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 September 30, 2017

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 September 30, 2017: 7,403,276 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)	September 30, 2017	December 31, 2016
Cash and due from banks	$ 23,714	$ 15,758
Interest-bearing time deposits with financial institutions	230	205
Securities available-for-sale, at fair value	360,301	360,105
Other equity securities	7,567	7,206
Loans, net of allowance for loan losses of $10,250 and $10,167 on September 30, 2017 and December 31, 2016	829,100	782,485
Bank premises, equipment, and leasehold improvements, net	9,417	9,837
Bank owned life insurance, net	16,540	16,247
Accrued interest receivable	4,804	4,942
Other real estate owned, net	1,471	1,427
Goodwill	4,580	4,580
Prepaid expenses	469	856
Other assets	16,421	15,746
Total assets	$ 1,274,614	$ 1,219,394

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Demand, noninterest bearing	$ 309,753	$ 296,273
Demand, interest bearing	122,353	121,086
Savings and money market	482,335	487,763
Time	130,630	114,384
Total deposits	1,045,071	1,019,506
Federal Home Loan Bank advances	85,000	71,000
Note payable	3,900	4,350
Accrued expenses and other liabilities	19,447	14,224
Total liabilities	1,153,418	1,109,080
Stockholders' equity		
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 7,403,276 shares at September 30, 2017 and 7,280,122 shares at December 31, 2016	85,309	84,283
Retained earnings	34,655	27,577
Accumulated other comprehensive earnings (loss), net of tax	1,232	(1,546)
Total stockholders' equity	121,196	110,314
Total liabilities and stockholders' equity	$ 1,274,614	$ 1,219,394

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)
(Dollar amounts and average shares are in thousands, except earnings per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	$ 10,646	$ 9,301	$ 31,089	$ 28,735
Interest and dividends on taxable securities	1,363	1,065	3,840	3,044
Interest and dividends on tax-exempt securities	722	750	2,177	2,187
Interest on deposits with other financial institutions	54	6	84	37
Total interest income	12,785	11,122	37,190	34,003
Interest expense:				
Interest on deposits	737	657	2,050	2,149
Interest on FHLB advances	241	10	601	19
Interest on note payable	54	54	162	167
Total interest expense	1,032	721	2,813	2,335
Net interest income	11,753	10,401	34,377	31,668
(Recovery of) provision for loan losses	—	—	(140)	150
Net interest income after (recovery of) provision for loan losses	11,753	10,401	34,517	31,518
Noninterest income:				
Service charges	571	623	1,732	1,862
Gain on sale of available-for-sale securities	59	140	210	381
Earnings on Bank owned life insurance	102	95	293	300
Other income	240	244	759	729
Total noninterest income	972	1,102	2,994	3,272
Noninterest expense:				
Salaries and employee benefits	4,824	4,821	14,460	14,635
Occupancy expense	704	645	2,062	1,893
Equipment expense	436	445	1,244	1,317
Professional fees	340	298	1,221	979
FDIC assessment	90	150	310	450
Telephone, postage and supplies	321	300	943	901
Advertising expense	127	104	342	404
Data processing expense	145	147	428	479
Low income housing expense	122	71	350	213
Surety insurance expense	89	88	262	262
Directors expense	72	72	216	216
Other real estate owned - expense (recovery), net	—	—	17	(10)
Other expense	378	372	1,076	1,210
Total noninterest expense	7,648	7,513	22,931	22,949
Earnings before provision for income tax expense	5,077	3,990	14,580	11,841
Provision for income tax expense	1,766	1,546	4,829	4,382
Net earnings	$ 3,311	$ 2,444	$ 9,751	$ 7,459
Earnings per share data:				
Basic	$ 0.45	$ 0.34	$ 1.33	$ 1.03
Diluted	$ 0.43	$ 0.33	$ 1.29	$ 1.01
Weighted average shares outstanding:				
Basic	7,375	7,264	7,344	7,217
Diluted	7,619	7,429	7,579	7,403

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(UNAUDITED)

(Dollar amounts in thousands)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net earnings	$ 3,311	$ 2,444	$ 9,751	$ 7,459
Unrealized holding gain on available-for-sale securities, net of tax expense of $3 and $1,218 for the three and nine months ended September 30, 2017, and net of tax expense of $399 and $2,251 for the three and nine months ended September 30, 2016, respectively	4	574	2,900	3,240
Reclassification adjustment for gains on available-for-sale securities sold, net of tax of $25 and $88 for three and nine months ended September 30, 2017, and $57 and $156 for three and nine months ended September 30, 2016, respectively	(34)	(83)	(122)	(225)
Other comprehensive (loss) earnings	(30)	491	2,778	3,015
Total comprehensive earnings	$ 3,281	$ 2,935	$ 12,529	$ 10,474

See accompanying notes to consolidated financial statements.

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

(Dollar amounts in thousands)	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flow from operating activities:		
Net earnings	$ 9,751	$ 7,459
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,960	2,872
Gain on sale of securities available-for-sale	(210)	(381)
Stock-based compensation expense	311	227
Earnings on bank owned life insurance	(293)	(300)
(Recovery of) provision for loan losses	(140)	150
Excess tax benefit from stock option exercises	(290)	—
(Decrease) increase in net deferred loan fees	(486)	254
Decrease (increase) in accrued interest receivable	138	(33)
Decrease in prepaid expense	387	327
(Increase) decrease in other assets	(385)	658
Increase in accrued expenses and other liabilities	3,257	967
Net cash provided by operating activities	15,000	12,200
Cash flows from investing activities		
Purchase of securities available-for-sale	(58,935)	(79,862)
Proceeds from matured/called/sold securities available-for-sale	61,460	53,606
Increased investment in other equity securities	(361)	(458)
(Maturities) investment in time deposits with financial institutions	(25)	1
Net investment in other real estate owned	(44)	(320)
Net increase in loans	(45,989)	(19,064)
Purchases of bank premises, equipment, leasehold improvements	(307)	(512)
Net cash used in investing activities	(44,201)	(46,609)

See accompanying notes to consolidated financial statements.

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

(Dollar amounts in thousands)	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from financing activities		
Net increase in demand and savings deposits	9,319	29,202
Net increase (decrease) in time deposits	16,246	(8,934)
Increase in FHLB advances	14,000	20,000
Principal reduction on note payable	(450)	(450)
Cash dividends paid on common stock	(2,673)	(1,414)
Proceeds from exercise of stock options	715	1,033
Net cash provided by financing activities	37,157	39,437
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,956	5,028
Cash and cash equivalents at beginning of period	15,758	12,314
Cash and cash equivalents at end of period	$ 23,714	$ 17,342
Additional cash flow information:		
Interest paid	$ 2,592	$ 2,284
Income taxes paid	$ 5,365	$ 4,215
Non-cash investing and financing activities:		
Accrued dividends	$ 959	$ 738
Change in fair value of available-for-sale securities, net of tax effect	$ 2,778	$ 3,015

See accompanying notes to consolidated financial statements.

NOTE A – BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in annual financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto for the year ended December 31, 2016. 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.

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 for stock options outstanding in the quarters ended September 30, 2017 and 2016 was $105,000 and $70,000, respectively. The amount of compensation expense recorded for the nine months ended September 30, 2017 and 2016 was $311,000 and $227,000, respectively.

The intrinsic value for options exercised during the nine months ended September 30, 2017 was $2,693,000. The intrinsic value of options exercisable as of September 30, 2017 was $5,899,911. The intrinsic value for options exercised during the nine months ended September 30, 2016 was $1,151,000. The intrinsic value of options exercisable at September 30, 2016 was $3,994,000. There were no options granted during the nine months ended September 30, 2017 and 2016, respectively.

