FNB BANCORP/CA/
Form 10-Q
November 12, 2014

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 September 30, 2014

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 x No o

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). x Yes o 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 o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o

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

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 October 31, 2014: 4,051,424 shares.

FNB BANCORP

QUARTERLY REPORT ON FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

ASSETS

(Dollar amounts in thousands)	September 30, 2014	December 31, 2013
Cash and due from banks	$ 15,220	$ 14,007
Interest-bearing time deposits with financial institutions	4,068	5,543
Securities available-for-sale, at fair value	267,924	263,988
Loans, net of allowance for loan losses of $10,774 and $9,879 on September 30, 2014 and December 31, 2013	568,533	552,343
Bank premises, equipment, and leasehold improvements, net	12,239	12,512
Bank owned life insurance	12,424	12,151
Other equity securities	5,769	5,300
Accrued interest receivable	3,670	3,808
Other real estate owned, net	755	5,318
Goodwill	1,841	1,841
Prepaid expenses	444	701
Other assets	14,535	14,418
Total assets	$ 907,422	$ 891,930

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Demand, noninterest bearing	209,407	198,523
Demand, interest bearing	74,789	80,746
Savings and money market	393,929	370,194
Time	104,031	124,152
Total deposits	782,156	773,615
Federal Home Loan Bank advances	16,000	15,000
Note payable	5,700	—
Accrued expenses and other liabilities	10,974	9,066
Total liabilities	814,830	797,681

Stockholders' equity		
Preferred stock - series C - no par value, authorized and outstanding 9,450 shares on December 31, 2013 (liquidation preference of $1,000 per share)	—	9,450
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 4,051,127 shares at September 30, 2014 and 3,978,505 shares at December 31, 2013	61,114	59,317
Retained earnings	30,560	26,738
Accumulated other comprehensive earnings (loss), net of tax	918	(1,256)
Total stockholders' equity	92,592	94,249
Total liabilities and stockholders' equity	$ 907,422	$ 891,930

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)

(Dollar amounts and average shares are in thousands, except earnings per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	$7,899	$7,808	$23,423	$23,986
Interest on taxable securities	883	911	2,577	2,389
Interest on tax-exempt securities	498	505	1,478	1,514
Interest time deposits with other financial institutions	20	35	66	125
Total interest income	9,300	9,259	27,544	28,014
Interest expense:				
Interest on deposits	472	555	1,417	1,876
Interest on Federal Home Loan Bank advances	3	5	14	5
Interest on note payable	63	—	131	—
Total interest expense	538	560	1,562	1,881
Net interest income	8,762	8,699	25,982	26,133
Provision for loan losses	—	225	75	1,335
Net interest income after provision for loan losses	8,762	8,474	25,907	24,798
Noninterest income:				
Service charges	644	658	1,928	1,993
Net gain on sale of available-for-sale securities	100	37	139	152
Bank-owned life insurance earnings	86	90	273	279
Other income	211	193	727	622
Total noninterest income	1,041	978	3,067	3,046
Noninterest expense:				
Salaries and employee benefits	4,241	4,099	12,636	12,827
Occupancy expense	704	812	2,078	2,620
Equipment expense	405	387	1,202	1,171
Professional fees	395	405	1,427	1,212
FDIC assessment	165	180	525	540
Telephone, postage and supplies	284	271	883	985
Advertising	118	70	339	363
Data processing expense	151	163	430	489
Low income housing expense	109	110	329	329
Surety insurance	68	77	202	198
Directors expense	63	63	189	189
Gain on sale of other real estate owned, net	—	—	(220)	—
Other real estate owned expense, net	—	22	87	100
Other expense	352	291	1,000	1,051

Total noninterest expense	7,055	6,950	21,107	22,074
Earnings before provision (benefit) for income taxes	2,748	2,502	7,867	5,770
Provision (benefit) for income taxes	925	(629)	2,581	330
Net earnings	1,823	3,131	5,286	5,440
Dividends and discount accretion on preferred stock	—	251	170	581
Net earnings available to common stockholders	$1,823	$2,880	$5,116	$4,859
Earnings per share data:				
Basic	$0.45	$0.73	$1.27	$1.24
Diluted	$0.44	$0.71	$1.23	$1.21
Weighted average shares outstanding:				
Basic	4,048	3,949	4,021	3,922
Diluted	4,175	4,045	4,156	4,015

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(UNAUDITED)

(Dollar amounts in thousands)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net earnings	$ 1,823	$ 3,131	$ 5,286	$ 5,440
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit (expense) of $185 and ($1,567) for three and nine months ended September 30, 2014, and net of tax benefit of $19 and $3,093 for three and nine months ended September 30, 2013	(266)	(27)	2,256	(4,450)
Reclassification adjustment for gain on available-for-sale securities sold, net of tax of $41 and $57 for three and nine months ended September 30, 2014, and $15 and $62 for three and nine months ended September 30, 2013, respectively	(59)	(22)	(82)	(90)
Other comprehensive (loss) earnings	(325)	(49)	2,174	(4,540)
Total comprehensive earnings	$ 1,498	$ 3,082	$ 7,460	$ 900

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)	Nine months ended September 30	
	2014	2013
Cash flow from operating activities:		
Net earnings	$5,286	$5,440
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gain on sale of securities available-for-sale	(139)	(152)
Depreciation, amortization and accretion	2,599	2,803
Gain on sale of other real estate owned	(220)	—
Stock-based compensation expense	208	192
Earnings on bank owned life insurance	(273)	(279)
Change in net deferred loan fees	(54)	382
Provision for loan losses	75	1,335
Decrease (Increase) in accrued interest receivable	138	(95)
Decrease in prepaid expense	257	631
Increase in other assets	(117)	(319)
Increase in accrued expenses and other liabilities	409	1,478
Net cash provided by operating activities	8,169	11,416
Cash flows from investing activities		
Purchase of securities available-for-sale	(32,703)	(93,256)
Proceeds from matured/called/sold securities available-for-sale	30,893	33,180
Net (investment) redemption, in other equity securities	(469)	164
Maturities of time deposits of other banks	1,475	6,237
Proceeds from sale of other real estate owned	1,461	—
Net investment in other real estate owned	(78)	(25)
Net increase in loans	(12,811)	(18,318)
Purchases of bank premises, equipment, leasehold improvements	(629)	(873)
Proceeds from sale of equipment	—	13
Net cash used in investing activities	(12,861)	(72,878)

See accompanying notes to consolidated financial statements.

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FNB BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollar amounts in thousands)	Nine months ended September 30 2014	2013
Cash flows from financing activities		
Net increase in demand and savings deposits	28,662	53,469
Net decrease in time deposits	(20,121)	(40,697)
Increase in FHLB advances	1,000	42,780
Proceeds from notes payable	6,000	—
Payment on notes payable	(300)	—
Dividends paid on common stock	(848)	(677)
Exercise of stock options	1,132	693
Redemption of preferred stock series C	(9,450)	(3,150)
Dividends paid on preferred stock series C	(170)	(449)
Net cash provided by financing activities	5,905	51,969
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,213	(9,493)
Cash and cash equivalents at beginning of period	14,007	27,861
Cash and cash equivalents at end of period	$15,220	$18,368
Additional cash flow information:		
Interest paid	$1,568	$1,977
Income taxes paid	2,387	575
Tax benefit on exercise of stock options	457	164
Non-cash investing and financing activities:		
Accrued dividends	446	376
Change in unrealized gain in available for-sale securities, net of tax	2,174	(4,540)
OREO sales funded by loan origination	3,400	—

See accompanying notes to consolidated financial statements.

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FNB BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

(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.

