FNB BANCORP/CA/
Form 10-Q
May 15, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

Quarterly Report

Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2013

FNB BANCORP

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation)

000-49693	91-2115369
(Commission File Number)	(IRS Employer Identification No.)

975 El Camino Real, South San Francisco, California	94080
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (650) 588-6800

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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its 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).

S 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. (Check one):

Large accelerated filer £	Accelerated filer £
Non-accelerated filer S	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 S

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock as of May 2, 2013: 3,511,252 shares.

FNB BANCORP

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

	Page No
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (unaudited):	
Consolidated Balance Sheets	3
Consolidated Statements of Earnings	4
Consolidated Statements of Comprehensive Earnings	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	43
Item 4T. Controls and Procedures	43
PART II OTHER INFORMATION	44
Item 1. Legal Proceedings	44
Item 1A. Risk Factors	44
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 4. Mine Safety Disclosures	45
Item 6. Exhibits	45
SIGNATURES	45

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Balance Sheets

March 31, 2013 and December 31, 2012

Assets (Dollar amounts in thousands)	March 31, 2013	December 31, 2012
Cash and due from banks	$39,092	$27,861
Interest-bearing time deposits with financial institutions	9,713	13,216
Securities available-for-sale, at fair value	246,460	234,945
Loans, net of deferred loan fees and allowance for loan losses of $9,357 and $9,124 on March 31, 2013 and December 31, 2012	546,278	541,563
Bank premises, equipment, and leasehold improvements, net	12,634	12,706
Bank-owned life insurance, net	11,880	11,785
Other equity securities	5,338	5,464
Accrued interest receivable	3,751	3,760
Other real estate owned, net	6,668	6,650
Goodwill	1,841	1,841
Prepaid expenses	1,116	1,372
Other assets	12,707	14,177
Total assets	$897,478	$875,340
Liabilities & Stockholders' Equity		
Deposits		
Demand, noninterest bearing	$181,615	$178,384
Demand, interest bearing	73,896	75,465
Savings and money market	372,112	343,437
Time	162,802	171,066
Total deposits	790,425	768,352
Federal Home Loan Bank advances	502	1,220
Accrued expenses and other liabilities	10,682	10,410
Total liabilities	801,609	779,982

Stockholders' equity		
Preferred stock - series C - no par value, authorized and outstanding 12,600 shares (liquidation preference of $1,000 per share)	12,600	12,600
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 3,737,708 shares at March 31, 2013 and 3,698,612 shares at December 31, 2012	53,090	52,610
Retained earnings	26,754	26,280
Accumulated other comprehensive income, net of tax	3,425	3,868
Total stockholders' equity	95,869	95,358
Total liabilities and stockholders' equity	$897,478	$875,340

See accompanying notes to consolidated financial statements.

3

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)

	Three months ended March 31,	
(Dollar amounts in thousands, except per share amounts)	2013	2012
Interest income:		
Interest and fees on loans	$8,158	$6,755
Interest on taxable securities	684	613
Interest on tax-exempt securities	506	514
Total interest income	9,348	7,882
Interest expense:		
Deposits	682	684
Total interest expense	682	684
Net interest income	8,666	7,198
Provision for loan losses	600	400
Net interest income after provision for loan losses	8,066	6,798
Noninterest income:		
Service charges	659	752
Credit card fees	7	153
Gain on sale of available-for-sale securities	42	484
Bank-owned life insurance policy earnings	95	467
Other income	222	64
Total noninterest income	1,025	1,920
Noninterest expense:		
Salaries and employee benefits	4,416	3,774
Occupancy expense	962	600
Equipment expense	398	446
Professional fees	363	588
FDIC assessment	180	180
Acquisition related expense	—	175
Telephone, postage and supplies	437	278
Operating losses	14	108
Advertising	172	85
Bankcard expenses	1	156
Data processing expense	156	138
Low income housing expense	110	69
Surety insurance	54	62
Diectors expense	63	63
Other real estate owned expense	50	36
Loss on sale of other real estate owned	—	5
Other expense	363	290
Total noninterest expense	7,739	7,053

Earnings before income tax expense	1,352	1,665
Income tax expense	422	377
Net earnings	930	1,288
Dividends and discount accretion on preferred stock	(158)	(186)
Net earnings available to common stockholders	$772	$1,102
Earnings per share data:		
Basic	$0.21	$0.30
Diluted	$0.20	$0.30
Weighted average shares outstanding:		
Basic	3,714,000	3,686,000
Diluted	3,807,000	3,726,000

See accompanying notes to consolidated financial statements.

4

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(UNAUDITED)

(Dollar amounts in thousands)	Three months ended March 31,	
	2013	2012
Net earnings	$930	$1,288
Unrealized holding (loss) gain on available-for-sale securities	(418)	17
Reclassification adjustment for gain on available-for-sale of $17 and $198, respectively	(25)	(285)
Total comprehensive earnings	$487	$1,020

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)	Three months ended March 31	
	2013	2012
Cash flow from operating activities:		
Net earnings	$930	$1,288
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gain on sale of securities available-for-sale	(42)	(484)
Depreciation, amortization and accretion	915	807
Loss on sale of other real estate owned	—	5
Stock-based compensation expense	45	62
Earnings on bank owned life insurance	(95)	(91)
Provision for loan losses	600	400
Decrease in accrued interest receivable	9	37
Decrease in prepaid expense	256	263
Decrease (increase) in other assets	1,470	(2,464)
Increase in accrued expenses and other liabilities	579	587
Net cash provided by operating activities	4,667	410
Cash flows from investing activities		
Purchase of securities available-for-sale	(24,988)	(32,929)
Proceeds from matured/called/sold securities available-for-sale	12,163	14,835
Investment, net of redemption, in other equity securities	126	28
Redemption of time deposits of other banks	3,503	—
Proceeds from sale of other real estate owned	—	832
Net investment in other real estate owned	(18)	(10)
Net increase in loans	(5,315)	(3,981)
Increase in bank-owned life insurance	—	(1,879)
Purchases of bank premises, equipment, leasehold improvements	(241)	(187)
Net cash used in investing activities	(14,770)	(23,291)

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months ended March 31	
	2013	2012
Cash flows from financing activities		
Net increase in demand and savings deposits	30,337	30,860
Net decrease in time deposits	(8,264)	(947)
Decrease in FHLB advances	(718)	—
Dividends paid on common stock	(298)	(211)
Exercise of stock options	435	9
Dividends paid on preferred stock series C	(158)	(186)
Net cash provided by financing activities	21,334	29,525
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,231	6,644
Cash and cash equivalents at beginning of period	27,861	38,474
Cash and cash equivalents at end of period	$39,092	$45,118
Additional cash flow information:		
Interest paid	672	700
Income taxes paid	—	930
Non-cash investing and financing activities:		
Accrued dividends	139	210
Change in unrealized gain in available for-sale securities, net of tax	(443)	(268)

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

(UNAUDITED)

NOTE A – BASIS OF PRESENTATION

FNB Bancorp (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California on February 28, 2001. The consolidated financial statements include the accounts of FNB Bancorp and its wholly-owned subsidiary, First National Bank of Northern California (the "Bank"). The Bank provides traditional banking services in San Mateo and San Francisco counties, and the island of Guam .

All intercompany transactions and balances have been eliminated in consolidation. The financial statements include all adjustments of a normal and recurring nature, which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in annual financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto for the year ended December 31, 2012. Results of operations for interim periods are not necessarily indicative of results for the full year.

NOTE B – STOCK OPTION PLANS

Stock option expense is recorded based on the fair value of option contracts issued. The fair value is determined by the expected contract term, the risk free interest rate, the volatility of the Company's stock price and the level of dividends the Company is expected to pay.

The expected term of options granted is derived from historical plan behavior and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U. S. Treasury yield curve in effect at the time of the grant.

The amount of compensation expense for options recorded in the quarters ended March 31, 2013 and 2012 was $45,000 and $62,000, respectively. There was no income tax benefit recognized in the statements of earnings for these amounts for the quarters ended March 31, 2013 and 2012, respectively.

The intrinsic value for options exercised during the quarters ended March 31, 2013 March 31, 2012 was $341,000 and $3,000, respectively. The intrinsic value of options exercisable during the quarter ended March 31, 2013 and March 31, 2012 was $1,260,000 and $509,000, respectively.

The amount of total unrecognized compensation expense related to non-vested options at March 31, 2013 was $845,000, and the weighted average period over which it will be amortized is 3.9 years.