The amount of total unrecognized compensation expense related to non-vested options at September 30, 2017 was $1,076,000, and the weighted average period over which it will be amortized is 3.3 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. A 5% stock dividend became effective during December, 2016 and a 3 for 2 stock split was completed during the second quarter of 2017. All prior per share amounts have been adjusted to reflect the 2016 5% stock dividend and the 3 for 2 stock split that occurred during 2017.

Earnings per share have been computed based on the following:

	Three months ended September 30,		Nine months ended September 30,	
(All amounts in thousands)	2017	2016	2017	2016
Net earnings	$ 3,311	$ 2,444	$ 9,751	$ 7,459
Average number of shares outstanding	7,375	7,264	7,344	7,217
Effect of dilutive options	244	165	235	186
Average number of shares outstanding used to calculate diluted earnings per share	7,619	7,429	7,579	7,403
Anti-dilutive options not included	—	107	92	110

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
September 30, 2017				
U.S. Treasury securities	$ 1,987	$ 8	$ —	$ 1,995
Obligations of U.S. government agencies	42,279	83	(159)	42,203
Mortgage-backed securities	109,489	687	(1,082)	109,094
Asset-backed securities	3,953	—	(35)	3,918
Obligations of states and political subdivisions	150,440	2,766	(320)	152,886
Corporate debt	50,029	258	(82)	50,205
	$ 358,177	$ 3,802	$ (1,678)	$ 360,301
December 31, 2016				
U.S. Treasury securities	$ 977	$ 10	$ —	$ 987
Obligations of U.S. government agencies	60,773	112	(340)	60,545
Mortgage-backed securities	85,709	397	(1,822)	84,284
Obligations of states and political subdivisions	151,988	1,458	(1,828)	151,618
Corporate debt	63,277	121	(727)	62,671
	$ 362,724	$ 2,098	$ (4,717)	$ 360,105

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of September 30, 2017 and December 31, 2016, 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
September 30, 2017:						
Obligations of U.S. Government agencies	$ 27,149	$ (159)	$ 1,000	$ (1)	$ 28,149	$ (160)
Mortgage-backed securities	37,388	(609)	15,139	(473)	52,527	(1,082)
Asset-backed securities	2,066	(35)	—	—	2,066	(35)
Obligations of states and political subdivisions	12,698	(114)	10,345	(206)	23,043	(320)
Corporate debt	19,635	(68)	2,001	(14)	21,636	(82)
Total	$ 98,936	$ (985)	$ 28,485	$ (694)	$ 127,421	$ (1,679)

(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, 2016:						
Obligations of U.S. Government agencies	36,828	(340)	—	—	36,828	(340)
Mortgage-backed securities	67,990	(1,822)	—	—	67,990	(1,822)
Obligations of states and political subdivisions	84,728	(1,828)	—	—	84,728	(1,828)
Corporate debt	41,012	(727)	—	—	41,012	(727)
Total	$ 230,558	$ (4,717)	$ —	$ —	$ 230,558	$ (4,717)

At September 30, 2017, there were 28 securities in an unrealized loss position for greater than 12 consecutive months. At the same time, there were 83 securities in an unrealized loss position for twelve or less consecutive months. At December 31, 2016, there were no securities in an unrealized loss position for greater than 12 consecutive months, and there were 227 securities in an unrealized loss position for 12 or less 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 September 30, 2017.

The amortized cost and carrying value of available-for-sale debt securities as of September 30, 2017 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2017:

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 15,825	$ 15,871
Due after one through five years	175,745	177,394
Due after five years through ten years	108,224	109,399
Due after ten years	58,383	57,637
	$ 358,177	$ 360,301

For the three months ended September 30, 2017 and 2016, respectively, gross realized gains amounted to $59,000 and $140,000, on gross securities sold or called of $13,478,000 and $14,178,000, respectively. For the nine months ended September 30, 2017 and 2016, respectively, gross realized gains amounted to $210,000 and $381,000, on gross securities sold or called of $24,259,000 and $35,400,000, respectively. For the three and nine months ended September 30, 2017 and 2016, respectively, there were no gross realized losses.

At September 30, 2017, securities with an amortized cost of $117,147,000 and fair value of $117,277,000 were pledged as collateral for public deposits and for other purposes required by law.

NOTE E - LOANS

Loans are summarized at September 30, 2017 and December 31, 2016 as follows:

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance September 30, 2017
Commercial real estate	$ 380,638	$ 62,918	$ —	$ 443,556
Real estate construction	49,374	—	—	49,374
Real estate multi-family	95,875	13,521	—	109,396
Real estate 1 to 4 family	159,356	14,644	—	174,000
Commercial & industrial	47,923	3,904	—	51,827
Consumer	11,193	—	—	11,193
Gross loans	744,359	94,987	—	839,346
Net deferred loan costs	4	—	—	4
Allowance for loan losses	(10,250)	—	—	(10,250)
Net loans	$ 734,113	$ 94,987	$ —	$ 829,100

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, 2016
Commercial real estate	$ 351,261	$ 68,736	$ 1,225	$ 421,222
Real estate construction	43,683	—	—	43,683
Real estate multi-family	90,763	15,200	—	105,963
Real estate 1 to 4 family	153,843	16,680	—	170,523
Commercial & industrial	40,140	8,734	—	48,874
Consumer loans	3,533	—	—	3,533
Gross loans	683,223	109,350	1,225	793,798
Net deferred loan fees	(1,146)	—	—	(1,146)
Allowance for loan losses	(10,167)	—	—	(10,167)
Net loans	$ 671,910	$ 109,350	$ 1,225	$ 782,485

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.

Loan Classifications:

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.

	Recorded Investment in Loans at September 30, 2017						
(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 443,556	$ 49,374	$ 109,396	$ 174,000	$ 51,827	$ 11,193	$ 839,346
Ending balance:							
Individually evaluated for impairment	$ 7,976	$ 816	$ 870	$ 3,079	$ 901	$ —	$ 13,642
Ending balance:							
Collectively evaluated for impairment	$ 435,580	$ 48,558	$ 108,526	$ 170,921	$ 50,926	$ 11,193	$ 825,704

(Dollar amounts in thousands)	Recorded Investment in Loans at December 31, 2016 Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 421,222	$ 43,683	$ 105,963	$ 170,523	$ 48,874	$ 3,533	$ 793,798
Ending balance:							
Individually evaluated for impairment	$ 10,023	$ 843	$ —	$ 3,530	$ 1,065	$ —	$ 15,461
Ending balance:							
Collectively evaluated for impairment	$ 411,199	$ 42,840	$ 105,963	$ 166,993	$ 47,809	$ 3,533	$ 778,337

(Dollar amounts in thousands)	Recorded Investment in Loans at September 30, 2016 Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 404,964	$ 38,163	$ 83,944	$ 173,441	$ 50,871	$ 1,630	$ 753,013
Ending balance:							
Individually evaluated for impairment	$ 10,214	$ 2,072	$ —	$ 3,620	$ 1,236	$ —	$ 17,142
Ending balance:							
Collectively evaluated for impairment	$ 394,750	$ 36,091	$ 83,944	$ 169,821	$ 49,635	$ 1,630	$ 735,871

The following table provides information pertaining to impaired loans originated and PNCI loans for the three months ended September 30, 2017 and 2016, respectively.

