to a program for the maintenance of an adequate ALLL, and to review the adequacy of the Bank's ALLL at least quarterly;

(xii) by October 31, 2010, the Board must adopt and the Bank implement and adhere to a program to protect the Bank's interest in criticized assets; and the Bank may only extend additional credit (including renewals) to a borrower whose loans are criticized under specified circumstances;

(xiii) by October 31, 2010, the Board must adopt and ensure adherence to action plans for each piece of other real estate owned;

(xiv) by November 30, 2010, the Board is required to develop, implement and ensure adherence to a policy for effective monitoring and management of concentrations of credit;

(xv) by October 31, 2010, the Board must revise and implement the Bank's other than temporary impairment policy;

(xvi) by October 31, 2010, the Board must take action to maintain adequate sources of stable funding and liquidity and a contingency funding plan; by October 31, 2010, the Board is required to adopt, implement and ensure compliance with an independent, internal audit program; and

(xvii) take actions to correct cited violations of law; and adopt procedures to prevent future violations and address compliance management.

Federal Reserve Agreement. On November 24, 2010, the Company entered into a written Agreement (the "Agreement") with the Federal Reserve Bank of Philadelphia (the "Reserve Bank"). The Agreement requires the Company to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The material provisions of the Agreement include the following:

(i) the Company's Board must take appropriate steps to fully utilize the Company's financial and managerial resources to serve as a source of strength to the Bank, including taking steps to ensure that the Bank complies with its Consent Order entered into with the OCC;

(ii) the Company may not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation (the "Director") of the Federal Reserve Board;

(iii) the Company may not take dividends or other payments representing a reduction of the Bank's capital without the prior written approval of the Reserve Bank;

(iv) the Company and its nonbank subsidiary may not make any payment of interest, principal or other amounts on the Company's subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director;

(v) the Company may not make any payment of interest, principal or other amounts on debt owed to insiders of the Company without the prior written approval of the Reserve Bank and Director;

(vi) the Company and its nonbank subsidiary may not incur, increase or guarantee any debt without the prior written approval of the Reserve Bank;

(vii) the Company may not purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank;

(viii) the Company must submit to the Reserve Bank, by January 23, 2011, an acceptable written plan to maintain sufficient capital at the Company on a consolidated basis. Thereafter, the Company must notify the Reserve Bank within 45 days of the end of any quarter in which the Company's capital ratios fall below the approved capital plan's minimum ratios, and submit an acceptable written plan to increase the Company's capital ratios above the capital plan's minimums;

(ix) the Company must immediately take all actions necessary to ensure that: (1) each regulatory report accurately reflects the Company's condition on the date for which it is filed and all material transactions between the Company and its subsidiaries; (2) each such report is prepared in accordance with its instructions; and (3) all records indicating how the report was prepared are maintained for supervisory review;

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(x) the Company must submit to the Reserve Bank, by January 23, 2011, acceptable written procedures to strengthen and maintain internal controls to ensure all required regulatory reports and notices filed with the Board of Governors are accurate and filed in accordance with the instructions for preparation;

(xi) the Company must submit to the Reserve Bank, by January 8, 2011, a cash flow projection for 2011, reflecting the Company's planned sources and uses of cash, and submit a cash flow projection for each subsequent calendar year at least one month prior to the beginning of such year;

(xii) the Company must comply with: (1) the notice provisions of Section 32 of the FDI Act and Subpart H of Regulation Y in appointing any new director or senior executive officer or changing the duties of any senior executive officer; and (2) the restrictions on indemnification and severance payments of Section 18(k) of the FDI Act and Part 359 of the FDIC's regulations; and

(xiii) the Board must submit written progress reports within 30 days of the end of each calendar quarter.

The Order and Agreement have not and are not expected to have an impact on the Company's ability to attract and maintain deposits or the Company's cost of funds. In order to meet the increased capital requirements imposed under the Order and the Agreement, however, unless the Company is able to raise additional capital, the Company could be limited in the aggregate amount of loans it can have outstanding, which may constrain loan growth. While it is not anticipated that the Order and the Agreement will have an immediate impact on the Company's net interest margin, the overall cost of compliance with the Order and the Agreement will continue to impact profitability at least through the end of 2012.

Banking regulations also limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agency. As of August 10, 2012, the Company and the Bank are restricted from paying any dividends, without regulatory approval.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

In accordance with the Order, the Bank is required to achieve and thereafter maintain a total risk-based capital equal to at least 13% of risk-weighted assets and a Tier 1 capital equal to at least 9% of adjusted total assets. At September 30, 2011, the Bank did not meet these requirements. The minimum capital requirements under the Order take precedence over the standard regulatory capital adequacy definitions

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described in the tables below. The Company's and the Bank's actual capital positions and ratios at September 30, 2011 and December 31, 2010 are presented in the following table:

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CAPITAL ANALYSIS

(in thousands)	September 30, 2011		December 31, 2010	
Company				
Tier I Capital:				
Total Tier I Capital	\$	52,581	\$	53,297
Tier II Capital:				
Subordinated notes		25,000		25,000
Allowable portion of allowance for loan losses		9,875		11,201
Total Tier II Capital		34,875		36,201
Total Risk-Based Capital		87,456		89,498
Total Risk Weighted Assets	\$	776,178	\$	883,887
Bank				
Tier I Capital:				
Total Tier I Capital	\$	76,804	\$	75,659
Tier II Capital:				
Allowable portion of allowance for loan losses		9,870		11,197
Total Tier II Capital		9,870		11,197
Total Risk-Based Capital		86,674		86,856
Total Risk Weighted Assets	\$	775,824	\$	883,535

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
At September 30, 2011	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets)						
Company	\$ 87,456	11.27%	\$ >62,094	>8.00%	N/A	N/A
Bank	\$ 86,674	11.17%	\$ >62,066	>8.00%	\$ >77,582	>10.00%
Tier I Capital (to Risk Weighted Assets)						
Company	\$ 52,581	6.77%	\$ >31,047	>4.00%	N/A	N/A
Bank	\$ 76,804	9.90%	\$ >31,033	>4.00%	\$ >46,549	>6.00%
Tier I Capital (to Average Assets)						
Company	\$ 52,581	4.78%	\$ >44,029	>4.00%	N/A	N/A
Bank	\$ 76,804	6.98%	\$ >44,015	>4.00%	\$ >55,019	>5.00%

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**To Be Well
Capitalized
Under Prompt**