Discover Financial Services
Form 4
August 03, 2010

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
HOCHSCHILD ROGER C

(Last) (First) (Middle)

2500 LAKE COOK ROAD

(Street)

RIVERWOODS, IL 60015

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Discover Financial Services [DFS]

3. Date of Earliest Transaction (Month/Day/Year)
07/30/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and COO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 07/30/2010 | | A (1) | | 3,249 | A | $ 0 (1) | 1,147,102 | D | |
| Common Stock | | | | | | | | 911.49 | I | By ESOP |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |
| | | | | Code | V | (A) | (D) | | | | | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| HOCHSCHILD ROGER C<br>2500 LAKE COOK ROAD<br>RIVERWOODS, IL 60015 | | | President and COO | |

# Signatures

| | |
|---|---|
| /s/ Simon Halfin as Attorney-in-Fact for Roger C. Hochschild | 08/03/2010 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The shares represent a portion of the reporting person's salary, net withholdings and deductions, for the most recent pay period and were issued under the Company's Amended and Restated 2007 Omnibus Incentive Plan. For more information, please see the Current Report on Form 8-K which was filed by the Company on December 11, 2009.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. g principles, policies and practices, reviewing the effectiveness of the internal auditing function, reviewing reports of examination received from regulatory authorities, and reviewing the performance and independence of and recommending, annually, to the Board of Directors the engagement of an independent certified public accountant.

Currently, the Board has identified Thomas J. Melone, CPA as the Audit Committee financial expert. Mr. Melone qualifies as a financial expert based on his extensive accounting experience as a certified public accountant and as a partner of the Albert B. Melone Company.

***Report of the Audit Committee***

To the Shareholders of First National Community Bancorp, Inc.:

The Audit Committee provides oversight of the Company's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the financial reporting process, including internal controls. In fulfilling its oversight responsibilities, the Audit Committee discussed the financial statements in the annual report with management, including a discussion of the quality, not just acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Audit Committee discussed with the independent auditors their judgments as to the quality, not just the acceptability, of the Company's accounting principles, and such other matters as required to be discussed with the Audit Committee under the standards of the Public Company Accounting Oversight Board (United States). The independent auditors are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles. In addition, the Audit Committee has discussed with the independent registered public accounting firm the auditors' independence from management and the Company, including the matters in written disclosures required by the Independence Standards Board, and considered the compatibility of non-audit services with the auditors' independence.

The Audit Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

Based on these discussions, the Audit Committee has recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the annual report on Form 10-K for the year ended December 31, 2015, for filing with the Securities and Exchange Commission.

***Audit Committee***

/s/Thomas J. Melone, Chairman

/s/William G. Bracey

/s/Louis A. DeNaples, Jr.

/s/Keith W. Eckel

/s/John P. Moses

**EXECUTIVE COMPENSATION**

***Compensation Discussion and Analysis***

The Company is committed to responsible compensation practices and strives to balance sound risk management with the need to attract, hire, motivate and retain executive team members who will maximize successful performance. The Company intends to provide executives with a balanced mix of fixed and variable pay. The purpose of all incentive plans is to motivate, reward and reinforce performance and achievement of team and/or individual goals in support of the Company's strategic objectives for growth and profitability. They provide the opportunity for reward for meeting and exceeding established financial goals as well as recognition of individual achievements.

This Compensation Discussion and Analysis and the series of tables that follow contain information about the compensation earned or paid in 2015 to the Company's named executive officers. For 2015, our named executives are:

Mr. Steven R. Tokach, the President and Chief Executive Officer and PEO of the Company
Mr. James M. Bone, Jr., the Chief Financial Officer/Treasurer and PFO of the Company
Mr. Gerard A. Champi, the Chief Operating Officer of the Bank
Mr. Brian C. Mahlstedt, Chief Lending Officer of the Bank
Mary Griffin Cummings, the General Counsel of the Bank

The overall executive compensation philosophy and strategy and primary objective of the Board of Directors with respect to executive compensation at the Company is to provide a total compensation package that meets a number of interrelated goals. The Company's compensation package is designed to:

- Be balanced and competitive in the external market in a manner consistent with the Company's size and industry;
- Correlate with the Company's strategic business plan;
- Align the interests of executives with those of shareholders;
- Drive superior performance and reward executives for achievement;
- Enable the Company to attract, motivate, develop and retain key executives whose experience, expertise and abilities will promote the Company's performance for the benefit of its shareholders without encouraging undue risk-taking that could materially threaten the safety and soundness of the Company;

Achieve an appropriate mix of fixed and variable compensation;

Equally support annual and long-term financial and strategic performance objectives as well as the stability of the organization;

Ensure compliance with applicable regulations;

Deliver executive compensation in a manner that is prudent and cost-effective; and

Support the mission, vision and values of the Company.

**Design of Compensation Program**

In 2015, executive compensation decisions were made by the Compensation Committee of the Board of Directors. The Compensation Committee’s fundamental policy is to provide our executive officers with competitive compensation for their positions and to provide opportunities based upon their contributions to the Company’s development and financial success as well as their personal performance in accordance with the overall design of the Company’s compensation package.

**The Role of Consultants**

In 2014, management engaged Mosteller and Associates, a Pennsylvania-based human resources consulting firm, to conduct an Executive Compensation Review (“the 2014 Report”). Mosteller and Associates’ review included: (1) a market review of the Company’s compensation for executive positions against compensation levels of executive positions at other similar financial institutions; and (2) recommendations for enhancements to the Company’s overall executive compensation programs. Mosteller and Associates’ review has served as a foundation for executive compensation decisions in 2014 and 2015.

In 2015, management engaged Mosteller and Associates to provide a recommendation regarding an appropriate design for additional variable pay component for key executives. Mosteller and Associates’ recommendation was used as the basis for the creation of the supplemental executive retirement plans that the Company and/or the Bank provided to Messrs. Champi, Bone and Mahlstedt during 2015.

The Company continues to engage Mosteller and Associates to provide consulting services on an ongoing basis, advising with regard to executive and broad-based compensation matters. Mosteller and Associates was chosen because of its expertise in the field of human resources, the financial services industry and the geographic footprint of the Bank and its understanding of the organization. The Compensation Committee has evaluated the independence of

Mosteller and Associates and concluded that no conflict of interest exists.

During 2015, the Company engaged the law firm of Cozen and O'Connor to provide advisory support for the creation of the employment agreements and supplemental executive retirement plans that the Company and/or the Bank provided to Messrs. Champi, Bone and Mahlstedt.

24

**The Role of Management**

Input from senior management, including the President and Chief Executive Officer and the Human Resources Officer, along with the Company's external consultants was critical in order to permit the Board of Directors and Compensation Committee to make informed and appropriate decisions. For 2015, input from senior management included:

- Performance summaries for management team members and recommendations regarding compensation;
- Results from executive compensation studies and related recommendations and analysis; and
- Data and recommendations for changes necessary to ensure the continued market competitive nature of the Company's overall compensation package and/or the individual components of executive compensation.

Each member of senior management excuses himself or herself from all Board and Compensation Committee discussions of that individual's compensation.

**Benchmarking and Peer Group**

During 2015, the Company utilized a peer group based on industry, asset size, organizational structure, performance levels and geographic location. The Company selected that peer group to provide comparative market data for executive compensation pay levels.

This peer group included financial organizations from the Mid-Atlantic states with asset size ranging from approximately $650 million to almost $2.2 billion. The Company believes these companies were an appropriate group against which to benchmark compensation for 2015.

