United States
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

Quarterly Report
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2018

FNB BANCORP

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation)

000-49693 (Commission File Number)	91-2115369 (IRS Employer Identification No.)
975 El Camino Real, South San Francisco, California (Address of principal executive offices)	94080 (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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Emerging growth company ☐
Smaller reporting company ☐	

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock as of March 31, 2018: 7,480,538 shares.

FNB BANCORP AND SUBSIDIARY
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)	March 31, 2018	December 31, 2017
Cash and due from banks	$ 5,733	$ 5,585
Interest-bearing deposits with financial institutions	15,630	12,898
Securities available-for-sale, at fair value	348,264	355,857
Other equity securities	7,567	7,567
Loans, net of allowance for loan losses of $10,186 and $10,171 on March 31, 2018 and December 31, 2017	831,049	829,766
Bank premises, equipment, and leasehold improvements, net	9,159	9,322
Bank-owned life insurance, net	16,736	16,637
Accrued interest receivable	4,914	5,317
Other real estate owned, net	1,817	3,300
Goodwill	4,580	4,580
Prepaid expenses	675	825
Other assets	13,842	13,584
Total assets	$ 1,259,966	$ 1,265,238
Liabilities and Stockholders' Equity		
Deposits		
Demand, noninterest bearing	$ 333,681	$ 313,435
Demand, interest bearing	129,340	130,988
Savings and money market	425,757	467,788
Time	129,675	138,084
Total deposits	1,018,453	1,050,295
Federal Home Loan Bank advances	100,000	75,000
Note payable	3,600	3,750
Accrued expenses and other liabilities	17,455	16,913
Total liabilities	1,139,508	1,145,958
Stockholders' equity		
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 7,480,538 shares at March 31, 2018 and 7,442,279 shares at December 31, 2017	85,854	85,565
Retained earnings	37,866	34,654
Accumulated other comprehensive loss, net of tax	(3,262)	(939)
Total stockholders' equity	120,458	119,280
Total liabilities and stockholders' equity	$ 1,259,966	$ 1,265,238

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statements of Earnings
(Unaudited)

(Dollar amounts and shares in thousands, except per share amounts)	Three months ended March 31, 2018	Three months ended March 31, 2017
Interest income		
Interest and fees on loans	$ 10,399	$ 10,073
Interest on taxable securities	1,364	1,210
Interest on tax-exempt securities	726	733
Interest on deposits with other financial institutions	72	11
Total interest income	12,561	12,027
Interest expense		
Interest on deposits	737	636
Interest on FHLB advances	349	146
Interest on note payable	53	53
Total interest expense	1,139	835
Net interest income	11,422	11,192
Provision for loan losses	—	—
Net interest income after provision for loan losses	11,422	11,192
Noninterest income		
Service charges	529	597
Gain on sale of available-for-sale securities	—	28
Earnings on bank-owned life insurance	99	102
Other income	214	283
Total noninterest income	842	1,010
Noninterest expense		
Salaries and employee benefits	4,121	4,774
Occupancy expense	657	651
Equipment expense	523	402
Professional fees	203	473
FDIC assessment	90	130
Telephone, postage and supplies	314	297
Advertising	100	108
Data processing expense	143	139
Low income housing expense	129	105
Surety insurance	89	84
Directors expense	72	72
Gain on sale of other real estate owned	(392)	—
Other real estate owned expense	59	10
Other expense	313	360
Total noninterest expense	6,421	7,605
Earnings before provision for income taxes	5,843	4,597
Provision for income taxes	1,655	1,508
Net earnings	$ 4,188	$ 3,089
Earnings per share data:		
Basic	$ 0.56	$ 0.42
Diluted	$ 0.54	$ 0.41
Weighted average shares outstanding:		
Basic	7,463	7,300
Diluted	7,685	7,518

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statements of Comprehensive Earnings
(Unaudited)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net earnings	$ 4,188	$ 3,089
Unrealized holding (loss) gain on available-for-sale securities, net of tax benefit (expense) of $1,004 and ($1,005)	(2,323)	1,450
Reclassification adjustment for gain recognized on available-for-sale securities sold, net of tax benefit of $0 and $11 for the three months ended March 31,2018 and 2017, respectively	—	(17)
Total other comprehensive (loss) earnings	(2,323)	1,433
Total comprehensive earnings	$ 1,865	$ 4,522

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollar amounts in thousands)	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flow from operating activities:		
Net earnings	$ 4,188	$ 3,089
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net gain on sale of securities available-for-sale	—	(28)
Net gain on sale of other real estate owned	(392)	—
Depreciation, amortization and accretion	960	992
Stock-based compensation expense	92	103
Earnings on bank owned life insurance	(99)	(102)
Tax benefit of stock option exercises	(37)	—
Decrease in net deferred loan fees	(170)	(70)
Increase in accrued interest receivable	403	157
Decrease in prepaid expense	150	88
Increase in other assets	(221)	(171)
Increase in accrued expenses and other liabilities	821	2,031
Net cash provided by operating activities	5,695	6,089
Cash flows from investing activities:		
Purchase of securities available-for-sale	—	(9,408)
Proceeds from matured/called/sold securities available-for-sale	3,527	17,862
Investment, net of redemption, in other equity securities	—	(5)
Net proceeds from the sale of other real estate owned	1,400	—
Net investment in other real estate owned	1,121	(16)
Net increase in loans	(1,034)	(24,636)
Purchases of bank premises, equipment, leasehold improvements	(58)	(35)
Net cash provided by (used in) investing activities	4,986	(16,238)

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows from financing activities		
Net (decrease) increase in demand and savings deposits	$ (23,433)	$ 4,247
Net (decrease) increase in time deposits	(8,409)	1,238
Increase in FHLB advances	25,000	15,000
Principal reduction on note payable	(150)	(150)
Dividends paid on common stock	(976)	(824)
Exercise of stock options	197	217
Net cash (used in) provided by financing activities	(7,771)	19,728
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,880	9,579
Cash and cash equivalents at beginning of period	18,353	15,758
Cash and cash equivalents at end of period	$ 21,233	$ 25,337
Additional cash flow information:		
Interest paid	$ 1,008	$ 855
Income taxes paid	$ 120	$ —
Non-cash investing and financing activities:		
Accrued dividends	$ 970	$ 780
Change in unrealized (loss) gain in available for-sale securities, net of tax	$ (2,323)	$ 1,433
Loans to finance sales of other real estate owned	$ 1,200	$ —

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(UNAUDITED)

NOTE A – BASIS OF PRESENTATION

As announced by the Company on December 11, 2017 and reported in the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 12, 2017 (the "Current Report"), the Company has entered into an Agreement and Plan of Merger and Reorganization dated December 11, 2017 (the "Merger Agreement"), pursuant to which the Company would merge with and into TriCo Bancshares, a California corporation ("TriCo"), with TriCo being the surviving corporation. Immediately thereafter, the Company's subsidiary bank, First National Bank of Northern California, would be merged with and into TriCo's subsidiary bank, Tri Counties Bank. Under the terms of the Merger Agreement, the Company shareholders would receive a fixed exchange ratio of 0.9800 shares of TriCo common stock for each share of Company common stock, providing the Company shareholders with aggregate ownership on a pro forma basis of approximately 24% of the common stock of the combined company. Holders of the Company's outstanding in-the-money stock options would receive cash, net of applicable taxes withheld, for the value of their unexercised stock options. The merger is expected to qualify as a tax-free exchange for shareholders who receive shares of TriCo common stock. The transactions contemplated by the Merger Agreement are expected to close in the second or third quarter of 2018, pending approvals of the Company shareholders and the TriCo shareholders, the receipt of all necessary regulatory approvals, and the satisfaction of other closing conditions which are customary for such transactions. For additional information, reference should be made to the text of the Agreement and Plan of Merger and Reorganization, filed as an exhibit to the Current Report, and to other information regarding TriCo and the Company, their respective businesses and the status of their proposed merger, as reported from time to time in other filings with the Securities and Exchange Commission.

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.

Beginning in 2018, the fair value disclosures related to loans require that the fair market value be reported net of unearned income and the allowance for loan losses in accordance with ASU No. 2016-01 using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

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, 2017. Results of operations for interim periods are not necessarily indicative of results for the full year. Certain prior year information has been reclassified to conform to current year presentation. The reclassifications had no impact on consolidated net earnings or stockholders' equity.