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, 2013. 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 quarter ended September 30, 2014 was $69,000 and $71,000 for the quarter ended September 30, 2013. There was an income tax benefit of $24,000 for the quarter ended September 30, 2014 and an income tax benefit of $43,000 quarter ended September 30, 2013. The amount of compensation expense for options recorded in the nine months ended September 30, 2014 and September 30, 2013 was $208,000 and $192,000, respectively. There was an income tax benefit of $457,000 and $164,000 for the nine months ended September 30, 2014 and September 30, 2013, respectively.

The intrinsic value for options exercised during the three months ended September 30, 2014 was $32,000. The intrinsic value for options exercised during the nine months ended September 30, 2014 was $848,000. The intrinsic value for options exercised during the nine months ended September 30, 2013 was $577,000. The intrinsic value for options exercised during the three months ended September 30, 2013 was $6,000. There were no options granted for the first nine months ended September 30, 2014. There were 60,785 options granted for the nine months ended September 30, 2013.

The amount of total unrecognized compensation expense related to non-vested options at September 30, 2014 was $688,000, and the weighted average period over which it will be amortized is 3.4 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 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. The number of potential common shares included in the quarterly diluted EPS is computed using the average market price during the three months included in the reporting period under the treasury stock method. The number of potential common shares included in year-to-date diluted EPS is a year-to-date weighted average of potential shares included in each quarterly diluted EPS computation. All common stock equivalents are anti-dilutive when a net loss occurs. A 5% stock dividend was declared in the fourth quarter of 2013, and prior per share amounts have been adjusted to reflect the 5% stock dividend.

Earnings per share have been computed based on the following:

(All amounts in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net earnings	$1,823	$3,131	$5,286	$5,440
Dividends and discount accretion on preferred stock	—	251	170	581
Net earnings available to common shareholders	$1,823	$2,880	$5,116	$4,859
Average number of shares outstanding	4,048	3,949	4,021	3,922
Effect of dilutive options	127	96	135	93
Average number of shares outstanding used to calculate diluted earnings per share	4,175	4,045	4,156	4,015
Anti-dilutive options not included	62	132	62	198

NOTE D – SECURITIES AVAILABLE FOR SALE

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
September 30, 2014				
U.S. Treasury securities	$3,973	$ —	$ (42)	$3,931
Obligations of U.S. government agencies	65,287	293	(419)	65,161
Mortgage-backed securities	81,890	752	(1,297)	81,345
Obligations of states and political subdivisions	80,206	2,521	(233)	82,494
Corporate debt	35,011	229	(247)	34,993
	$266,367	$ 3,795	$ (2,238)	$267,924
December 31, 2013:				
U.S. Treasury securities	$3,069	$ 12	$ (54)	$3,027
Obligations of U.S. government agencies	73,691	488	(860)	73,319
Mortgage-backed securities	79,873	360	(2,373)	77,860
Obligations of states and political subdivisions	82,526	1,467	(1,317)	82,676
Corporate debt	26,958	330	(182)	27,106
	$266,117	$ 2,657	$ (4,786)	$263,988

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of September 30, 2014 and December 31, 2013 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
September 30,2014						
U.S. Treasury securities	$1,924	$ (2)	$2,007	$ (40)	$3,931	$ (42)
Obligations of U.S. Government agencies	14,334	(56)	23,057	(363)	37,391	(419)
Mortgage-backed securities	12,737	(98)	41,249	(1,199)	53,986	(1,297)
Obligations of states and political subdivisions	4,517	(43)	10,473	(190)	14,990	(233)
Corporate debt	13,540	(174)	6,892	(73)	20,432	(247)
Total	$47,052	$ (373)	$17,365	$ (1,865)	$130,730	$ (2,238)

(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, 2013:						
U. S. Treasury securities	$2,002	$ (54)	$—	$ —	$2,002	$ (54)
Obligations of U.S. Government agencies	40,108	(860)	—	—	40,108	(860)
Mortgage-backed securities	51,419	(2,015)	5,664	(358)	57,083	(2,373)
Obligations of states and political subdivisions	33,265	(1,248)	1,083	(69)	34,348	(1,317)
Corporate debt	10,857	(180)	498	(2)	11,355	(182)
Total	$137,651	$ (4,357)	$7,245	$ (429)	$144,896	$ (4,786)

At September 30, 2014, there were sixty securities in an unrealized loss position for greater than twelve consecutive months. Management periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. Management reviews market rates, the entity's financial condition and any relevant news items or legal/tax/ regulatory changes. 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 September 30, 2014 and December 31, 2013.

The amortized cost and carrying value of available-for-sale debt securities as of September 30, 2014 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.

September 30, 2014:

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 10,271	$10,360
Due after one through five years	114,769	115,007
Due after five years through ten years	103,673	104,740
Due after ten years	37,654	37,817
	$ 266,367	$267,924

For the nine months ended September 30, 2014, gross realized gains amounted to $151,000 on securities sold for $10,505,000. For the nine months ended September 30, 2013, gross realized gains amounted to $152,000 on securities sold for $12,428,000. For the nine months ended September 30, 2014, there were $12,000 gross realized losses on securities sold for $2,109,000, but for the nine months ended September 30, 2013, there were no gross realized losses. For the three months ended September 30, 2014, gross realized gains amounted to $112,000 on securities sold for $5,219,000. For the three months ended September 30, 2013, gross realized gains were $37,000 on securities sold for

$4,118,000.

For the three months ended September 30, 2014, gross realized losses were $12,000 on securities sold for $1,849,000. For the three months ended September 30, 2013, there were no gross realized losses.

At September 30, 2014, securities with an amortized cost of $65,066,000 and fair value of $65,711,000 were pledged as collateral for public deposits and for other purposes required by law.

NOTE E - LOANS

Loans are summarized as follows at September 30, 2014 and December 31, 2013:

(Dollar amounts in thousands) September 30, 2014:	FNB Bancorp Originated	PNCI	PCI	Total Balance September 30, 2014
Commercial real estate	$ 286,295	$ 33,076	$ 1,323	$ 320,694
Real estate construction	32,738	1,963	—	34,701
Real estate multi-family	43,219	10,502	—	53,721
Real estate 1 to 4 family	114,218	6,015	—	120,233
Commercial & industrial	39,739	9,177	—	48,916
Consumer loans	1,483	—	—	1,483
Gross loans	517,692	60,733	1,323	579,748
Net deferred loan fees	(441)	—	—	(441)
Allowance for loan losses	(10,774)	—	—	(10,774)
Net loans	$ 506,477	$ 60,733	$ 1,323	$ 568,533

PNCI = purchased, not credit impaired

PCI = purchased, credit impaired

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance December 31 2013
Commercial real estate	$ 285,938	$ 37,936	$ 1,325	$ 325,199
Real estate construction	31,290	3,028	—	34,318
Real estate multi-family	34,357	11,786	—	46,143
Real estate 1 to 4 family	98,196	8,707	—	106,903
Commercial & industrial	38,287	10,217	—	48,504
Consumer loans	1,650	—	—	1,650

Gross loans	489,718	71,674	1,325	562,717
Net deferred loan fees	(495)	—	—	(495)
Allowance for loan losses	(9,869)	(10)	—	(9,879)
Net loans	$ 479,354	$ 71,664	$ 1,325	$ 552,343

PNCI = purchased, not credit impaired

PCI = purchased, credit impaired

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Allowance for Credit Losses
For the Three Months Ended September 30, 2014

(Dollar amounts in thousands)

	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$6,215	$ 717	$465	$2,250	$ 1,166	$ 46	$10,859
Provision	—	—	—	—	—	—	—
Charge-offs	(83)	—	—	—	(17)	(6)	(106)
Recoveries	5	—	—	1	14	1	21
Ending balance	$6,632	$ 567	$263	$2,058	$ 1,190	$ 64	$10,774
Ending balance: individually evaluated for impairment	$111	$ —	$—	$429	$ 177	$ —	$717
Ending balance: collectively evaluated for impairment	$6,521	$ 567	$263	$1,629	$ 1,013	$ 64	$10,057