Below is a listing of the peer group used by the Company in 2015 to benchmark its executive compensation:

| | | |
|---|---|---|
| ACNB Corp. | Codorus Valley Bancorp, Inc. | Norwood Financial Corp. |
| AmeriServe Financial, Inc. | ESB Financial Corp. | Orrstown Financial Services Inc. |
| Bryn Mawr Bank Corp. | ESSA Bancorp, Inc. | Peapack-Gladstone Financial Corp. |
| Chemung Financial Corp. | Fidelity D&D Bancorp, Inc. | Peoples Financial Services Corp. |
| Citizens and Northern Corp. | First Keystone Corp | Univest Corp of Pennsylvania |
| CNB Financial Corp. | First United Corporation | . |

**Material Differences in Named Executive Officers' Compensation**

The overall factors that come into consideration when making executive compensation decisions include the following:

- Compensation philosophy and strategy;
- Individual performance relative to goals;
- Corporate performance;
- Budgetary constraints;
- Regulatory requirements;
- Competitive market data for the individual position;
- Best practices in the marketplace;
- Ability to retain and attract executive employees;
- External economic and industry environment; and
- Risk assessment considerations.

25

The named executive officers receive base salaries commensurate with their positions and responsibilities. In determining the appropriate types and amounts of compensation for the President and Chief Executive Officer each year, the Compensation Committee evaluates both corporate and individual performance. The corporate factors include the financial performance of the Company, including return on stockholders' equity, return on assets, asset quality and trends in the foregoing measures, the performance of the Company's stock price, comparative results achieved by the Company's peer group institutions, and progress in realizing the Company's long-term strategic plan. The individual factors include initiation and implementation of successful business strategies, formation of an effective management team and various personal qualities, including leadership.

In determining the appropriate types and amounts of compensation for the named executive officers other than the President and Chief Executive Officer, the Compensation Committee takes into consideration the officer's experience, expected personal performance and salary levels for comparable positions.

**Compensation Components**

The compensation package for each named executive officer is comprised primarily of base salary, short-term incentives in the form of cash bonuses and long-term stock-based incentive awards. Three of the five named executive officers also receive contributions under the SERP. The Company also offers executives who meet the eligibility requirements the opportunity to participate in a nonqualified deferred compensation plan, in addition to a 401(k) Plan and health and welfare benefits available to all of the Bank's employees.

**Base Salary -** The Bank has established salary ranges that are competitive with its peer group and the banking industry in our region. Each job classification has been evaluated based upon the required skills, knowledge, responsibility and experience needed. Salary increases are based upon merit, performance, quality of work, and other job related factors. Salary increases are not guaranteed and a satisfactory performance review may not warrant an increase. The base salary for each named executive officer is determined based upon experience, personal performance, salary levels in effect for comparable positions in the banking industry, internal base salary comparability considerations and the responsibilities assumed by the named executive officer. The weights given to these factors differ from individual to individual as the Board determines is appropriate. Base salaries are reviewed annually and adjusted from time to time, based on the Company's review of market data and assessment of Company and individual executive performance.

Please refer to "Executive Compensation Tables" below for additional information on compensation of the Company's named executive officers.

**Short-Term Incentive Program/Cash Bonuses -** The Company has an Executive Incentive Plan ("EIP") which is designed to link annual cash bonus awards to specific bank financial targets and individual performance metrics. According to the terms of the EIP, the Board of Directors is responsible for establishing the Bank-wide financial targets which are utilized to trigger funding of the EIP. The Board of Directors determines the individual performance goals used to evaluate the President and Chief Executive Officer. For all other executives, the President and Chief Executive Officer and Chief Operating Officer are responsible for establishing individual performance goals which, in conjunction with achievement of Bank-wide financial goals, are used to determine individual awards. The EIP provides for a potential claw-back of award payments if the relevant performance measures on which they are based are restated or otherwise adjusted with a 36-month period following the public release of the financial information.

26

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On February 25, 2015 the Board approved a 2015 Performance Target for purposes of the 2015 Incentive Plans. The 2015 Performance Target was the budgeted Net Income for the 2015 fiscal year (excluding certain non-core items). Based on the Bank's 2015 financial results in which core banking net income exceeded the budgetary target, the Board authorized the 2015 EIP to be paid in March, 2016. The 2015 Performance Targets for the Company's named executive officers under the EIP are as follows:

| **Name** | **Position** | **Target EIP Award** |
|---|---|---|
| Steven R. Tokach | President and CEO | 15% of base salary |
| Gerard A. Champi | Chief Operating Officer | 15% of base salary |
| James M. Bone, Jr. CPA | Chief Financial Officer | 15% of base salary |
| Brian C. Mahlstedt | Chief Lending Officer | 15% of base salary |
| Mary G. Cummings | General Counsel | 10% of base salary |

**Long-Term Incentive Programs -** The Company has a Long-term Incentive Plan ("LTIP") which was formally adopted by the Board of Directors on October 23, 2013 and approved by the shareholders at the 2013 Annual Meeting of Shareholders on December 23, 2013. The LTIP authorizes the Board to grant up to 1.2 million shares of the Company's common stock over a 10-year period.

The Company believes that stock ownership by management and equity-based performance compensation arrangements are useful tools to align the interests of management with those of the Company's shareholders. Where executives are shareholders themselves, the executives will realize a direct benefit by achieving the objective of maximizing shareholder value.

The LTIP is designed to reward directors, executives and key employees for their contributions to the long-term success of the Company, primarily as measured by the increase in the Company's stock price. The LTIP design provides the Board with the authority to offer several different types of long-term incentives, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares.

On February 25, 2015 and upon the recommendation of the Compensation Committee, the Board approved awards under the terms of the LTIP to executives and key employees. The 2015 grants were awarded on March 1, 2015 and were comprised solely of restricted stock. For more information about these awards to the Company's named executive officers, see the Summary Compensation Table and the Grants of Plan-Based Awards Table.

***Prior Plans***

During 2015, the Company had in place two expired stock incentive plans: the 2000 Stock Incentive Plan (the "Stock Incentive Plan") and the 2000 Independent Directors' Stock Incentive Plan (the "Directors' Stock Plan," and together with the Stock Incentive Plan, the "Company Plans"), each of which expired on August 30, 2010 and, as such, no additional awards have been granted from the Company Plans, though the expiration of the Company Plans does not affect any awards outstanding as of the expiration date of the Company Plans.

Under the Stock Incentive Plan, shares of common stock are subject to issuance upon the exercise of incentive stock options ("ISOs"), non-incentive stock options ("Non-ISOs") and stock appreciation rights ("SARs"), and the award of shares of restricted stock to such key officers or other employees of the Company or the Bank as the Compensation Committee may designate. However, only ISOs were ever awarded under the Stock Incentive Plan. The exercise price of qualified stock options under the Stock Incentive Plan was not permitted to be less than 100% of the fair market value of the common stock on the date of grant, as determined in the Stock Incentive Plan.

Under the Stock Incentive Plan, the time period during which any qualified incentive stock option is exercisable, as determined by the Compensation Committee, does not commence before the expiration of six (6) months or continue beyond the expiration of ten (10) years after the date such option is awarded.

**Tax and Accounting Considerations**

To the extent the recipient of an incentive award recognizes ordinary income, generally the Company will be entitled (subject to the requirement of reasonableness, the provisions of Code Section 162(m), and the satisfaction of any tax reporting obligations) to a corresponding income tax deduction. Wherever possible, the Company structures compensation for its executive officers in a way that preserves tax deductibility under Section 162(m).

The Company does not generally consider the tax consequences to named executive officers of cash compensation or of equity-based compensation, though it considers the tax treatment to the Company for non-qualified options and the non-qualifying disposition of qualified options to be favorable.

**Employee Stock Grant Plans -** On November 25, 2015, the Board of Directors adopted the 2015 Employee Stock Grant Plan (the "2015 Grant Plan"), which became effective upon implementation on the same date, pursuant to which the Board authorized the grant of up to 13,550 common shares in order to make one-time grants of 50 common shares to each active full and part-time employee of the Company, including the named executive officers. This program was implemented to provide all of the Company's employees with a long-term financial interest in its future growth and profitability by providing them with Company ownership in the form of common shares.

**Profit Sharing and 401(k) Plan -** The Bank has adopted the First National Community Bank 401(k) Profit Sharing Plan (the "401(k) Plan"), a tax qualified retirement savings plan pursuant to which the Bank's employees, including the named executive officers, are able to make pre-tax or Roth contributions from their cash compensation. The 401(k) Plan provides for a discretionary employer contribution, which is determined each year by the Board of Directors, in the form of profit sharing. For the year 2015, the Board of Directors did not declare a profit sharing contribution.