NOTE C – EARNINGS PER SHARE CALCULATION

Earnings per common share (EPS) are computed based on the weighted average number of common shares outstanding during the period. Basic EPS excludes dilution and is computed by dividing net earnings (loss) available to common stockholders (after deducting dividends and related accretion on preferred stock) by the weighted average of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. All common stock equivalents are anti-dilutive when a net loss occurs.

Earnings per share have been computed based on the following :

(Dollar amounts in thousands)	Three months ended March 31,	
	2013	2012
Net earnings	$930	$1,288
Dividends and discount accretion on preferred stock	(158)	(186)
Net earnings available to common shareholders	$772	$1,102
Average number of shares outstanding	3,714,000	3,686,000
Effect of dilutive options	93,000	40,000
Average number of shares outstanding used to calculate diluted earnings per share	3,807,000	3,726,000

Anti dilutive options that were excluded from the calculation totaled 257,755 and 418,505 in 2013 and 2012, respectively.

NOTE D – SECURITIES AVAILABLE FOR SALE

The amortized cost and carrying values of securities available-for-sale are as follows:

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Carrying value
March 31, 2013				
U.S. Treasury securities	$9,190	$122	$—	$9,312
Obligations of U.S. government agencies	73,865	1,072	(13)	74,924
Mortgage-backed securities	56,336	1,096	(350)	57,082
Obligations of states and political subdivisions	79,132	3,440	(108)	82,464
Corporate debt	22,131	549	(2)	22,678
	$240,654	$6,279	$(473)	$246,460
December 31, 2012:				
U.S. Treasury securities	$7,145	$135	$—	$7,280
Obligations of U.S. government agencies	71,061	1,206	(7)	72,260
Mortgage-backed securities	53,934	1,383	(137)	55,180
Obligations of states and political subdivisions	78,147	3,515	(53)	81,609
Corporate debt	18,103	535	(22)	18,616
	$228,390	$6,774	$(219)	$234,945

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of March 31, 2013 and December 31, 2012, respectively, is as follows:

(Dollar amounts in thousands)	Total Fair Value	Less than 12 Months Unrealized Losses	Total Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31,2013						
Obligations of U.S. Government agencies	$7,082	$(13)	$—	$—	$7,082	$(13)
Mortgage-backed securities	22,339	(350)	—	—	22,339	(350)
Obligations of states and political subdivisions	9,616	(108)	—	—	9,616	(108)
Corporate debt	2,494	—	498	(2)	2,992	(2)
Total	$41,531	$(471)	$498	$(2)	$42,029	$(473)

(Dollar amounts in thousands)	Total Fair Value	Less than 12 Months Unrealized Losses	Total Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2012:						
Obligations of U.S. government agencies	$4,093	$ (7)	$—	$ —	$4,093	$ (7)
Mortgage-backed securities	8,580	(137)	—	—	8,580	(137)
Obligations of states and political subdivisions	8,492	(53)	—	—	8,492	(53)
Corporate debt	—	—	478	(22)	478	(22)
Total	$21,165	$ (197)	$478	$ (22)	$21,643	$ (219)

At March 31, 2013 and December 31, 2012, there was one security in an unrealized loss position for greater than 12 consecutive months. There were no securities in an unrealized loss position twelve months or less at March 31, 2013.Management periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. The unrealized losses are due solely to interest rate changes and the Company does not intend to sell nor expects it will be required to sell investment securities identified with impairments prior to the earliest of forecasted recovery or the maturity of the underlying investment security. Management has determined that no investment security was other-than-temporarily impaired at March 31, 2013 and 2012.

The amortized cost and carrying value of available-for-sale debt securities as of March 31, 2013 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

March 31, 2013:

(Dollar amounts in thousands)	Amortized Cost	Carrying Value
Available-for-sale:		
Due in one year or less	$12,778	$12,877
Due after one through five years	90,654	92,847
Due after five years through ten years	101,120	103,425
Due after ten years	36,102	37,311
	$240,654	$246,460

For the three months ended March 31, 2013 and March 31, 2012, respectively, gross realized gains amounted to $42,000 and $488,000, on securities sold or called of $3,928,000 and $11,031,000, respectively. For the three months ended March 31, 2013, there were no gross realized losses. For the three months ended March 31, 2012, gross realized losses amounted to $4,000 on securities sold of $1,037,000.

At March 31, 2013, securities with an amortized cost of $77,213,000 and fair value of $79,330,000 were pledged as collateral for public deposits and for other purposes required by law.

NOTE E - LOANS

Loans are summarized as follows at March 31, 2013 and December 31, 2012:

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance March 31 2013
Commercial real estate	$ 263,125	$ 42,399	$ 1,380	$ 306,904
Real estate construction	16,593	3,579	405	20,577
Real estate multi-family	39,497	18,734	—	58,231
Real estate 1 to 4 family	104,343	12,910	—	117,253
Commercial & industrial	38,499	12,614	—	51,113
Consumer loans	1,779	—	—	1,779
Gross loans	463,836	90,236	1,785	555,857
Net deferred loan fees	(222)	—	—	(222)
Allowance for loan losses	(9,357)	—	—	(9,357)
Net loans	$ 454,257	$ 90,236	$ 1,785	$ 546,278

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance December 31 2012
Commercial real estate	$ 254,449	$ 48,009	$ 1,402	$ 303,860
Real estate construction	14,866	3,594	486	18,946
Real estate multi-family	39,176	18,828	—	58,004
Real estate 1 to 4 family	97,329	15,390	—	112,719
Commercial & industrial	42,847	12,717	—	55,564
Consumer loans	1,824	—	—	1,824
Gross loans	450,491	98,538	1,888	550,917
Net deferred loan fees	(230)	—	—	(230)
Allowance for loan losses	(9,124)	—	—	(9,124)
Net loans	$ 441,137	$ 98,538	$ 1,888	$ 541,563

Note: PNCI means Purchased, Not Credit Impaired. PCI means Purchased, Credit Impaired.

Allowance for Credit Losses

For the Three Months Ended March 31, 2013

(Dollar amounts in thousands)

	Commercial & industrial	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 1,875	$ 4,812	$ 857	$ —	$ 1,516	$ 64	$ 9,124
Charge-offs	—	(239)	(81)	—	(119)	(1)	(440)
Recoveries	70	2	—	—	1	—	73
Provision	(368)	355	(123)	281	464	(9)	600
Ending balance	$ 1,577	$ 4,930	$ 653	$ 281	$ 1,862	$ 54	$ 9,357
Ending balance: individually evaluated for impairment	$ 261	$ 152	$ 19	$ —	$ 323	$ —	$ 755
Ending balance: collectively evaluated for impairment	$ 1,316	$ 4,778	$ 634	$ 281	$ 1,539	$ 54	$ 8,602

Recorded Investment in Loans at March 31, 2013

(Dollar amounts in thousands)

	Commercial & industrial	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Consumer	Total
Loans:							
Ending balance	$ 51,113	$ 306,904	$ 20,577	$ 58,231	$ 117,253	$ 1,779	$ 555,857
Ending balance: individually evaluated for impairment	$ 3,924	$ 16,032	$ 199	$ 3,405	$ 4,018	$ —	$ 27,578
Ending balance: collectively evaluated for impairment	$ 47,189	$ 290,872	$ 20,378	$ 54,826	$ 113,235	$ 1,779	$ 528,279

13

Allowance for Credit Losses

For the Three Months Ended March 31, 2012

(Dollar amounts in thousands)

	Commercial & industrial	Commercial	Real Estate Construction	Multi family	1 to 4 family	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 1,618	$ 4,745	$ 1,171	$ 671	$ 1,592	$ 100	$ 9,897
Charge-offs	(1,175)	(738)	—	—	(109)	(3)	(2,025)
Recoveries	1	2	—	—	9	3	15
Provision	1,184	(417)	(116)	(520)	306	(37)	400
Ending balance	$ 1,628	$ 3,592	$ 1,055	$ 151	$ 1,798	$ 63	8,287
Ending balance: individually evaluated for impairment	$ 506	$ 254	$ 211	$ 127	$ 142	$ 1	$ 1,241
Ending balance: collectively evaluated for impairment	$ 1,122	$ 3,338	$ 844	$ 24	$ 1,656	$ 62	$ 7,046

Recorded Investment in Loans at March 31, 2012

(Dollar amounts in thousands)

	Commercial & industrial	Commercial	Real Estate Construction	Multi family	1 to 4 family	Consumer	Total
Loans:							
Ending balance	$46,649	$247,332	$28,034	$39,230	$92,188	$2,279	455,712
Ending balance: individually evaluated for impairment	$7,445	$9,641	$7,789	$3,262	$6,360	$10	34,507
Ending balance: collectively evaluated for impairment	$39,204	$237,691	$20,245	$35,968	$85,828	$2,269	421,205