Accounting Standards Adopted in 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance requires entities to recognize revenues when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the provisions of ASU No. 2014-09 on January 1, 2018. The Company adopted the new guidance using the modified retrospective transition approach, in which the guidance would only be applied to existing contracts in effect at January 1, 2018 and new contracts entered into after this date. Most of the Company's revenue is comprised of net interest income on loans, leases, investment securities and deposits, and is explicitly out of scope of the new revenue recognition guidance. Management conducted an assessment of the revenue streams that were potentially affected by the new guidance and reviewed contracts in scope to ensure compliance with the new guidance. These contracts included those related to credit and debit card fees, service charges and fees on deposit accounts and trust and investment services fees. The adoption of ASU No. 2014-09 did allow a gain on sale of $392,000 related to the sale of our 417 Browning Way, South San Francisco, CA OREO property. Additional disclosures required by the standard have been included in "Note F. OTHER REAL ESTATE OWNED" to the Company's consolidated financial statements.

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 using an option pricing model that considers 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.

Measurement of the cost of the stock options granted is based on the grant-date fair value of each stock option using the Black-Scholes valuation model. The cost is then amortized over each option's requisite service period. The expected term of options granted is derived from the period of time the options are expected to be outstanding. The risk free rate is based on the yield of an equivalent maturity U.S. Treasury note. Volatility is calculated using historical price changes on a monthly basis over the option's expected life.

The amount of stock option compensation expense recorded in the quarters ended March 31, 2018 and 2017 was $92,000 and $103,000, respectively. There was an income tax benefit recognized in the consolidated statements of earnings for these amounts of $37,000 and $74,000 for the quarters ended March 31, 2018 and 2017, respectively.

The intrinsic value for options exercised during the quarters ended March 31, 2018 and 2017 was $1,530,000 and $495,000, respectively. The intrinsic value of options exercisable during the quarter ended March 31, 2018 and March 31, 2017 was $5,449,000 and $4,927,000, respectively.

The amount of total unrecognized compensation expense related to non-vested options at March 31, 2018 was $837,000 and the weighted average period over which it will be amortized is 3.0 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 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. The earnings per share data for all periods presented have been adjusted for the stock split and the stock dividend. Stock splits are reflected retroactively back to the earliest period presented.

Earnings per share have been computed based on the following:

(Dollar amounts in thousands)	Three months ended March 31, 2018	Three months ended March 31, 2017
Net earnings	$ 4,188	$ 3,089
Average number of shares outstanding	7,463,000	7,300,000
Effect of dilutive options	222,000	218,000
Average number of shares outstanding used to calculate diluted earnings per share	7,685,000	7,518,000

Anti dilutive options that were excluded from the calculation of diluted EPS totaled 0 and 115,000 at March 31, 2018 and 2017, respectively.

NOTE D – SECURITIES AVAILABLE FOR SALE

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2018				
U.S. Treasury securities	$ 1,991	$ —	$ (33)	$ 1,958
Obligations of U.S. government agencies	42,220	—	(714)	41,506
Mortgage-backed securities	119,279	165	(3,087)	116,357
Asset-backed securities	3,513	—	(78)	3,435
Obligations of states and political subdivisions	148,614	869	(1,560)	147,923
Corporate debt	37,307	190	(412)	37,085
	$ 352,924	$ 1,224	$ (5,884)	$ 348,264
December 31, 2017				
U.S. Treasury securities	$ 1,989	$ —	$ (14)	$ 1,975
Obligations of U.S. government agencies	42,247	10	(434)	41,823
Mortgage-backed securities	121,087	421	(1,716)	119,792
Asset-backed securities	3,734	—	(48)	3,686
Obligations of states and political subdivisions	150,724	1,325	(946)	151,103
Corporate debt	37,409	199	(130)	37,478
	$ 357,190	$ 1,955	$ (3,288)	$ 355,857

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of March 31, 2018 and December 31, 2017, respectively, is as follows:

(Dollar amounts in thousands)	Total Fair Value	Less than 12 Months Unrealized Losses	Total Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2018						
U.S. Treasury securities	$ 1,958	$ (33)	$ —	$ —	$ 1,958	$ (33)
Obligations of U.S. government agencies	23,179	(375)	17,338	(339)	40,517	(714)
Mortgage-backed securities	67,371	(1,235)	36,297	(1,852)	103,668	(3,087)
Obligations of states and political subdivisions	3,435	(78)	—	—	3,435	(78)
Corporate debt	68,461	(942)	15,075	(618)	83,536	(1,560)
Total	23,381	(378)	1,965	(34)	25,346	(412)
	$ 187,785	$ (3,041)	$ 70,675	$ (2,843)	$ 258,460	$ (5,884)

(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, 2017						
U.S. Treasury securities	$ 1,975	$ (14)	$ —	$ —	$ 1,975	$ (14)
Obligations of U.S. government agencies	22,364	(195)	16,461	(239)	38,825	(434)
Mortgage-backed securities	46,515	(424)	38,003	(1,292)	84,518	(1,716)
Asset-backed securities	3,685	(48)	—	—	3,685	(48)
Obligations of states and political subdivisions	46,919	(460)	15,243	(486)	62,162	(946)
Corporate debt	13,255	(112)	1,982	(18)	15,237	(130)
Total	$ 134,713	$ (1,253)	$ 71,689	$ (2,035)	$ 206,402	$ (3,288)

At March 31, 2018, there were 66 securities in an unrealized loss position for greater than 12 consecutive months. At the same time, there were 186 securities in an unrealized loss position for twelve or less than twelve consecutive months. At December 31, 2017, there were 65 securities in an unrealized loss position for greater than 12 consecutive months, and there were 135 securities in an unrealized loss position for less than 12 consecutive months. Management periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. The unrealized losses are due solely to interest rate changes and the Company does not intend to sell nor expects it will be required to sell investment securities identified with impairments prior to the earliest of forecasted recovery or the maturity of the underlying investment security. Management has determined that no investment security was other-than-temporarily impaired at March 31, 2018.

The amortized cost and carrying value of available-for-sale debt securities as of March 31, 2018 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.

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 18,885	$ 18,850
Due after one through five years	187,944	186,100
Due after five years through ten years	97,260	96,031
Due after ten years	48,835	47,283
	$ 352,924	$ 348,264

For the three months ended March 31, 2018 and March 31, 2017, respectively, gross realized gains amounted to $0 and $28,000, on gross securities sold or called of $0 and $10,781,000, respectively.

At March 31, 2018, securities with an amortized cost of $130,725,000 and fair value of $128,213,000 were pledged as collateral for public deposits and for other purposes required by law.

NOTE E - LOANS

Loans are summarized as follows at March 31, 2018 and December 31, 2017:

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance March 31, 2018
Commercial real estate	$ 397,331	$ 56,669	$ —	$ 454,000
Real estate construction	36,775	—	—	36,775
Real estate multi-family	95,297	10,483	—	105,780
Real estate 1 to 4 family	165,163	10,493	—	175,656
Commercial & industrial	47,903	3,617	—	51,520
Consumer loans	17,993	—	—	17,993
Gross loans	760,462	81,262	—	841,724
Net deferred loan fees	(489)	—	—	(489)
Allowance for loan losses	(10,186)	—	—	(10,186)
Net loans	$ 749,787	$ 81,262	$ —	$ 831,049

Note: PNCI means Purchased, Not Credit Impaired. PCI means Purchased, Credit Impaired. These designations are assigned to the purchased loans on their date of purchase. Once the loan designation has been made, each loan will retain its designation for the life of the loan.

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance December 31, 2017
Commercial real estate	$ 401,157	$ 55,835	$ —	$ 456,992
Real estate construction	35,206	—	—	35,206
Real estate multi-family	91,642	13,496	—	105,138
Real estate 1 to 4 family	160,425	13,051	—	173,476
Commercial & industrial	52,270	3,457	—	55,727
Consumer loans	14,057	—	—	14,057
Gross loans	754,757	85,839	—	840,596
Net deferred loan fees	(659)	—	—	(659)
Allowance for loan losses	(10,171)	—	—	(10,171)
Net loans	$ 743,927	$ 85,839	$ —	$ 829,766

Note: PNCI means Purchased, Not Credit Impaired. PCI means Purchased, Credit Impaired. These designations are assigned to the purchased loans on their date of purchase. Once the loan designation has been made, each loan will retain its designation for the life of the loan.