The 401(k) Plan permits the Bank to match employee 401(k) contributions to employees who are 21 on the first day of the month following their day of hire. The Board of Directors has approved a 100% match of employee salary deferrals up to 2% for each employee. The match is subject to amendment at the Board of Director's discretion.

**Supplemental Executive Retirement Plan** - On September 30, 2015, the Board of Directors authorized providing Supplemental Executive Retirement Plans (each, a "SERP") to Messrs. Bone, Champi and Mahlstedt. The purpose of each SERP agreement was to further align shareholder interests with the compensation of these three (3) key executives and to provide them with a long term retention incentive. The provisions of each executive's SERP are identical except for the amounts that the Bank is required to contribute to each executive's SERP account as described below. Each SERP is a non-qualified plan and each participant has the status of a general unsecured creditor to the Bank.

Upon execution of the SERP Agreements in 2015, each executive received a one-time contribution to their SERP account. Mr. Champi received $50,000, Mr. Bone received $50,000 and Mr. Mahlstedt received $30,000.

Each SERP provides that the Bank is required to make additional annual contributions to that executive's SERP account. This annual contribution for each executive is as follows: Mr. Champi, $35,000, Mr. Bone, $25,000 and Mr. Mahlstedt, $20,000. In addition, each executive is eligible to receive an annual Performance Based Contribution to their SERP account. Should the Board authorize a payment to that executive under the terms of the EIP; each executive will receive a performance-based contribution to his or her SERP account in an amount equal to the difference between the amount that we are required to contribute and the amount of such cash payment under the EIP. Should the executive not receive a payment from the EIP that exceeds the amount of the Bank's required contribution for that fiscal year, the executive will not receive a performance-based contribution for that year.

Each participant becomes fully vested in the fair market value of their individual SERP account upon the first to occur of the following: (1) the participant becoming disabled, (ii) the participant's involuntary termination of employment from the Bank without cause, (iii) the participant's death, (iv) change of control of the Company, or (v) the participant reaching age 62 prior to a separation from service or other termination of employment.

Account balances in each executive's SERP account will receive an interest credit on December 31st of each year. The annual amount of interest credited on the account balance is equal to 1.0% plus the average of the one year Treasury Bill rates in effect on and between December 1 and December 15 of the Plan year to which the rate of interest applies.

**Deferred Compensation Plan -** All officers of the Bank employed at the beginning of a year for at least two years with earnings in excess of $40,000 annually are entitled to participate in the Bank's Director's and Officer's Deferred Compensation Plan, as amended ("Deferred Compensation Plan"). The Deferred Compensation Plan allows named executive officers who have been employed by the Bank for 10 or more years to defer up to 25% of their compensation, including base salary and cash bonuses. All other eligible named executive officers may defer up to 15% of their compensation. The Deferred Compensation Plan is designed to provide a long-term incentive to remain in the employ of the Bank.

An account for each participant is maintained and credited with deferred compensation on the date such compensation would have been paid to a participant had no election to defer been made. Interest paid on amounts in each participant's account is determined annually based on 1% plus the average of the one-year U.S. Treasury Bill rates in effect on and between December 1 and December 15 of the Plan Year to which it applies. There is no minimum interest rate. The Bank does not match participant deferrals to the Deferred Compensation Plan.

The Bank's obligation under the Deferred Compensation Plan is an unfunded and unsecured promise to pay. As such, participants' account balances in the Deferred Compensation Plan are unsecured and at-risk, meaning the balances are subject to the Bank's creditors.

Participants, including each of the named executive officers, are immediately vested in their account balance in the deferred compensation plan. The benefit payments to be made to a participant under the Deferred Compensation Plan begin on the first business day of the month after the participant's "normal retirement date," which is the date on which a participant reaches age 60, the date on which he has been a participant for five years, or his or her termination of service, whichever is later. "Termination of service" means the participant's ceasing to serve as a director or officer of the Bank for any reason whatsoever, voluntary or involuntary, including by reason of death or disability. The participant will receive equal monthly or annual installments over the period chosen, the amount of such payments being determined by annuitizing the amount in his Deferred Compensation Plan account, plus interest.

Distributions are paid in a lump sum or in annual or monthly installments according to the participant's designation, provided, however, that the Bank may, subject to approval by the Board of Directors, pay the participant's deferred compensation account in annual payments upon such Participant's termination of service. All distributions are also subject to any regulatory requirements, as in effect from time to time.

29

**Additional Employee Benefit Plans -** The Bank also provides additional benefit programs to employees, including the named executive officers, including health, vision and dental insurance, life insurance, long-term and short-term disability insurance and an employee assistance program.

**Supplemental Life Insurance for Certain Executive Officers -** Certain executive officers also participate in the Company's supplemental executive life insurance plan which provides a split-dollar share of death benefits to the executive's beneficiary, depending upon the executive's eligibility to receive payments. The plan is funded with bank-owned life insurance and is used to provide an additional benefit to certain executives with a minimal cost to the Company. Split-dollar life insurance plans are widely available in the banking industry, because it allows the employer to recover its plan costs upon the death of the executive, and the executive's beneficiary to receive a split of the insurance proceeds.

These benefits are provided to further incent longevity with the Company and also to provide an executive benefit package that is fully competitive within the Company's industry and market place. The costs of providing such benefits to all eligible employees are not considered when determining specific salaries of the named executive officers and are seen as a worthwhile investment in employees that will help keep the employee productive and engaged.

**Perquisites -** The Company provides a Company-owned vehicle to several of the named executive officers, as their positions require travel offsite frequently for Bank business. The provision of a Company vehicle to these individuals is viewed by the Board of Directors as a normal benefit in the highly competitive financial services industry.

Country club memberships, the dues for which are paid by the Company, are provided to certain of the Company's named executive officers and used as a vehicle to attract, retain and expand customer relationships. They are viewed as an important resource for certain named executive officers to further the business of the Bank.

**Employment and Severance Arrangements -** On September 30, 2015 and upon the recommendation of the Compensation Committee, the Board of Directors authorized Employment Agreements ("Agreements") for Messrs. Bone, Champi and Mahlstedt. Accordingly, on October 1, 2015 the Company and the Bank entered into an Employment Agreement with Mr. Bone and the Bank entered into Employment Agreements with Mr. Champi and Mr. Mahlstedt. Employment Agreements are commonly used by the banking industry and by the Company's peer group to define an overall compensation package that is aligned with shareholder interests and to retain key executives. There were no written Employment Agreements in place prior to October 1, 2015. Below is a summary of each executive's Agreement.

The provisions under the Employment Agreements for Mr. Champi, Mr. Bone and Mr. Mahlstedt are identical in all respects except for each executive's base salary. The base salaries for each executive as specified in the Agreement are:

Mr. Champi, $252,500; Mr. Bone, $207,000 and Mr. Mahlstedt, $192,000. Each Agreement specifies that the base salary is subject to annual review by the Compensation Committee and the Board.

Each Agreement states that the executive is eligible to participate in the EIP and LTIP according to the terms of those Plans. The Agreement also states that each executive will be provided with a SERP whose terms are described elsewhere in this document. The Agreement specifies that each executive will be reimbursed for annual country club dues and use of a Bank provided automobile.

30

Each executive's Agreement has a term of three years, with consideration for an annual renewal of an additional three years on March 31st of each calendar year.

In the event of a Change of Control during which his employment with the Bank is terminated without Cause 1) within 120 days immediately prior to and in conjunction with a Change in Control or within one year following consummation of a Change in Control or 2) the terms and conditions of his position are substantially altered as defined in the Agreement, each executive will receive a total Severance payment equal to 2.99 years base salary at the highest rate in effect during the 12-month period immediately preceding his last day of employment plus the average Executive Incentive Plan cash award received over the last three preceding years. Each executive will remain eligible to participate in the Bank's medical benefits program while receiving severance.