Allowance for Credit Losses
For the Nine Months Ended September 30, 2014

(Dollar amounts in thousands)

	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$5,763	$ 734	$293	$1,788	$ 1,237	$ 64	$9,879
Charge-offs	(83)	(183)	—	(62)	(28)	(26)	(382)
Recoveries	1,057	—	—	2	139	4	1,202
Provision	(105)	16	(30)	330	(158)	22	75
Ending balance	$6,632	$ 567	$263	$2,058	$ 1,190	$ 64	$10,774
Ending balance: individually evaluated for impairment	$111	$ —	$—	$429	$ 177	$ —	$717
Ending balance: collectively evaluated for impairment	$6,521	$ 567	$263	$1,629	$ 1,013	$ 64	$10,057

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Recorded Investment in Loans at September 30, 2014

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$320,695	$ 34,701	$53,721	$120,233	$ 48,916	$ 1,483	$579,749
Ending balance: individually evaluated for impairment	$10,158	$ 2,378	$—	$4,292	$ 2,170	$ —	$18,998
Ending balance: collectively evaluated for impairment	$310,537	$ 32,323	$53,721	$115,941	$ 46,746	$ 1,483	$560,751

Allowance for Credit Losses
AS of and For the Year Ended December 31, 2013

(Dollar amounts in thousands)	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$4,812	$ 857	$	$1,516	$ 1,875	$ 64	$9,124
Charge-offs	(262)	(81)	—	(385)	(57)	(7)	(792)
Recoveries	35	50	—	3	73	1	162
Provision	1,178	(92)	293	654	(654)	6	1,385
Ending balance	$5,763	$ 734	$293	$1,788	$ 1,237	$ 64	$9,879
Ending balance: individually evaluated for impairment	$165	$ —	$—	$254	$ 176	$ —	$595
Ending balance: collectively evaluated for impairment	$5,598	$ 734	$293	$1,534	$ 1,061	$ 64	$9,284

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Recorded Investment in Loans at December 31, 2013

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$325,199	$34,318	$46,143	$106,903	$ 48,504	$ 1,650	$562,717
Ending balance: individually evaluated for impairment	$17,974	$189	$375	$4,077	$ 2,497	$ —	$25,112
Ending balance: collectively evaluated for impairment	$307,225	$34,129	$45,768	$102,826	$ 46,007	$ 1,650	$537,605

Allowance for Credit Losses

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$5,331	$742	$329	$1,791	$ 1,491	$ 61	$9,745
Charge-offs	(23)	—	—	(141)	(56)	(5)	(225)
Recoveries	2	—	—	1	—	—	3
Provision	211	9	(76)	109	(28)	—	225
Ending balance	$5,521	$751	$253	$1,760	$ 1,407	$ 56	$9,748
Ending balance: individually evaluated for impairment	$193	$13	$—	$225	$ 209	$ 1	$641
Ending balance: collectively evaluated for impairment	$5,328	$738	$253	$1,535	$ 1,198	$ 55	$9,107

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Allowance for Credit Losses
For the Nine Months Ended September 30, 2013

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$4,811	$ 857	$—	$1,516	$ 1,876	$ 64	$1,940
Charge-offs	(262)	(81)	—	(385)	(56)	(6)	(62)
Recoveries	6	—	—	2	70	1	71
Provision	966	(25)	253	627	(483)	(3)	(486)
Ending balance	$5,521	$ 751	$253	$1,760	$ 1,407	$ 56	$1,463
Ending balance: individually evaluated for impairment	$193	$ 13	$—	$225	$ 209	$ 1	$210
Ending balance: collectively evaluated for impairment	$5,328	$ 738	$253	$1,535	$ 1,198	$ 55	$1,253

Recorded Investment in Loans at September 30, 2013

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$333,845	$ 26,587	$51,094	$108,231	$ 47,076	$ 1,691	$568,524
Ending balance: individually evaluated for impairment	$19,010	$ 192	$643	$3,719	$ 3,155	$ 1	$26,720
Ending balance: collectively evaluated for impairment	$314,835	$ 26,395	$50,451	$104,512	$ 43,921	$ 1,690	$541,804

Impaired Loans
As of and for the nine months ended September 30, 2014

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 3,163	$ 3,163	$ —	$ 3,161	$ 126
Commercial real estate construction	2,378	2,561	—	1,849	104
Real estate - multi family	—	—	—	—	—
Residential - 1 to 4 family	1,091	1,091	—	862	35
Commercial and industrial	2,503	3,584	—	2,527	171
Total	9,135	10,399	—	8,399	436
With an allowance recorded					
Commercial real estate	$ 5,092	$ 5,094	$ 111	$ 5,172	$ 195
Commercial real estate construction	—	—	—	—	—
Residential - 1 to 4 family	3,201	3,352	429	3,323	101
Commercial and industrial	1,570	1,957	177	1,747	14
Consumer	—	—	—	—	—
Total	9,863	10,403	717	10,242	296
Total					
Commercial real estate	$ 8,255	$ 8,257	$ 111	$ 8,333	$ 321
Commercial real estate construction	2,378	2,561	—	1,849	104
Real estate - multi family	—	—	—	—	—
Residential - 1 to 4 family	4,292	4,443	429	4,185	136
Commercial and industrial	4,073	5,541	177	4,274	185
Consumer	—	—	—	—	—
Grand total	$ 18,998	$ 20,802	$ 717	$ 18,641	$ 746

Impaired Loans
As of and for the year ended December 31, 2013

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 12,397	$ 13,535	$ —	$ 11,445	$ 565
Commercial real estate construction	—	—	—	—	—
Real estate multi family	375	375	—	384	25
Residential - 1 to 4 family	1,163	1,284	—	1,009	37
Commercial and industrial	1,059	1,232	—	1,204	66
Total	14,994	16,426	—	14,042	693
With an allowance recorded					
Commercial real estate	$ 5,577	$ 5,588	$ 165	$ 4,972	$ 254
Commercial real estate construction	189	196	10	198	18
Residential - 1 to 4 family	2,914	2,923	254	2,989	115
Commercial and industrial	1,438	1,871	166	1,710	15
Total	10,118	10,578	595	9,869	402
Total					
Commercial real estate	$ 17,974	$ 19,123	$ 165	$ 16,417	$ 819
Commercial real estate construction	189	196	10	198	18
Real estate multi family	375	375	—	384	25
Residential - 1 to 4 family	4,077	4,207	254	3,998	152
Commercial and industrial	2,497	3,103	166	2,914	81
Grand total	$ 25,112	$ 27,004	$ 595	$ 23,911	$ 1,095

Average recorded investment on impaired loans was $18,926,000 for three months ended September 30, 2014; $23,932,000 for nine months ended September 30, 2013; and $27,469,000 for three months ended September 30, 2013.

Interest income on impaired loans of $746,000 was recognized for cash payments received during the nine months ended September 30, 2014, and $1,095,000 was recognized for cash payments received during the year ended December 31, 2013. Interest income recognized for cash payments received for the three months ended September 30, 2014 was $291,000 and for the three months ended September 30, 2013 was $275,000. Interest income recognized for cash payments received for the nine months ended September 30, 2013 was $965,000. The amount of interest on impaired loans not collected for the nine months ended September 30, 2014 was $303,000 and for the year ended December 31, 2013 was $656,000. The cumulative amount of unpaid interest on impaired loans was $3,733,000 for the nine months ended September 30, 2014, and $3,430,000 for the year ended December 31, 2013.

Nonaccrual loans totaled $5,120,000 and $7,351,000 as of September 30, 2014 and December 31, 2013. The difference between impaired loans and nonaccrual loans represents loans that are restructured, are performing under modified loan agreements, and accruing interest.