	Impaired Loans							
	Three months ended September 30, 2017				Three months ended September 30, 2016			
(All amounts in thousands)	Average Recorded Investment		Income Recognized		Average Recorded Investment		Income Recognized	
With no related allowance recorded:								
Commercial real estate	$	5,277	$	18	$	8,449	$	95
Real estate construction		412		—		2,090		—
Real estate multi-family		870		—		—		—
Residential - 1 to 4 family		231		—		834		—
Commercial & industrial		117		1		316		6
Total		6,907		19		11,689		101
With an allowance recorded:								
Commercial real estate	$	3,279	$	19	$	1,664	$	17
Real estate construction		608		14		—		—
Residential - 1 to 4 family		2,724		18		3,019		13
Commercial & industrial		843		—		1,087		—
Total		7,454		51		5,770		30
Total:								
Commercial real estate	$	8,556	$	37	$	10,113	$	112
Real estate construction		1,020		14		2,090		—
Real estate multi-family		870		—		—		—
Residential - 1 to 4 family		2,955		18		3,853		13
Commercial & industrial		960		1		1,403		6
Grand total		14,361		70		17,459		131

The following tables provide information pertaining to impaired loans originated and PNCI loans as of and for the nine months ended September 30, 2017, the year ended December 31, 2016, and the nine months ended September 30, 2016.

Impaired Loans
As of and for the nine months ended September 30, 2017

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 2,888	$ 2,888	$ —	$ 7,695	$ 57
Real estate construction	—	—	—	833	22
Real estate multi-family	870	870	—	874	12
Residential - 1 to 4 family	462	462	—	776	21
Commercial and industrial	116	116	—	119	4
Total	4,336	4,336	—	10,297	116
With an allowance recorded					
Commercial real estate	$ 5,088	$ 5,341	$ 20	$ 1,489	$ 41
Real estate construction	816	1,012	6	400	24
Residential - 1 to 4 family	2,617	2,617	354	2,835	28
Commercial and industrial	785	785	77	857	—
Total	9,306	9,755	457	5,581	93
Total					
Commercial real estate	$ 7,976	$ 8,229	$ 20	$ 9,184	$ 98
Real estate construction	816	1,012	6	1,233	46
Real estate multi-family	870	870	—	874	12
Residential - 1 to 4 family	3,079	3,079	354	3,611	49
Commercial and industrial	901	901	77	976	4
Grand total	$ 13,642	$ 14,091	$ 457	$ 15,878	$ 209

Impaired Loans
As of and for the year ended December 31, 2016

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 8,516	$ 9,026	$ —	$ 9,730	$ 716
Real estate construction	843	843	—	857	53
Residential- 1 to 4 family	678	678	—	685	—
Commercial and industrial	120	120	—	322	25
Total	10,157	10,667	—	11,594	794
With an allowance recorded					
Commercial real estate	$ 1,507	$ 1,507	$ 50	$ 1,528	$ 89
Residential- 1 to 4 family	2,852	2,852	442	3,202	157
Commercial and industrial	945	945	96	1,240	1
Total	5,304	5,304	588	5,970	247
Total					
Commercial real estate	$ 10,023	$ 10,533	$ 50	$ 11,258	$ 805
Real estate construction	843	843	—	857	53
Residential- 1 to 4 family	3,530	3,530	442	3,887	157
Commercial and industrial	1,065	1,065	96	1,562	26
Grand total	$ 15,461	$ 15,971	$ 588	$ 17,564	$ 1,041

Impaired Loans
As of and for the nine months ended September 30, 2016

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 8,554	$ 9,676	$ —	$ 8,637	$ 520
Real estate construction	2,072	2,259	—	2,118	104
Residential- 1 to 4 family	605	605	—	303	21
Commercial and industrial	116	116	—	320	20
Total	11,347	12,656	—	11,378	665
With an allowance recorded					
Commercial real estate	$ 1,660	$ 1,660	$ 72	$ 1,675	$ 68
Residential- 1 to 4 family	3,015	2,618	453	3,032	80
Commercial and industrial	1,120	1,326	101	1,107	4
Total	5,795	5,604	626	5,814	152
Total					
Commercial real estate	$ 10,214	$ 11,336	$ 72	$ 10,312	$ 588
Real estate construction	2,072	2,259	—	2,118	104
Residential- 1 to 4 family	3,620	3,223	453	3,335	101
Commercial and industrial	1,236	1,442	101	1,427	24
Grand total	$ 17,142	$ 18,260	$ 626	$ 17,192	$ 817

Nonaccrual loans totaled $6,933,000 and $6,647,000 as of September 30, 2017 and December 31, 2016, respectively. 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 September 30, 2017	December 31, 2016
Commercial real estate	$ 5,607	$ 5,553
Real estate 1 to 4 family	541	149
Commercial and industrial	785	945
Total	$ 6,933	$ 6,647

Interest income on impaired loans of $70,000, $279,000 and $1,041,000 was recognized for cash payments received during the three and nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. Interest income on impaired loans recognized for cash payments received for the three and nine months ended September 30, 2016 was $131,000 and $817,000.

The amount of interest on impaired loans not collected for the three and nine months ended September 30, 2017 was $178,000 and $586,000 and for the three and nine months ended September 30, 2016 was $164,000 and $440,000, respectively. The cumulative amount of unpaid interest on impaired loans was $869,000 and $3,973,000 at September 30, 2017 and December 31, 2016. The cumulative amount of unpaid interest on impaired loans as of September 30, 2016 was $3,844,000.

Troubled Debt Restructurings

(dollars in thousands)	Total troubled debt restructured loans outstanding at September 30, 2017			December 31, 2016		
	Accrual status	Non-accrual status	Total modifications	Accrual status	Non-accrual status	Total modifications
Commercial real estate	$ 3,483	$ 4,406	$ 7,889	$ 4,466	$ 4,494	$ 8,960
Real estate 1 to 4 family	2,293	1,331	3,624	3,381	—	3,381
Commercial & industrial	117	785	902	120	902	1,022
Total	$ 5,893	$ 6,522	$ 12,415	$ 7,967	$ 5,396	$ 13,363

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 September 30, 2017. There were no payment defaults during the three and nine month periods ended September 30, 2017 and 2016 that were related to receivables modified as TDRs in the last twelve months. There were no TDRs entered into during the three and nine months ended September 30, 2017 and 2016.

Allowance for Credit Losses
For the Three Months Ended September 30, 2017

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 6,903	$ 538	$ 362	$ 1,536	$ 629	$ 209	$ 10,177
Charge-offs	—	—	—	—	—	—	—
Recoveries	2	—	—	11	60	—	73
Provision	149	75	9	(184)	(140)	91	—
Ending balance	$ 7,054	613	371	1,363	$ 549	$ 300	$ 10,250
Ending balance individually evaluated for impairment	$ 20	$ 6	$ —	$ 354	$ 77	$ —	$ 457
Ending balance: collectively evaluated for impairment	$ 7,034	$ 607	$ 371	$ 1,009	$ 472	$ 300	$ 9,793

Allowance for Credit Losses
For the Nine Months Ended September 30, 2017

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 6,392	$ 617	$ 389	$ 2,082	$ 650	$ 37	$ 10,167
Charge-offs	—	—	—	—	(38)	(1)	(39)
Recoveries	6	—	—	167	89	—	262
Provision	656	(4)	(18)	(886)	(152)	264	(140)
Ending balance	$ 7,054	$ 613	$ 371	$ 1,363	$ 549	$ 300	$ 10,250
Ending balance: individually evaluated for impairment	$ 20	$ 6	$ —	$ 354	$ 77	$ —	$ 457
Ending balance: collectively evaluated for impairment	$ 7,034	$ 607	$ 371	$ 1,009	$ 472	$ 300	$ 9,793

Allowance for Credit Losses
For the Twelve Months Ended December 31, 2016

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 6,059	$ 589	$ 243	$ 2,176	$ 853	$ 50	$ 9,970
Charge-offs	—	—	—	(36)	(164)	(18)	(218)
Recoveries	8	—	—	53	204	—	265
Provision	325	28	146	(111)	(243)	5	150
Ending balance	$ 6,392	617	$ 389	$ 2,082	$ 650	$ 37	$ 10,167
Ending balance: individually evaluated for impairment	$ 50	$ —	$ —	$ 442	$ 96	$ —	$ 588
Ending balance: collectively evaluated for impairment	$ 6,342	$ 617	$ 389	$ 1,640	$ 554	$ 37	$ 9,579