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

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

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

Each executive's Agreement includes a non-compete clause which will be in effect for twelve months after an involuntary separation by the Bank or after a Change of Control termination as defined in his Agreement.

**Inter-Relationship of Elements of Total Compensation**

The Company's executive compensation philosophy and strategy is intended to be competitive in the marketplace to reward executives for strong performance through multiple compensation vehicles. All of the components are balanced, integrated, and designed to provide a total compensation environment which will enhance the executives' relationship with the Company and support the growth of overall shareholder value.

The various elements of the total compensation package are subtly interrelated but are intended to focus the executive on both short-term and long-term performance of the Company. While there is not a direct relationship between components, if in a given year the Board of Directors or Compensation Committee decides, for purposeful reasons, to "overweight" one component of total compensation (as compared to the market) they may "underweight" another so that total compensation remains competitive. The Company holds an advisory vote on the compensation of executives on an annual basis.

**Equity Ownership Guidelines**

The Company has no equity or security ownership requirements or guidelines for executive officers other than Steven R. Tokach who, as director of the Company and the Bank, is required to own shares of the Company's common stock. However, all of the executive officers own common stock, restricted stock or options to purchase common stock pursuant to its equity compensation plans. Pursuant to the Company's bylaws, shareholders who submit proposals for inclusion in the Company's proxy statement must disclose details regarding hedged positions.

**Risk Analysis of Incentive Compensation Programs**

The Compensation Committee evaluated the Company's compensation policies and practices for its employees and concluded that its compensation programs (1) are appropriately structured to reward prudent risk taking, (2) do not encourage or promote inappropriate risk taking, (3) do not pose a material risk to the Company, and (4) are not reasonably likely to have a material adverse effect on the Company. The Compensation Committee presented their findings to the Board of Directors in 2015. The Compensation Committee intends to conduct a risk analysis of the Incentive Compensation Programs on an annual basis.

***Summary Compensation Table - 2015***

Shown below is information concerning the annual compensation for services in all capacities to the Company and the Bank for the fiscal years ended December 31, 2015, 2014, and 2013 of the Chief Executive Officer, the Chief Financial Officer, and the three other most highly compensated executive officers of the Company and the Bank, to the extent such persons' total compensation exceeded $100,000.

| Name and Principal Position | Year | Salary | Non Equity Incentive Plan Awards (1) | Stock Awards (2) | Change in pension value and non-qualified deferred compensation earnings (3) | All Other Compensation | | Total |
|---|---|---|---|---|---|---|---|---|
| Steven R. Tokach, President | 2015 | $318,292 | $55,000 | $91,108 | $ - | $ 7,021 | (4) | $471,421 |
| and Chief Executive | 2014 | 308,422 | - | 51,221 | - | 9,600 | (4) | 369,243 |
| Officer of the Company | 2013 | 300,300 | - | 213 | - | 6,727 | (4) | 307,240 |
| and the Bank | | | | | | | | |
| James M. Bone, Jr., | 2015 | $206,746 | $38,000 | $58,333 | $ 710 | $ 62,557 | (5) | $366,346 |
| Executive Vice President and | 2014 | 195,504 | - | 35,811 | 502 | 12,962 | (5) | 244,779 |
| Chief Financial Officer/Treasurer | 2013 | 190,300 | - | 213 | 426 | 7, 208 | (5) | 198,147 |
| of the Company and the Bank | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| and former Chief Information | | | | | | | | |
| Officer of the Bank | | | | | | | | |
| Gerard A. Champi, Chief | 2015 | $252,292 | $45,000 | $72,133 | $ 5,614 | $ 65,545 | (6) | $440,584 |
| Operating Officer of the | 2014 | 242,455 | - | 42,511 | 3,968 | 14,438 | (6) | 303,372 |
| Bank and former Interim | 2013 | 235,505 | - | 213 | 3,371 | 43,136 | (6) | 282,225 |
| President and Chief | | | | | | | | |
| Executive Officer of the | | | | | | | | |
| Company and Bank | | | | | | | | |
| Brian C. Mahlstedt, | 2015 | $189,885 | $35,000 | $52,008 | $ 1,505 | $ 41,131 | (7) | $319,529 |
| Executive Vice President and | 2014 | 177,517 | - | 23,081 | 1,064 | 9,733 | (7) | 211,395 |
| Chief Lending Officer | | | | | | | | - |
| Mary C. Cummings, Senior | 2015 | $162,823 | $18,000 | $27,571 | $ - | $ 1,254 | (8) | $209,648 |
| Vice President and | 2014 | 153,773 | - | 18,391 | - | - | | 172,164 |
| General Counsel | 2013 | 140,301 | - | 213 | - | - | | 140,514 |

(1) The amounts listed represent the amounts earned under the Company's EIP for the fiscal year ended December 31, 2015.

(2) The amounts listed represent the grant date fair market value of the shares computed in accordance with ASC Topic 718. Additional information about the Company's accounting for stock-based compensation is contained in Note 2 and Note 16 to the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2015.

(3) The amounts listed reflect only the above market earnings on the balances in the named executive officers non-qualified deferred compensation plan accounts.

32

(4) For Mr. Tokach, this amount represents country club dues in the amount of $3,391, $6,188 and $3,500 and an automobile allowance in the amount of $3,630, $3,412 and $3,227 for 2015, 2014 and 2013, respectively.

(5) For Mr. Bone, this amount includes an initial one-time contribution to his SERP in the amount of $50,000 in 2015, earnings on the balance in his SERP of $825, the Bank's matching contribution to his account under its 401(k) Plan in the amount of $3,983, $3,800 and $3,800, premiums paid to purchase split-dollar life insurance in the amounts of $127, $118 and $108, country club dues of $4,771, $4,755 and $2,250 and an automobile allowance of $2,851, $4,289 and $1,050, in each case, for 2015, 2014 and 2013, respectively.

(6) For Mr. Champi, this amount includes an initial one-time contribution to his SERP in the amount of $50,000 in 2015, earnings on the balance in his SERP of $825, the Bank's matching contributions to his account under its 401(k) Plan in the amount of $5,044, $4,846 and $4,704, premiums paid to purchase split-dollar life insurance in the amounts of $135, $127 and $118, country club dues in the amounts of $6,691, $6,525 and $7,130, an automobile allowance of $2,850, $2,940 and $2,914, in each case, for 2015, 2014 and 2013, respectively and a vacation payout in the amount of $28,270 in 2013.

(7) For Mr. Mahlstedt, this amount includes an initial one-time contribution to his SERP in the amount of $30,000 in 2015, earning on the balance in his SERP of $495, the Bank's matching contributions to his account under its 401(k) Plan in the amount of $3,420 and $3,182, country club dues in the amount of $4,313 and $4,420 and an automobile allowance in the amount of $2,903 and $2,131, in each case, for 2015 and 2014, respectively.

(8) For Ms. Cummings, this amount includes the Bank's matching contributions to her account under its 401(k) Plan in the amount of $1,254 in 2015.

The Company's compensation philosophy is to provide executives with a balanced mix of compensation components to enable the Company to attract, retain and motivate key executives. It is also the Company's compensation philosophy to provide for base compensation levels that are in line with the market together with a more conservative bonus opportunity also in alignment with the market. Where appropriate, the Company adjusts the base salaries of its key executives to reflect market-competitive compensation levels and to recognize current responsibilities and expectations. The Company made restricted stock awards under the LTIP to all named executive officers during 2015.