	Loans on Nonaccrual Status as of	
(Dollar amounts in thousands)	September 30, 2014	December 31, 2013
Commercial real estate	$ 2,119	$ 4,290
Real estate - construction	—	189
Real estate 1 to 4 family	1,129	826
Commercial and industrial	1,872	2,046
Total	$ 5,120	$ 7,351

Troubled Debt Restructurings

	Total troubled debt restructured loans outstanding at					
(dollars in thousands)	September 30, 2014			December 31, 2013		
	Accrual status	Non-accrual status	Total modifications	Accrual status	Non-accrual status	Total modifications
Commercial real estate	$8,940	$2,507	$ 11,447	$6,315	$2,140	$ 8,455
Real Estate construction	—	—	—	—	189	189
Real estate 1 to 4 family	3,675	—	3,675	2,121	529	2,650
Commercial & industrial	297	1,814	2,111	461	1,951	2,412
Total	$12,912	$4,321	$ 17,233	$8,897	$4,809	$ 13,706

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 September 30, 2014, there were no commitments for additional funding of troubled debt restructured loans.

	Modifications For the nine months ended September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollar amounts in thousands)			
Real estate 1 to 4 family	1	$ 575	$ 569
Commercial real estate	3	1,454	1,449
Total	4	$ 2,029	$ 2,018

All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted. There were no payment defaults during the three month period ended September 30, 2014 that were related to receivables modified as TDRs in the last twelve months.

There were no modifications for the three months ended September 30, 2014. There were no payment defaults during the three month period ended September 30, 2014 that were related to receivables modified as TDRs in the last twelve months.

	Modifications For the nine months ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollar amounts in thousands)			
Real Estate Construction	1	$ 200	$ 192
Real estate 1 to 4 family	3	1,248	1,241
Commercial real estate	5	4,065	4,141
Total	9	$ 5,513	$ 5,574

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All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted. There were no payment defaults during the nine month period ended September 30, 2013 that were related to receivables modified as TDRs in the last twelve months.

	Modifications For the three months ended September 30, 2013		
(Dollar amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate-1 to 4 family	2	806	803
Commercial real estate	1	384	394
Total	3	$ 1,190	$ 1,197

All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted. There were no payment defaults during the three month period ended September 30, 2013 that were related to receivables modified as TDRs in the last twelve months.

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. These well-defined weaknesses may include 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.

Real Estate – 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

O4ur 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.

Real Estate-1 to 4 family 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.

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.

Consumer 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 September 30, 2014

(Dollar amounts in thousands)

Originated	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Commercial real estate	$331	$464	$153	$948	$285,347	$286,295
Real estate construction	—	—	—	—	32,738	32,738
Real estate multi family	—	—	—	—	43,219	43,219
Real estate-1 to 4 family	108	60	—	168	114,050	114,218
Commercial and industrial	58	271	1,852	2,181	37,558	39,739
Consumer	—	—	—	—	1,483	1,483
Total	$497	$795	$2,005	$3,297	$514,395	$517,692
Purchased						
Not credit impaired						
Commercial real estate	$337	$—	$—	$337	$32,739	$33,076
Real estate construction	—	—	—	—	1,963	1,963
Real estate multi-family	—	—	—	—	10,502	10,502
Real estate-1 to 4 family	—	—	—	—	6,015	6,015
Commercial and industrial	—	—	—	—	9,177	9,177
Total	$337	$—	$—	$337	$60,396	$60,733
Purchased						
Credit impaired						
Commercial real estate	$—	$—	$—	$—	$1,323	$1,323
Real estate construction	—	—	—	—	—	—
Real estate multi-family	—	—	—	—	—	—
Real estate-1 to 4 family	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$—	$—	$—	$—	$1,323	$1,323

There were no loans past due over 90 days that were still accruing.

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

(Dollar amounts in thousands)

Originated	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Commercial real estate	$1,403	$—	$2,349	$3,752	$282,186	$285,938
Real estate construction	—	—	—	—	31,290	31,290
Real estate multi family	—	—	—	—	34,357	34,357
Real estate-1 to 4 family	161	75	826	1,062	97,134	98,196
Commercial & industrial	563	210	2,046	2,819	35,468	38,287
Consumer	116	19	—	135	1,515	1,650
Total	$2,243	$304	$5,221	$7,768	$481,950	$489,718
Purchased						
Not credit impaired						
Commercial real estate	$—	$—	$616	$616	$37,320	$37,936
Real estate construction	—	—	189	189	2,839	3,028
Real estate multi-family	—	—	—	—	11,786	11,786
Real estate-1 to 4 family	—	—	—	—	8,707	8,707
Commercial & industrial	—	—	—	—	10,217	10,217
Total	$—	$—	$805	$805	$70,869	$71,674
Purchased						
Credit impaired						
Commercial real estate	$—	$—	$1,325	$1,325	$—	$1,325
Real estate construction	—	—	—	—	—	—
Real estate multi-family	—	—	—	—	—	—
Real estate-1 to 4 family	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—
Total	$—	$—	$1,325	$1,325	$—	$1,325

There were no loans past due over 90 days that were still accruing.

Credit Quality Indicators
As of December 31, 2013

(Dollar amounts in thousands)

Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$280,356	$2,330	$3,252	$ —	$285,938
Real estate construction	29,673	573	1,044	—	31,290
Real estate multi-family	34,357	—	—	—	34,357
Real estate-1 to 4 family	97,514	—	429	253	98,196
Commercial & industrial	36,837	—	1,439	11	38,287
Consumer loans	1,631	—	19	—	1,650
Totals	$480,368	$2,903	$6,183	$ 264	$489,718
Purchased					
Not credit impaired					
Commercial real estate	$28,342	$4,951	$4,643	$ —	$37,936
Real estate construction	1,520	—	1,508	—	3,028
Real estate multi-family	11,786	—	—	—	11,786
Real estate-1 to 4 family	8,299	—	408	—	8,707
Commercial & industrial	10,217	—	—	—	10,217
Total	$60,164	$4,951	$6,559	$ —	$71,674
Purchased					
Credit impaired					
Commercial real estate					$1,325
Total					$1,325

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Credit Quality Indicators
As of September 30, 2014

(Dollar amounts in thousands)

	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$282,331	$1,921	$2,044	$ —	$286,296
Real estate construction	31,603	—	1,135	—	32,738
Real estate multi-family	43,219	—	—	—	43,219
Real estate-1 to 4 family	113,619	—	457	142	114,218
Commercial and industrial	38,766	—	973	—	39,739
Consumer loans	1,483	—	—	—	1,483
Totals	$511,021	$1,921	$4,609	$ 142	$517,693
Purchased					
Not credit impaired					
Commercial real estate	$27,233	$—	$5,843	$ —	$33,076
Real estate construction	1,963	—	—	—	1,963
Real estate multi-family	10,502	—	—	—	10,502
Real estate-1 to 4 family	5,614	—	401	—	6,015
Commercial and industrial	9,177	—	—	—	9,177
Total	$54,489	$—	$6,244	$ —	$60,733
Credit impaired					
Commercial real estate					$1,323
Total					$1,323

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Credit Quality Indicators
As of December 31, 2013

(Dollar amounts in thousands)

Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$280,356	$2,330	$3,252	$ —	$285,938
Real estate construction	29,673	573	1,044	—	31,290
Real estate multi-family	34,357	—	—	—	34,357
Real estate-1 to 4 family	97,514	—	429	253	98,196
Commercial & industrial	36,837	—	1,439	11	38,287
Consumer loans	1,631	—	19	—	1,650
Totals	$480,368	$2,903	$6,183	$ 264	$489,718
Purchased					
Not credit impaired					
Commercial real estate	$28,342	$4,951	$4,643	$ —	$37,936
Real estate construction	1,520	—	1,508	—	3,028
Real estate multi-family	11,786	—	—	—	11,786
Real estate-1 to 4 family	8,299	—	408	—	8,707
Commercial & industrial	10,217	—	—	—	10,217
Total	$60,164	$4,951	$6,559	$ —	$71,674
Purchased					
Credit impaired					
Commercial real estate					$1,325
Total					$1,325