(Dollar amounts in thousands)	Recorded Investment in Loans at March 31, 2018						
	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 454,000	$ 36,775	$105,780	$175,656	$ 51,520	$ 17,993	$841,724
Ending balance: individually evaluated for impairment	$ 4,631	$ 791	$ 2,348	$ 2,413	$ 841	$ —	$ 11,024
Ending balance: collectively evaluated for impairment	$ 449,369	$ 35,984	$103,432	$173,243	$ 50,679	$ 17,993	$830,700

(Dollar amounts in thousands)	Recorded Investment in Loans at December 31, 2017						
	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 456,992	$ 35,206	$105,138	$173,476	$ 55,727	$ 14,057	$840,596
Ending balance: individually evaluated for impairment	$ 6,530	$ 814	$ —	$ 2,750	$ 860	$ —	$ 10,954
Ending balance: collectively evaluated for impairment	$ 450,462	$ 34,392	$105,138	$170,726	$ 54,867	$ 14,057	$829,642

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
	Recorded Investment in Loans at March 31, 2017						
Loans:							
Ending balance	$ 431,295	$ 49,490	$112,911	$169,373	$ 49,277	$ 6,065	$818,411
Ending balance: individually evaluated for impairment	$ 10,390	$ 831	$ —	$ 4,391	$ 971	$ —	$ 16,583
Ending balance: collectively evaluated for impairment	$ 420,905	$ 48,659	$112,911	$164,982	$ 48,306	$ 6,065	$801,828

The following tables provide information pertaining to impaired loans originated and PNCI loans as of and for the three months ended March 31, 2018, the year ended December 31, 2017 and the three months ended March 31, 2017, respectively

	Impaired Loans As of and for the three months ended March 31, 2018				
(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 3,491	$ 3,499	$ —	$ 3,501	$ 42
Real estate construction	791	992	—	797	16
Real estate multi-family	2,348	2,348	—	2,348	—
Commercial and industrial	114	114	—	114	2
Total	6,744	6,953	—	6,760	60
With an allowance recorded					
Commercial real estate	$ 1,140	$ 1,140	$ 62	$ 1,142	$ 19
Real estate 1 to 4 family	2,413	2,413	320	2,415	23
Commercial and industrial	727	727	84	740	1
Total	4,280	4,280	466	4,297	43
Total					
Commercial real estate	$ 4,631	$ 4,639	$ 62	$ 4,643	$ 61
Real estate construction	791	992	—	797	16
Real estate multi-family	2,348	2,348	—	2,348	—
Real estate 1 to 4 family	2,413	2,413	320	2,415	23
Commercial and industrial	841	841	84	854	3
Grand total	$ 11,024	$ 11,233	$ 466	$ 11,057	$ 103

(Dollar amounts in thousands)	Impaired Loans As of and for the year ended December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 5,785	$ 5,785	$ —	$ 8,317	$ 212
Real estate construction	—	—	—	520	22
Real estate multi-family	—	—	—	764	12
Real estate 1 to 4 family	464	464	—	561	21
Commercial and industrial	115	115	—	117	7
Total	6,364	6,364	—	10,279	274
With an allowance recorded					
Commercial real estate	$ 745	$ 745	$ 15	$ 2,294	$ 72
Real estate construction	814	814	4	556	52
Real estate 1 to 4 family	2,286	2,286	318	1,503	69
Commercial and industrial	745	745	72	841	—
Total	4,590	4,590	409	5,194	193
Total					
Commercial real estate	$ 6,530	$ 6,530	$ 15	$ 10,611	$ 284
Real estate construction	814	814	4	1,076	74
Real estate multi-family	—	—	—	764	12
Real estate 1 to 4 family	2,750	2,750	318	2,064	90
Commercial and industrial	860	860	72	958	7
Grand total	$ 10,954	$ 10,954	$ 409	$ 15,473	$ 467

(Dollar amounts in thousands)	Impaired Loans As of and for three months ended March 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 8,900	$ 10,023	$ —	$ 8,923	$ 32
Real estate construction	831	1,022	—	837	9
Real estate 1 to 4 family	1,547	1,547	—	1,551	21
Commercial and industrial	119	119	—	119	2
Total	11,397	12,711	—	11,430	64
With an allowance recorded					
Commercial real estate	$ 1,490	$ 1,490	$ 39	$ 1,498	$ 20
Residential- 1 to 4 family	2,844	2,869	434	2,848	28
Commercial and industrial	852	852	84	879	—
Total	5,186	5,211	557	5,225	48
Total					
Commercial real estate	$ 10,390	$ 11,513	$ 39	$ 10,421	$ 52
Real estate construction	831	1,022	—	837	9
Real estate 1 to 4 family	4,391	4,416	434	4,399	49
Commercial and industrial	971	971	84	998	2
Grand total	$ 16,583	$ 17,922	$ 557	$ 16,655	$ 112

Interest income on impaired loans of $103,000 and $374,000 was recognized for cash payments received during the quarter ended March 31, 2018 and the year ended December 31, 2017, respectively. Interest income on impaired loans recognized for cash payments received for the three months ended March 31, 2017 was $112,000.

The amount of interest on impaired loans not collected for the quarter ended March 31, 2018 was $114,000, and the quarter ended March 31, 2017 was $225,000. The cumulative amount of unpaid interest on impaired loans was $572,000 and $825,000 as of March 31, 2018 and March 31, 2017, respectively.

Nonaccrual loans totaled $3,774,000 and $1,940,000 as of March 31, 2018 and December 31, 2017. Impaired loans not on nonaccrual are loans that have been restructured and are performing under modified loan agreements, and where principal and interest is determined to be collectible. Nonaccrual loans are loans where principal and interest have not been determined to be fully collectible.

(Dollar amounts in thousands)	Loans on Nonaccrual Status as of March 31, 2018	Loans on Nonaccrual Status as of December 31, 2017
Commercial real estate	$ 565	$ 731
Real estate multi-family	2,348	—
Real estate 1 to 4 family	135	464
Commercial & industrial	726	745
Total	$ 3,774	$ 1,940

Troubled Debt Restructurings

(Dollars in thousands)	Total troubled debt restructured loans outstanding at March 31, 2018			December 31, 2017		
	Accrual status	Non-accrual status	Total modifications	Accrual status	Non-accrual status	Total modifications
Commercial real estate	$ 4,066	$ —	$ 4,066	$ 3,451	$ 646	$ 4,097
Real estate 1 to 4 family	2,279	—	2,279	2,286	464	2,750
Commercial & industrial	114	693	807	115	746	861
Total	$ 6,459	$ 693	$ 7,152	$ 5,852	$ 1,856	$ 7,708

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.

There were no commitments for additional funding of troubled debt restructured loans as of March 31, 2018. There were no payment defaults during the three months ended March 31, 2018 or March 31, 2017 that were related to receivables modified as TDRs in the last twelve months.

As of March 31, 2018, there were no loans modified within the previous 12 months and for which there was a payment default during the period. All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted.

	As of and For the Three Months Ended March 31, 2018						
(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	$ 5,495	$ 388	$ 1,496	$ 2,008	$ 440	$ 344	$ 10,171
Charge-offs	—	—	—	(3)	—	—	(3)
Recoveries	2	—	—	12	4	—	18
Provision for (recovery of) loan losses	—	—	—	—	—	—	—
Ending balance	$ 5,497	$ 388	$ 1,496	$ 2,017	$ 444	$ 344	$ 10,186
Ending balance: individually evaluated for impairment	$ 62	$ —	$ —	$ 320	$ 84	$ —	$ 466
Ending balance: collectively evaluated for	$ 5,435	$ 388	$ 1,496	$ 1,697	$ 360	$ 344	$ 9,720

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi-Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
	As of and For the Twelve Months Ended December 31, 2017						
Allowance for credit losses							
Beginning balance	$ 6,392	$ 617	$ 389	$ 2,082	$ 650	$ 37	$ 10,167
Charge-offs	(91)	—	—	—	(39)	(8)	(138)
Recoveries	8	—	—	175	319	—	502
(Recovery of) / provision for loan losses	(814)	(229)	1,107	(249)	(490)	315	(360)
Ending balance	$ 5,495	$ 388	$ 1,496	$ 2,008	$ 440	$ 344	$ 10,171
Ending balance: individually evaluated for impairment	$ 15	$ 4	$ —	$ 318	$ 72	$ —	$ 409
Ending balance: collectively evaluated for	$ 5,480	$ 384	$ 1,496	$ 1,690	$ 368	$ 344	$ 9,762

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
	As of and For the Three Months Ended March 31, 2017						
Allowance for credit losses							
Beginning balance	$ 6,392	$ 617	$ 389	$ 2,082	$ 650	$ 37	$ 10,167
Charge-offs	—	—	—	—	(39)	(1)	(40)
Recoveries	2	—	—	8	7	—	17
Provision for (recovery of) loan losses	249	10	(143)	(266)	36	114	—
Ending balance	$ 6,643	$ 627	$ 246	$ 1,824	$ 654	$ 150	$ 10,144
Ending balance: individually evaluated for impairment	$ 39	$ —	$ —	$ 434	$ 84	$ —	$ 557
Ending balance: collectively evaluated for	$ 6,604	$ 627	$ 246	$ 1,390	$ 570	$ 150	$ 9,587

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 weaknesses that could jeopardize the repayment of the debt. For example, a) cash flow deficiency, which may jeopardize future payments; b) sale of non-collateral assets has become primary source of repayment; c) the borrower is bankrupt; or d) for any other reason, future repayment is dependent on court action.