Allowance for Credit Losses
For the Three Months Ended September 30, 2016

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 6,206	$ 404	$ 335	$ 2,261	$ 799	$ 33	$ 10,038
Charge-offs	—	—	—	—	—	(8)	(8)
Recoveries	2	—	—	23	37	—	62
Provision	(63)	138	(3)	(77)	(47)	52	—
Ending balance	$ 6,145	$ 542	$ 332	$ 2,207	$ 789	$ 77	$ 10,092
Ending balance: individually evaluated for impairment	$ 72	$ —	$ —	$ 453	$ 101	$ —	$ 626
Ending balance: collectively evaluated for impairment	$ 6,073	$ 542	$ 332	$ 1,754	$ 688	$ 77	$ 9,466

Allowance for Credit Losses
For the Nine Months Ended September 30, 2016

(Dollar amounts in thousands)	Commercial Real Estate	Real Estate Construction	Real Estate Multi Family	Real Estate 1 to 4 Family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 6,059	$ 589	$ 243	$ 2,176	$ 853	$ 50	$ 9,970
Charge-offs	—	—	—	(12)	(165)	(18)	(195)
Recoveries	6	—	—	42	119	—	167
Provision	80	(46)	89	1	(19)	45	150
Ending balance	$ 6,145	$ 543	$ 332	$ 2,207	$ 788	$ 77	$ 10,092
Ending balance: individually evaluated for impairment	$ 72	$ —	$ —	$ 453	$ 101	$ —	$ 626
Ending balance: collectively evaluated for impairment	$ 6,073	$ 543	$ 332	$ 1,754	$ 687	$ 77	$ 9,466

Age Analysis of Past Due Loans
As of September 30, 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	$ —	$ 401	$ —	$ 401	$ 380,237	$ 380,638
Real estate construction	400	—	—	400	48,974	49,374
Real estate multi family	—	—	870	870	95,005	95,875
Real estate-1 to 4 family	109	—	785	894	158,463	159,357
Commercial and industrial	200	45	785	1,030	46,893	47,923
Consumer	93	—	—	93	11,100	11,193
	$ 802	$ 446	$ 2,440	$ 3,688	$ 740,672	$ 744,360
Purchased						
Not credit impaired						
Commercial real estate	$ —	$ 87	$ 3,757	$ 3,844	$ 59,074	$ 62,918
Real estate multi-family	—	—	—	—	13,521	13,521
Real estate-1 to 4 family	—	—	—	—	14,644	14,644
Commercial and industrial	—	—	—	—	3,903	3,903
Total	$ —	$ 87	$ 3,757	$ 3,844	$ 91,142	$ 94,986

Age Analysis of Past Due Loans
As of December 31, 2016

(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	$ 835	$ 2	$ —	$ 837	$ 350,424	$ 351,261
Real estate construction	645	—	—	645	43,038	43,683
Real estate multi family	—	—	—	—	90,763	90,763
Real estate 1 to 4 family	1,365	61	74	1,500	152,343	153,843
Commercial & industrial	241	—	945	1,186	38,954	40,140
Consumer	—	—	—	—	3,533	3,533
Total	$ 3,086	$ 63	$ 1,019	$ 4,168	$ 679,055	$ 683,223
Purchased						
Not credit impaired						
Commercial real estate	$ 1,869	$ 1,909	$ 550	4,328	$ 64,408	$ 68,736
Real estate multi-family	—	—	—	—	15,200	15,200
Real estate 1 to 4 family	—	—	75	75	16,605	16,680
Commercial & industrial	285	—	—	285	8,449	8,734
Total	$ 2,154	$ 1,909	$ 625	$ 4,688	$ 104,662	$ 109,350
Purchased						
Credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ 1,225	$ 1,225

At September 30, 2017 and December 31, 2016, there were no loans that were 90 days of 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 were in nonaccrual status for reasons other than being past due.

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.

	Credit Quality Indicators As of September 30, 2017				
(Dollar amounts in thousands) Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$ 378,009	$ —	$ 2,629	$ —	$ 380,638
Real estate construction	48,558	—	816	—	49,374
Real estate multi-family	95,875	—	—	—	95,875
Real estate-1 to 4 family	158,816	—	541	—	159,357
Commercial and industrial	47,610	—	313	—	47,923
Consumer loans	11,193	—	—	—	11,193
Totals	$ 740,061	$ —	$ 4,299	$ —	$ 744,360
Purchased					
Not credit impaired					
Commercial real estate	$ 55,762	$ 878	$ 6,278	$ —	$ 62,918
Real estate construction	—	—	—	—	—
Real estate multi-family	13,521	—	—	—	13,521
Real estate-1 to 4 family	14,644	—	—	—	14,644
Commercial and industrial	3,903	—	—	—	3,903
Total	$ 87,830	$ 878	$ 6,278	$ —	$ 94,986
Credit impaired					
Commercial real estate					$ —
Total					$ —

	Credit Quality Indicators As of December 31, 2016				
(Dollar amounts in thousands) Originated	Pass	Special mention	Sub- standard	Doubtful	Total loans
Commercial real estate	$ 348,785	$ 902	$ 1,574	$ —	$ 351,261
Real estate construction	42,840	—	843	—	43,683
Real estate multi-family	90,763	—	—	—	90,763
Real estate 1 to 4 family	153,769	—	74	—	153,843
Commercial & industrial	39,752	—	384	4	40,140
Consumer loans	3,533	—	—	—	3,533
Totals	$ 679,442	$ 902	$ 2,875	$ 4	$ 683,223
Purchased					
Not credit impaired					
Commercial real estate	$ 61,705	$ —	$ 7,031	$ —	$ 68,736
Real estate multi-family	15,200	—	—	—	15,200
Real estate 1 to 4 family	16,605	—	75	—	16,680
Commercial & industrial	8,644	—	90	—	8,734
Total	$ 102,154	$ —	$ 7,196	$ —	$ 109,350
Purchased					
Credit impaired					
Commercial real estate					$ 1,225
Total					$ 1,225

NOTE F - BORROWINGS

Federal Funds Purchased

The Bank had unsecured lines of credit for overnight borrowings totaling $30.0 million with other financial institutions as of September 30, 2017 and December 31, 2016. Federal funds purchased are generally structured to mature the following business day. The Bank is required to have a depository relationship with the financial institutions that have provided the Bank lines of credit as of September 30, 2017 and December 31, 2016. There were no advances outstanding against these lines of credit as of September 30, 2017 or December 31, 2016.

Federal Reserve Bank

The Bank had lines of credit totaling $38,385,000 and $54,000,000 as of September 30, 2017 and December 31, 2016, respectively. Federal Reserve Bank loans generally are structured to mature the following business day. There were no advances outstanding against this line of credit as of September 30, 2017 or December 31, 2016.