(Amounts in thousands)	Performing	Non-performing	Total
	At September 30, 2014		
Commercial real estate	$318,576	$ 2,119	$320,695
Real estate construction	34,701	—	34,701
Real estate multi family	53,721	—	53,721
Real estate 1 to 4 family	119,104	1,129	120,233
Commercial and industrial	47,044	1,872	48,916
Consumer	1,483	—	1,483
Totals	$574,629	$ 5,120	$579,749

(Amounts in thousands)	Performing	Non-performing	Total
	At December 31, 2013		
Commercial real estate	$ 320,909	$ 4,290	$ 325,199
Real estate construction	34,129	189	34,318
Real estate multi family	46,143	—	46,143
Real estate 1 to 4 family	106,077	826	106,903
Commercial and industrial	46,458	2,046	48,504
Consumer	1,650	—	1,650
Totals	$ 555,366	$ 7,351	$ 562,717

NOTE F - BORROWINGS

Federal Home Loan Bank advances

There was an overnight advance dated September 30, 2014 in the amount of $16,000,000 at 0.07% which matured on October 1, 2014.

Notes Payable

On March 27, 2014, FNB Bancorp received funding under a $6,000,000 term loan credit facility. This loan carries a variable rate of interest that fluctuates on a monthly basis. The interest rate is based on the 3 month LIBOR rate plus 4%. Payments of $50,000 in principal plus accrued interest are payable monthly. The first loan payment was due May 1, 2014. The maturity date on this credit facility is March 26, 2019. On the maturity date, all outstanding principal plus accrued interest shall become due and payable. FNB Bancorp has pledged its stock ownership in First National Bank of Northern California as collateral subject to the terms and conditions contained in the Loan Agreement and the Pledge and Security Agreement. FNB Bancorp retains the right to prepay this debt at any time upon not less than 7 days' prior written notice to Lender. The proceeds from this loan were contributed to the Bank as an additional capital contribution.

This capital contribution qualified as Tier 1 capital for the Bank under regulatory capital guidelines.

NOTE G – FAIR VALUE MEASUREMENT

The following tables present information about the Company's assets and liabilities measured at fair value as of September 30, 2014 and December 31, 2013, and indicate 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.

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

(Dollar amounts in thousands)		**Fair Value Measurements at September 30, 2014, Using**		
Description	**Fair Value 9/30/2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U. S. Treasury securities	$ 3,931	$ 3,931	$ —	$ —
Obligations of U.S. Government agencies	65,161	—	65,161	—
Mortgage-backed securities	81,345	—	81,345	—
Obligations of states and political subdivisions	82,494	—	82,494	—
Corporate debt	34,993	—	34,993	—
Total assets measured at fair value	$ 267,924	$ 3,931	$ 263,993	$ —

(Dollar amounts in thousands)		**Fair Value Measurements at December 31, 2013, Using**		
Description	**Fair Value 12/31/2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U. S. Treasury securities	$ 3,027	$ 3,027	$ —	$ —
Obligations of U.S. Government agencies	73,319	—	73,319	—
Mortgage-backed securities	77,860	—	77,860	—
Obligations of states and political subdivisions	82,676	—	82,676	—
Corporate debt	27,106	—	27,106	—
Total assets measured at fair value	$ 263,988	$ 3,027	$ 260,961	$ —

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 September 30, 2014, Using**		
Description	**Fair Value 9/30/2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans:				
Commercial and industrial	$ 1,077	—	$ —	$ 1,077
Residential- 1 to 4 family	58	—	—	58
Commercial real estate	368	—	—	368
Total impaired assets measured at fair value	$ 1,503	$ —	$ —	$ 1,503

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2013, Using		
Description	Fair Value 12/31/2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial and industrial	$ 1,908	$ —	$ —	$ 1,908
Residential- 1 to 4 family	411	—	—	411
Commercial real estate	2,491	—	—	2,491
Other real estate owned	1,771	—	—	1,771
Total impaired assets measured at fair value	$ 6,581	$ —	$ —	$ 6,581

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 an 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 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. When the appraisals are received, Management reviews the assumptions and methodology utilized in the appraisal, as well as the overall resulting value in conjunction with independent data sources such as recent market data and industry-wide statistics. We generally use a 6% discount for selling costs which is applied to all properties, regardless of size. Generally, the third party appraisals apply the “market approach,” which is a valuation technique that uses prices and other relevant information generate 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. The value of OREO is determined based on independent appraisals, similar to the process used for impaired loans, discussed above, and is generally classified as Level 3.

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 including Interest Bearing Time Deposits with Financial Institutions.

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.

Other Equity Securities.

These are mostly Federal Reserve Bank stock and Federal Home Loan Bank stock, carried in Other Assets. They are not traded, and not available for sale, and have no fair market value.

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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.

Notes payable.

Fair value is equal to the current balance. They represent a corporate loan with a monthly variable rate, based on the 3-month LIBOR rate plus 4%.

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.

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The following table provides summary information on the estimated fair value of financial instruments at September 30, 2014:

September 30, 2014	**Carrying**	**Fair**	**Fair value measurements**		
(Dollar amounts in thousands)	**amount**	**value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and cash equivalents	$15,220	$15,220	$15,220		
Interest-bearing time deposits with financial institutions	4,068	4,110		4,110	
Securities available for sale	267,924	267,924	3,931	263,993	
Loans	579,308	590,639			590,639
Other equity securities	5,769	5,769			5,769
Accrued interest receivable	3,670	3,670		3,670	
Financial liabilities:					
Deposits	782,156	782,434		782,434	
Federal Home Loan Bank advances	16,000	16,000	16,000		
Note payable	5,700	5,700		5,700	
Accrued interest payable	218	218		218	
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,452			1,452

The carrying amount of loans includes $5,120,000 of nonaccrual loans (loans that are not accruing interest) as of September 30, 2014. 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, 2013:

December 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	$14,007	$14,007	$14,007		
Interest-bearing time deposits with financial institutions	5,543	5,543		5,543	
Securities available for sale	263,988	263,988	3,027	260,961	
Loans	562,717	563,325			563,325
Other equity securities	5,300	5,300			5,300
Accrued interest receivable	3,808	3,808		3,808	
Financial liabilities:					
Deposits	773,615	774,012		774,012	
Federal Home Loan Bank advances	15,000	15,000		15,000	
Accrued interest payable	224	224		224	
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,297			1,297

The carrying amount of loans includes $7,351,000 of nonaccrual loans (loans that are not accruing interest) as of December 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.

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 was 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. Effective January 1, 2014, the effective dividend increased from 5% to 9%.

On May 6, 2013, 25% or $3,150,000 of the original $12,600,000 was redeemed. On January 24, 2014, FNB Bancorp (the "Company") redeemed all the remaining outstanding preferred shares that had been issued to the United States Treasury Department through the Small Business Lending Fund ("SBLF") in a cash redemption transaction. Subsequent to this redemption, the United States Treasury Department no longer has an equity interest in the Company of any kind.

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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.

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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

In April 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740). This ASU requires an entity to present in the financial statements an unrecognized tax benefit as a liability and the unrecognized tax benefit should not be combined with deferred tax assets to the extent that a net operating loss carry-forward, tax loss or credit carry-forward is also not available at the reporting date. The amendment is to be applied prospectively to all unrecognized tax benefits and is effective for annual and interim reporting periods beginning after December 15, 2013. This ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon foreclosure. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reports beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's consolidated financial statement.