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

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

Commercial real estate loans consist of loans secured by non-farm, non-residential properties, including, but not limited to industrial, hotel, assisted care, retail, office and mixed use buildings. Our commercial real estate loans are made primarily to investors or small businesses where our primary source of repayment is from cash flows generated by the properties, either through rent collection or business profits. The borrower's promissory notes are secured with recorded liens on the underlying property. The borrowers would normally also be required to personally guarantee repayment of the loan. The Bank uses conservative underwriting standards in reviewing applications for credit. Generally, our borrowers have multiple sources of income, so if cash flow generated from the property declines, at least in the short term, the borrowers can normally cover these short term cash flow deficiencies from their available cash reserves. Risk of loss to the Bank is increased when there are cash flow decreases sufficiently large and for such a prolonged period of time that loan payments can no longer be made by the borrowers.

Real Estate Construction Loans

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

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 March 31, 2018

(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	$ 1,150	$ 611	$ —	$ 1,761	$ 395,570	$ 397,331
Real estate construction	—	—	—	—	36,775	36,775
Real estate multi family	—	—	2,348	2,348	92,949	95,297
Real estate-1 to 4 family	1,971	443	135	2,549	162,614	165,163
Commercial & industrial	1,117	—	693	1,810	46,093	47,903
Consumer	102	—	—	102	17,891	17,993
Total	$ 4,340	$ 1,054	$ 3,176	$ 8,570	$ 751,892	$ 760,462
Purchased						
Not credit impaired						
Commercial real estate	$ —	$ —	$ 484	$ 484	$ 56,185	$ 56,669
Real estate multi-family	—	—	—	—	10,483	10,483
Real estate-1 to 4 family	—	736	—	736	9,757	10,493
Commercial & industrial	—	—	—	—	3,617	3,617
Total	$ —	$ 736	$ 484	$ 1,220	$ 80,042	$ 81,262
Purchased						
Credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —

At March 31, 2018, there were no loans that were 90 days or more past due where interest was still accruing.

The over 90 days column includes nonaccruals that were over 90 days but does not include loans that are in nonaccrual status for reasons other than past due.

Age Analysis of Past Due Loans
As of December 31, 2017

(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	$ 989	$ 597	$ —	$ 1,586	$ 399,571	$ 401,157
Real estate construction	—	—	—	—	35,206	35,206
Real estate multi family	—	2,348	—	2,348	89,294	91,642
Real estate-1 to 4 family	1,603	1,082	464	3,149	157,276	160,425
Commercial & industrial	69	250	745	1,064	51,206	52,270
Consumer	52	—	—	52	14,005	14,057
Total	$ 2,713	$ 4,277	$ 1,209	$ 8,199	$ 746,558	$ 754,757
Purchased						
Not credit impaired						
Commercial real estate	$ —	$ 85	$ —	$ 85	$ 55,750	$ 55,835
Real estate multi-family	—	—	—	—	13,496	13,496
Real estate-1 to 4 family	—	—	—	—	13,051	13,051
Commercial & industrial	—	—	—	—	3,457	3,457
Total	$ —	$ 85	$ —	$ 85	$ 85,754	$ 85,839
Purchased						
Credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —

At December 31, 2017, there were no loans that were 90 days or more past due where interest was still accruing.

The over 90 days column includes nonaccrual loans that were over 90 days but does not include loans that are in nonaccrual status for reasons other than past due.

	Credit Quality Indicators As of March 31, 2018				
(Dollar amounts in thousands)					
Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$ 395,216	$ —	$ 2,082	$ 33	$ 397,331
Real estate construction	35,984	—	791	—	36,775
Real estate multi-family	92,949	—	2,348	—	95,297
Real estate-1 to 4 family	165,029	—	134	—	165,163
Commercial & industrial	46,844	771	288	—	47,903
Consumer loans	17,993	—	—	—	17,993
Totals	$ 754,015	$ 771	$ 5,643	$ 33	$ 760,462
Purchased					
Not credit impaired					
Commercial real estate	$ 56,104	$ —	$ 565	$ —	$ 56,669
Real estate multi-family	10,483	—	—	—	10,483
Real estate-1 to 4 family	10,493	—	—	—	10,493
Commercial & industrial	3,617	—	—	—	3,617
Total	$ 80,697	$ —	$ 565	$ —	$ 81,262
Purchased					
Credit impaired					
Commercial real estate					$ —
Total					$ —

(Dollar amounts in thousands)	Credit Quality Indicators As of December 31, 2017				
Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$ 397,311	$ —	$ 3,846	$ —	$ 401,157
Real estate construction	34,392	—	814	—	35,206
Real estate multi-family	91,642	—	—	—	91,642
Real estate-1 to 4 family	159,881	—	544	—	160,425
Commercial & industrial	51,968	—	302	—	52,270
Consumer loans	14,057	—	—	—	14,057
Totals	$ 749,251	$ —	$ 5,506	$ —	$ 754,757
Purchased					
Not credit impaired					
Commercial real estate	$ 53,656	$ 873	$ 1,306	$ —	$ 55,835
Real estate multi-family	13,496	—	—	—	13,496
Real estate-1 to 4 family	13,051	—	—	—	13,051
Commercial & industrial	3,457	—	—	—	3,457
Total	$ 83,660	$ 873	$ 1,306	$ —	$ 85,839
Purchased					
Credit impaired					
Commercial real estate					$ —
Total					$ —

NOTE F – OTHER REAL ESTATE OWNED

A summary of the activity in the balance of other real estate owned for the time periods noted is as follows:

(Dollar amounts in thousands)	Three Months Ended March 31, 2018	Twelve Months Ended December 31, 2017	Three Months Ended March 31, 2017
Beginning foreclosed asset balance, net	$ 3,300	$ 1,427	$ 1,026
Additions / transfers from loans	—	1,817	—
Capitalized expenditures	1,121	56	417
Disposition/sales	(2,604)	—	—
Ending foreclosed asset balance, net	$ 1,817	$ 3,300	$ 1,443
Ending number of foreclosed properties	1	2	1
Net gain on sale of foreclosed properties	$ 392	$ —	$ —
Loans to facilitate sale of OREO	$ 1,200	$ —	$ —

At December 31, 2017, there were two properties reported in other real estate owned. The first property was a commercial building located at 416 Browning Way, South San Francisco, California that had a net book balance of $1,483,000 and $1,427,000 as of December 31, 2017 and 2016, respectively. This commercial property has soil and water contamination issues related to the property's use by previous owners. Remediation efforts to date include, but are not limited to, removal of contaminated soil around the building down to the water table, water detoxification treatments, drilling of water monitoring wells, obtaining air samples inside the building, and engaging in ongoing discussions with the San Francisco Bay Regional Water Quality Control Board (the "Water Board") with the stated objective of obtaining a final approved remediation plan. The Bank has engaged a soil engineering and consulting company consultant to provide cost estimates related to the final clean-up costs that are expected to be incurred as part of any final remediation plan that would be acceptable to the Water Board. Those costs, along with reimbursable costs incurred by the Water Board, are expected to total approximately $725,000, but could vary depending on the extent of final remediation requirements and the time required to complete them. The Bank developed this cost estimate based on advice from its soil engineering expert and consulting company and over six years of coordinated remediation efforts with the Water Board. During the first quarter of 2018, the Bank sold this property and received $675,000 in proceeds from the $2,604,000 sale and recorded a pretax gain on sale of $392,000. The Bank provided a loan to facilitate this sale at prevailing market rates. The second property is an elderly care facility located in Lafayette, California that was acquired in November 2017 and has a net book balance of $1,817,000. As of March 31, 2018, this is the Bank's only remaining OREO property.