Impaired Loans-Originated
At March 31, 2013

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial & industrial	$2,160	$2,310	$—	$2,182	$28
Commercial real estate construction	—	—	—	—	—
Commercial real estate	8,167	8,733	—	7,703	101
Residential- 1 to 4 family	1,344	1,446	—	1,347	18
Total	11,671	12,489	—	11,232	147
With an allowance recorded					
Commercial & industrial	$1,764	$2,231	$261	$1,787	$3
Commercial real estate construction	—	—	—	—	—
Commercial real estate	5,174	5,413	152	5,304	57
Residential- 1 to 4 family	2,674	2,677	323	2,674	21
Total	9,612	10,321	736	9,765	81
Total					
Commercial & industrial	$3,924	$4,541	$261	$3,969	$31
Commercial real estate construction	—	—	—	—	—
Commercial real estate	13,341	14,146	152	13,007	158
Residential - 1 to 4 family	4,018	4,123	323	4,021	39
Grand total	$21,283	$22,810	$736	$20,997	$228

Impaired Loans -PNCI
At March 31, 2013

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Real estate-multi family	$3,405	$3,532	$—	$3,534	$50
Commercial real estate	2,691	2,986	—	2,949	17
Residential - 1 to 4 family	—	—	—	—	—
Total	6,096	6,518	—	6,483	67
With an allowance recorded					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate construction	199	200	19	200	—
Total	199	200	19	200	—
Total					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate construction	199	200	19	200	—
Real estate-multi family	3,405	3,532	—	3,534	50
Commercial real estate	2,691	2,986	—	2,949	17
Grand total	$6,295	$6,718	$19	$6,683	$67

Impaired Loans -Originated
At December 31, 2012

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial & industrial	$2,202	$2,338	$—	$2,298	$120
Commercial real estate construction	—	—	—	6,187	333
Commercial real estate	7,238	7,804	—	1,097	59
Residential- 1 to 4 family	1,052	1,147	—	1,065	55
Total	10,492	11,289	—	10,647	567
With an allowance recorded					
Commercial & industrial	$1,965	$2,427	$384	$2,328	$30
Commercial real estate construction	—	—	—	—	—
Commercial real estate	5,433	5,433	415	5,685	240
Residential- 1 to 4 family	3,719	3,722	306	3,283	150
Total	11,117	11,582	1,105	11,296	420
Total					
Commercial & industrial	$4,167	$4,765	$384	$4,626	$150
Commercial real estate construction	—	—	—	6,187	333
Commercial real estate	12,671	13,237	415	6,782	299
Residential - 1 to 4 family	4,771	4,869	306	4,348	205
Grand total	$21,609	$22,871	$1,105	$21,943	$987

Impaired Loans -PNCI
At December 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate construction	—	—	—	—	—
Commercial real estate	3,428	3,776	—	3,777	27
Residential - 1 to 4 family	—	—	—	—	—
Total	3,428	3,776	—	3,777	27
With an allowance recorded					
Commercial and industrial					
Commercial real estate construction	$681	$798	$232	$798	$4
Commercial real estate	—	—	—	—	—
Residential - 1 to 4 family	—	—	—	—	—
Total	681	798	232	798	4
Total					
Commercial and industrial	$—	$—	$—	$—	$—
Commercial real estate construction	681	798	232	798	4
Commercial real estate	3,428	3,776	—	3,777	27
Residential - 1 to 4 family	—	—	—	—	—
Grand total	$4,109	$4,574	$232	$4,575	$31

Nonaccrual loans totaled $12,791,000 and $12,474,000 as of March 31, 2013 and December 31, 2012. The difference between impaired loans and nonaccrual loans represents loans that are restructured and performing under modified loan agreements, and where principal and interest is considered to be collectible.

(Dollar amounts in thousands)	Loans on Nonaccrual Status as of March 31, 2013	December 31, 2012
Commercial & industrial	$2,397	$ 2,618
Real estate - construction	1,853	1,898
Commercial real estate	6,171	6,251
Real estate multi family	672	—
Real estate 1 to 4 family	1,698	1,707
Total	$12,791	$ 12,474

18

Interest income on impaired loans of $295,000 and $1,018,000 was recognized for cash payments received during the quarter ended March 31, 2013 and the year ended December 31, 2012, respectively. The amount of interest on impaired loans not collected for the quarter ended March 31, 2013 was $33,000, and the quarter ended March 31, 2012 was $413,000. The cumulative amount of unpaid interest on impaired loans was $2,972,000 and $2,230,000 as of March 31, 2013 and March 31, 2012, respectively. Total outstanding principal of troubled debt restructured as of March 31, 2013 was $5,433,000, of which $299,000 was residential loans, $4,935,000 was commercial real estate loans, and $199,000 was real estate construction loans. Total outstanding principal of troubled debt restructured loans at December 31, 2012 was $5,578,000, of which $2,723,000 was commercial loans, $1,409,000 was commercial real estate loans and $1,446,000 was real estate one to four family (residential).

Troubled Debt Restructurings

The Company reassessed all restructurings that occurred on or after the beginning of fiscal year (January 1, 2011) for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35.

Modification Categories

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories.

Rate Modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

As of March 31, 2013, there were no commitments for additional funding of troubled debt restructurings.

	Modifications As of March 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollar amounts in thousands)			
Real Estate Construction	1	$199	$199
Real estate 1 to 4 family	1	299	299
Commercial real estate	3	4,935	4,935
Total	5	$5,433	$5,433

As of March 31, 2013, none of these loans defaulted within twelve months following the date of restructure. All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted.

	Modifications As of December 31, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollar amounts in thousands)			
Commercial & industrial	7	$2,723	$2,723
Real estate 1 to 4 family	3	1,446	1,446
Commercial real estate	3	1,409	1,409
Total	13	$5,578	$5,578

As of December 31, 2012, none of these loans defaulted within twelve months following the date of restructure. All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted.

	Modifications As of March 31, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial & industrial	5	$ 2,925	$ 2,925

Real estate 1 to 4 family	2	994	994
Commercial real estate	5	6,021	6,021
Real estate multi family	1	3,262	3,262
Total	13	13,202	13,202

As of March 31, 2012, none of these loans defaulted within twelve months following the date of restructure. All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted.

Risk rating system

Loans to borrowers graded as pass or pooled loans represent loans to borrowers of acceptable or better credit quality. They demonstrate sound financial positions, repayment capacity and credit history. They have an identifiable and stable source of repayment.

Special mention loans have potential weaknesses that deserve management's attention. If left uncorrected these potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. These assets are "not adversely classified" and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard loans are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans are normally classified as Substandard when there are unsatisfactory characteristics causing more than acceptable levels of risk. A substandard loan normally has one or more well-defined weakness that could jeopardize the repayment of the debt. For example, a) cash flow deficiency, which may jeopardize future payments; b) sale of non-collateral assets has become primary source of repayment; c) the borrower is bankrupt; or d) for any other reason, future repayment is dependent on court action.

Doubtful loans represent credits with weakness inherent in the Substandard classification and where collection or liquidation in full is highly questionable. To be classified Doubtful, there must be specific pending factors which prevent the Loan Review Officer from determining the amount of loss contained in the credit. When the amount of loss can be reasonably estimated, that amount is classified as "loss" and the remainder is classified as Substandard.

Commercial Real Estate Loans – Multi-Family

Our multi-family commercial real estate loans are secured by multi-family properties located primarily in San Mateo and San Francisco Counties. These loans are made to investors where our primary source of repayment is from cash flows generated by the properties, through rent collections. The borrowers' promissory notes are secured with recorded liens on the underlying properties. The borrowers would normally also be required to personally guarantee repayment of the loans. The bank uses conservative underwriting standards in reviewing applications for credit. Generally, our borrowers have multiple sources of income, so if cash flow generated from the property declines, at least in the short term, the borrowers can normally cover these short term cash flow deficiencies from their available cash reserves. Risk of loss to the Bank is increased when there are cash flow decreases sufficiently large and for such a prolonged period of time that loan payments can no longer be made by the borrowers.

Commercial Real Estate Loans – Other

Commercial Real Estate loans consist of loans secured by non-farm, non-residential properties, including, but not limited to industrial, hotel, assisted care, retail, office and mixed use buildings.

Our commercial real estate loans are made primarily to investors or small businesses where our primary source of repayment is from cash flows generated by the properties, either through rent collection or business profits. The borrower's promissory notes are secured with recorded liens on the underlying property. The borrowers would normally also be required to personally guarantee repayment of the loan. The bank uses conservative underwriting standards in reviewing applications for credit. Generally, our borrowers have multiple sources of income, so if cash flow generated from the property declines, at least in the short term, the borrowers can normally cover these short term cash flow deficiencies from their available cash reserves. Risk of loss to the Bank is increased when there are cash flow decreases sufficiently large and for such a prolonged period of time that loan payments can no longer be made by the borrowers.