***2015 Grants of Plan-Based Awards***

The following table provides information about non-equity incentive plan awards granted to the Company's named executive officers in connection with the year ended December 31, 2015. The non-equity awards are made under the terms of the Company's EIP and were subject to the satisfaction of 2015 performance objectives. The actual awards indicated in the table were paid in 2016.

| | | **Estimated Future Payouts Under Non-Equity Incentive Plan Award (1)** | | | | **All Other Stock Awards: Number of Shares of Stock or Units** | | **Grant Date Fair Value of Stock Awards** |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Grant Date** | **Target ($)** | **Stretch ($)** | **Maximum ($)** | **Actual Award ($)** | **(#)** | | **($)** |
| Steven R. Tokach | | $47,775 | $62,108 | $ 66,885 | $55,000 | | | |
| | 3/1/2015 | | | | | 15,800 | (2) | $90,850 |
| | 11/25/2015 | | | | | 50 | (3) | $258 |
| James M. Bone, Jr. CPA | | $31,050 | $40,365 | $ 43,470 | $38,000 | | | |
| | 3/1/2015 | | | | | 10,100 | (2) | $58,075 |
| | 11/25/2015 | | | | | 50 | (3) | $258 |
| Gerard A. Champi | | $37,875 | $49,238 | $ 53,025 | $45,000 | | | |
| | 3/1/2015 | | | | | 12,500 | (2) | $71,875 |
| | 11/25/2015 | | | | | 50 | (3) | $258 |
| Brian C. Mahlstedt | | $28,800 | $37,440 | $ 40,320 | $35,000 | | | |
| | 3/1/2015 | | | | | 9,000 | (2) | $51,750 |
| | 11/25/2015 | | | | | 50 | (3) | $258 |
| | | $16,330 | $21,190 | $ 22,820 | $18,000 | | | |

| | | | |
|---|---|---|---|
| Mary G. Cummings | | | |
| 3/1/2015 | 4,750 | (2) | $27,313 |
| 11/25/2015 | 50 | (3) | $258 |

(1) The amounts represent target, stretch, maximum and actual awards under the EIP, which equal a specified percentage of base salary in effect on December 31 of the year before payment is made. The EIP awards earned by the named executive officers in 2015 were paid in 2016 and are set forth in the Summary Compensation Table under the column entitled “Non-Equity Incentive Plan Compensation.”

(2) Shares of restricted stock granted pursuant to the 2013 LTIP. For Mr. Tokach, the shares of stock vest ratably over 2 years and for Messrs. Bone, Champi, and Mahlstedt and Ms. Cummings, the shares of stock vest ratably over 3 years. Unvested shares of restricted stock are subject to forfeiture upon termination of employment for any reason. For employees who retire in good standing, all unvested restricted stock vests on a pro rata basis for the number of months since the immediately preceding vesting date and the total number of months remaining in the restricted period. Unvested shares of restricted stock do not have voting or dividend rights.

(3) The shares of stock granted to all employees pursuant to the 2015 Employee Stock Grant Plan. The shares of stock are fully vested and have voting and dividend rights, but are restricted as to transferability until January 1, 2017.

The Company’s equity compensation plans include the Directors’ Stock Plan and the Stock Incentive Plan which were approved by shareholders on May 16, 2001. Both of the Company Plans expired on August 30, 2010. No stock options were awarded under either of the Company Plans in 2013, 2014 or 2015.

On November 25, 2015, the Board of Directors adopted the 2015 Employee Stock Grant Plan pursuant to which the Board of Directors granted 50 shares of the Company’s common stock to each eligible employee of the Company, including executive officers.

On March 1, 2015, the Board of Directors granted awards of restricted stock to executive officers under the terms of the LTIP.

34

**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the equity awards the Company has made to named executive officers which are outstanding at December 31, 2015. All options were granted with an exercise or base price of 100% of market value as determined in accordance with the applicable plan. The number of shares subject to each award as well as the exercise and/or base price has been adjusted to reflect all stock dividends and stock splits effected after the date of such award but have not otherwise been modified.

| | Outstanding Equity Awards at Fiscal Year End | | | | | |
|---|---|---|---|---|---|---|
| | Option Awards | | | | Stock Awards | |
| Name | Number of Securities Underlying Unexercised Options Exercisable (1) | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) (2) | Market Value of Shares or Units of Stock That Have Not Vested ($) (3) |
| Steven R. Tokach | - | - | - | - | 19,600 | $102,900 |
| James M. Bone, Jr. | 1,650 | - | $ 23.13 | 11/29/2016 | 13,633 | $71,573 |
| | 2,500 | - | $ 16.90 | 11/13/2017 | | |
| | 4,000 | - | $ 10.81 | 1/5/2019 | | |
| Gerard A. Champi | 2,337 | - | $ 23.13 | 11/29/2016 | 16,700 | $87,675 |
| | 3,500 | - | $ 16.90 | 11/13/2017 | | |
| | 5,600 | - | $ 10.81 | 1/5/2019 | | |
| Brian C. Mahlstedt | - | - | - | - | 11,266 | $59,147 |
| Mary G. Cummings | - | - | - | - | 6,550 | $34,388 |

(1) All options listed in this table are fully vested.

(2) Shares of restricted stock granted to the President and CEO generally vest in two equal installments over a two-year period on either March 1 or May 15 of each year. Shares of restricted stock granted to all other named executive officers generally vest in three equal installments over a three-year period on either March 1 or May 15 of each year. The restricted stock reflected in this column was granted on March 1, 2014 and March 1, 2015.

(3) Based on the closing market value of the Company's common stock on December 31, 2015 of $5.25 per share, as reported on the OTCQX for the last trading day of the year.

**Options Exercised and Stock Vested**

None of the named executive officers exercised any options during 2015. The table provides additional information about the value realized to the named executive officers from stock awards vested during 2015.

| | **Stock Awards** | |
|---|---|---|
| **Name** | **Number of Shares Acquired on Vesting (#)** | **Value Realized on Vesting ($) (1)** |
| Steven R. Tokach | 3,800 | $ 21,850 |
| James M. Bone, Jr. | 1,767 | $ 10,160 |
| Gerard A. Champi | 2,100 | $ 12,075 |
| Brian C. Mahlstedt | 1,134 | $ 6,521 |
| Mary G. Cummings | 900 | $ 5,175 |

(1) Due to the illiquid nature of the Company's common stock, the value realized on the restricted stock is the fair value on the date of vesting as defined in the plan documents as an average of the high and low prices for the Company's common stock for the 10 trading days preceding the grant date.

35

**Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans**

The following table provides information as of and for the year ended December 31, 2015 for the named executive officers regarding their participation in the Deferred Compensation Plan and the SERP. The aggregate earnings listed in this table are included in the non-qualified deferred compensation earnings column of the Summary Compensation Table. For a discussion of the types of compensation permitted to be deferred (and any limitations), the measures for calculating interest and the material terms with respect to payouts, withdrawals and other distributions, see the above discussion under the heading "Compensation Components—Deferred Compensation Plan."

| Name | Plan | Executive Contributions in Last FY | Registrant Contributions in Last FY | | Aggregate Earnings in Last FY | | Aggregate Withdrawals/ Distributions | Aggregate Balance at Last FYE |
|---|---|---|---|---|---|---|---|---|
| James M. Bone, Jr. | Deferred Compensation | $ - | $ - | | $ 710 | (2) | $ - | $ 43,730 |
| | SERP | - | 50,000 | (1) | 825 | (1) | - | 50,825 |
| Gerard A. Champi | Deferred Compensation | - | - | | 5,614 | (2) | - | 345,862 |
| | SERP | - | 50,000 | (1) | 825 | (1) | - | 50,825 |
| Brian Mahlstedt | Deferred Compensation | - | - | | 1,505 | (2) | - | 92,722 |
| | SERP | - | 30,000 | (1) | 495 | (1) | - | 30,495 |

(1) Amount is included in the Summary Compensation Table under the column "All Other Compensation" for the respective named executive officer.

(2) Amount is included in the Summary Compensation Table under the column "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" for the respective named executive officer.