NOTE G - BORROWINGS

Federal Home Loan Bank advances

	As of March 31, 2018			As of December 31, 2017		
(Dollar amounts in thousands)	Maturity Date	Interest Rate	Amount Outstanding	Maturity Date	Interest Rate	Amount Outstanding
FHLB Term Advance	04/02/18	1.69%	$ 20,000	01/02/18	1.35%	$ 15,000
FHLB Term Advance	04/05/18	1.68%	25,000	01/04/18	1.39%	10,000
FHLB Term Advance	04/12/18	1.72%	10,000	01/22/18	1.49%	10,000
FHLB Term Advance	04/26/18	1.87%	25,000	01/29/18	1.49%	20,000
FHLB Term Advance	05/01/18	1.79%	20,000	01/29/18	1.49%	20,000
Totals			$ 100,000			$ 75,000

At March 31, 2018, the Bank had a maximum borrowing capacity under Federal Home Loan Bank advances of $519,932,000 of which $419,932,000 was available. The Federal Home Loan Bank advances are secured by a blanket collateral agreement pledge of FHLB stock and certain other qualifying collateral, such as commercial and mortgage loans. Interest rates are at the prevailing rate when advances are made.

Environmental Remediation Liability

The Bank has engaged a soil engineering and consulting company consultant to provide cost estimates related to the final clean-up costs that are expected to be incurred by the Company as part of any final remediation plan that would be acceptable to the Water Board related to the Company's ownership in the Browning Way, South San Francisco property. Those costs, along with reimbursable costs incurred by the Water Board, are expected to total approximately $725,000, but could vary depending on the extent of final remediation requirements and the time required to complete them. As of March 31, 2018, the environmental remediation liability remained at $725,000.

Corporate loan

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 H – FAIR VALUE MEASUREMENT

The following table presents information about the Company's assets and liabilities measured at fair value as of March 31, 2018 and December 31, 2017, and indicates the fair value techniques used by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Transfers between levels of the fair value hierarchy and recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Company's quarterly valuation process. During the first three months of 2018 and 2017 there were no transfers of assets or liabilities between hierarchy levels. In accordance with the prospective adoption of ASU No. 2016-01, the fair value of loan as of March 31, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

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

(Dollar amounts in thousands)		Fair Value Measurements at March 31, 2018, Using		
Description	Fair Value 3/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$ 1,958	$ 1,958	$ —	$ —
Obligations of U.S. Government agencies	41,506	—	41,506	—
Mortgage-backed securities	116,357	—	116,357	—
Asset-backed securities	3,435	—	3,435	—
Obligations of states and political subdivisions	147,923	—	147,923	—
Corprate Debt	37,085	—	37,085	—
Total assets measured at fair value	$ 348,264	$ 1,958	$ 346,306	$ —

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2017, Using		
Description	Fair Value 12/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$ 1,975	$ 1,975	$ —	$ —
Obligations of U.S. Government agencies	41,823	—	41,823	—
Mortgage-backed securities	119,792	—	119,792	—
Asset-backed securities	3,686	—	3,686	—
Obligations of states and political subdivisions	151,103	—	151,103	—
Corporate debt	37,478	—	37,478	—
Total assets measured at fair value	$ 355,857	$ 1,975	$ 353,882	$ —

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.

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

(Dollar amounts in thousands)

Description	Fair Value 3/31/2018	Fair Value Measurements at March 31, 2018, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate loans	$ 4,631	$ —	$ —	$ 4,631
Real estate construction	791	—	—	791
Real estate multi-family	2,348	—	—	2,348
Real estate 1 to 4 family	2,413	—	—	2,413
Commercial and industrial loans	841	—	—	841
Other real estate owned	1,817	—	—	1,817
Total impaired assets measured at fair value	$ 12,841	$ —	$ —	$ 12,841

(Dollar amounts in thousands)

Description	Fair Value 12/31/2017	Fair Value Measurements at December 31, 2017, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate loans	$ 745	$ —	$ —	$ 745
Real estate construction	814	—	—	814
Real estate 1 to 4 family	2,286	—	—	2,286
Commercial and industrial loans	745	—	—	745
Other real estate owned	3,300	—	—	3,300
Total impaired assets measured at fair value	$ 7,890	$ —	$ —	$ 7,890

The Bank does not record loans at fair value. However, from time to time, if a loan is considered impaired, a specific allocation within the allowance for loan losses may be required. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and cash flows. Those impaired loans not requiring an allowance represent loans for which the value of the expected repayments or collateral exceed the recorded investments in such loans.

Impaired loans where an allowance is established based on the fair value of collateral or when the impaired loan has been written down to fair value require classification in the fair value hierarchy. If the fair value of the collateral is based on a non-observable market price or a current appraised value, the Bank records the impaired loans as nonrecurring Level 3. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank also records the impaired loans as nonrecurring Level 3.

Other real estate owned is carried at the lower of historical cost or fair value less costs to sell. An appraisal (a Level 3 valuation) is obtained at the time the Bank acquires property through the foreclosure process. Any loan balance outstanding that exceeds the appraised value of the property is charged off against the allowance for loan loss at the time the property is acquired. Subsequent to acquisition, the Bank updates the property's appraised value on at least an annual basis. If the value of the property has declined during the year, a loss due to valuation impairment charge is recorded along with a corresponding reduction in the book carrying value of the property. Historical costs of other real estate owned were below fair value estimates at March 31, 2018 and December 31, 2017.

The Bank 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 generated by market transactions involving identical or comparable (that is, similar) assets, liabilities, or a group of assets and liabilities, such as a business. Adjustments are then made based on the type of property, age of appraisal, current status of property and other related factors to estimate the current value of collateral. 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.

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

The following table provides summary information on the estimated fair value of financial instruments at March 31, 2018:

(Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 5,733	$ 5,733	$ 5,733	$ —	$ —
Interest-bearing time deposits with financial institutions	15,630	15,630	—	15,630	—
Securities available for sale	348,264	348,264	1,958	346,306	—
Loans	831,049	822,398	—	—	822,398
Other equity securities	7,567	7,567	—	—	7,567
Accrued interest receivable	4,914	4,914	4,914	—	—
Financial liabilities:					
Deposits	1,018,453	859,015	730,523	128,492	—
Federal Home Loan Bank advances	100,000	99,998	—	99,998	—
Note payable	3,600	—	—	—	—
Accrued interest payable	641	641	641	—	—
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,935	—	—	—

The carrying amount of loans include $3,774,000 of nonaccrual loans (loans that are not accruing interest) as of March 31, 2018. 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, 2017:

December 31, 2017 (Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 5,585	$ 5,585	$ 5,585	$ —	$ —
Interest-bearing deposits with financial institutions	12,898	12,898	—	12,898	—
Securities available for sale	355,857	355,857	1,975	350,196	—
Loans	829,766	811,382	—	—	811,382
Other equity securities	7,567	7,567	—	—	7,567
Accrued interest receivable	5,317	5,317	5,317	—	—
Financial liabilities:					
Deposits	1,050,295	1,050,858	912,211	138,647	—
Federal Home Loan Bank advances	75,000	75,000	—	75,000	—
Note payable	3,750	3,750	—	3,750	—
Accrued interest payable	510	510	510	—	—
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,884	—	—	1,884

The carrying amounts of loans include $1,940,000 of nonaccrual loans (loans that are not accruing interest) as of December 31, 2017. 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 I – REVENUE FROM CONTRACTS WITH CUSTOMERS

As noted in Note A, the Company adopted the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* on January 1, 2018. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605.

Revenue Recognition

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Disaggregation of Revenue

The following table summarizes the Company's revenues, which includes net interest income on financial instruments and noninterest income, disaggregated by type of service and business segments for the three months ended March 31, 2018:

(dollars in thousands)

Service charges on deposit accounts	$ 323
Other service charges and fees	206
Not in scope of Topic 606 (1)	113
Total noninterest income	$ 842

(1) Most of the Company's revenue is not within the scope of ASU No. 2014-09, *Revenue from Contracts with Customers.* The guidance explicitly excludes net interest income from financial assets and liabilities as well as other noninterest income from loans, leases, investment securities and derivative financial instruments.