Federal Home Loan Bank Borrowings

The bank had lines of credit totaling $495,497,000 and $452,318,000 as of September 30, 2017 and December 31, 2016. Amounts outstanding consist of individual drawdown transactions that have fixed rates of interest and stated maturity dates. There are prepayment penalties that would apply if the borrowings were repaid prior to their maturity date. Federal Home Loan Bank Borrowings outstanding for the periods presented are as follows:

	As of September 30, 2017			As of December 31, 2016		
(Dollar amounts in thousands)	Maturity Date	Interest Rate	Amount Outstanding	Maturity Date	Interest Rate	Amount Outstanding
FHLB Overnight Advance		—	$ —	01/03/17	0.61%	$ 10,000
FHLB Term Advance		—	—	01/05/17	0.55%	7,000
FHLB Term Advance	10/02/17	1.19%	10,000	01/09/17	0.49%	7,000
FHLB Term Advance	10/16/17	1.18%	15,000	01/27/17	0.63%	11,000
FHLB Term Advance	10/27/17	1.19%	20,000	01/30/17	0.63%	6,000
FHLB Term Advance	10/30/17	1.18%	20,000	01/30/17	0.61%	10,000
FHLB Term Advance	11/28/17	1.19%	20,000	02/28/17	0.67%	20,000
Totals			$ 85,000			$ 71,000

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 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 for the loan 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. The balance outstanding under this loan agreement was $3,900,000 as of September 30, 2017. At the maturity date of March 26, 2019, the expected remaining principal amount outstanding of $3,000,000 will become due and payable.

NOTE G – FAIR VALUE MEASUREMENT

The following table presents information about the Company's assets and liabilities measured at fair value as of September 30, 2017 and December 31, 2016, 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 nine months of 2017 and 2016 there were no transfers of assets or liabilities between hierarchy levels.

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

(Dollar amounts in thousands) Description	Fair Value 9/30/2017	Fair Value Measurements at September 30, 2017, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$ 1,995	$ 1,995	$ —	$ —
Obligations of U.S. Government agencies	42,203	—	42,203	—
Mortgage-backed securities	109,094	—	109,094	—
Asset-backed securities	3,918	—	3,918	—
Obligations of states and political subdivisions	152,886	—	152,886	—
Corporate debt	50,205	—	50,205	—
Total assets measured at fair value	$ 360,301	$ 1,995	$ 358,306	$ —

(Dollar amounts in thousands) Description	Fair Value 12/31/2016	Fair Value Measurements at December 31, 2016, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$ 987	$ 987	$ —	$ —
Obligations of U.S. Government agencies	60,545	—	60,545	—
Mortgage-backed securities	84,284	—	84,284	—
Obligations of states and political subdivisions	151,618	—	151,618	—
Corporate debt	62,671	—	62,671	—
Total assets measured at fair value	$ 360,105	$ 987	$ 359,118	$ —

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 9/30/2017	Fair Value Measurements at September 30, 2017, Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired assets:				
Commercial and industrial loans	$ 785	$ —	$ —	$ 785
Real estate multi-family loans	870	—	—	870
Real estate 1 to 4 family loans	462	—	—	462
Other real estate owned	1,459	—	—	1,459
Total impaired assets measured at fair value	$ 3,576	$ —	$ —	$ 3,576

(Dollar amounts in thousands) Description	Fair Value 12/31/2016	Fair Value Measurements at December 31, 2016, Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired assets:				
Commercial and industrial loans	$ 815	$ —	$ —	$ 815
Residential-1 to 4 family loans	67	—	—	67
Other real estate owned	1,427	—	—	1,427
Total impaired assets measured at fair value	$ 2,309	$ —	$ —	$ 2,309

The following table provides summary information on the estimated fair value of financial instruments at September 30, 2017:

(Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 23,714	$ 23,714	$ 23,714		
Interest-bearing time deposits with financial institutions	230	230		$ 230	
Securities available for sale	360,301	360,301	1,995	358,306	
Loans	829,100	814,209			$ 814,209
Other equity securities	7,567	7,567			7,567
Accrued interest receivable	4,804	4,804	4,804		
Financial liabilities:					
Deposits	1,045,071	1,044,523	914,441	130,082	
Federal Home Loan Bank advances	85,000	85,000		85,000	
Note payable	3,900	4,050		4,050	
Accrued interest payable	457	457	457		
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,877			1,877

The carrying amount of loans includes $6,933,000 of nonaccrual loans (loans that are not accruing interest) as of September 30, 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.

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2016:

(Dollar amounts in thousands)	Carrying amount	Fair value	Fair value measurements Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 15,758	$ 15,758	$ 15,758		
Interest-bearing time deposits with financial institutions	205	205		$ 205	
Securities available for sale	360,105	360,105	987	359,118	
Loans	782,485	769,661			$ 769,661
Other equity securities	7,206	7,206			7,206
Accrued interest receivable	4,942	4,942	4,942		
Financial liabilities:					
Deposits	1,019,506	1,020,088	905,122	114,966	
Federal Home Loan Bank advances	71,000	71,000		71,000	
Note payable	4,350	4,350		4,350	
Accrued interest payable	246	246	246		
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,733			1,733

The carrying amounts of loans include $6,647,000 of nonaccrual loans (loans that are not accruing interest) as of December 31, 2016. 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 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 September 30, 2017 and December 31, 2016.

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.

Fair Values of Financial Instruments.

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

Cash and Cash Equivalents, including interest-bearing time deposits with financial institutions.

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

Securities Available-for-Sale.

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

Loans Receivable.

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

Other equity securities.

These are mostly Federal Reserve Bank stock and Federal Home Loan Bank stock, carried in Other Assets. They are not traded, and not available for sale, but rather have a stated value that does not change.

Deposit liabilities.

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

Federal Home Loan Bank Advances.

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

Notes payable.

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

Accrued Interest Receivable and Payable.

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

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

The fair value of these off-balance sheet items are based on the discounted cash flows of expected future loan disbursements.

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.

NOTE H – INVESTMENT IN LOW INCOME HOUSING

The Bank has a cost method net investment in low income housing projects of $1,475,000 and $1,825,000 as of September 30, 2017 and December 31, 2016, respectively. These investments generated federal income tax credits of $65,000 and $196,000 for the three and nine months ended September 30, 2017 and 2016. These low income housing projects provide tax benefits for approximately 15 years. These investments are not expected to have any residual value at the end of the tax benefit period and the book value of these investments is reduced by each project's net operating expense. The net operating expense was $122,000 and $350,000 for the three and nine months ended September 30, 2017 and $71,000 and $213,000 for the three and nine months ended September 30, 2016.

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

Forward-Looking Information and Uncertainties Regarding Future Financial Performance.

This discussion of financial results includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended , (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended, (the "1934 Act"). Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

Our forward looking statements include descriptions of plans or objectives of Management for future operations, products or services, and forecasts of revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "intend," "estimate," or words of similar meaning, or future or conditional verbs preceded by "will," "would," "should," "could," or "may."

Forward-looking statements are based on Management's current expectations regarding economic, legislative, and regulatory issues that may affect our earnings in future periods. A number of factors, many of which are beyond Management's control, could cause future results to vary materially from current Management expectations. Such factors include, but are not limited to, general economic and political considerations, and the economic uncertainty in the United States and abroad, including changes in interest rates, deposit flows, real estate values, and expected future cash flows on loans and securities; integration of acquisitions; competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; adverse weather conditions, including droughts in California; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

Important factors that could cause results or performance to materially differ from those expressed in our prior forward-looking statements are detailed in Item 1A. Risk factors section of our 2016 Form 10-K as filed with the SEC, copies of which are available from us at no charge. Forward-looking statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

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.

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 2016 FASB issued ASU 2016-01, *Financial Instruments-overall (subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. Before the global financial crisis that began in 2008, both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) began a joint project to improve and to achieve convergence of their respective standards on the accounting for financial instruments. The global economic crisis further highlighted the need for improvement in the accounting models for financial instruments in today’s complex economic environment. As a result, the main objective in developing this Update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. For public business entities, the amendments in this Update address certain aspects of recognition measurement. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measuring category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has begun the process to implement this new standard. The Company is currently evaluating the impact of this ASU on the Company’s consolidated financial statements.