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The ASU also requires new and expanded disclosures. This ASU is effective for the first interim or annual period beginning after December 15, 2014. The adoption of ASU No. 2014-11 is not expected to have a material impact on The Company's consolidated financial statements.

In August 2014, The FASB issued ASU No.2014-14, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure)*. The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of this ASU.

Earnings Analysis

Net earnings for the quarter ended September 30, 2014 were $1,823,000, compared to net earnings of $3,131,000 for the quarter ended September 30, 2013, a decrease of $1,308,000, or 41.8%. Net earnings for the nine months ended September 30, 2014 were $5,286,000 compared to net earnings of $5,440,000 for the nine months ended September 30, 2013, a decrease of $154,000 or 2.8%. Cash dividend payments on the preferred shares outstanding were made as scheduled until redeemed. Net earnings during the nine months ended September 30, 2014 compared to the same period in 2013 benefitted from favorable expense comparisons due partly to the closure of our island of Guam office during the second quarter of 2013.

Net interest income for the quarter ended September 30, 2014 was $8,762,000, compared to $8,699,000 for the quarter ended September 30, 2013. Net interest income for the nine months ended September 30, 2014 was $25,982,000 compared to $26,133,000 for the nine months ended September 30, 2013. Investment yields for the three and nine months ended September 30, 2014 have declined when compared to the same period in 2013 due to declines in market interest rates. Loan yields have also declined due to significant competition by lending competitors.

The following tables present an analysis of net interest income and average earning assets and liabilities for the three-and nine-month periods ended September 30, 2014 compared to the three-and nine-month periods ended September 30, 2013.

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

	Three months ended September 30,												
	2014						2013						
(Dollar amounts in thousands)	Average Balance		Interest		Annualized Average Yield		Average Balance		Interest		Annualized Average Yield		
INTEREST EARNING ASSETS													
Loans, gross (1) (2)	$	572,402	$	7,899	5.47	%	$	543,826	$	7,808	5.70	%	
Taxable securities		192,595		883	1.82	%		211,858		911	1.71	%	
Nontaxable securities (3)		75,192		665	3.51	%		73,079		674	3.66	%	
Fed funds sold		—		—	n/a			9		—	n/a		
Int time depos-other fin institutions		4,201		20	1.89	%		8,173		35	1.70	%	
Total interest earning assets		844,390		9,467	4.50	%		836,945		9,428	4.47	%	
Cash and due from banks		18,525						20,448					
Premises		12,356						12,708					
Other assets		27,951						33,768					
Total noninterest earning assets		58,832						66,923					
TOTAL ASSETS	$	903,222					$	903,868					
Demand, int bearing	$	77,499		16	0.08	%	$	74,557		24	0.13	%	
Money market		326,210		309	0.38	%		322,949		312	0.38	%	
Savings		67,643		17	0.10	%		61,016		22	0.14	%	
Time deposits		105,203		130	0.49	%		140,965		197	0.55	%	
FHLB advances		6,022		3	0.20	%		12,243		5	0.16	%	
Note payable		5,785		63	0.04	%		—		—	n/a		
Fed funds purchased		—		—	n/a			293		—	—		
Total interest bearing liabilities		588,362		538	0.36	%		612,023		560	0.36	%	
NONINTEREST BEARING LIABILITIES:													
Demand deposits		212,282						193,975					
Other liabilities		11,123						8,142					
Total noninterest bearing liabilities		223,405						202,117					
TOTAL LIABILITIES		811,767						814,140					
Stockholders' equity		91,455						89,728					

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 903,222				$ 903,868		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 8,929	4.20 %			$ 8,868	4.20 %

1) Interest on non-accrual loans is recognized into income on a cash received basis.

2) Amounts of interest earned include loan fees of $339,000 and $265,000 for the quarters ended September 30, 2014 and 2013, respectively.

3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable securities portfolio are $167,000 and $169,000 for the quarters ended September 30, 2014 and 2013, 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.

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TABLE 2

NET INTEREST INCOME AND AVERAGE BALANCES
FNB BANCORP AND SUBSIDIARY

(Dollar amounts in thousands)	Nine months ended September 30, 2014 Average Balance	Interest	Annualized Average Yield	2013 Average Balance	Interest	Annualized Average Yield
INTEREST EARNING ASSETS						
Loans, gross (1) (2)	$ 568,090	$ 23,423	5.51 %	$ 549,573	$ 23,986	5.84 %
Taxable securities	189,915	2,577	1.81 %	188,059	2,389	1.70 %
Nontaxable securities (3)	73,674	1,973	3.58 %	73,925	2,018	3.65 %
Fed funds sold	11	—	n/a	27	—	n/a
Int time depos-other fin institutions	4,689	66	1.88 %	9,723	125	1.72 %
Tot interest earning assets	836,379	28,039	4.48 %	821,307	28,518	4.64 %
Cash and due from banks	18,998			32,446		
Premises	12,473			12,725		
Other assets	29,397			34,316		
Tot noninterest earning assets	60,868			79,487		
TOTAL ASSETS	$ 897,247			$ 900,794		
Demand, int bearing	$ 78,452	50	0.09 %	$ 76,406	74	0.13 %
Money market	323,361	908	0.38 %	310,616	1,035	0.45 %
Savings	66,477	51	0.10 %	63,673	79	0.17 %
Time deposits	111,416	408	0.49 %	154,984	688	0.59 %
FHLB advances	11,996	14	0.16 %	4,530	5	0.15 %
Note payable	4,039	131	4.34 %	—	—	n/a
Fed funds purchased	—	—	—	108	—	—
Tot interest bearing liabilities	595,741	1,562	0.35 %	610,317	1,881	0.41 %
Demand deposits	201,702			187,743		
Other liabilities	10,066			9,740		
Tot noninterest bearing liabilities	211,768			197,483		
TOTAL LIABILITIES	807,509			807,800		
Stockholders' equity	89,738			92,994		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 897,247			$ 900,794		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 26,477	4.23 %		$ 26,637	4.34 %

(1) Interest on non-accrual loans is recognized into income on a cash received basis.

(2) Amounts of interest earned included loan fees of $996,000 and $856,000 for the nine months ended September 30, 2014 and 2013, respectively.

(3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable securities portfolio are $495,000 and $504,000 for the nine months ended September 30, 2014 and 2013, respectively. Tax equivalent adjustments included in the nontaxable securities portfolio 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.

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The various components that contributed to changes in net interest income for the three and nine months ended September 30, 2014 and 2013 are shown in Tables 1 and 2, above. The principal interest earning assets are loans, from a volume as well as from a rate or yield perspective. For the quarter ended September 30, 2014, average loans outstanding represented 67.8% of average earning assets. For the quarter ended September 30, 2013, they represented 65.0% of average earning assets. For the nine months ended September 30, 2014 and 2013, average loans outstanding represented 67.9% and 66.9%, respectively, of average earning assets.

The taxable equivalent yield on average interest earning assets for the quarter ended September 30, 2014 compared to the quarter ended September 30, 2013 increased from 4.47% to 4.50%. Average loans increased by $28,576,000, quarter over quarter, while their yield declined from 5.70% to 5.47%. Interest income on total interest earning assets for the quarter increased $39,000 on a fully-taxable equivalent basis.

For the three months ended September 30, 2014 compared to the three months ended September 30, 2013, the cost on total interest bearing liabilities remained unchanged at 0.36%. Interest on advances from the Federal Home Loan Bank for the quarter ended September 2014 was 0.20%, compared to 0.16% for the quarter ended September 2013. Time deposit interest cost decreased from 0.55% to 0.49%. The time deposit average balance outstanding decreased by $35,762,000, while their expense declined from $197,000 to $130,000. Money market deposits average volume increased $3,261,000, or 1.01%, while their cost was unchanged at 0.38%. Time deposits have been migrating to Money Market accounts during 2014 as rate differences between the two deposit types have narrowed.