For the three months ended March 31, 2018, substantially all of the Company’s revenues under the scope of Topic 606 were related to performance obligations satisfied at a point in time.

The following is a discussion of revenues within the scope of Topic 606.

Service Charges on Deposit Accounts

Service charges on deposit accounts relate to fees generated from a variety of deposit products and services rendered to customers. Charges include, but are not limited to, overdraft fees, non-sufficient fund fees, dormant fees and monthly service charges. Such fees are recognized concurrent with the event on a daily basis or on a monthly basis depending upon the customer’s cycle date.

Credit and Debit Card Fees

Credit and debit card fees primarily represent revenues earned from interchange fees, ATM fees and merchant processing fees. Interchange and network revenues are earned on credit and debit card transactions conducted with payment networks. ATM fees are primarily earned as a result of surcharges assessed to non-Bank customers who use a Bank ATM. Merchant processing fees are primarily earned on processing merchant credit card transactions. Such fees are generally recognized concurrently with the delivery of services on a daily basis.

Other Fees

Other fees primarily include revenues generated from wire transfers, lockboxes and bank issuance of checks. Such fees are recognized concurrent with the event on a daily basis.

Contract Balances

A contract liability is an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. As of March 31, 2018 and December 31, 2017, the Company had no contract liabilities outstanding.

A contract asset is the right to consideration for transferred goods or services when the amount is conditioned on something other than the passage of time. As of March 31, 2018 and December 31, 2017, there were no receivables from contracts with customers or contract assets recorded on the Company’s consolidated balance sheets.

Other

The Company did not have any significant performance obligations as of March 31, 2018. The Company also did not have any material contract acquisition costs or use any significant judgments or estimates in recognizing revenue for financial reporting purposes.

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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to its loans and allowance for loan losses. The Company bases its estimates on current market conditions, historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. The Company believes the following critical accounting policy requires significant judgments and estimates used in the preparation of the consolidated financial statements.

Allowance for Loan Losses

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

Goodwill

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

Other Than Temporary Impairment

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

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

Provision for and Deferred Income Taxes

The Company is subject to income tax laws of the United States, its states, and the municipalities in which it operates. The Company considers its income tax provision methodology to be critical, as the determination of current and deferred taxes based on complex analyses of many factors including interpretation of federal and state laws, the difference between tax and financial reporting bases of assets and liabilities (temporary differences), estimates of amounts due or owed, the timing of reversals of temporary differences and current financial standards. Actual results could differ significantly from the estimates due to tax law interpretations used in determining the current and deferred income tax liabilities. Additionally, there can be no assurances that estimates, and interpretations used in determining income tax liabilities may not be challenged by federal and state tax authorities.

Recent Accounting Pronouncements

In January 2017, FASB issued ASU 2017-01, *Business Combinations, (Topic 805) Clarifying the Definition of a Business.* The amendments are intended to provide guidance to companies in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The Company adopted ASU 2017-01 effective January 1, 2018 and there was no resulting material impact.

In February 2016 FASB issued ASU 2016-02*, Leases (Topic 842).* The FASB is issuing this Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Although an estimate of the impact on the new leasing standard has not yet been determined, the Company expects a significant new lease asset and related liability to be recorded on the consolidated balance sheet due to the number of branch facilities that are subject to a formal Lease agreement.

In June 2016 FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326). Measurement of Credit Losses. The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In January 2017, FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topc350). Simplifying the Test for Goodwill Impairment.* To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value, at the impairment testing date, of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This Update also includes amendments to the Overview and Background Sections of the Codification (as discussed in Part II of the amendments) as part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics. This ASU is effective for fiscal years beginning after December 15, 2019. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20). Premium Amortization on Purchased Callable Debt Securities.* This Update was issued in order to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. This amendment does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Before this update was issued, previous generally accepted accounting principles (GAAP) allowed purchased premiums to be amortized as an adjustment of yield over the contractual life of the instrument. Stakeholders raised concerns that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. Additionally, stakeholders told the Board that there is diversity in practice (1) in the amortization period for premiums of callable debt securities and (2) in how the potential for exercise of a call is factored into current impairment assessments. Stakeholders noted that generally, in the United States, callable debt securities are quoted, priced, and traded assuming a model that incorporates consideration of calls (also referred to as "yield-to-worst" pricing). For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In July, 2017, FASB issued ASU 2017-11, *Earnings Per Share (Topic 260);Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815); (Part I) Accounting for Certain Financial Instruments with Down Round Features, (PartII) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* This update was issued in order to provide additional clarity related to accounting for certain financial instruments that have characteristics of both liabilities and equity. In particular, this update addresses freestanding and embedded financial instruments with down round features and whether they should be treated as a liability or equity instrument. Part II of the Update addresses the accounting and disclosure requirements of mandatorily redeemable financial instruments. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* This Update was issued in order to improve the financial reporting of hedging relationships and to portray the economic results of an entity's risk management activities in a manner that is easier to understand. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

Effective January 1, 2018, we adopted new revenue recognition guidance issued by the FASB related to contracts with customers. Management has reviewed all our contracts with our customers and has determined that this new revenue recognition standard did not have a material impact on the Company's consolidated financial statements.

In February 2018, FASB issued 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*. The Update was issued in order to allow a reclassification from accumulated other comprehensive income to retained earnings in order to eliminate the "stranded" tax effects resulting from the federal income tax rate reduction contained in the Tax Cuts and Jobs Act that was signed into law on December 22, 2017. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires the effect of a change in tax law or rates to be included in income from continuing operations is not affected. For all business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption for public business entities for which financial statements have not yet been issued is allowed. The adoption of this Update is expected to result in a reduction in retained earnings of approximately $165,000. This standard was not early adopted by the Company.

Earnings Analysis

Net interest income on a tax equivalent basis for the quarter ended March 31, 2018 was $11,568,000 compared to $11,441,000 for the quarter ended March 31, 2017. Yields on interest earning assets declined 2 basis points in the quarter ended March 31, 2018 when compared to the same quarter in 2017. Net interest income is the primary determinant in our ability to generate sustainable earnings.

The following table presents an analysis of net interest income on a tax equivalent basis and average earning assets and liabilities for the three-month period ended March 31, 2018 compared to the three-month period ended March 31, 2017.

TABLE 1

NET INTEREST INCOME AND AVERAGE BALANCES
FNB BANCORP AND SUBSIDIARY
Three months ended March 31,

	2018			2017		
(Dollar amounts in thousands)	Average Balance	Interest	Annualized Average Yield	Average Balance	Interest	Annualized Average Yield
INTEREST EARNING ASSETS						
Loans, gross (1) (2)	$ 836,165	$ 10,399	5.04%	$ 807,741	10,073	5.06%
Taxable securities	221,387	1,364	2.50%	219,857	1,210	2.23%
Nontaxable securities (3)	130,045	872	2.72%	135,706	982	2.93%
Interest on deposits in other financial institutions	26,536	72	1.10%	5,114	11	0.87%
Total interest earning assets	1,214,133	12,707	4.24%	1,168,418	12,276	4.26%
Cash and due from banks	6,252			15,275		
Premises	9,275			9,720		
Other assets	40,915			39,865		
Total noninterest earning assets	56,442			64,860		
TOTAL ASSETS	$ 1,270,575			$ 1,233,278		
Demand, int bearing	130,927	37	0.11%	123,675	28	0.09%
Money market	360,353	340	0.38%	400,081	389	0.39%
Savings	88,574	23	0.11%	89,149	22	0.10%
Time deposits	135,962	337	1.01%	114,577	197	0.70%
FHLB advances	90,104	349	1.57%	89,344	146	0.66%
Note payable	3,675	53	5.85%	5,732	53	3.75%
Total interest bearing liabilities	809,595	1,139	0.57%	822,558	835	0.41%
NONINTEREST BEARING LIABILITIES:						
Demand deposits	326,346			285,583		
Other liabilities	16,477			15,211		
Total noninterest bearing liabilities	342,823			300,794		
TOTAL LIABILITIES	1,152,418			1,123,352		
Stockholders' equity	118,157			109,926		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,270,575			$ 1,233,278		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 11,568	3.86%		$ 11,441	3.97%

1) Interest on non-accrual loans is recognized into income on a cash received basis if the loan has demonstrated performance and full collection is considered probable.
2) Amounts of interest earned included loan fees of $384,000 and $389,000 for the quarters ended March 31, 2018 and 2017, respectively.
3) Tax equivalent adjustments recorded at the statutory rate of 21% for the three months ended March 31, 2018 and 34% for the three months ended March 31, 2017 that are included in the nontaxable securities portfolio are $146,000 and $249,000 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.