Real Estate Construction Loans

Our real estate construction loans are generally made to borrowers who are rehabilitating a building, converting a building use from one type of use to another, or developing land and building residential or commercial structures for sale or lease. The borrower's promissory notes are secured with recorded liens on the underlying property. The borrowers would normally also be required to personally guarantee repayment of the loan. The bank uses conservative underwriting standards in reviewing applications for credit. Generally, our borrowers have sufficient resources to make the required construction loan payments during the construction and absorption or lease-up period. After construction is complete, the loans are normally paid off from proceeds from the sale of the building or through a refinance to a commercial real estate loan. Risk of loss to the Bank is increased when there are material construction cost overruns, significant delays in the time to complete the project and/or there has been a material drop in the value of the projects in the marketplace since the inception of the loan.

Commercial and Industrial Loans

Our commercial and industrial loans are generally made to small businesses to provide them with at least some of the working capital necessary to fund their daily business operations. These loans are generally either unsecured or secured by fixed assets, accounts receivable and/or inventory. The borrowers would normally also be required to personally guarantee repayment of the loan. The Bank uses conservative underwriting standards in reviewing applications for credit. Risk of loss to the Bank is increased when our small business customers experience a significant business downturn, incur significant financial losses, or file for relief from creditors through bankruptcy proceedings.

Residential Real Estate Loans

Our residential real estate loans are generally made to borrowers who are buying or refinancing their primary personal residence or a rental property of 1-4 single family residential units. The Bank uses conservative underwriting standards in reviewing applications for credit. Risk of loss to the Bank is increased when borrowers lose their primary source of income and/or property values decline significantly.

Consumer and installment Loans

Our consumer and installment loans generally consist of personal loans, credit card loans, automobile loans or other loans secured by personal property. The Bank uses conservative underwriting standards in reviewing applications for credit. Risk of loss to the Bank is increased when borrowers lose their primary source of income, or file for relief from creditors through bankruptcy proceedings.

Age Analysis of Past Due Loans
As of March 31, 2013

(Dollar amounts in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate	$777	18	2,286	3,081	260,044	263,125	—
Real estate construction	—	—	—	—	16,593	16,593	—
Real estate multi family	—	—	—	—	39,497	39,497	—
Real estate 1 to 4 family	602	195	653	1,450	102,893	104,343	—
Commercial & industrial	220	—	2,363	2,583	35,916	38,499	—
Consumer	1	—	—	1	1,778	1,779	—
Total	$1,600	$213	$5,302	$7,115	$456,721	$463,836	$—

Purchased Not credit impaired							Recorded Investment > 90 Days and Accruing
Commercial real estate	$2,137	$—	$903	$3,040	$39,359	$42,399	—
Real estate construction	—	—	—	—	3,579	3,579	—
Real estate multi-family	—	—	—	—	18,734	18,734	—
Real estate 1 to 4 family	—	—	—	—	12,910	12,910	—
Commercial & industrial	—	900	—	900	11,714	12,614	—
Total	$2,137	$900	$903	$3,940	$86,296	$90,236	$—

Credit impaired							Recorded Investment > 90 Days and Accruing
Commercial real estate	$—	$—	$—	$—	$1,380	$1,380	—
Real estate construction	—	—	405	405	—	405	—
Real estate multi-family	—	—	—	—	—	—	—
Real estate 1 to 4 family	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—
Total	$—	$—	$405	$405	$1,380	$1,785	$—

Age Analysis of Past Due Loans
As of December 31, 2012
(Dollar amounts in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate	$3,942	—	2,525	6,467	247,982	254,449	—
Real estate construction	—	—	—	—	14,866	14,866	—
Real estate multi family	—	—	—	—	39,176	39,176	—
Real estate 1 to 4 family	806	168	1,210	2,184	95,145	97,329	—
Commercial & industrial	18	44	2,619	2,681	40,166	42,847	—
Consumer	—	—	—	—	1,824	1,824	—
Total	$4,766	$212	$6,354	$11,332	$439,159	$450,491	$—

Purchased Not credit impaired							Recorded Investment > 90 Days and Accruing
Commercial real estate	$690	$—	$2,212	$2,902	$45,107	$48,009	—
Real estate construction	—	—	1,411	1,411	2,183	3,594	—
Real estate multi-family	75	—	—	75	18,753	18,828	—
Real estate 1 to 4 family	—	119	—	119	15,271	15,390	—
Commercial & industrial	50	—	—	50	12,667	12,717	—
Total	$815	$119	$3,623	$4,557	$93,981	$98,538	$—

Credit impaired							Recorded Investment > 90 Days and Accruing
Commercial real estate	$—	$—	$1402	$1402	$—	$1,402	—
Real estate construction	—	—	486	486	—	486	—
Real estate multi-family	—	—	—	—	—	—	—
Real estate 1 to 4 family	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—
Total	$—	$—	$1,888	$1,888	$—	$1,888	$—

Credit Quality Indicators
As of March 31, 2013

(Dollar amounts in thousands)

	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$258,914	$2,364	$1,847	$—	$263,125
Real estate construction	13,594	447	2,552	—	16,593
Real estate multi-family	39,497	—	—	—	39,497
Real estate 1 to 4 family	102,346	—	1,648	349	104,343
Commercial & industrial	35,695	—	2,699	105	38,499
Consumer loans	1,779	—	—	—	1,779
Totals	$451,825	$2,811	$8,746	$454	$463,836
Purchased					
Not credit impaired					
Commercial real estate	$25,270	$5,946	$11,183	$—	$42,399
Real estate construction	1,316	—	2,249	14	3,579
Real estate multi-family	18,734	—	—	—	18,734
Real estate 1 to 4 family	10,958	—	1,952	—	12,910
Commercial & industrial	12,614	—	—	—	12,614
Total	$68,892	$5,946	$15,384	$14	$90,236
Credit impaired					
Commercial real estate					$1,380
Real estate construction					405
Total					$1,785

Credit Quality Indicators
As of December 31, 2012

(Dollar amounts in thousands)

	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$249,991	$2,372	$2,086	$—	$254,449
Real estate construction	13,266	—	1,600	—	14,866
Real estate multi-family	39,176	—	—	—	39,176
Real estate 1 to 4 family	95,579	—	1,470	280	97,329
Commercial & industrial	39,446	—	2,564	837	42,847
Consumer loans	1,824	—	—	—	1,824
Totals	$439,282	$2,372	$7,720	$1,117	$450,491
Purchased					
Not credit impaired					
Commercial real estate	$30,600	$7,902	$9,507	$—	$48,009
Real estate construction	—	39	3,555	—	3,594
Real estate multi-family	18,828	—	—	—	18,828
Real estate 1 to 4 family	14,850	—	540	—	15,390
Commercial & industrial	12,717	—	—	—	12,717
Total	$76,995	$7,941	$13,602	$—	$98,538
Credit impaired					
Commercial real estate					$1,402
Real estate construction					486
Total					$1,888

NOTE F – FAIR VALUE MEASUREMENT

The following table presents information about the Company’s assets and liabilities measured at fair value as of March 31, 2013 and December 31, 2012, and indicates the fair value techniques used by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

26

The following tables present the recorded amounts of assets measured at fair value on a recurring basis:

(Dollar amounts in thousands)		Fair Value Measurements at March 31, 2013, Using		
Description	Fair Value 3/31/2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$9,312	$9,312	$—	$—
Obligations of U.S. Government agencies	74,924	—	74,924	—
Mortgage-backed securities	57,082	—	57,082	—
Obligations of states and political subdivisions	82,464	—	82,464	—
Corporate debt	22,678	—	22,678	—
Total assets measured at fair value	$246,460	$9,312	$237,148	$—

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2012, Using		
Description	Fair Value 12/31/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$7,280	$7,280	$—	$—
Obligations of U.S. Government agencies	72,260	—	72,260	—
Mortgage-backed securities	55,180	—	55,180	—
Obligations of states and political subdivisions	81,609	—	81,609	—
Corporate debt	18,616	—	18,616	—
Total assets measured at fair value	$234,945	$7,280	$227,665	$—

The following tables present the recorded amounts of assets measured at fair value on a non-recurring basis:

(Dollar amounts in thousands)		**Fair Value Measurements at March 31, 2013, Using**		
Description	Fair Value 3/31/2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$2,835	$—	$—	$2,835

Total impaired assets measured at fair value	$2,835	$—	$—	$2,835

27

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2012, Using		
Description	Fair Value 12/31/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$2,494	$—	$—	$2,494
Other real estate owned	4,710	—	—	4,710
Total impaired assets measured at fair value	$7,204	$—	$—	$7,204

The Bank does not record loans at fair value. However, from time to time, if a loan is considered impaired, a specific allocation within the allowance for loan losses may be required. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and cash flows. Those impaired loans not requiring an allowance represent loans for which the value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral or when the impaired loan has been written down to fair value require classification in the fair value hierarchy. If the fair value of the collateral is based on a non-observable market price or a current appraised value, the Bank records the impaired loans as nonrecurring Level 3. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank also records the impaired loans as nonrecurring Level 3.