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 balance sheet due to the number of branch facilities that are subject to a formal Lease agreement.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606); Principal versus agent considerations (reporting revenue gross versus net*). The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of 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 amendments in this Update do not change the core principle of the guidance. The amendments clarify the implementation guidance on principal versus agent considerations. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. ASU 2016-08 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements. As part of that evaluation, the Company is reviewing all our customer relationships in order to determine whether an agency exists, and if it does, whether the Company needs to change the way we recognize income related to that relationship.

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. As part of that evaluation, the Company has begun to review historical loss experience and credit risk indicators to determine the potential impact this ASU may have on the Company's consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230: Classification of Certain Cash Receipts and Cash Payments.* This ASU update addresses eight cash flow classification issues related to: debt prepayment or debt extinguishment costs; settlement of zero coupon debt instruments; contingent consideration payments made after a business combination; proceeds from the payment of insurance claims; proceeds from the settlement of corporate owned life insurance policies, including bank owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principal. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

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 amendments are effective for annual and interim reporting periods after December 31, 2017. The Company has begun the process to implement this guidance. The guidance, is not, however, expected to have a material impact on the Company's financial statements.

In January 2017, FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323).* This ASU amends the Codification for SEC Staff Announcements made at recent Emerging Issues Task Force (EITF) meetings. The SEC staff expressed their expectations about the extent of disclosures registrant should make about the effects of the new FASB guidance as well as any amendments issued prior to adoption, or revenue (ASU 2014-09), leases (ASU 2016-02) and credit losses on financial instruments (ASU 2106-013). In accordance with SAB Topic M, Registrants are required to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. In cases where a registrant cannot reasonably estimate the impact of the adoption, then additional qualitative disclosures should be considered. The amendments are effective for annual and interim periods after December 31, 2017. The adoption of this ASU in not expected to have a material impact 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 May, 2017, FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718). Scope of Modification Accounting.* This update was issued in order to provide clarity regarding accounting for changes to terms and conditions of share-based payment awards. This amendment requires a company to account for the effects of a share based payment award modification unless (i) the fair value of the modified award is the same as the original award; (ii) the vesting of the modified award is the same as the original award; and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the original award. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. 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.

Earnings Analysis

Net interest income for the three and nine months ended September 30, 2017 was $11,753,000 and $34,377,000, respectively. This compares to $10,401,000 and $31,668,000 for the three and nine months ended September 30, 2016. Yields on interest earning assets increased by 18 and 1 basis points during the three and nine months ended September 30, 2017 when compared to the same time periods in 2016. Net interest income is the primary determinant in our ability to generate sustainable earnings.

The following table presents an analysis of net interest income and average earning assets and liabilities for the three-month period ended September 30, 2017 compared to the three-month period ended September 30, 2016.

TABLE 1

NET INTEREST INCOME AND AVERAGE BALANCES
FNB BANCORP AND SUBSIDIARY

	Three months ended September 30,					
	2017			2016		
(Dollar amounts in thousands)	Average Balance	Interest	Annualized Average Yield	Average Balance	Interest	Annualized Average Yield
INTEREST EARNING ASSETS						
Loans, gross (1) (2)	$ 820,497	$ 10,646	5.15%	$ 740,218	$ 9,301	5.00%
Taxable securities	231,042	1,363	2.34%	209,758	1,065	2.02%
Nontaxable securities (3)	131,213	964	2.91%	141,879	996	2.79%
Interest on deposits in other financial institutions	15,804	54	1.36%	3,494	6	0.68%
Total interest earning assets	1,198,556	13,027	4.31%	1,095,349	11,368	4.13%
Cash and due from banks	14,546			18,115		
Premises	9,375			10,015		
Other assets	42,387			35,650		
Total noninterest earning assets	66,308			63,780		
TOTAL ASSETS	$1,264,864			$1,159,129		
Demand, int bearing	$ 123,099	30	0.10%	$ 111,679	28	0.10%
Money market	400,355	399	0.40%	418,517	370	0.35%
Savings	87,735	23	0.10%	85,553	95	0.44%
Time deposits	127,490	285	0.89%	117,672	164	0.55%
FHLB advances	81,206	241	1.18%	9,953	10	0.40%
Note payable	3,975	54	5.39%	4,425	54	4.85%
Total interest bearing liabilities	823,860	1,032	0.50%	747,799	721	0.38%
NONINTEREST BEARING LIABILITIES:						
Demand deposits	303,427			281,120		
Other liabilities	18,242			17,762		
Total noninterest bearing liabilities	321,669			298,882		
TOTAL LIABILITIES	1,145,529			1,046,681		
Stockholders’ equity	119,334			112,448		
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,264,863			$1,159,129		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 11,995	3.97%		$ 10,647	3.87%

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 $426,000 and $369,000 for the three months ended September 30, 2017 and 2016, respectively.
3) Tax equivalent adjustments recorded at the statutory rate of 35% that are included in the nontaxable securities portfolio are $242,000 and $246,000 for the three months ended September 30, 2017 and 2016, respectively, and were derived from nontaxable municipal interest income.
4) The annualized net interest margin is computed by dividing net interest income by total average interest earning assets and multiplied by an annualization factor.

TABLE 2

NET INTEREST INCOME AND AVERAGE BALANCES
FNB BANCORP AND SUBSIDIARY

(Dollar amounts in thousands)	2017 Average Balance	2017 Interest	2017 Annualized Average Yield	2016 Average Balance	2016 Interest	2016 Annualized Average Yield
	Nine months ended September 30,					
INTEREST EARNING ASSETS						
Loans, gross (1) (2)	$ 819,519	31,089	5.07%	$ 741,180	$ 28,735	5.18%
Taxable securities	223,895	3,840	2.29%	205,935	3,044	1.97%
Nontaxable securities (3)	133,244	2,913	2.92%	134,129	2,909	2.90%
Interest on deposits in other financial institutions	9,607	84	1.17%	8,498	37	0.58%
Tot interest earning assets	1,186,265	37,926	4.27%	1,089,742	34,725	4.26%
Cash and due from banks	14,901			14,928		
Premises	9,533			10,150		
Other assets	40,884			39,069		
Tot noninterest earning assets	65,318			64,147		
TOTAL ASSETS	$1,251,583			$1,153,889		
Demand, int bearing	$ 125,656	87	0.09%	$ 112,793	96	0.11%
Money market	398,267	1,181	0.40%	429,272	1,356	0.42%
Savings	88,518	69	0.10%	83,089	137	0.22%
Time deposits	120,166	713	0.79%	121,796	560	0.61%
FHLB advances	89,253	601	0.90%	5,927	19	0.43%
Note payable	4,125	162	5.25%	4,725	167	4.72%
Tot interest bearing liabilities	825,985	2,813	0.46%	757,602	2,335	0.41%
Demand deposits	293,396			270,221		
Other liabilities	16,723			16,855		
Tot noninterest bearing liabilities	310,119			287,076		
TOTAL LIABILITIES	1,136,104			1,044,678		
Stockholders' equity	115,479			109,211		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,251,583			$1,153,889		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 35,113	3.96%		$ 32,390	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 $1,334,000 and $1,382,000 for the nine months ended September 30, 2017 and 2016, respectively.
3) Tax equivalent adjustments recorded at the statutory rate of 35% that are included in the nontaxable securities portfolio are $736,000 and $722,000 for the nine months ended September 30, 2017 and 2016, respectively, and were derived from nontaxable municipal interest income.
4) The annualized net interest margin is computed by dividing net interest income by total average interest earning assets and multiplied by an annualization factor.