The Net Interest Income and Average Balances table, above, shows the various components that contributed to changes in net interest income for the three months ended March 31, 2018 and 2017. The principal interest earning assets are loans, from a volume as well as from an earnings rate perspective. Yields on loans have decreased during the first quarter of 2018 due to a reduction in interest rates on new loan production compared to the yield on loan maturities and principal repayments.

For the quarter ended March 31, 2018 and 2017, average gross loans outstanding represented 69% of average earning assets.

Interest earning assets consist primarily of loans that are originated by or purchased by the Bank and investment securities that are purchased from broker dealers. An investment in loans is the Bank's most valuable earning asset. Deposit liabilities are obtained through the Bank's branch offices. Demand deposits are the Bank's most profitable deposit account.

Table 2

FNB BANCORP AND SUBSIDIARY
RATE/VOLUME VARIANCE ANALYSIS
Three months ended March 31,
2018 compared to 2017

		Variance Attributable to	
(Dollar amounts in thousands)	Interest Income/Expense	Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ 326	$ (29)	$ 355
Taxable securities	154	146	8
Nontaxable securities	(110)	(69)	(41)
Interest on deposits with other financial institutions	61	15	46
Total	431	63	368
INTEREST BEARING LIABILITIES			
NOW accounts	9	7	2
Money market	(49)	(10)	(39)
Savings deposits	1	1	—
Time deposits	140	104	36
FHLB advances	203	202	1
Note payable	—	19	(19)
Total	304	323	(19)
NET INTEREST INCOME	$ 127	$ (260)	$ 387

Noninterest income

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

TABLE 3 NONINTEREST INCOME

(Dollar amounts in thousands)

	Three months ended March 31,		Variance	
	2018	2017	Amount	Percent
Service charges	$ 529	$ 597	$ (68)	-11.4%
Gain on available-for-sale securities	—	28	(28)	-100.0%
Bank owned life insurance policy earnings	99	102	(3)	-2.9%
Other income	214	283	(69)	-24.4%
Total noninterest income	$ 842	$ 1,010	$ (168)	-16.6%

Noninterest income consists mainly of service charges on deposits and earnings on bank owned life insurance policies. During the first quarter of 2018, the Bank did not sell any investment securities. During the first quarter of 2017, the Bank sold $11,266,000 in investment securities for a pre-tax gain of $28,000.

Noninterest expense

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

TABLE 4 NONINTEREST EXPENSE

(Dollar amounts in thousands)

	Three months ended March 31,		Variance	
	2018	2017	Amount	Percent
Salaries and employee benefits	$ 4,121	4,774	(653)	-13.7%
Occupancy expense	657	651	6	0.9%
Equipment expense	523	402	121	30.1%
Professional fees	203	473	(270)	-57.1%
FDIC assessment	90	130	(40)	-30.8%
Telephone, postage & supplies	314	297	17	5.7%
Advertising expense	100	108	(8)	-7.4%
Data processing expense	143	139	4	2.9%
Low income housing expense	129	105	24	22.9%
Surety insurance	89	84	5	6.0%
Directors expense	72	72	—	0.0%
Gain on sale of OREO property	(392)	—	(392)	-100.0%
Other real estate owned expense, net	59	10	49	490.0%
Other expense	313	360	(47)	-13.1%
Total noninterest expense	$ 6,421	$ 7,605	$ (1,184)	-15.6%

Decreased salary and employee benefits expenses in the first quarter of 2018 were primarily the result of having all salary continuation agreements fully accrued for as of December 31, 2017 and a reduction in full time equivalent employees on a year over year basis. During the three months ended December 31, 2018 and 2017, the Bank recognized $0 and $460,000, respectively in compensation expense related to the salary continuation agreements.

The gain on sale of OREO property of $392,000 was related to the sale of the Bank's Browning Way property in South San Francisco. During 2017, the Company entered into a purchase and sale contract to sell the Company's OREO property located at 416 Browning Way, South San Francisco, California. This property was acquired by the Company through foreclosure on July 12, 2011 and contained soil and ground water contamination in and around the property. The sale closed escrow on February 22, 2018 and the contract sales price of $2.8 million consisted of a down payment by the buyer of $1,600,000 as well as the Company providing the buyer a $1.2 million 15 year fully amortized loan at an interest rate of 4.25% fixed. (See also Part 1 Financial Information Note F).

The purchase and sale contract required the Company to transfer title of the property to the buyer, and the buyer obtained all rights and responsibilities of ownership of the property including the right to the lease revenue generated by the tenant that currently leases the building. The Company retained the obligation to continue working with the Water Board to obtain and complete a final remediation plan for the property. Included in the sale agreement is the requirement that the Company set aside $500,000 in the form of a good faith deposit that is to be used to fund the ongoing remediation efforts. If the Company spends more than $500,000, the Company is required to fund certain remediation costs beyond the initial $500,000 good faith deposit. Those costs along with reimbursable costs incurred by the Water Board are currently estimated to be approximately $725,000 by the Company's soil engineering and consulting company consultant but could vary in the future depending on the extent of final remediation requirements and the time required to complete them.

Provision for Loan Losses

There was no provision for loan losses for the three-month periods ended March 31, 2018 and 2017, respectively. The allowance for loan losses was $10,186,000 or 1.21% of total gross loans at March 31, 2018, compared to $10,171,000 or 1.21% of total gross loans at December 31, 2017. During the first quarter of 2018, $3,000 in loans were charged off, compared to $40,000 in the same period in 2017. The overall quality of the remaining portfolio did not warrant a larger provision for loan losses during the quarter. The allowance for loan losses is maintained at a level considered adequate for management to provide for probable loan losses inherent in the loan portfolio.

Income Taxes

The effective tax rate for the quarter ended March 31, 2018 was 28.3% compared to 32.8% for the quarter ended March 31, 2017. Tax preference items which otherwise lowered our effective tax rate below full statutory rates during the first quarter of 2018 and 2017 included non-taxable interest income derived from municipal loans and investment securities and available Low Income Housing tax credits. On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act of 2017 (the "Act"), which reduced the federal income tax rate from 35% to 21% beginning in 2018.

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.

To ensure that sufficient funds are available for loan growth and deposit withdrawals, as well as to provide for general needs, the Company must maintain an adequate level of liquidity. Asset liquidity comes from the Company's ability to convert short-term investments into cash and from the maturity and repayment of loans and investment securities. Liability liquidity comes from the Company's customer base, which provides core deposit growth. The overall liquidity position of the Company is closely monitored and evaluated regularly. Management believes the Company's liquidity sources at March 31, 2018, are adequate to meet its operating needs in 2018 and our liquidity positions are sufficient to meet our liquidity needs in the near term.

Financial Condition

Assets. Total assets decreased to $1,259,966 at March 31, 2018 from $1,265,238 at December 31, 2017, a decrease of $5,272,000. The principal source of this decrease was a $31,842,000 decrease in our deposit base that was partially offset by a $25,000,000 increase in our Federal Home Loan Bank short term borrowings.

Loans. The loan portfolio breakdown as of March 31, 2018 and December 31, 2017 was as follows:

TABLE 5 LOAN PORTFOLIO

(Dollar amounts in thousands)	March 31 2018	Percent	December 31 2017	Percent
Commercial real estate	$ 454,000	54%	$ 456,992	54%
Real estate construction	36,775	4%	35,206	4%
Real estate multi family	105,780	13%	105,138	13%
Real estate 1 to 4 family	175,656	21%	173,476	21%
Commercial & industrial	51,520	6%	55,727	7%
Consumer loans	17,993	2%	14,057	2%
Gross loans	841,724	100%	840,596	100%
Net deferred loan fees	(489)	0%	(1,076)	0%
Total	$ 841,235	100%	$ 839,520	100%

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

A summary of transactions in the allowance for loan losses for the three months ended March 31, 2018, and March 31, 2017, respectively is as follows:

TABLE 6 ALLOWANCE FOR LOAN LOSSES

(Dollar amounts in thousands)	Three months ended March 31, 2018	Three months ended March 31, 2017
Balance, beginning of period	$ 10,171	$ 10,167
Provision for loan losses	—	—
Recoveries	18	17
Amounts charged off	(3)	(40)
Balance, end of period	$ 10,186	$ 10,144

During the first quarter of 2018 and 2017 there was no provision for loan losses recorded. The provision level was considered appropriate in both periods given the declining risk levels within the Bank's loan portfolio during 2017 and 2018.