Other real estate owned is carried at the lower of historical cost or fair market value less costs to sell. An appraisal (a Level 3 valuation) is obtained at the time the Bank acquires property through the foreclosure process. Any loan balance outstanding that exceeds the appraised value of the property is charged off against the allowance for loan loss at the time the property is acquired. Subsequent to acquisition, the Bank updates the property's appraised value on at least an annual basis. If the value of the property has declined during the year, a loss due to valuation impairment charge is recorded along with a corresponding reduction in the book carrying value of the property.

The Company obtains third party appraisals on its impaired loans held-for-investment and foreclosed assets to determine fair value. Generally, the third party appraisals apply the "market approach," which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities, or a group of assets and liabilities, such as a business. Adjustments are then made based on the type of property, age of appraisal, current status of property and other related factors to estimate the current value of collateral.

Fair Values of Financial Instruments.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments.

Cash and Cash Equivalents.

The carrying amounts reported in the balance sheet for cash and short-term instruments are a reasonable estimate of fair value, which will approximate their historical cost.

Securities Available-for-Sale.

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans Receivable.

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values and credit risk factors. For fixed rate loans, fair values are based on discounted cash flows, credit risk factors, and liquidity factors.

Deposit liabilities.

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are based on discounted cash flows.

Federal Home Loan Bank Advances.

The fair values of Federal Home Loan Bank Advances are based on discounted cash flows. The discount rate is equal to the market rate currently offered on similar products.

Accrued Interest Receivable and Payable

The interest receivable and payable balances approximate their fair value due to the short-term nature of their settlement dates.

Undisbursed loan commitments, lines of credit, Mastercard line and standby letters of credit.

The fair value of these off-balance sheet items are based on discounted cash flows of expected fundings.

The Bank has excluded non-financial assets and non-financial liabilities defined by the Codification (ASC 820-10-15-A), such as Bank premises and equipment, deferred taxes and other liabilities. In addition, the Bank has not disclosed the fair value of financial instruments specifically excluded from disclosure requirements of the Financial Instruments Topic of the Codification (ASC 825-10-50-8), such as Bank-owned life insurance policies.

The following table provides summary information on the estimated fair value of financial instruments at March 31, 2013:

(Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	**Level 3**
Financial assets:					
Cash and cash equivalents	$39,092	$39,092	$39,092		
Interest-bearing time deposits with financial institutions	$9,713	$9,911		$9,911	
Securities available for sale	246,460	246,460	9,312	$237,148	
Loans	555,857	547,211			$547,211
Accrued interest receivable	3,751	3,751		3,751	
Financial liabilities:					
Deposits	790,425	768,880		768,880	
Federal Home Loan Bank advances	502	502		502	
Accrued interest payable	360	360		360	
Bank-owned life insurance	11,880	11,880			11,880
Other equity securities	5,338	5,338			5,338
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,037			1,037

The carrying amount of loans include $12,791,000 of nonaccrual loans (loans that are not accruing interest) as of March 31, 2013. The fair value of nonaccrual loans is based on the collateral values that secure the loans or the cash flows expected to be received.

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2012:

(Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$27,861	$27,861	$27,861		
Interest-bearing time deposits with financial institutions	$13,216	$13,216		$13,216	
Securities available for sale	234,945	234,945	7,280	$227,665	
Loans	550,917	547,740			$547,740
Accrued interest receivable	3,760	3,760		3,760	
Financial liabilities:					
Deposits	768,352	769,043		769,043	

Federal Home Loan Bank advances	1,220	1,221		1,221	
Accrued interest payable	349	349		349	
Bank-owned life insurance	11,785	11,785			11,785
Other equity securities	5,464	5,464			5,464
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,026			1,026

The carrying amount of loans include $12,474,000 of nonaccrual loans (loans that are not accruing interest) as of December 31, 2012. The fair value of nonaccrual loans is based on the collateral values that secure the loans or the cash flows expected to be received.

NOTE G – PREFERRED STOCK

On September 15, 2011, Preferred Stock was issued to the U. S. Treasury as part of the Treasury's Small Business Lending Fund ("SBLF"), as Preferred Stock – Series C – Non-Cumulative. The initial dividend rate is 5%. Depending on the volume of our small business lending, the dividend rate can be reduced to as low as one percent. If lending does not increase in the first two years, the dividend rate will increase to seven percent. After 4.5 years, the dividend rate will increase to nine percent if the Company has not repaid the SBLF funding.

This program does not contain any of the various restrictions (including restrictions related to the payment of dividends to Common Stockholders) that the Treasury's Capital Purchase Program TARP program required. The Series A and B Preferred Stock, which contained a blended yield of 6.83% to the expected repayment date, were paid off in full and canceled with the proceeds received from the U. S. Treasury's SBLF investment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Information and Uncertainties Regarding Future Financial Performance.

This report, including management's discussion below, concerning earnings and financial condition, contains "forward-looking statements". Forward-looking statements are estimates of or statements about expectations or beliefs regarding the Company's future financial performance or anticipated future financial condition that are based on current information and that are subject to a number of risks and uncertainties that could cause actual operating results in the future to differ significantly from those expected at the current time. Those risks and uncertainties include, although they are not limited to, the following:

Increased Competition. Increased competition from other banks and financial service businesses, mutual funds and securities brokerage and investment banking firms that offer competitive loan and investment products and competitive market pricing, which could require us to reduce interest rates and loan fees to attract new loans or to increase interest rates that we offer on time deposits, either or both of which could, in turn, reduce interest income and net interest margins. These factors could reduce our ability to attract new deposits and loans and leases.

Liquidity Risk. The stability of funding sources and continued availability of borrowings; our ability to raise capital or incur debt on reasonable terms.

Possible Adverse Changes in Economic Conditions. Adverse changes in national or local economic conditions over an extended period of time could (i) reduce loan demand which could, in turn, reduce interest income and net interest margins; (ii) adversely affect the financial capability of borrowers to meet their loan obligations, which, in turn, could result in increases in loan losses and require increases in provisions for possible loan losses, thereby adversely affecting operating results; and (iii) lead to reductions in real property values that, due to the Company's reliance on real property to secure many of its loans, could make it more difficult to prevent losses from being incurred on non-performing loans through the sale of such real properties.

Possible Adverse Changes in National Economic Conditions and Federal Reserve Board Monetary Policies. Changes in national economic policies and conditions, such as increases in inflation or declines in economic output often prompt changes in Federal Open Market Committee ("FOMC") monetary policies that could reduce interest income or increase the cost of funds to the Company, either of which could result in reduced earnings. In addition, deterioration in economic conditions that could result in increased loan and lease losses.

Changes in Regulatory Policies. Changes in federal and national bank regulatory policies, such as increases in capital requirements or in loan loss reserve or asset/liability ratio requirements, liquidity requirements, and the risks associated with concentration in real estate related loans could adversely affect earnings by reducing yields on earning assets or increasing operating costs.

Due to these and other possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements contained in this report, which speak only as of the date of this report, or to make predictions based solely on historical financial performance. The Company also disclaims any obligation to update forward-looking statements contained in this report.

Critical Accounting Policies And Estimates

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to its loans and allowance for loan losses. The Company bases its estimates on current market conditions, historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for

making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. The Company believes the following critical accounting policy requires significant judgments and estimates used in the preparation of the consolidated financial statements.

Allowance for Loan Losses

The allowance for loan losses is periodically evaluated for adequacy by management. Factors considered include the Company's loan loss experience, known and inherent risks in the portfolio, current economic conditions, known adverse situations that may affect the borrower's ability to repay, regulatory policies, and the estimated value of underlying collateral. The evaluation of the adequacy of the allowance is based on the above factors along with prevailing and anticipated economic conditions that may impact our borrowers' ability to repay their loans. Determination of the allowance is based upon objective and subjective judgments by management from the information currently available. Adverse changes in information could result in higher than expected charge-offs and loan loss provisions.