The preceding Net Interest Income and Average Balances tables show the various components that contributed to changes in net interest income for the three and nine months ended September 30, 2017 and 2016. The principal interest earning asset was our loan portfolio, from a volume as well as from an earnings rate perspective. Yields on loans have increased during the three months ended September 30, 2017, due primarily to prepayment penalties realized on loans that were repaid prior to maturity and generally rising market interest rates during the third quarter of 2017. Yields on loans have decreased during the nine months ended September 30, 2017, due primarily to general declines in available loan interest rates in the five to ten year maturity range during 2016 and the first nine months of 2017.

For the three and nine months ended September 30, 2017, average gross loans outstanding represented 68% and 69% of average earning assets. For the same periods ended in 2016, they represented 68% and 68% of average earning assets.

Our growth in deposits during the three and nine months ended September 30, 2017, when compared to the same time periods in 2016, was concentrated in non-interest bearing and interest bearing checking accounts.

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 3

FNB BANCORP AND SUBSIDIARY
RATE/VOLUME VARIANCE ANALYSIS

(Dollar amounts in thousands)	Three months ended September 30, 2017 compared to 2016		
	Interest Income/Expense	Variance Attributable to	
		Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ 1,345	$ 317	$ 1,028
Taxable securities	298	189	$ 109
Nontaxable securities	(32)	41	$ (73)
Interest on deposits with other financial institutions	48	27	21
Total	$ 1,659	$ 574	$ 1,085
INTEREST BEARING LIABILITIES			
NOW accounts	$ 2	$ (1)	$ 3
Money market	29	45	$ (16)
Savings deposits	(72)	(74)	$ 2
Time deposits	121	107	$ 14
FHLB advances	231	160	$ 71
Note payable	—	5	$ (5)
Total	$ 311	$ 242	$ 69
NET INTEREST INCOME	$ 1,348	$ 332	$ 1,219

TABLE 4

FNB BANCORP AND SUBSIDIARY
RATE/VOLUME VARIANCE ANALYSIS

(Dollar amounts in thousands)	Nine months ended September 30, 2017 compared to 2016		
	Interest Income/Expense	Variance Attributable to	
		Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ 2,354	$ (676)	$ 3,030
Taxable securities	796	533	263
Nontaxable securities	4	25	(21)
Interest on time deposits with other financial institutions	47	42	5
Total	$ 3,201	$ (76)	$ 3,277
INTEREST BEARING LIABILITIES			
NOW accounts	$ (9)	$ (20)	$ 11
Money market	(175)	(76)	(99)
Savings deposits	(68)	(77)	9
Time deposits	153	161	(8)
FHLB advances	582	315	267
Note payable	(5)	16	(21)
Total	$ 478	$ 319	$ 159
NET INTEREST INCOME	$ 2,723	$ (395)	$ 3,118

Noninterest income

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

TABLE 5 NONINTEREST INCOME

(Dollar amounts in thousands)	Three months ended September 30, 2017	2016	Variance Amount	Percent
Service charges	$ 571	$ 623	$ (52)	-8.3%
Net gain on sale of available-for-sale securities	59	140	(81)	-57.9%
Bank-owned life insurance policy earnings	102	95	7	7.4%
Other income	240	244	(4)	-1.6%
Total noninterest income	$ 972	$ 1,102	$ (130)	-11.8%

(Dollars in thousands)	Nine months ended September 30, 2017	2016	Variance Amount	Percent
Service charges	$ 1,732	$ 1,862	$ (130)	-7.0%
Net gain on sale of available-for-sale securities	210	381	(171)	-44.9%
Bank-owned life insurance policy earnings	293	300	(7)	-2.3%
Other income	759	729	30	4.1%
Total noninterest income	$ 2,994	$ 3,272	$ (278)	-8.5%

Noninterest income consisted mainly of service charges on deposits and earnings on bank owned life insurance policies. During the three and nine months ended September 30, 2017, the Bank sold approximately $13,478,000 and $39,089,000 in investment securities for a pre-tax gain of $59,000 and $140,000, respectively. During the three and nine months ended September 30, 2016, the Bank sold approximately $14,038,000 and $35,400,000 in investment securities for a pre-tax gain of $140,000 and $381,000, respectively. All the investment securities held by the Bank are classified as available for sale. Investment portfolio purchases and sales are initiated by management as a part of the ongoing process of managing the Company’s liquidity risk, interest rate risk, market risk, and capital adequacy. The decline in the service charge income for the three and nine months ended September 30, 2017 compared to the same period in 2016 is primarily related to a reduction in NSF fees.

Noninterest expense

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

TABLE 6

NONINTEREST EXPENSE

(Dollar amounts in thousands)	Three months ended September 30, 2017	2016	Variance Amount	Percent
Salaries and employee benefits	$ 4,824	$ 4,821	$ 3	0.1%
Occupancy expense	704	645	59	9.1%
Equipment expense	436	445	(9)	-2.0%
Professional fees	340	298	42	14.1%
FDIC assessment	90	150	(60)	-40.0%
Telephone, postage and supplies	321	300	21	7.0%
Advertising expense	127	104	23	22.1%
Data processing expense	145	147	(2)	-1.4%
Low income housing expenses	122	71	51	71.8%
Surety insurance expense	89	88	1	1.1%
Directors expense	72	72	—	n/a
Other expense	378	372	6	1.6%
Total noninterest expense	$ 7,648	$ 7,513	$ 135	1.8%

NONINTEREST EXPENSE

(Dollars in thousands)	Nine months ended September 30, 2017	2016	Variance Amount	Percent
Salaries and employee benefits	$ 14,460	$ 14,635	$ (175)	-1.2%
Occupancy expense	2,062	1,893	169	8.9%
Equipment expense	1,244	1,317	(73)	-5.5%
Professional fees	1,221	979	242	24.7%
FDIC assessment	310	450	(140)	-31.1%
Telephone, postage & supplies	943	901	42	4.7%
Advertising expense	342	404	(62)	-15.3%
Data processing expense	428	479	(51)	-10.6%
Low income housing expense	350	213	137	64.3%
Surety insurance expense	262	262	—	n/a
Directors expense	216	216	—	n/a
Other real estate owned expense (recovery), net	17	(10)	27	-270.0%
Other expense	1,076	1,210	(134)	-11.1%
Total noninterest expense	$ 22,931	$ 22,949	$ (18)	-102.1%

The decrease in salary and employee benefits expenses for the nine months ended September 30, 2017 were the result of open and unfilled positions that existed in 2017. Data processing expense reductions were related to post acquisition data processing consolidation measures that occurred during the three and nine months ended September 30, 2016. The increase in professional fees during 2017 is due primarily to software upgrades and implementation projects and computer network and data security systems improvements. The increase during the three months ended September 30, 2017 and the decline during the nine months ended September 30, 2017 in other expense is primarily related to the variance in Regulation E operating losses pertaining to depository customer card based transactions during these time periods.

Provision for Loan Losses

There was a $0 and $140,000 recovery of loan losses during the three and nine months ended September 30, 2017 and there was a provision for loan losses of $0 and $150,000 for the same time periods in 2016. The allowance for loan losses was $10,250,000 or 1.22% of total gross loans at September 30, 2017, compared to $10,167,000 or 1.28% of total gross loans at December 31, 2016. The overall quality of the loan portfolio improved during the third quarter of 2017, with lower non-accrual and impaired assets which resulted in a $140,000 recovery of loan losses during the first nine months of 2017. 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 three and nine months ended September 30, 2017 was 34.8% and 33.1% compared to 38.8% and 37.0% for the three and six months ended September 30, 2016. Tax preference items which otherwise lowered our effective tax rate below full statutory rates during the three and nine months ended September 30, 2017 and 2016 included non-taxable interest income derived from municipal loans and investment securities and available Low Income Housing tax credits. During 2017, the Bank recognized an income tax benefit of $25,000 and $290,000 for the three and nine months ended September 30, 2017 related to windfall tax benefits derived from employee and director stock option exercises. These 2017 windfall tax benefits were recorded in the income tax provision due to a change in the Financial Accounting Standards Board's accounting treatment of the excess tax benefits related to stock option exercises contained in Accounting Standards Update ("ASU") 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share Based payment Accounting*. Beginning January 1, 2017, all windfall income tax benefits related to stock option exercises are recorded as a reduction in income tax expense in the period in which the tax benefits occurred. Prior to 2017, these windfall income tax benefits were treated as an increase in additional paid in capital in the equity section of the balance sheet.