In management's judgment, the allowance is adequate to absorb probable losses currently inherent in the loan portfolio at March 31, 2018. 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 several factors and does not necessarily move in tandem with the level of gross loans outstanding. Management continues to monitor the factors that affect the allowance and is prepared to make adjustments as they become necessary.

Nonperforming assets. Nonperforming assets consist of nonaccrual loans, loans that are 90 days or more past due but are still accruing interest and other real estate owned. At March 31, 2018, there was $5,591,000 in nonperforming assets, compared to $5,240,000 at December 31, 2017. Nonaccrual loans were $3,774,000 at March 31, 2018, compared to $1,940,000 at December 31, 2017. There were no loans past due 90 days and still accruing at either date.

There was $1,817,000 in other real estate owned at March 31, 2018, and $3,300,000 at December 31, 2017. Management intends to aggressively market our other real estate owned. While management believes these properties will sell, there can be no assurance that these properties will sell quickly given the current real estate market, nor can the expected sales price be accurately predicted. The Company's Browning Way property was sold during the first quarter of 2018. (See Part 1 Financial Information Note F).

Deposits. Total deposits at March 31, 2018, were $1,018,453 compared to $1,050,295 on December 31, 2017. Of these totals, noninterest-bearing demand deposits were $333,681,000 or 33% of the total on March 31, 2018, and $313,435,000 or 30% on December 31, 2017. Time deposits were $129,675,000 on March 31, 2018, and $138,084,000 on December 31, 2017.

The following table sets forth the maturity schedule of the time certificates of deposit on March 31, 2018:

TABLE 7

(Dollar amounts in thousands) Maturities	Under $250,000	$250,000 or more	Total
Three months or less	$ 16,516	$ 27,094	$ 43,610
Over three through six months	11,538	5,558	17,096
Over six through twelve months	22,404	14,240	36,644
Over twelve months	22,066	10,259	32,325
Total	$ 72,524	$ 57,151	$ 129,675

Regulatory Capital. The following table shows the risk-based capital ratios and leverage ratios at March 31, 2018 and December 31, 2017 for the Company and the Bank:

TABLE 8

Dollar amounts in thousands	At March 31, 2018			Required for Capital Adequacy Purposes Effective January 1, 2018		To be Well-Capitalized Under Prompt Corrective Action Regulation	
Regulatory Capital Ratios	Amount	Ratio		Amount	Ratio	Amount	Ratio
Leverage Ratio (1)							
Company	$ 118,829	9.37%	≥	50,728	4.00%(2)	N/A	N/A
Bank	120,496	9.50%	≥	50,728	4.00%(2)	63,410	5.00%
Tier 1 Common Equity Capital Ratio							
Company	118,829	11.90%	≥	63,659	6.375%(2)	N/A	N/A
Bank	120,496	12.07%	≥	64,907	6.375%(2)	64,907	6.50%
Tier 1 Capital Ratio							
Company	118,829	11.90%	≥	78,637	7.875%(2)	N/A	N/A
Bank	120,496	12.07%	≥	78,637	7.875%(2)	79,886	8.00%
Total Capital Ratio							
Company	129,191	12.94%	≥	98,609	9.875%(2)	N/A	N/A
Bank	130,858	13.10%	≥	98,609	9.875%(2)	99,857	10.00%

(1) The leverage ratio consists of Tier 1 Capital divided by the most recent quarterly average total assets, excluding certain intangible assets.
(2) Includes 1.875% capital conservation buffer.

Dollar amounts in thousands	At December 31, 2017			Required for Capital Adequacy Purposes Effective January 1, 2018		To be Well-Capitalized Under Prompt Corrective Action Regulation	
Regulatory Capital Ratios	Amount	Ratio		Amount	Ratio	Amount	Ratio
Leverage Ratio (1)							
Company	$ 115,364	9.09%	≥	$ 50,768	4.00%	N/A	N/A
Bank	117,180	9.23%	≥	50,768	4.00%	63,460	5.00%
Tier 1 Common Equity Capital Ratio							
Company	115,364	11.57%	≥	57,342	5.750%(2)	N/A	N/A
Bank	117,180	11.75%	≥	57,342	5.750%(2)	64,822	6.50%
Tier 1 Capital Ratio							
Company	115,364	11.57%	≥	72,301	7.250%(2)	N/A	N/A
Bank	117,180	11.75%	≥	72,301	7.250%(2)	79,781	8.00%
Total Capital Ratio							
Company	125,712	12.61%	≥	92,246	9.250%(2)	N/A	N/A
Bank	127,528	12.79%	≥	92,246	9.250%(2)	99,726	10.00%

(1) The leverage ratio consists of Tier 1 Capital divided by the most recent quarterly average total assets, excluding certain intangible assets.
(2) Includes 1.25% capital conservation buffer.

Liquidity. Liquidity is a measure of the Company's ability to convert assets into cash with minimal loss. As of March 31, 2018, liquid assets totaled $369,627,000 or 29% of total assets. As of December 31, 2017, liquid assets were $374,340 or 30% of total assets. Liquidity consists of cash and due from banks, 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 March 31, 2018, and December 31, 2017, respectively, net loans were at 82% and 79% of deposits. See the consolidated statements of Cash Flows under Item 1 for further information on the Company's 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 March 31, 2018, and December 31, 2017, 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 $193,460,000 and $194,237,000 at March 31, 2018 and December 31, 2017, respectively. As a percentage of net loans, these off-balance sheet items represent 23% and 23% 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.

(a) *Disclosure Controls and Procedures.* The Company conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act of 1934 (the "Act") as of the end of the Company's fiscal quarter ended March 31, 2018. This evaluation 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 and accounting officer) and other members of the Company's senior management. The Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting 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 required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management of FNB Bancorp (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, and for reporting an assessment of the effectiveness of the internal control over financial reporting as of March 31, 2018. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparations 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.

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, 2017 Form 10K.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was signed into law. The purpose of this legislation was to bring about regulatory changes and oversight that would help stop past abuses from recurring in the future. This legislation gives new powers to the FDIC and the Federal Reserve Bank that they may use in the execution of their duties as regulators and overseers of the banking industry. It also created a new federal consumer protection agency named the Consumer Financial Protection Bureau ("CFPB"). All existing consumer laws and regulations will be transferred to the CFPB. This Act is expected to enable regulators to issue numerous new banking regulations and requirements that have not yet been fully developed or promulgated. The ultimate effect the Act has on the Company's operations will ultimately be determined by the significance of the new banking regulations that are issued as a result of the Act.

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

c) ISSUER PURCHASES OF EQUITY SECURITIES

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Item 6. Exhibits

Exhibits

31.1: Rule 13a-14(a)/15d-14(a) Certifications
31.2: Rule 13a-14(a)/15d-14(a) Certifications
32: Section 1350 Certifications

SIGNATURES

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

FNB BANCORP
(Registrant)

Dated:

May 9, 2018.

By: /s/ Thomas C. McGraw
Thomas C. McGraw
Chief Executive Officer
(Authorized Officer)
(Principal Executive Officer)

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

Exhibit 31.1

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

I, Thomas C. McGraw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FNB Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2018.

/s/ Thomas C. McGraw
Thomas C. McGraw
Chief Executive Officer

Exhibit 31.2

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

I, David A. Curtis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FNB Bancorp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial instruments for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2018.

/s/ David A. Curtis
David A. Curtis
Senior Vice President and Chief Financial Officer

Exhibit 32

Section 1350 Certifications

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of FNB Bancorp, a California corporation (the "Company"), does hereby certify that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. Information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2018.	/s/ Thomas C. McGraw
	Thomas C. McGraw Chief Executive Officer
Dated: May 9, 2018.	/s/ David A. Curtis
	David A. Curtis Senior Vice President and Chief Financial Officer

A signed original of this statement required by Section 906 has been provided to FNB Bancorp and will be retained by FNB Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.