For the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, interest income on interest earning assets decreased $479,000 on a fully-taxable equivalent basis, while average earning assets increased $15,072,000. Average loans increased by $18,517,000. Interest on loans decreased $563,000, while their yields decreased 33 basis points. The cost on total interest bearing liabilities decreased from 0.41% to 0.35%. Time deposit averages decreased $43,568,000 and their yield decreased 10 basis points. Money Market deposit average balances increased $12,745,000, and their cost decreased $127,000. For the nine months ended September 30, 2014, Federal Home Loan Bank advances averaged $11,996,000 and their interest cost was $14,000. For the nine months ended September 30, 2013, Federal Home Loan Bank advances averaged $4,530,000, and their interest cost was $5,000.

For the three and nine month periods ended September 30, 2014 and September 30, 2013, respectively, the following tables show 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.

Table 3

FNB BANCORP AND SUBSIDIARY
RATE/VOLUME VARIANCE ANALYSIS

(Dollar amounts in thousands)

	Three Months Ended September 30, 2014 Compared to 2013		
	Interest	Variance Attributable to	
	Income/Expense	Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ 91	$ (303)	$ 394
Taxable securities	(28)	60	(88)
Nontaxable securities (1)	(9)	(28)	19
Interest on time deposits with other financial institutions	(15)	4	(19)
Total	$ 39	$ (267)	$ 306
INTEREST BEARING LIABILITIES			
Demand deposits	$ 8	$ 9	(1)
Money market	3	6	(3)
Savings deposits	5	7	(2)
Time deposits	67	17	50
FHLB advances	2	—	2
Note payable	(63)	—	(63)
Total	$ 22	$ 39	$ (17)
NET INTEREST INCOME	$ 61	$ (228)	$ 289

(1) Includes tax equivalent adjustment of $167,000 and $169,000 in the three months ended September 30, 2014 and September 30, 2013, respectively.

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Table 4

(Dollar amounts in thousands)

FNB BANCORP AND SUBSIDIARY
RATE/VOLUME VARIANCE ANALYSIS
Nine Months Ended September 30,
2014 Compared to 2013

	Interest Income/Expense	Variance Attributable to Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ (563)	$ (1,371)	$ 808
Taxable securities	188	164	24
Nontaxable securities (1)	(45)	(38)	(7)
Interest on time deposits with other financial institutions	(59)	6	(65)
Total	$ (479)	$ (1,239)	$ 760
INTEREST BEARING LIABILITIES			
Demand deposits	$ 24	$ 26	$ (2)
Money market	127	169	(42)
Savings deposits	29	31	(2)
Time deposits	280	87	193
FHLB advances	(10)	—	(10)
Note payable	(131)	—	(131)
Total	$ 319	$ 313	$ 6
NET INTEREST INCOME	$ (160)	$ (926)	$ 766

(1) Includes tax equivalent adjustment of $495,000 and $504,000 in the nine months ended September 30, 2014 and September 30, 2013, respectively.

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Noninterest income

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

Table 5 **NONINTEREST INCOME**

	Three months ended September 30,		Variance	
(Dollar amounts in thousands)	2014	2013	Amount	Percent
Service charges	$ 644	$ 658	$ (14)	-2.1 %
Credit card fees	—	6	(6)	-100.0 %
Net gain on sale of available-for-sale of securities	100	37	63	170.3 %
Bank-owned life insurance policy earnings	86	90	(4)	-4.4 %
Other income	211	187	24	12.8 %
Total noninterest income	$ 1,041	$ 978	$ 63	6.4 %

	Nine months ended September 30,		Variance	
(Dollars in thousands)	2014	2013	Amount	Percent
Service charges	$ 1,928	$ 1,993	$ (65)	-3.3 %
Credit card fees	—	16	(16)	-100.0 %
Net gain on sale of available-for-sale securities	139	152	(13)	-8.6 %
Bank-owned life insurance policy earnings	273	279	(6)	-2.2 %
Other income	727	606	121	20.0 %
Total noninterest income	$ 3,067	$ 3,046	$ 21	0.7 %

Noninterest income consists mainly of service charges on deposits, credit card fees, and several other miscellaneous types of income. During the nine months of 2014, the Bank sold $10,505,000 in investment securities for a pre-tax gain of $151,000. In the same period, the Bank sold $2,109,000 in investment securities at a loss of $12,000. During the nine months of 2013, the Company sold approximately $12,428,000 in investment securities at a pre-tax net gain of $152,000. The sales proceeds were reinvested in a variety of investment securities during the same period.

Noninterest expense

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

Table 6 **NONINTEREST EXPENSE**

	Three months ended September 30,		Variance	
(Dollar amounts in thousands)	2014	2013	Amount	Percent
Salaries and employee benefits	$ 4,241	$ 4,099	$ 142	3.5 %
Occupancy expense	704	812	(108)	-13.3 %
Equipment expense	405	387	18	4.7 %
Professional fees	395	405	(10)	-2.5 %
FDIC assessment	165	180	(15)	-8.3 %
Telephone, postage & supplies	284	271	13	4.8 %
Advertising expense	118	70	48	68.6 %
Data processing expense	151	163	(12)	-7.4 %
Low income housing expenses	109	110	(1)	-0.9 %
Surety insurance	68	77	(9)	-11.7 %
Directors expense	63	63	0	0.0 %
Other real estate owned expense, net	—	22	(22)	-100.0 %
Other expense	352	291	61	21.0 %
Total noninterest expense	$ 7,055	$ 6,950	$ 105	1.5 %

NONINTEREST EXPENSE

	Nine months ended September 30,		Variance	
(Dollars in thousands)	2014	2013	Amount	Percent
Salaries and employee benefits	$ 12,636	$ 12,827	$ (191)	-1.5 %
Occupancy expense	2,078	2,620	(542)	-20.7 %
Equipment expense	1,202	1,171	31	2.6 %
Professional fees	1,427	1,212	215	17.7 %
FDIC assessment	525	540	(15)	-2.8 %
Telephone, postage & supplies	883	985	(102)	-10.4 %
Advertising	339	363	(24)	-6.6 %
Data processing expense	430	489	(59)	-12.1 %
Low income housing expenses	329	329	0	0.0 %
Surety insurance	202	198	4	2.0 %
Directors expense	189	189	0	0.0 %
Other real estate owned expense, net	87	100	(13)	-13.0 %
Gain on sale of other real estate owned, net	(220)	—	(220)	n/a
Other expense	1,000	1,051	(51)	-4.9 %
Total noninterest expense	$ 21,107	$ 22,074	$ (967)	-4.4 %

Noninterest expense consists mainly of salaries and employee benefits. For the three months ended September 30, 2014 compared to three months ended September 30, 2013, it represented 60.1% and 59.0% of total noninterest expenses. For the nine months ended September 30, 2014 and 2013, it was 59.9% and 58.1%, respectively, of total noninterest expenses.

Provision for Loan Losses

There was no provision for loan losses for the three months ended September 30, 2014, because the level was considered adequate to provide for probable losses inherent in the loan portfolio. The growth in the loan portfolio has been in-line with management expectations, and credit metrics have continued to improve during the quarter. There was a provision for loan losses of $225,000 for the three months ended September 30, 2013. There was a provision for loan losses of $75,000 and $1,335,000 for the nine months ended September 30, 2014 and 2013, respectively.

The allowance for loan losses was $10,774,000 or 1.86% of total gross loans at September 30, 2014, compared to $9,748,000 or 1.71% of total gross loans at September 30, 2013. 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 nine months of 2014 were significantly lower than during the same time period during 2013, reflecting the improvement in the level of problem loans within our loan portfolio on a year over year basis. A significant allocation of our allowance for loan losses exists to reflect the degree of uncertainty related to the credit risk and performance of the Oceanic Bank portfolio since its acquisition.