36

***Potential Payments upon Termination or Change in Control***

The table below summarizes the payments the named executive officers would receive if they were terminated as of, or a change in control occurred on, December 31, 2015.

| | | | | **Before Change in Control** | | **After Change in Control** | |
|---|---|---|---|---|---|---|---|
| | | **Termination for Death or Disability** | **Involuntary Termination for Cause** | **Involuntary Termination without Cause** | **Voluntary Termination for Good Reason** | **Involuntary Termination without Cause** | **Voluntary Termination for Good Reason** |
| **Steven R. Tokach** | Restricted stock vesting (1) | $50,191 | $0 | $50,191 | $0 | $102,900 | $102,900 |
| | Potential reduction in payout due to operation of Code Section 280G | $0 | $0 | $0 | $0 | $0 | $0 |
| | **Total** | **$50,191** | **$0** | **$50,191** | **$0** | **$102,900** | **$102,900** |
| **James M. Bone, Jr.** | Severance (2) | $0 | $0 | $612,582 | $0 | $612,582 | $612,582 |
| | Welfare continuation (3) | $0 | $0 | $24,337 | $0 | $24,337 | $24,337 |
| | Restricted stock vesting (1) | $37,397 | $0 | $37,397 | $0 | $71,573 | $71,573 |
| | SERP payout | $50,825 | $0 | $50,825 | $0 | $50,825 | $50,825 |
| | Potential reduction in payout due to operation of Code Section 280G | $0 | $0 | $0 | $0 | ($196,732) | ($196,732) |
| | **Total** | **$88,222** | **$0** | **$725,141** | **$0** | **$562,585** | **$562,585** |
| **Gerard A Champi** | Severance (2) | $0 | $0 | $747,232 | $0 | $747,232 | $747,232 |
| | | $0 | $0 | $12,547 | $0 | $12,547 | $12,547 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Welfare continuation (3) | | | | | | |
| | Restricted stock vesting (1) | $45,453 | $0 | $45,453 | $0 | $87,675 | $87,675 |
| | SERP payout | $50,825 | $0 | $50,825 | $0 | $50,825 | $50,825 |
| | Potential reduction in payout due to operation of Code Section 280G | $0 | $0 | $0 | $0 | ($82,309) | ($82,309) |
| | **Total** | **$96,278** | **$0** | **$856,057** | **$0** | **$815,969** | **$815,969** |
| **Brian C. Mahlstedt** | Severance (2) | $0 | $0 | $568,192 | $0 | $568,192 | $568,192 |
| | Welfare continuation (3), (4) | $0 | $0 | $0 | $0 | $0 | $0 |
| | Restricted stock vesting (1) | $29,083 | $0 | $29,083 | $0 | $59,152 | $59,152 |
| | SERP payout | $30,495 | $0 | $30,495 | $0 | $30,495 | $30,495 |
| | Potential reduction in payout due to operation of Code Section 280G | $0 | $0 | $0 | $0 | ($136,772) | ($136,772) |
| | **Total** | **$59,578** | **$0** | **$627,770** | **$0** | **$521,067** | **$521,067** |
| **Mary C. Cummings** | Restricted stock vesting (1) | $18,254 | $0 | $18,254 | $0 | $34,388 | $34,388 |
| | Potential reduction in payout due to operation of Code Section 280G | $0 | $0 | $0 | $0 | $0 | $0 |
| | **Total** | **$18,254** | **$0** | **$18,254** | **$0** | **$34,388** | **$34,388** |

(1) Restricted stock vests immediately upon change in control.

(2) For severance and welfare continuation calculation, and time and form of such payments, see “Employment and Change in Control Agreements.”

(3) Assumes no increase in the cost of welfare benefits.

(4) Mr. Mahlstedt does not currently receive welfare benefits from the Company.

37

**Directors' and Officers' Deferred Compensation Plan**

The named executive officers and all other participants are vested in their account balance in the Deferred Compensation Plan. As such, upon ceasing to serve as an officer of the Bank for any reason whatsoever, voluntary or involuntary, including involuntary termination for cause, termination on a change of control, voluntary termination, early retirement or by reason of death or disability, the amount of the Deferred Compensation Plan account balance of such named executive officer will be payable pursuant to the terms of the Deferred Compensation Plan. Amounts payable under the Deferred Compensation Plan are unsecured, unfunded obligations of the Bank. Information regarding amounts to which named executives would be entitled under any such termination scenario, in the event of a termination as of December 31, 2015, are set forth in the preceding table. See the narrative detail above under "Compensation Discussion & Analysis — Deferred Compensation Plan" for additional information on the timing of such payments, which are subject in part to an election by such officer, and the age and length of such officer's service with the Bank.

**Equity Incentive Plans**

Options issued under the Company Plans are subject to accelerated vesting and remain exercisable upon or in connection with the occurrence of certain change of control events; all currently outstanding stock options under the Company Plans are fully vested. In addition, any such stock option awards may remain exercisable for up to three months (or longer in the case of death or disability) upon the termination of any of the Company's named executive officers' employment for any reason. As of April 8, 2016, based on the closing market price of $5.95 per share, the exercise price of all options held by executive officers is greater than the current market price per share. Therefore, the Company does not expect that the options would be exercised upon a change in control or termination of employment.

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

The foregoing narrative regarding payments on a change in control or other termination of employment does not reflect payments that would be provided to each named executive officer under the 401(k) Plan following termination of employment, or under the Company's disability or life insurance plan in the event of death or disability, as applicable, on the last business day of the fiscal year ended December 31, 2015 because these plans are generally available to all regular salaried employees.

38

***Director Compensation***

The following table sets forth information regarding compensation paid to, or earned by, non-employee directors of the Company during the fiscal year ended December 31, 2015 for service as members of the Company and Bank Boards of Directors.

**DIRECTOR COMPENSATION TABLE**

**December 31, 2015**

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards | Change in Pension value and Non-Qualified Deferred Compensation Earnings | All Other Compensation | Total |
|---|---|---|---|---|---|---|
| William G. Bracey | $ 30,000 | $ - | $ - | $ - | $ - | $ 30,000 |
| Michael J. Cestone (2) | 34,231 (1) | - | - | - | - | 34,231 |
| Joseph Coccia | 30,000 | - | - | - | - | 30,000 |
| Dominick L. DeNaples | 30,000 | - | - | - | - | 30,000 |
| Louis A. DeNaples | 30,000 | - | - | - | - | 30,000 |
| Louis A. DeNaples, Jr. | 30,000 | - | - | - | - | 30,000 |
| Keith W. Eckel | 30,000 | - | - | - | - | 30,000 |
| Thomas J. Melone | 30,000 | - | - | - | - | 30,000 |
| John P. Moses | 30,000 | - | - | 6,538 | - | 36,538 |
| Steven R. Tokach (3) | - | - | - | - | - | - |

(1) Includes a $30,000 director’s fee and $4,231 for service as Secretary of the Board of Directors through May 20, 2015.

(2) Mr. Cestone retired as director as of December 31, 2015.

(3) Mr. Tokach does not receive compensation as a member of the Board of Directors.

Directors receive no remuneration for attendance at the Company's board meetings. All non-employee members of the Bank's Board of Directors receive an annual retainer of $30,000, payable at a rate of $2,500 per month, for each month or portion thereof that the director serves as a director of the Bank. The aggregate amount of director fees paid in 2015 was $274,231. Members of committees of the Board of Directors of the Company or the Bank, as applicable, do not receive fees for attending meetings of those committees.

Directors serving on the Board of Directors of the Bank are entitled to participate in the Bank's Deferred Compensation Plan. Under the Deferred Compensation Plan, directors may voluntarily defer up to 50% of the director fees paid to them for service on the Board of Directors of the Bank. For additional information regarding the Deferred Compensation Plan, refer to Executive Compensation — Compensation Disclosure and Analysis - Deferred Compensation Plan."

**Directors' Stock Plan**

Directors who were not employees or officers of the Company were eligible to be granted options to purchase stock of the Company under the Directors' Stock Plan. The Directors' Stock Plan expired during 2013, and no additional awards may be made thereunder. There were no awards outstanding thereunder at December 31, 2015.

Directors who are not employees or officers of the Company are eligible to participate in the LTIP. No awards have been made to directors under the LTIP plan.

**Equity Compensation Plan Information**

The Company Plans expired on August 30, 2010, and as such, no new grants of awards have been or will be made pursuant to these Company Plans. Options, however, can be exercised up to ten years following their date of grant; accordingly, exercisable options remain outstanding.

The following table summarizes our equity compensation plan information as of December 31, 2015. Information is included for both equity compensation plans approved by First National Community Bancorp, Inc. shareholders and equity compensation plans not approved by First National Community Bancorp, Inc. shareholders.