Goodwill

Goodwill arises when the Company’s purchase price exceeds the fair value of the net assets of an acquired business. Goodwill represents the value attributable to intangible elements acquired. The value of goodwill is supported ultimately by profit from the acquired business. A decline in earnings could lead to impairment, which would be recorded as a write-down in the Company’s consolidated statements of earnings. Events that may indicate goodwill impairment include significant or adverse changes in results of operations of the acquired business or asset, economic or political climate; an adverse action or assessment by a regulator; unanticipated competition; and a more-likely-than-not expectation that a reporting unit will be sold or disposed of at a loss.

Other Than Temporary Impairment

Other than temporary impairment (“OTTI”) is triggered if the Company has the intent to sell the security, it is likely that it will be required to sell the security before recovery, or if the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell the security or it is likely it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security but the Company does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings as an OTTI. The credit loss is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected of a security. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, would be recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are to be presented as a separate category within OCI.

For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated accordingly based on the procedures described above.

Provision for and Deferred Income Taxes

The Company is subject to income tax laws of the United States, its states, and the municipalities in which it operates. The Company considers its income tax provision methodology to be critical, as the determination of current and deferred taxes based on complex analyses of many factors including interpretation of federal and state laws, the

difference between tax and financial reporting bases of assets and liabilities (temporary differences), estimates of amounts due or owed, the timing of reversals of temporary differences and current financial standards. Actual results could differ significantly from the estimates due to tax law interpretations used in determining the current and deferred income tax liabilities. Additionally, there can be no assurances that estimates and interpretations used in determining income tax liabilities may not be challenged by federal and state tax authorities.

Recent Accounting Pronouncements

Accounting Standards Update 2013-01 "Balance Sheet" - (Topic 210). "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments apply as of January 1, 2013, or fiscal years beginning after this date. The amendments do not affect how earnings per share is calculated or presented. This ASU had no material impact when adopted.

Accounting Standards Update 2013-02 "Comprehensive Income" - (Topic 220). "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The amendments do not affect how earnings per share is calculated or presented. This ASU had no material impact when adopted.

Oceanic Bank Acquisition

On September 21, 2012, FNB Bancorp completed its acquisition of all of the outstanding stock of Oceanic Bank Holding, Inc. And Oceanic Bank, a California banking corporation and the Company's wholly-owned subsidiary. Effective the same date, Oceanic Bank was merged into First National Bank of Northern California and Oceanic Bank Holding, Inc. was merged into FNB Bancorp.

The following table presents the Oceanic Bank acquisition presented at fair value as of the acquisition date, September 21, 2012:

(Dollars in thousands)	September 21, 2012
Assets acquired:	
Cash and due from banks	$ (1,278)
Investment securities, available for sale	13,387
Loans	103,194
Premises and equipment, net	12
Core deposit intangible	110
Other assets	2,504
Total assets acquired	$ 117,929
Liabilities and cxapital assumed:	
Noninterest-bearing deposits	11,755
Borrowings	95,914
Other liabilities	6,097
Total liabilities and capital assumed	497
	$ 114,263

The Company was able to record a bargain purchase gain related to this acquisition in the amount of $3,666,000. The bargain purchase gain is shown as a separate line item in the Company's 2012 Consolidated Statement of Earnings.

Earnings Analysis

Net earnings for the quarter ended March 31, 2013 were $930,000, compared to net earnings of $1,288,000 for the quarter ended March 31, 2012, a decrease of $358,000, or 28%. Earnings before income tax expense for the quarter ended March 31, 2013 were $1,352,000, compared to $1,665,000 for the quarter ended March 31, 2012, a decrease of $313,000, or 19%. Net earnings available to common stockholders for the quarter ended March 31, 2013 were $772,000, compared to net earnings available to common stockholders of $1,102,000 for the quarter ended March 31, 2012, a decrease of $330,000, or 30%.

During the third quarter of 2012, the Company acquired Oceanic Bank Holding, Inc. and Oceanic Bank. Earnings related to this acquisition are nor included in the earnings for the quarter ended March 31, 2012. This acquisition was fully incorporated into the Company and the earnings from the assets and liabilities acquired are included in the

Consolidated Statement of Earnings for the quarter ended March 31, 2013.

Net interest income for the quarter ended March 31, 2013 was $8,666,000, compared to $7,198,000 for the quarter ended March 31, 2012, an increase of $1,468,000, or 20%.

Basic and diluted earnings per share were $0.21 and $0.20, respectively, for the first quarter of 2013 compared to basic and diluted earnings per share of $0.30 for the first quarter of 2012.

The following table presents an analysis of net interest income and average earning assets and liabilities for the three-month period ended March 31, 2013 compared to the three-month period ended March 31, 2012.

TABLE 1 — NET INTEREST INCOME AND AVERAGE BALANCES
FNB BANCORP AND SUBSIDIARY

(Dollar amounts In thousands)	Three months ended March 31, 2013				2012			
	Average Balance	Interest	Annualized Average Yield		Average Balance	Interest	Annualized Average Yield	
INTEREST EARNING ASSETS								
Loans, gross (1) (2)	$551,941	$8,158	5.99	%	$452,565	$6,755	6.05	%
Taxable securities (3)	166,101	684	1.67	%	123,463	613	2.01	%
Nontaxable securities (3)	74,160	674	3.69	%	72,219	684	3.84	%
Federal funds sold	14	—	—		—	—	—	
Total interest earning assets	792,216	9,516	4.87	%	648,247	8,052	5.04	%
NONINTEREST EARNING ASSETS:								
Cash and due from banks	42,254				47,236			
Premises and equipment	12,709				13,106			
Other assets	46,803				26,849			
Total noninterest earning assets	101,766				87,191			
TOTAL ASSETS	$893,982				$735,438			
INTEREST BEARING LIABILITIES:								
Demand, interest bearing	$75,867	25	0.13	%	$62,612	27	0.17	%
Money market	293,050	364	0.50	%	270,747	417	0.62	%
Savings	66,561	33	0.20	%	49,362	25	0.21	%
Time deposits	167,164	260	0.63	%	108,819	215	0.80	%
FHLB advances	708	—	—		—	—	—	
Total interest bearing liabilities	603,350	682	0.45	%	491,540	684	0.56	%
NONINTEREST BEARING LIABILITIES:								
Demand deposits	184,867				145,542			
Other liabilities	10,387				10,478			
Total noninterest bearing liabilities	195,254				156,020			
TOTAL LIABILITIES	798,604				647,560			
Stockholders’ equity	95,378				87,878			
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$893,982				$735,438			
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$8,834	4.52	%		$7,368	4.61	%

1) Interest on non-accrual loans is recognized into income on a cash received basis if the loan has demonstrated performance and full collection is considered probable.

2) Amounts of interest earned included loan fees of $254,000 and $290,000 for the quarters ended March 31, 2013 and 2012, respectively.

3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable securities portfolio are $168,000 and $170,000 for the quarters ended March 31, 2013 and 2012, respectively, and were derived from nontaxable municipal interest income.

4) The annualized net interest margin is computed by dividing net interest income by total average interest earning assets and multiplied by an annualization factor.

36

The Net Interest Income and Average Balances table above, shows the various components that contributed to changes in net interest income for the three months ended March 31, 2013 and 2012. The principal interest earning assets are loans, from a volume as well as from an earnings rate perspective. For the quarter ended March 31, 2013, average gross loans outstanding represented 70% of average earning assets. For the quarter ended March 31, 2012, they represented 70% of average earning assets.

The net interest margin on average interest earning assets for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012 decreased from 4.61% to 4.52%, or 9 basis points. Average loans increased by $99,376,000 and average interest on the loan portfolio decreased from 6.05% to 5.99%. Interest income on total interest earning assets increased $1,464,000 or 18% on a tax equivalent basis. The growth in interest earning assets is primarily attributable to the acquisition of Oceanic Bank which occurred during the third quarter of 2012.

For the three months ended March 31, 2013, compared to the three months ended March 31, 2012, the cost on total interest bearing liabilities decreased from 0.56% to 0.45%, a decrease of 11 basis points. The principal source of deposit liabilities comes from interest bearing demand and money market deposits. Average money market deposits increased from $270,747,000 in the first quarter of 2012 to $293,050,000 during this same period during 2013, an increase of $22,303,000, or 8%. Our average money market deposit cost decreased from 0.62% to 0.50%, and the expense on these deposits decreased $53,000 for the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

TABLE 2 — FNB BANCORP AND SUBSIDIARY RATE/VOLUME VARIANCE ANALYSIS

(Dollar amounts in thousands)	Three months ended March 31, 2013 compared to 2012 Increase(decrease) (2)		
	Interest Income/expense Variance	Variance Attributable to Rate	Volume
INTEREST EARNING ASSETS			
Loans	$1,403	$(66)	$1,469
Taxable securities	71	(105)	176
Nontaxable securities (1)	(10)	(28)	18
Total	1,464	(199)	1,663
INTEREST BEARING LIABILITIES			
Demand deposits	2	8	(6)
Money market	53	81	(28)
Savings	(8)	1	(9)
Time deposits	(45)	70	(115)

Total	2	160	(158)
NET INTEREST INCOME	$1,466	$(39)	$1,505

(1) Includes tax equivalent adjustments of $168,000 and $170,000 in the three months ended March 31, 2013, and March 31, 2012, respectively.
(2) Increases (decreases) shown are in relation to their effect on net interest income.