Income Taxes

The effective tax rate for the quarter ended September 30, 2014 was of 33.7% which compares to a 25.1% effective tax rate benefit for the quarter ended September 30, 2013. The effective tax rate for the nine months ended September 30, 2014 and September 30, 2013, was an effective tax rate of 32.8% and 5.7%, respectively. During the third quarter of 2013, the Bank recorded a tax benefit of $1,334,000. This tax benefit was primarily the result of the reversal of our deferred tax valuation reserve. Taxable income levels and forecasted net income have risen to levels where management no longer believes the deferred tax valuation allowance is necessary. All low income housing tax credit carry-forwards are now expected to be realized. Tax preference items which affect our effective tax rate include changing amounts invested in tax-advantaged securities, available Low Income Housing Credits, and amounts of interest in come on qualifying loans in Enterprise Zones.

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 September 30, 2014, are adequate to meet its operating needs in 2014 and our liquidity positions are sufficient to meet our liquidity needs in the near term.

Financial Condition

Assets. Total assets increased to $907,422,000 at September 30, 2014 from $891,930,000 at December 31, 2013. The increases were primarily $3,936,000 in securities-available-for-sale and $16,190,000 in net loans, with a net decrease of $4,634,000 in all other asset categories

Loans. Gross loans (before net loan fees) at September 30, 2014 were $579,749,000, an increase of $17,032,000 over December 31, 2013. During the first nine months of 2014, gross commercial real estate loans decreased $4,504,000, real estate construction loans increased $383,000, real estate multi-family loans increased $7,578,000, real estate loans secured by 1 to 4 family residences increased $13,330,000, commercial and industrial loans increased $412,000, and consumer loans decreased by $167,000. The portfolio breakdown was as follows:

TABLE 7 LOAN PORTFOLIO

(Dollar amounts in thousands)	September 30 2014	Percent	December 31 2013	Percent
Commercial real estate	$320,695	55 %	$ 325,199	58 %
Real estate construction	34,701	6 %	34,318	6 %
Real estate multi family	53,721	9 %	46,143	8 %
Real estate-1 to 4 family	120,233	21 %	106,903	19 %
Commercial & industrial	48,916	8 %	48,504	9 %
Consumer loans	1,483	0 %	1,650	0 %
Gross loans	579,749	100 %	562,717	100 %
Net deferred loan fees	(441)	0 %	(495)	0 %
Total	$579,308	100 %	$ 562,222	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 determined 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.

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A summary of transactions in the allowance for loan losses for the nine months ended September 30, 2014 and September 30, 2013, respectively, is as follows:

TABLE 8	ALLOWANCE FOR LOAN LOSSES	
(Dollar amounts in thousands)	Nine months ended September 30,	
	2014	2013
Balance, beginning of period	$ 9,879	$ 9,124
Provision for loan losses	75	1,335
Recoveries	1,202	79
Amounts charged off	(382)	(790)
Balance, end of period	$ 10,774	$ 9,748

During the nine months ended September 30, 2014, there was a provision for loan losses of $75,000, compared to $1,335,000 for the same period in 2013.

In management's judgment, the allowance was adequate to absorb losses currently inherent in the loan portfolio at September 30, 2014. 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 September 30, 2014, there was $5,875,000 in nonperforming assets, compared to $12,669,000 at December 31, 2013. Nonaccrual loans were $5,120,000 at September 30, 2014, compared to $7,351,000 at December 31, 2013. There were no loans past due 90 days and still accruing at either date.

There was one property valued at $755,000 in Other Real Estate Owned at September 30, 2014, and four properties valued at $5,318,000 in Other Real Estate Owned at December 31, 2013. Three of these were sold in the first nine months of 2014, for a net gain of $220,000. Management intends to aggressively market these properties. While management believes these properties will sell, there can be no assurance that these properties will not sell quickly given the current real estate market, nor can the expected sales price be accurately predicted.

Deposits. Deposits are gathered primarily from our customers in San Francisco, San Mateo and Santa Clara counties. Although the Financial District, Sutter and Guam branches were closed in 2013, there was a modest growth in deposits for the nine months of 2014, with deposits moving towards money market and savings, and away from time deposits. Deposits decreased by $8,066,000 or 1.0% in the third quarter of 2014, primarily an increase of $5,553,000 in noninterest bearing demand deposits, with a decrease of $7,374,000 in interest bearing demand deposits, and a decrease of $6,245,000 in savings, money market and time certificates of deposit.

In September 30, 2014 compared to December 31, 2013, noninterest bearing demand deposits increased by $10,884,000, savings and money market increased by $23,735,000, while interest bearing demand declined $5,957,000 and time deposits declined $20,121,000.

The following table sets forth the maturity schedule of the time certificates of deposit on September 30, 2014:

TABLE 9

(Dollar amounts in thousands) Maturities	Under $100,000	$100,000 or more	Total
Three months or less	$ 9,105	$ 18,754	$ 27,859
Over three through six months	7,065	25,108	32,173
Over six through twelve months	8,749	11,429	20,178
Over twelve months	9,603	14,218	23,821
Total	$ 34,522	$ 69,509	$ 104,031

Regulatory Capital. The following table shows the risk-based capital ratios and leverage ratios at September 30, 2014 and December 31, 2013 for the Bank:

TABLE 10

Regulatory Capital Ratios	September 30, 2014	December 31, 2013	Minimum “Well Capitalized” Requirements
Total Regulatory Capital Ratio	14.30 %	14.12 %	≥ 10.00 %
Tier 1 Capital Ratio	13.05 %	12.86 %	≥ 6.00 %
Leverage Ratio	10.16 %	9.67 %	≥ 5.00 %

Liquidity. Liquidity is a measure of the Company’s ability to convert assets into cash with minimal loss. As of September 30, 2014, liquid assets were $287,212,000, or 31.7% of total assets. As of December 31, 2013, liquid assets were $283,538,000, or 31.8% 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 eligible 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 September 30, 2014, net loans were at 72.7% of deposits. On December 31, 2013, net loans net loans were at 71.4% of deposits.

For further information on the Company’s cash flow positions refer to the Consolidated Statements of Cash Flows.

Off-Balance Sheet Items

The Company has certain ongoing commitments under operating leases. These commitments do not significantly impact operating results. As of September 30, 2014 and December 31, 2013, 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 $145,168,000 and $132,041,000 at September 30, 2014 and December 31, 2013, respectively. As a percentage of net loans, these off-balance sheet items represent 25.5% and 23.9% respectively. The Company does not expect all commitments 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 4. Controls and Procedures.

Disclosure Controls and Procedures: An evaluation of the Company’s disclosure controls and procedures based on criteria established in “Internal Control-Integrated Framework” issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) was carried out under the supervision and with the participation of the Company’s Chief Executive Officer, (principal executive officer) Chief Financial Officer (principal financial officer) and other members of the Company’s senior management as of the end of the Company’s fiscal quarter ended September 30, 2014. The Company’s Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) concluded that the Company’s disclosure controls and procedures are effective in ensuring that material information required to be disclosed by the Company in the reports it files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company’s management, including the principal executive officer and the principal financial officer, to allow timely decisions regarding required disclosures. The evaluation did not identify any change in the Company’s internal control over financial reporting that occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Management of FNB Bancorp (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of September 30, 2014. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transaction and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

This quarterly report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to the attestation by the Company’s independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this quarterly report.

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, 2013 Form 10-K.

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. Management's ability to effectively integrate Oceanic Holding, Inc. could have a negative impact on earnings and the financial position of the Company.

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

None.

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:

November 12, 2014. 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)

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