**Equity Compensation Plan Information**

**December 31, 2015**

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights (1)(2) [a] | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)(2) [b] | Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities in Column [a]) (2) [c] |
|---|---|---|---|
| Equity compensation plans approved by First National Community Bancorp, Inc. shareholders | 50,746 | $ 15.20 | - |
| Equity compensation plans not approved by First National Community Bancorp, Inc. shareholders (3) (4) (5) | - | - | 2,450 |
| Total | 50,746 | $ 15.20 | 2,450 |

(1) The number of shares to be issued upon exercise of outstanding options and the weighted average exercise price includes any options that become exercisable within sixty (60) days after December 31, 2014.

(2) The Company's equity compensation plans include the Directors' Stock Plan and the Stock Incentive Plan which were approved

by shareholders on May 16, 2001. All share and per share information has been adjusted to reflect prior stock dividends paid.

(3) On December 17, 2012, 15,050 common shares were issued under the 2012 Employee Stock Grant Plan. Recipients of grants made pursuant to the 2012 Employee Stock Grant Plan may not sell the shares granted under this plan until after January 1, 2014. The Board of Directors authorized the grant of up to 16,000 common shares, but the Company does not intend to issue any additional shares pursuant to this plan.

(4) On December 2, 2013, 14,400 common shares were issued under the 2013 Employee Stock Grant Plan. Recipients of grants made pursuant to the 2013 Employee Stock Grant Plan may not sell the shares granted under this plan until after January 1, 2015. The Board of Directors authorized the grant of up to 15,000 common shares, but the Company does not intend to issue any additional shares pursuant to this plan.

(5) On December 1, 2014, 12,850 common shares were issued under the 2014 Employee Stock Grant Plan. Recipients of grants made pursuant to the 2014 Employee Stock Grant Plan may not sell the shares granted under this plan until after January 1, 2016. The Board of Directors authorized the grant of up to 13,500 common shares, but the Company does not intend to issue any additional shares pursuant to this plan.

(6) On November 25, 2015, 13,300 common shares were issued under the 2015 Employee Stock Grant Plan Recipients of grants made pursuant to the 2015 Employee Stock Grant Plan may not sell the shares granted under this plan until January 1, 2017. The Board of Directors authorized the grant of up to 13,550 common shares, but the Company does not intend to issue any additional shares under this plan.

***Compensation Committee Interlocks and Insider Participation***

Louis A. DeNaples, Jr., William G. Bracey, Thomas J. Melone and John P. Moses currently serve as the members of the Compensation Committee. Certain employees of the Company, as discussed under the heading "Role of Management," participate in the deliberations of the Board concerning executive officer compensation. No executive officer of the Company served as a director or a member of the compensation committee of another company, one of whose executive officers serves as a member of the Company’s Board of Directors or participates in the Company’s compensation decisions.

40

***Compensation Committee Report***

The following report is not deemed to be "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by the Company under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act. The Compensation Committee of the Company's Board of Directors (collectively, the "Committee") submitted the following report for inclusion in this proxy statement:

Our Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on our Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, our Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

The foregoing report is provided by the following directors, who constitute the Compensation Committee as of April 7, 2016:

***Compensation Committee***

Louis A. DeNaples, Jr., Chairman

William G. Bracey

Thomas J. Melone

John P. Moses

41

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**STOCK PERFORMANCE GRAPH AND TABLE**

The following graph compares the cumulative total shareholder return (i.e. price change, reinvestment of cash dividends and stock dividends received) on the Company's common shares against the cumulative total return of the NASDAQ Stock Market (U.S. Companies) Index, the SNL Bank Index for banks with $500 million to $1 billion in assets and the SNL Bank Pink for banks with over $500 in total assets. The stock performance graph assumes that $100 was invested on December 31, 2010. The graph further assumes the reinvestment of dividends into additional shares of the same class of equity securities at the frequency with which dividends are paid on such securities during the relevant fiscal year. The yearly points marked on the horizontal axis correspond to December 31 of that year. The Company calculates each of the referenced indices in the same manner. All are market-capitalization-weighted indices, so companies judged by the market to be more important (i.e. more valuable) count for more in all indices.

***First National Community Bancorp, Inc.***

| | *Period Ending* | | | | | |
|---|---|---|---|---|---|---|
| ***Index*** | **12/31/10** | **12/31/11** | **12/31/12** | **12/31/13** | **12/31/14** | **12/31/15** |
| First National Community Bancorp, Inc. | 100.00 | 83.06 | 100.66 | 289.04 | 199.34 | 174.42 |
| NASDAQ Composite | 100.00 | 99.21 | 116.82 | 163.75 | 188.03 | 201.40 |
| SNL Bank $500M-$1B | 100.00 | 87.98 | 112.79 | 146.26 | 160.46 | 181.11 |
| SNL Bank Pink > $500M | 100.00 | 98.32 | 108.42 | 131.77 | 154.48 | 171.37 |

**PROPOSAL 2**

**ADVISORY VOTE ON COMPENSATION OF THE COMPANY'S**

**NAMED EXECUTIVE OFFICERS**

Pursuant to SEC rules, the Company is asking you to approve the compensation of its named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and any related material contained in this Proxy Statement.

This proposal, commonly known as a "Say-on-Pay" proposal, gives you as a shareholder the opportunity to endorse or not endorse the Company's executive pay program and policies through a non-binding advisory vote on the following resolution:

"Resolved, that the Shareholders approve the compensation of the Company's named executives, as disclosed in the Compensation Discussion and Analysis, the compensation tables and any related material contained in this Proxy Statement."

The vote on this proposal is advisory and non-binding. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

**Board Recommendation**

*The Company's Board of Directors recommends that shareholders vote* ***FOR*** *this proposal to approve, on an advisory basis, the named executive officers' compensation as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables, and any related information contained in this Proxy Statement. Proxies solicited by the Board of Directors will be voted in favor of PROPOSAL 2 unless shareholders specify otherwise.*

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

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

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

There have been no loan transactions originated during 2015 which were required to be reported where such policy and procedures were not followed. Except for those loans described in more detail below, loans to directors, executive officers and their related parties (i) were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Company or Bank and (iii) did not involve more than the normal risk of collection or present other unfavorable features. Each of these transactions was made in compliance with applicable law, including the Exchange Act and the Federal Reserve Board Regulation O.

The Bank had extended a line of credit ("line") to a corporation wholly owned by Joseph Coccia, a director of the Company. This line of credit performed in accordance with the terms of the agreement and was paid off in its entirety in the first quarter of 2016. The total aggregate outstanding amount of this line as of December 31, 2015 was $11.0 million. Mr. Coccia had a participation agreement with the Bank to purchase up to a maximum of a $5.2 million interest in this line from the Bank. This line bore interest at a rate of 3.25%. The largest aggregate outstanding amount of principal outstanding under this line during 2015 was $12.7 million. Under the line, $26.9 million was advanced and $27.4 million in principal and $279,000 in interest was paid during 2015. The total amount paid by the Bank to Mr. Coccia with respect to his participation in this line during 2015 was $112,000. The Bank received a 25 basis point annual servicing fee from Mr. Coccia on the participation balance. Mr. Coccia also received dealer reserve payments in the amount of $146,000 in 2015. The Bank paid an additional $129,000 to a corporation that provides vehicle restoration services on repossessed automobiles. Mr. Coccia owns 18% of this corporation.

Subordinated notes held by directors and/or their related parties totaled $8.6 million at December 31, 2015 and $9.0 million at December 31, 2014. On June 12, 2015, the Company solicited consent from all existing Noteholders to amend the Notes by reducing the interest rate payable on the Notes from 9.00% to 4.50% effective July 1, 2015, and prepaying 44% of the principal amount outstanding on June 30, 2015. A group of Noteholders holding $14.0 million of the principal balance outstanding on the Notes at June 12, 2015, comprised of both related parties or their interests and non-related parties, offered to purchase the Notes of any Noteholder who did not wish to consent to the amendments. There were seven, non-related party Noteholders, who elected to have their Notes purchased by the group, for a total principal balance of $10.0 million. Of the $10.0 million, $6.4 million was purchased by related parties or their interests. On June 30, 2015, the Company made an $11.0 million principal reduction on the Notes. Total principal payments on Notes held by directors and/or their related parties totaled $6.8 million, of which $6.4 million was used to purchase the Notes referenced above.