Asset and Liability Management

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

In order to ensure that sufficient funds are available for loan growth and deposit withdrawals, as well as to provide for general needs, the Company must maintain an adequate level of liquidity. Asset liquidity comes from the Company's ability to convert short-term investments into cash and from the maturity and repayment of loans and investment securities. Liability liquidity comes from the Company's customer base, which provides core deposit growth. The overall liquidity position of the Company is closely monitored and evaluated regularly. Management believes the Company's liquidity sources at September 30, 2017, are adequate to meet its operating needs in 2017 and our liquidity positions are sufficient to meet our liquidity needs in the near term.

Financial Condition

Assets. Total assets increased to $1,274,614,000 at September 30, 2017 from $1,219,394,000 at December 31, 2016, an increase of $55,220,000. The principal source of this increase was a $7,956,000 increase in cash and due from banks and an increase of $46,615,000 in net loans.

Loans. The loan portfolio breakdown as of September 30, 2017 and December 31, 2016 was as follows:

TABLE 7

	LOAN PORTFOLIO			
(Dollar amounts in thousands)	September 30, 2017	Percent	December 31, 2016	Percent
Commercial real estate	$ 443,556	53%	$ 421,222	53%
Real estate construction	49,374	6%	43,683	6%
Real estate multi family	109,396	13%	105,963	13%
Real estate-1 to 4 family	174,000	21%	170,523	22%
Commercial & industrial	51,827	6%	48,874	6%
Consumer loans	11,193	1%	3,533	—
Gross loans	839,346	100%	793,798	100%
Net deferred loan costs (fees)	4	—	(1,146)	—
Total	$ 839,350	100%	$ 792,652	100%

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

A summary of transactions in the allowance for loan losses for the nine months ended September 30, 2017 and 2016, respectively, is as follows:

TABLE 8	ALLOWANCE FOR LOAN LOSSES	
	Nine months ended September 30,	
(Dollar amounts in thousands)	2017	2016
Balance, beginning of period	$ 10,167	$ 9,970
(Recovery of) provision for loan losses	(140)	150
Recoveries	262	167
Amounts charged off	(39)	(195)
Balance, end of period	$ 10,250	$ 10,092

During the three and nine months ended September 30, 2017, there was a $0 and $140,000 recovery of loan losses, respectively. During the same periods in 2016, there was a provision was $0 and $150,000, respectively. The recovery of loan losses during the nine months ended September 30, 2017 was the result of improving credit metrics within the loan portfolio.

In management's judgment, the allowance is adequate to absorb probable losses currently inherent in the loan portfolio at September 30, 2017. However, changes in prevailing economic conditions in the Company's markets or in the financial condition of its customers could result in changes in the level of nonperforming assets and charge-offs in the future and, accordingly, changes in the allowance.

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

Nonperforming assets. Nonperforming assets consist of nonaccrual loans, loans that are 90 days or more past due but are still accruing interest and other real estate owned. At September 30, 2017, there was $8,404,000 in nonperforming assets, compared to $8,074,000 at December 31, 2016. Nonaccrual loans were $6,933,000 at September 30, 2017, compared to $6,647,000 at December 31, 2016. There were no loans past due 90 days and still accruing at either date.

There was one property with a net book balance of $1,471,000 in other real estate owned at September 30, 2017, and $1,427,000 at December 31, 2016. 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.

Deposits. Total deposits at September 30, 2017, were $1,045,071 compared to $1,019,506 on December 31, 2016. Of these totals, noninterest-bearing demand deposits were $309,753,000 or 30% of total deposits on September 30, 2017, and $296,273,000 or 29% on December 31, 2016. Time deposits were $130,630,000 on September 30, 2017, and $114,384,000 on December 31, 2016. Total deposits increased/(decreased) primarily due to normal activities from our individual and business account holders.

The following table sets forth the maturity schedule of the time certificates of deposit on September 30, 2017:

TABLE 9

(Dollar amounts in thousands) Maturities	Under $250,000	$250,000 or more	Total
Three months or less	$ 13,490	$ 21,387	$ 34,877
Over three through six months	12,744	7,883	20,627
Over six through twelve months	18,619	11,650	30,269
Over twelve months	29,012	15,845	44,857
Total	$ 73,865	$ 56,765	$ 130,630

Regulatory Capital. The following table shows the risk-based capital ratios and leverage ratios at September 30, 2017 and December 31, 2016 for the Company and the Bank:

TABLE 10

	At September 30, 2017			Transitional Minimum Regulatory Requirement Effective	Minimum Regulatory Requirement Effective	Well-capitalized by Regulatory Definition Under FDICIA Effective
Regulatory Capital Ratios	Company	Bank		January 1, 2017	January 1, 2019	January 1, 2017
Leverage Ratio	9.16%	9.32%	≥	4.00%	4.00%	5.00%
Common equity Tier 1 Capital Ratio	11.58%	11.78%	≥	4.50%	7.00%	6.50%
Tier 1 Capital Ratio	11.58%	11.78%	≥	6.00%	8.50%	8.00%
Total capital ratio	12.63%	12.83%	≥	8.00%	10.50%	10.00%

	At December 31, 2016			Transitional Minimum Regulatory Requirement Effective	Minimum Regulatory Requirement Effective	Well-capitalized by Regulatory Definition Under FDICIA Effective
Regulatory Capital Ratios	Company	Bank		January 1, 2017	January 1, 2019	January 1, 2017
Leverage Ratio	9.02%	9.27%	≥	4.00%	4.00%	5.00%
Common equity Tier 1 Capital Ratio	11.32%	11.59%	≥	4.50%	7.00%	6.50%
Tier 1 Capital Ratio	11.32%	11.59%	≥	6.00%	8.50%	8.00%
Total capital ratio	12.42%	12.68%	≥	8.00%	10.50%	10.00%

Liquidity. Liquidity is a measure of the Company's ability to convert assets into cash with minimal loss. As of September 30, 2017, liquid assets were $384,245,000, or 30% of total assets. As of December 31, 2016, liquid assets were $376,068,000, or 31% of total assets. Liquidity consists of cash and due from banks, interest earning deposits with financial institutions 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 unsecured federal funds borrowing facilities totaling $30,000,000, a Federal Home Loan Bank line up to 30% of total eligible assets, and a Federal Reserve Bank borrowing facility.

The relationship between total net loans and total deposits is a useful additional measure of liquidity. A higher loan to deposit ratio may lead to a loss of liquid assets in the future. This must be balanced against the fact that loans represent the highest interest earning assets. A lower loan to deposit ratio means lower potential income. On September 30, 2017, and December 31, 2016, respectively, net loans were at 79% and 77% 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 September 30, 2017 and December 31, 2016, 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 $174,667,000 and $173,256,000 at September 30, 2017 and December 31, 2016, respectively. As a percentage of net loans, these off-balance sheet items represent 21% and 22% respectively. Management does not expect all commitments outstanding 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 September 30, 2017. 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 September 30, 2017 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 September 30, 2017. 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, 2016 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.

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:

November 3, 2017.

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: November 3, 2017.

/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: November 3, 2017.

/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 September 30, 2017 (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: November 3, 2017.

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

Dated: November 3, 2017.

/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.