For the three month periods ended March 31, 2013 and 2012, respectively, the above table shows the dollar amount of change in interest income and expense and the dollar amounts attributable to: (a) changes in volume (changes in volume at the current year rate), and (b) changes in rate (changes in rate times the prior year's volume). In this table, the dollar change in rate/volume is prorated to volume and rate proportionately.

Noninterest income

The following table shows the principal components of noninterest income for the periods indicated.

TABLE 3	**NONINTEREST INCOME**			
(Dollar amounts in thousands)	Three months ended March 31,		Variance	
	2013	2012	Amount	Percent
Service charges	$ 659	$ 752	$ (93)	-12.4 %
Credit card fees	7	153	(146)	-95.4 %
Gain on available-for-sale securities	42	484	(442)	-91.3 %
Bank owned life insurance policy earnings	95	467	(372)	-79.7 %
Other income	222	64	158	246.9 %
Total noninterest income	$ 1,025	1,920	$ (895)	-46.6 %

Noninterest income consists mainly of service charges on deposits, credit card fees, and several other miscellaneous types of income. The Bank service charges were down during the first quarter of 2013 when compared to the same period during 2012 due to a significant decrease in our overdraft fees. During the first quarter of 2013, the Bank sold $3,680,000 in investment securities for a pre-tax gain of $42,000. During the first quarter of 2012, the Company sold approximately $12,068,000 in investment securities at a pre-tax net gain of $484,000 or 4% of principal sold. The sale proceeds were invested in a variety of investment securities during the quarter.

Noninterest expense

The following table shows the principal components of noninterest expense for the periods indicated.

TABLE 4	NONINTEREST EXPENSE			
(Dollar amounts in thousands)	Three months ended March 31,		Variance	
	2013	2012	Amount	Percent
Salaries and employee benefits	$4,416	$3,774	$642	17.0 %
Occupancy expense	962	600	362	60.3 %
Equipment expense	398	446	(48)	-10.8 %
Professional fees	363	588	(225)	-38.3 %
FDIC assessment	180	180	—	0.0 %
Acquisition related expense	0	175	(175)	-100.0 %
Telephone, postage & supplies	437	278	159	57.2 %
Operating losses	14	108	(94)	-87.0 %
Advertising expense	172	85	87	102.4 %
Bankcard expenses	1	156	(155)	-99.4 %
Data processing expense	156	138	18	13.0 %
Low income housing expense	110	69	41	59.4 %
Surety insurance	54	62	(8)	-12.9 %
Directors expense	63	63	—	0.0 %
Other real estate owned expense	50	36	14	38.9 %
Loss on sale of other real estate owned	—	5	(5)	-100.0 %
Other expense	363	290	73	25.2 %
Total noninterest expense	$7,739	$7,053	$686	9.7 %

Noninterest expense consists mainly of salaries and employee benefits. During the first quarter of 2012, the Company recorded a $75,000 pre-tax charge related to two employees whose positions were eliminated in conjunction with the sale of our Merchant Card business. For the three months ended March 31, 2013 compared to three months ended March 31, 2012, salaries and benefits represented 57% and 54% of total noninterest expenses. During the first quarter of 2013, the Bank's occupancy expense increase is due to the acquired Oceanic Bank branches and a rebranding effort and the related signage changes. During the first quarter of 2013, the Bank recorded a one-time expense accrual related to the pending closure of our island of Guam office. In connection with this office closure, the Bank accrued $76,000 in anticipated severance payments and $276,000 in estimated future lease payments. During the first quarter of 2013, the Company recorded $200,000 in legal fees related to operational issues that occurred during the first quarter of 2012, which have subsequently been resolved in April. In addition, a $100,000 one-time insurance related loss was recorded during the first quarter of 2012.

Provision for Loan Losses

There was a provision for loan losses of $600,000 for the three-month period ended March 31, 2013 compared to a provision for loan losses of $400,000 for the same period in 2012.

The allowance for loan losses was $9,357,000 or 1.68% of total gross loans at March 31, 2013, compared to $9,124,000 or 1.66% of total gross loans at December 31, 2012. During the first quarter of 2013, $440,000 in loans were charged off, compared to $2,025,000 in the same period in 2012. Most of these loan charge-offs were fully reserved in prior periods. The overall quality of the remaining portfolio did not warrant a larger provision for loan losses during the quarter. The allowance for loan losses is maintained at a level considered adequate for management to provide for probable loan losses inherent in the loan portfolio. Loans charged-off during the first quarter of 2013 were significantly lower than during the same time period during 2012, reflecting the improvement in the level of problem loans within our loan portfolio on a year over year basis.

Income Taxes

The effective tax rate for the quarter ended March 31, 2013 was a 31.2% tax expense compared to a 22.6% tax expense for the quarter ended March 31, 2012. Tax preference items which usually affect our effective tax rate are changing amounts invested in tax-advantaged securities, available Low Income Housing Credits, and amounts of interest income on qualifying loans in California Enterprise Zones. During the first quarter of 2012, the Company recognized a tax free gain on proceeds of life insurance of approximately $370,000 due to the passing of the Company's former Chairman and CEO, Mike Wyman.

Asset and Liability Management

Ongoing management of the Company's interest rate sensitivity limits interest rate risk through monitoring the mix and maturity of loans, investments and deposits. Management regularly reviews the Company's position and evaluates alternative sources and uses of funds as well as changes in external factors. Various methods are used to achieve and maintain the desired interest rate sensitivity position including the sale or purchase of assets and product pricing.

In order to ensure that sufficient funds are available for loan growth and deposit withdrawals, as well as to provide for general needs, the Company must maintain an adequate level of liquidity. Asset liquidity comes from the Company's ability to convert short-term investments into cash and from the maturity and repayment of loans and investment securities. Liability liquidity comes from the Company's customer base, which provides core deposit growth. The overall liquidity position of the Company is closely monitored and evaluated regularly. Management believes the Company's liquidity sources at March 31, 2013, are adequate to meet its operating needs in 2013 and our liquidity positions are sufficient to meet our liquidity needs in the near term.

Financial Condition

Assets. Total assets increased to $897,478,000 at March 31, 2013 from $875,340,000 at December 31, 2012, an increase of $22,138,000. The principal source of this increase was an increase of $11,515,000 in securities available for sale, an $11,231,000 increase in cash and due from banks, a $4,715,000 increase in net loans, offset by a $3,5034,000 decrease in interest-bearing time deposits with financial institutions, a decrease of $1,470,000 in other assets, and a decrease of $349,000 in remaining types of assets.

Loans. Gross loans (before net loan fees) at March 31, 2013 were $555,857,000, an increase of $4,940,000 or 0.90% from December 31, 2012. Gross commercial real estate loans increased $3,044,000, real estate construction loans

increased $1,631,000, real estate multi- family loans increased $227,000, and real estate loans secured by 1 to 4 family residences increased $4,534,000, while commercial & industrial loans decreased $4,451,000, and consumer loans decreased by $45,000. The loan portfolio breakdown was as follows:

40

TABLE 5 **LOAN PORTFOLIO**

(Dollar amounts in thousands)	March 31 2013	Percent	December 31 2012	Percent
Commercial real estate	$306,904	56 %	$303,860	56 %
Real estate construction	20,577	4 %	18,946	3 %
Real estate multi family	58,231	10 %	58,004	11 %
Real estate 1 to 4 family	117,253	21 %	112,719	20 %
Commercial & industrial	51,113	9 %	55,564	10 %
Consumer loans	1,779	0 %	1,824	0 %
Gross loans	555,857	100 %	550,917	100 %
Net deferred loan fees	(222)	0 %	(230)	0 %
Total	$555,635	100 %	$550,687	100 %

Allowance for loan losses. Management of the Company is responsible for assessing the overall risks within the Bank's loan portfolio, assessing the specific loss expectancy, and determining the adequacy of the allowance for loan losses. The level of the allowance is deter-mined by internally generating credit quality ratings, reviewing economic conditions in the Company's market area, and considering the Company's historical loan loss experience. The Company's management considers changes in national and local economic conditions, as well as the condition of various market segments. It also reviews any changes in the nature and volume of the portfolio. Management watches for the existence and effect of any concentrations of credit, and changes in the level of such concentrations. It also reviews the effect of external factors, such as competition and legal and regulatory requirements. Finally, the Company is committed to maintaining an adequate allowance, identifying credit weaknesses by consistent review of loans, and maintaining the ratings and changing those ratings in a timely manner as circumstances change.

A summary of transactions in the allowance for loan losses for the three months ended March 31, 2013, and March 31, 2012, respectively is as follows:

TABLE 6 **ALLOWANCE FOR LOAN LOSSES**

(Dollar amounts in thousands)	Three months ended March 31, 2013	Three months ended March 31, 2012
Balance, beginning of period	$ 9,124	$ 9,897
Provision for loan losses	600	400
Recoveries	73	15
Amounts charged off	(440)	(2,025)
Balance, end of period	$ 9,357	$ 8,287

During the first quarter of 2013, there was a provision of $600,000, compared to $400,000 in the first quarter of 2012. The decrease in the provision was considered appropriate given the declining risk levels within the Bank's loan portfolio. Loan charge-off levels have declined year over year, and remain above historic norms.

In management's judgment, the allowance is adequate to absorb probable losses currently inherent in the loan portfolio at March 31, 2013. However, changes in prevailing economic conditions in the Company's markets or in the financial condition of its customers could result in changes in the level of nonperforming assets and charge-offs in the future and, accordingly, changes in the allowance.

The allowance is affected by a number of factors, and does not necessarily move in tandem with the level of gross loans outstanding. Management continues to monitor the factors that affect the allowance, and is prepared to make adjustments as they become necessary.

Nonperforming assets. Nonperforming assets consist of nonaccrual loans, loans that are 90 days or more past due but are still accruing interest and other real estate owned. At March 31, 2013, there was $19,459,000 in nonperforming assets, compared to $19,124,000 at December 31, 2012. Nonaccrual loans were $12,791,000 at March 31, 2013, compared to $12,474,000 at December 31, 2012. There were no loans past due 90 days and still accruing at either date.

There was $6,668,000 in Other Real Estate Owned at March 31, 2013, and $6,650,000 at December 31, 2012. Management intends to aggressively market these properties. While management believes these properties will sell, there can be no assurance that these properties will sell quickly given the current real estate market, nor can the expected sales price be accurately predicted.

Deposits. Total deposits at March 31, 2013, were $790,425,000 compared to $768,352,000 on December 31, 2012. Of these totals, noninterest-bearing demand deposits were $181,615,000 or 23.0% of the total on March 31, 2013, and $178,384,000 or 23.2% on December 31, 2012. Time deposits were $162,802,000 on March 31, 2013, and $171,066,000 on December 31, 2012.

The following table sets forth the maturity schedule of the time certificates of deposit on March 31, 2013:

TABLE 7

(Dollar amounts in thousands)	Under	$100,000	
Maturities	$100,000	or more	Total
Three months or less	$ 13,953	$ 1,700	$ 15,653
Over three through six months	11,459	600	12,059
Over six through twelve months	11,134	1,600	12,734
Over twelve months	9,370	112,986	122,356
Total	$ 45,916	$ 116,886	$ 162,802

Regulatory Capital. The following table shows the risk-based capital ratios and leverage ratios at March 31, 2013 and December 31, 2012 for the Bank:

TABLE 8

Regulatory Capital Ratios	March 31, 2013	December 31, 2012	Minimum "Well Capitalized" Requirements
Total Regulatory Capital Ratio	14.65%	14.56%	≥10.00%
Tier 1 Capital Ratio	13.39%	13.31%	≥6.00%
Leverage Ratios	9.89%	9.68%	≥5.00%

Liquidity. Liquidity is a measure of the Company's ability to convert assets into cash with minimal loss. As of March 31, 2013, liquid assets were $295,265,000, or 32.9% of total assets. As of December 31, 2012, liquid assets were $276,022,000, or 31.5% of total assets. Liquidity consists of cash and due from banks, federal funds sold, and securities available-for-sale. The Company's primary uses of funds are loans, and the primary sources of funds are deposits. The Company also has federal funds borrowing facilities totaling $30,000,000, a Federal Home Loan Bank line up to 30% of total assets, and a Federal Reserve Bank borrowing facility.

The relationship between total net loans and total deposits is a useful additional measure of liquidity. A higher loan to deposit ratio may lead to a loss of liquid assets in the future. This must be balanced against the fact that loans represent the highest interest earning assets. A lower loan to deposit ratio means lower potential income. On March 31, 2013, and December 31, 2012, respectively, net loans were at 69% and 70% of deposits.

Off-Balance Sheet Items

The Company has certain ongoing commitments under operating leases. These commitments do not significantly impact operating results. As of March 31, 2012 and December 31, 2011, commitments to extend credit and letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and letters of credit were $91,599,000 and $92,690,000 at March 31, 2012 and December 31, 2011, respectively. As a percentage of net loans, these off-balance sheet items represent 20.48% and 20.89% respectively. The Company does not expect all commitments are expected to be funded.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk of loss to future earnings, to fair values of assets or to future cash flows that may result from changes in the price or value of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates and other market conditions. Market risk is attributed to all market risk sensitive financial instruments, including loans, investment securities, deposits and borrowings. The Company does not engage in trading activities or participate in foreign currency transactions for its own account. Accordingly, exposure to market risk is primarily a function of asset and liability management activities and of changes in market rates of interest. Changes in rates can cause or require increases in the rates paid on deposits that may take effect more rapidly or may be greater than the increases in the interest rates that the Company is able to charge on loans and the yields that it can realize on its investments. The extent of that market risk depends on a number of variables including the sensitivity to changes in market interest rates and the maturities of the Company's interest earning assets and deposits.

Item 4T. Controls and Procedures.

(a) *Disclosure Controls and Procedures*: An evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management as of the end of the Company's fiscal quarter ended March 31, 2012. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) *Internal Control Over Financial Reporting*: An evaluation of any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), that occurred during the Company's fiscal quarter ended March 31, 2012, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that no change identified in connection with such evaluation has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

There are no material legal proceedings adverse to the Company or First National Bank to which any director, officer, affiliate of the Company, or 5% stockholder of the Company, or any associate of any such director, officer, affiliate or 5% stockholder of the Company are a party, and none of the foregoing persons has a material interest adverse to the Company or First National Bank.

From time to time, the Company and/or First National Bank are a party to claims and legal proceedings arising in the ordinary course of business. The Company's management is not aware of any material pending legal proceedings to which either it or First National Bank may be a party or has recently been a party, which will have a material adverse effect on the financial condition or results of operations of the Company and First National Bank, taken as a whole.

Item 1A. Risk Factors

During the course of normal operations, the Bank and the Company manage a variety of risks including, but not limited to, credit risk, operational risk, interest rate risk and regulatory compliance risk. For a more complete discussion of the risk factors facing the Bank and the Company, please refer to the section entitled "Item 1A – Risk Factors" in the Company's December 31, 2012 Form 10K.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was signed into law. The purpose of this legislation was to bring about regulatory changes and oversight that would help stop past abuses from recurring in the future. This legislation gives new powers to the FDIC and the Federal Reserve Bank that they may use in the execution of their duties as regulators and overseers of the banking industry. It also created a new federal consumer protection agency named the Consumer Financial Protection Bureau ("CFPB"). All existing consumer

laws and regulations will be transferred to the CFPB. This Act is expected to enable regulators to issue numerous new banking regulations and requirements that have not yet been fully developed or promulgated. The ultimate effect the Act has on the Company’s operations will ultimately be determined by the significance of the new banking regulations that are issued as a result of the Act.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

c) ISSUER PURCHASES OF EQUITY SECURITIES

On August 24, 2007 the Board of Directors of the Company authorized a stock repurchase program which calls for the repurchase of up to five percent (5%) of the Company's then outstanding 2,863,635 shares of common stock, or 143,182 shares. There were no repurchases during the quarter ended March 31, 2013. There were 10,457 shares remaining that may be repurchased under this Plan as of March 31, 2013.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 6. Exhibits

Exhibits

31: Rule 13a-14(a)/15d-14(a) Certifications

32: Section 1350 Certifications

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FNB BANCORP
(Registrant)

Dated:

May 15, 2013. By: /s/ Thomas C. McGraw
Thomas C. McGraw
Chief Executive Officer
(Authorized Officer)

By: /s/ David A. Curtis
David A. Curtis
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)