For the year ended December 31, 2015, the Company made the quarterly interest payments due on the Notes for the periods of June 1, 2015 through August 31, 2015, and September 1, 2015 through November 30, 2015, totaling $453 thousand, of which $233 thousand was paid to directors and/or their related interests. There was no interest paid to directors on these Notes for the year ended December 31, 2014. Interest expense recorded on the Notes to directors and/or their related interests amounted to $606 thousand and $921 thousand for the years ended December 31, 2015 and 2014, respectively. Interest accrued and unpaid on the Notes to directors and/or their related interest totaled $3.9 million and $3.6 million at December 31, 2015 and 2014, respectively.

On January 27, 2016 the board of directors authorized the payment on March 1, 2016 of all interest that the Company had previously been deferring on the Notes. On March 1, 2016, the Company made an aggregate payment totaling $11.0 million, which included all deferred interest and interest that was due and payable on March 1, 2016. Of the $11.0 million paid, interest paid to directors and/or their related interests totaled $4.0 million on March 1, 2016.

**Certain Business Relationships**

In the course of its operations, the Company acquires goods and services from and transacts business with various companies of related parties. The Company believes these transactions were made on the same terms as those for comparable transactions. The Company recorded aggregate payments for these services of $2.1 million, $2.7 million, and $2.6 million in 2015, 2014, and 2013, respectively. None of these transactions exceeded $120,000, except as described below.

Louis A. DeNaples’ son-in-law and brother-in-law to Louis A. DeNaples, Jr. is a principal owner of an insurance agency that provides services for the Company. In 2015, the total amount paid by the Company for the services was approximately $514,000 and represents premiums paid for insurance coverage. Mr. DeNaples son-in-law acts as an agent and derives a commission on the placement of insurance coverage. These services were awarded based on the results of a competitive bidding process.

Dominick L. DeNaples’ son is an attorney at a law firm that provides legal services to the Company. In 2015, the total amount paid by the Company for these services was approximately $91,000. Mr. DeNaples’ son does not receive any direct payment for these services. Additionally, he is not a partner in this firm and therefore, does not derive any interest in the law firm’s profit from these payments.

**PROPOSAL 3**

**RATIFICATION OF APPOINTMENT OF**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

As discussed in the Joint Audit Committee Report in this proxy statement, Baker Tilly Virchow Krause, LLP (“Baker Tilly”), an independent registered public accounting firm, audited the consolidated financial statements of the Company for the years ended December 31, 2015 and 2014.

A representative of Baker Tilly is expected to be present at the 2016 annual meeting of shareholders and will have the opportunity to make a statement if he or she desires to do so, and will also be available to respond to appropriate questions.

**Required Vote**

The ratification of the appointment of the independent registered public accounting firm requires the affirmative vote of a majority of the votes cast in person or by proxy at the 2016 annual meeting of shareholders.

**Board Recommendation**

*The Company's Board of Directors recommends that shareholders vote* ***FOR*** *this proposal to ratify the appointment of Baker Tilly Virchow Krause, LLP as the Company's independent registered public accounting firm. Proxies solicited by the Board will be voted in favor of PROPOSAL 3 unless the shareholder specifies otherwise.*

**FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The following table sets forth the aggregate fees billed to the Company by Baker Tilly for services rendered for the fiscal year ended December 31, 2015 and 2014.

| | **2015** | **2014** |
|---|---|---|
| Audit fees (1) | $245,700 | $250,356 |
| Audit-related fees | - | - |
| Tax fees (2) | 28,458 | 12,979 |
| All other fees | - | - |

(1) *Audit fees* include fees billed for professional services rendered for the audit of annual financial statements and review of financial statements included in the Company's reports on Form 10-K and Form 10-Q and for services normally provided in connection with statutory and regulatory filings.
(2) *Tax fees* include fees billed for tax advisory services.

The Audit Committee has considered whether, and determined that, the provision of services rendered above was compatible with maintaining the independence of Baker Tilly in 2015 and 2014 as the independent registered public accounting firms. The Audit Committee concluded that the independence of the firm was maintained.

Pursuant to the Audit Committee Charter, the Company is required to obtain pre-approval by the Audit Committee for all audit and permissible non-audit services obtained from its independent registered public accounting firm to the extent required by applicable law. In accordance with this pre-approval policy, the Audit Committee pre-approved all audit services for fiscal years 2015 and 2014.

**SECTION 16(a) BENEFICIAL**

**OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities ("10% Shareholders") to file reports of ownership and changes in ownership with the SEC. Officers, directors and 10% Shareholders are required to furnish the Company with copies of all Section 16(a) forms they file.

The Company reviewed of the copies of such reports received and the written representations from the officers, directors and 10% shareholders. Based on this review, the Company believes that all filing requirements were met during 2015 with the following exceptions:

On May 19, 2015, Joseph J. Earyes, First Senior Vice President and Operations and Technology Services Officer of the Bank, as sole trustee for an irrevocable family trust, caused the trust to distribute 1,000 shares of the Company's common stock to the beneficiaries of the trust. Mr. Earyes is also a beneficiary of the trust along with two other siblings. As part of this transaction, Mr. Earyes received 333 shares of the Company's common stock, which are held individually in his name. Mr. Earyes was required to file a Form 4 by May 22, 2015 but did not. Mr. Earyes filed the Form 4 on May 28, 2015.

On April 9, 2015, James M. Bone, Jr., Executive Vice President and Chief Financial Officer of the Company and the Bank received 341shares of stock as a gift from his father. Mr. Bone is now the co- owner of these shares with his father and three siblings. Mr. Bone was required to file a Form 4 by April 12, 2015 but did not. Mr. Bone filed a Form 5 on March 3, 2016 for this transaction in lieu of filing a Form 4.

**OTHER MATTERS**

The Board of Directors knows of no other business which will be presented for consideration at the meeting other than as stated in the Notice of Meeting. However, if other matters properly come before the meeting, the shares of common stock represented by the signed proxies will be voted in accordance with the recommendations of the Board of Directors, and authority to do so is included in the proxy.

**ADDITIONAL INFORMATION**

A copy of the Company's annual report to shareholders for its fiscal year ended December 31, 2015, was mailed on April 18, 2016. Any shareholder may obtain additional copies of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, including the financial statements and related schedules and exhibits, required to be filed with the SEC, without charge, from the Company's website at *www.fncb.com* or via email to stephanie.westington@fncb.com. This information may also be obtained by submitting a written request to Joseph Coccia, Secretary, 102 East Drinker Street, Dunmore, Pennsylvania 18512.

In accordance with SEC Rule 14a-3(3)(1), in the future, the Company intends to deliver only one annual report and proxy statement to multiple shareholders sharing an address unless the Company receives contrary instructions from one or more of the shareholders. This method of delivery is known as "householding". Upon written or oral request, the Company will promptly deliver a separate copy of the annual report or proxy statement, as applicable, to a shareholder at a shared address to which a single copy of the documents was delivered. Further, shareholders can notify the Company by writing or calling Joseph Coccia, Secretary of First National Community Bancorp, Inc. at 102 E. Drinker Street, Dunmore, PA 18512 or (570) 346-7667 and inform the Company that the shareholder wishes to receive a separate copy of an annual report or proxy statement in the future. In addition, if you are receiving multiple copies of the Company's annual report or proxy statement, you may request that we deliver only a single copy of annual reports or proxy statements by notifying us at the above address or telephone number.

By Order of the Board of Directors,

/s/Dominick L. DeNaples

Dominick L. DeNaples,

Chairman of the Board

April 18, 2016

47

Explanation of Responses:

Explanation of Responses:

Explanation of Responses:

Explanation of Responses: