

Annual Report
2015

FNB BANCORP

BOARD OF DIRECTORS

LISA ANGELOT
Chairwoman of the Board

THOMAS G. ATWOOD, D.D.S

RONALD R. BARELS, D.D.S

JIM D. BLACK
President

ANTHONY J. CLIFFORD
Executive Vice President
Chief Operating Officer

MERRIE TURNER LIGHTNER
Vice President and Chief Financial Officer
Lightner Property Group, Inc.

THOMAS C. MCGRAW
Chief Executive Officer
Secretary of the Board

MICHAEL PACELLI
President
Bay Relations

EDWARD J. WATSON
Attorney, Partner
Watson & Lanctot, LLP

OFFICERS

THOMAS C. MCGRAW
Chief Executive Officer

JIM D. BLACK
President

ANTHONY J CLIFFORD
Executive Vice President
Chief Operating Officer

DAVID A. CURTIS
Senior Vice President
Chief Financial Officer

FIRST NATIONAL BANK OF NORTHERN CALIFORNIA

BOARD OF DIRECTORS

LISA ANGELOT
Chairwoman of the Board

THOMAS G. ATWOOD, D.D.S.

RONALD R. BARELS, D.D.S.

JIM D. BLACK
President

ANTHONY J. CLIFFORD
Executive Vice President
Chief Operating Officer

MERRIE TURNER LIGHTNER
Vice President and Chief Financial Officer
Lightner Property Group, Inc.

THOMAS C. MCGRAW
Chief Executive Officer
Secretary of the Board

MICHAEL PACELLI
President
Bay Relations

EDWARD J. WATSON
Attorney, Partner
Watson & Lanctot, LLP

RETIRED DIRECTORS

R. ALBERT ROENSCH
Director Emeritus

NEIL J. VANNUCCI
Director Emeritus

OFFICERS ADMINISTRATION

THOMAS C. MCGRAW
Chief Executive Officer

JIM D. BLACK
President

ANTHONY J. CLIFFORD
Executive Vice President
Chief Operating Officer

DAVID A. CURTIS
Senior Vice President
Chief Financial Officer

CHARLES R. KEY
Senior Vice President
Information Technology
Director

EDWIN T. ARRIOLA
Senior Vice President
Human Resources
Director

MATT BUTLER
Senior Vice President
Regional Manager

JEAN JAUREGUI
Senior Vice President
Central Services
Director

OFFICERS ADMINISTRATION

MADELEINE LINDSAY
Senior Vice President
Risk and Compliance Officer

NATHALIA NAPRALLA
Vice President
Branch Review Analyst

TAUS RAZA
Vice President
Central Services Manager

MALCOLM A. MORRIS
Vice President
Controller

JANNELLE SANTIAGO
Vice President
Assistant Director
Information Technology

JEAN SIGUA
Vice President
Branch Operations Administrator

MICHAEL TRAINOR
Vice President
Maintenance and Facilities Manager

JAMES YAO
Vice President
Senior Human Resources Generalist

TERENCE YU
Vice President
Treasurer

SHIRLEY CABANERO
Assistant Vice President
Investor Relations Officer

EILEEN GARCIA
Assistant Vice President
Compliance Assistant

YOLANDA GONZALEZ
Assistant Vice President
Risk Officer Assistant

MY LEVAL
Assistant Vice President
Assistant Central Services Manager

ESTEBAN MORALES
Assistant Vice President
Purchasing Manager

MIKE NIGHTINGALE
Assistant Vice President
Information Technology
Senior Network Systems Administrator

ERWIN CRISOSTOMO
Assistant Vice President
Information Technology
Systems Administrator

JEANNE O'LONE
Assistant Vice President
IT Security Officer

BRENDA SHOOMILOFF
Assistant Vice President
Training Manager

CAROLYN ARIAS
Bank Officer
Payroll Administrator

EVELYN CAKEBREAD
Bank Officer
ACH/EFT Specialist

ROBERT COLLINS
Bank Officer
Security Development Officer

GLORIA FLORES
Bank Officer
Wire Transfer Specialist

EDITH HOM
Bank Officer
Electronic Banking Supervisor

JENNIFER LEE
Bank Officer
Central Services Project Manager

MAUNG LIN
Bank Officer
Computer Operator

AMBER PORTER
Bank Officer
Assistant Branch Review Analyst

MARIA WILLIAMS
Bank Officer
Executive Administrative Assistant

BUSINESS DEVELOPMENT & COMMERCIAL BANKING DIVISION

STUART KEIRLE
Senior Vice President
Executive Development Director

EDWARD CRUZ
Vice President
Sr. Business Development Officer

ARLIE FERGUSON
Vice President
Regional Business Banking Manager

CATHERINE LEVITT
Vice President
Corporate Banking Officer

JONATHAN TAYLOR
Vice President
Sr. Business Development Officer

CREDIT ADMINISTRATION

BILL TECSON
Senior Vice President
Credit Administrator

SHEILA MACNAUGHTON
Vice President
Loan Servicing & Support Manager

ANGELA TURNER
Bank Officer
Loan Serv. & Support Asst. Manager

LOAN ADMINISTRATION

RANDY BRUGIONI
Senior Vice President
Chief Credit Officer

MICHAEL BLOOMFIELD
Vice President\Commercial Loan Officer

KATHY CASTOR
Vice President
Construction Loan Dept. Manager

SUSAN KEMP
Vice President
Mortgage Loan Officer

RICHARD LEE
Vice President
Commercial Loan Officer

PAULINE LIM
Vice President
Commercial Loan Officer

PHILIP MA
Vice President
Commercial Loan Officer

DANILE MCKENZIE
Vice President
Commercial Loan Officer

CASSANDRA MONTEITH
Vice President
Team Leader
Commercial Loan Officer

CYNTHIA TOY
Vice President
Commercial Loan Officer

LUCHO VIVANCO
Vice President
Commercial Loan Officer

TERRY WARD
Vice President
Team Leader
Commercial Loan Officer

NANCY WU
Vice President
Commercial Loan Officer

PHILLIP CHAN
Assistant Vice President
Commercial Loan Officer

ROGER TAKI
Assistant Vice President
Commercial Loan Officer

LISTI WONG
Assistant Vice President
Commercial Loan Officer

MELANIE DINH
Bank Officer
Senior Credit Analyst

ZAID KHAN
Bank Officer
Construction Loan Disbursement Specialist

EDDIE PAK
Bank Officer
Senior Credit Analyst

PIA PRIJOLES
Bank Officer
Senior Credit Analyst

GRACE TURLA
Bank Officer
Premier Banking Deposit Services Officer

KAREN WU
Bank Officer
Senior Credit Analyst

ADMINISTRATION OFFICE
975 El Camino Real, South San Francisco, California 94080
Telephone (650) 588-6800
Fax (650) 588-9695

BRANCHES

DALY CITY
6600 Mission Street, Daly City, California 94014
Telephone (650) 992-8800

SARA WATSON Vice President Branch Manager	BELMA DURAN Branch Officer Operations Supervisor	RYAN HO Branch Officer Operations Supervisor

MILLBRAE/SAN BRUNO
1551 El Camino Real, Millbrae, California 94030
Telephone (650) 871-4400

HILDA DELGADO Vice President Branch Manager	OLIVIA VEGA Branch Officer Operations Supervisor	LUZVIMINDA PALATINO Branch Officer Universal Banker

BURI BURI BRANCH
975 El Camino Real, South San Francisco, California 94080
Telephone (650) 726-6373

ANTHONY ROLDAN Vice President Branch Manager	SHERRIE LANDERITO Branch Officer Operations Supervisor	MARINE KEKLIKIAN Branch Officer Operations Supervisor

AMY BHULLAR
Branch Officer
Universal Banker

HALF MOON BAY
736 Main Street, Half Moon Bay, California 94019
Telephone (650) 726-6373

SHANA REILLY-POND
Vice President
Branch Manager

MARIA BECERRA
Branch Officer
Universal Banker

LINDA MAR
1450 Linda Mar Shopping Center, Pacifica, California 94044
Telephone (650) 359-5811

MARINA TOLENTINO
Assistant Vice President
Branch Manager

MONICA GOMEZ
Branch Officer
Operations Supervisor

ERNESTO SALAK
Branch Officer
Operations Supervisor

REDWOOD CITY*
700 El Camino Real, Redwood City, California 94063
Telephone (650) 299-0700

MARIA AREVALO
Assistant Vice President
Branch Manager

FARIDA KHALID
Branch Officer
Operations Supervisor

SAN MATEO
150 East Third Avenue, San Mateo, California 94401
Telephone (650) 340-1033

MICHAEL GERSOVITZ
Branch Manager

NELLY LOUIE
Branch Officer
Operations Supervisor

CEASAR PEDRO, JR.
Branch Officer
Universal Banker

PESCADERO**
239 Stage Road, P. O. Box 70, Pescadero, California 94060
Telephone (650) 879-0875

SHANA REILLY-POND
Vice President
Branch Manager

ESMERALDA GUZMAN
Branch Officer
Operations Supervisor

PORTOLA BRANCH*
699 Portola Drive, San Francisco, California 94127
Telephone (415) 661-4800

CASEY CREMEN
Branch Officer
Branch Manager

HUONG VU
Branch Officer
Operations Supervisor

CHESTNUT STREET BRANCH
2197 Chestnut Street, San Francisco, California 94123
Telephone (415) 561-0521

REINA CEJA
Vice President
Branch Manager

SALVADOR BOLECHE
Branch Officer
Operations Supervisor

BATTERY***
130 Battery Street, San Francisco, California 94111
Telephone (415) 392-0642

DEREK CHAN
Vice President
Branch Manager

GRACE LIANG
Brach Officer
Operations Supervisor

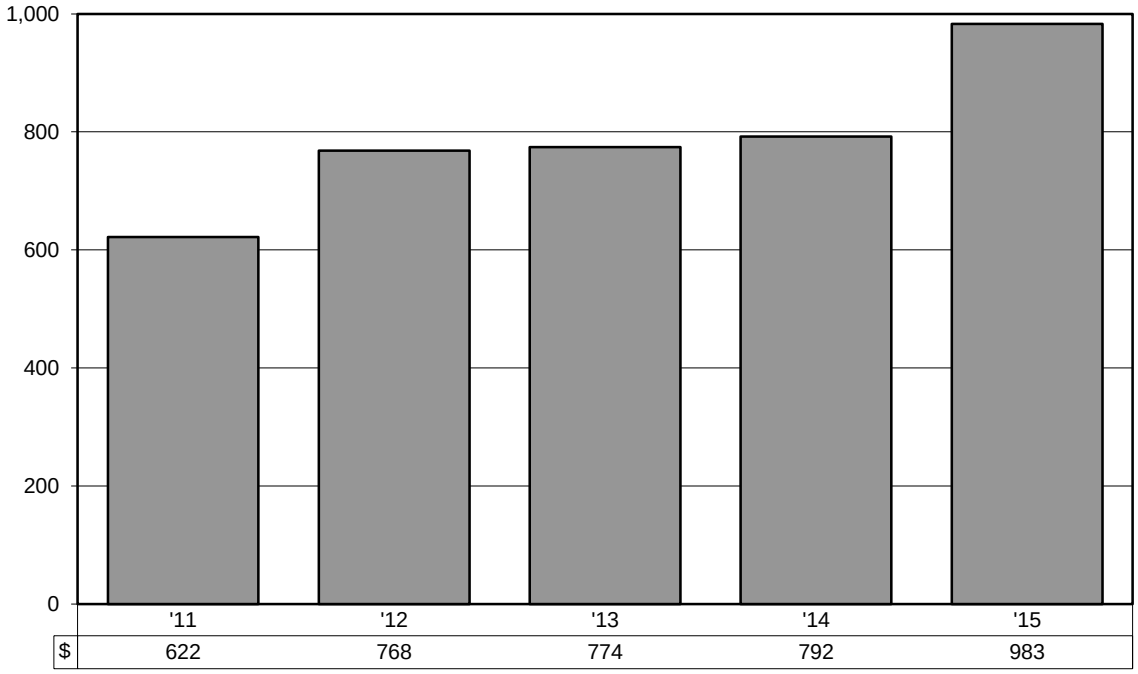
RAMON MESIA
Branch Officer
Operations Supervisor

SUNNYVALE BRANCH
425 South Mathilda Avenue, Sunnyvale, California 94086
Telephone (408) 990-1900

DONNA MESCHI
Assistant Vice President
Branch Manager

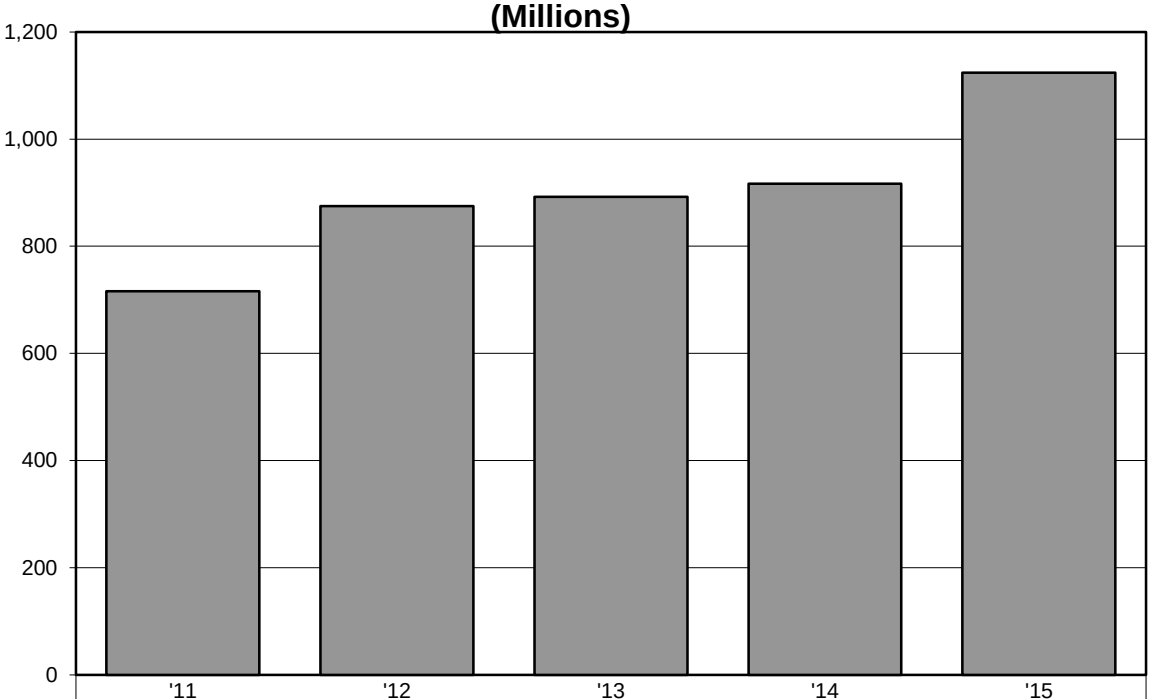
Branches Open:
Monday through Thursday 9am-5pm; Friday 9am-6pm; Saturday 9am-1pm
Except: *Monday through Friday 9am-6pm
**Monday through Thursday 9am-4pm; Friday 9am-6pm
***Monday through Friday 9am-5pm
****Monday through Thursday 9am-5pm; Friday 9am-6pm

DEPOSITS
(Millions)



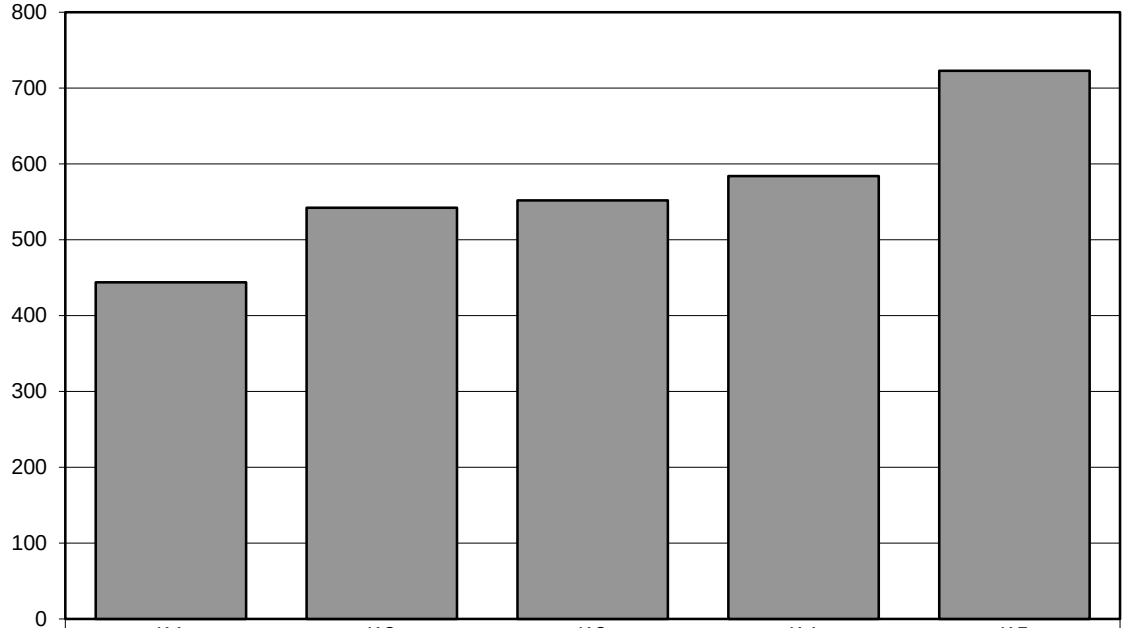
	'11	'12	'13	'14	'15
$	622	768	774	792	983

ASSETS
(Millions)



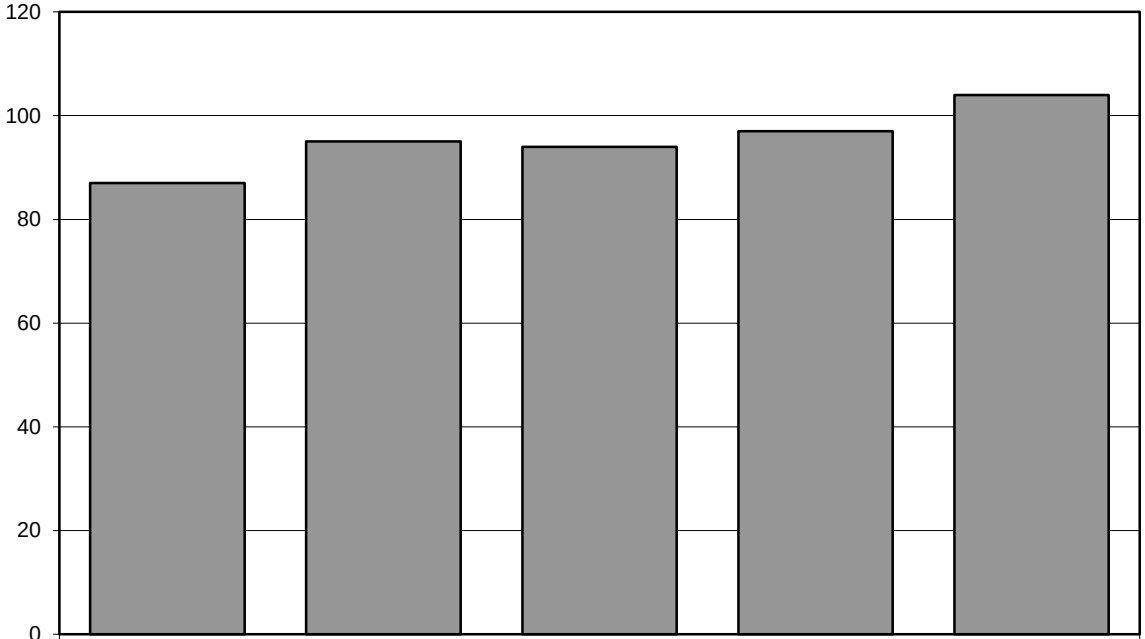
	'11	'12	'13	'14	'15
$	716	875	892	917	1124

LOANS
(Millions)



	'11	'12	'13	'14	'15
$	444	542	552	584	723

CAPITAL
(Millions)



	'11	'12	'13	'14	'15
$	87	95	94	97	104

May 9, 2016

Dear Shareholder:

Thank you for your investment in and ongoing support of FNB Bancorp and First National Bank of Northern California. We hope you will join us for our 53nd Annual Shareholder Meeting, Wednesday, June 15, 2016, at 6:30 P.M. in the Basque Cultural Center, 599 Railroad Avenue, South San Francisco, California, 94080.

2015 saw a number of successes as well as challenges related to the post-recession economy. The Bank grew to over one billion dollars in assets and the Board of Directors increased the cash dividend from $0.12 per share to $0.15 per share. As with earlier years, the board also issued a five percent stock dividend. The bank closed on the purchase of America California Bank, formerly a one branch bank on Montgomery Street in San Francisco's financial district. In the acquisition, the bank added approximately $92 million in loans and $90 million in deposits. Loan growth overall for 2015 was $139 million and deposit growth was just under $191 million. Nonaccrual loans were up slightly, approximately +$2.3 million, but still remained low overall at $7.9 million. We are also very happy with the addition of the ACB employees who have joined us.

Our net earnings available to common shareholders for 2015 were $8.2 million, compared to $9.2 million in 2014. You may recall in 2014 we had three one-time, non-recurring events; a credit recovery of just over $1 million, a reversal in our loan loss reserve of $1 million and a breakup fee of $500,000 from the failed Valley Community Bank acquisition. Return on Average Assets for 2015 was .81% and Return on Average Equity was 8.15% compared to 1.02% and 10.16% in 2014. Diluted earnings per share for 2015 were $1.77 compared to $2.02 in 2014. The ongoing challenges we continue to face in the market place includes fierce competition for quality lending relationships. Though we did see a .25 basis point increase in the Prime Rate, margins remain wafer thin and our net interest margin continues to compress; 4.31% in 2013, 4.21% in 2014 and 4.06% in 2015. Against this backdrop we continue to monitor and control expenses, work diligently to bring in new borrowing relationships, provide products and services that our customers expect and contribute to the health of our neighborhoods through active community involvement. The credit for our successes rests with our employees; individually, they are quality people and collectively they have created a great bank.

You will find a detailed accounting of our Bank's activities for 2015 in the following pages. We do hope you can join us in person in June. As always, we invite you to visit any of our locations and should you have any questions, please feel to contact me at (650) 875-4865 or by e-mail, tmcgraw@fnbnorcal.com.

Sincerely,



Thomas C. McGraw
Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015, or

☐ Transition report pursuant to Section 13 or 15 (d) of Securities Exchange Act of 1934

Commission File No. 000-49693

FNB BANCORP

(Exact name of registrant as specified in its charter)

California	91-2115369
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID Number)
975 El Camino Real, South San Francisco, California	94080
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Title of Class: Common Stock, no par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

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

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $90,898,703

Number of shares outstanding of each of the registrant's classes of common stock, as of February 01, 2016

No par value Common Stock – 4,543,450 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this Form 10-K: Part III, Items 10 through 14 from Registrant's definitive proxy statement for the 2016 annual meeting of shareholders.

TABLE OF CONTENTS

		PAGE
PART I		
Item 1	Business	3
Item 1A	Risk Factors	19
Item 1B	Unresolved Staff Comments	23
Item 2	Properties	24
Item 3	Legal Proceedings	24
Item 4	Mine Safety Disclosures	25
PART II		
Item 5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Securities	25
Item 6	Selected Financial Data	27
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	43
Item 8	Financial Statements and Supplementary Data	44
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	94
Item 9A	Controls and Procedures	94
Item 9B	Other Information	96
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	96
Item 11	Executive Compensation	96
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	96
Item 13	Certain Relationships and Related Transactions, and Director Independence	96
Item 14	Principal Accounting Fees and Services	96
PART IV		
Item 15	Exhibits and Financial Statement Schedules	97
(a) (1)	Financial Statements, Listed and Included in Part II, Item 8	97
(a) (2)	Financial Statement Schedules. Not Applicable	97
(a) (3)	Index to Exhibits	97
	Signatures	104
	Exhibit 23.1 – Consent of Independent Registered Public Accounting Firm	105
	Exhibit 31 – Rule 13a-14(a)/15d-14(a) Certifications	106
	Exhibit 32 – Section 1350 Certifications	108

PART I

ITEM 1. BUSINESS

Forward-Looking Statements: Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) variances in the actual versus projected growth in assets; (2) return on assets; (3) loan and lease losses; (4) expenses; (5) changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits; (6) competition effects; (7) fee and other noninterest income earned; (8) general economic conditions nationally, regionally, and in the operating market areas of FNB Bancorp (the "Company") including State and local issues being addressed in California; (9) changes in the regulatory environment; (10) changes in business conditions and inflation; (11) changes in securities markets; (12) data processing problems; (13) a decline in real estate values in the operating market areas of the Company; (14) the effects of terrorism, the threat of terrorism or the impact of the current military conflicts, and the conduct of the war on terrorism by the United States and its allies, worsening financial and economic conditions, natural disasters, and disruption of power supplies and communications; and (15) changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations, as well as other factors. The factors set forth under "Item 1A – Risk Factors" in this report and other cautionary statements and information set forth in this report should be read carefully, considered and understood as being applicable to all related forward-looking statements contained in this report when evaluating the business prospects of the Company and its subsidiary.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Actual results and shareholder values in the future may differ significantly from those expressed in forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of the report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statements, or to report any new information, future event or other circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K.

General

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.

As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 975 El Camino Real, South San Francisco, California, 94080, and its telephone number is (650) 588-6800.

The Company owns all of the issued and outstanding shares of common stock of First National Bank of Northern California ("the Bank"), a national banking association. The Company has no other subsidiary.

The Bank was organized in 1963 as "First National Bank of Daly City." In 1995, the shareholders approved a change in the name to "First National Bank of Northern California." The administrative headquarters of the Bank is located at 975 El Camino Real, South San Francisco, California. The Bank presently operates twelve full service banking offices in the cities of Daly City, South San Francisco, Millbrae, Pacifica, Half Moon Bay, San Mateo, Redwood City, Pescadero, San Francisco and Sunnyvale. The Bank's primary business is servicing the business and

commercial banking needs of individuals and small to mid-sized businesses within San Mateo, San Francisco and Santa Clara Counties.

The Bank is chartered under the laws of the United States and is governed by the National Bank Act, and as a national bank is a member of the Federal Reserve System. The Federal Deposit Insurance Corporation insures the deposits of the Bank up to the applicable legal limits, currently $250,000 per separately insured depositor. The Bank is subject to regulation, supervision and regular examination by the Office of the Comptroller of the Currency. The regulations of the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency govern many aspects of the Bank's business and activities, including investments, loans, borrowings, branching, mergers and acquisitions, reporting and numerous other areas. The Bank is also subject to applicable provisions of California law to the extent those provisions are not in conflict with or preempted by federal banking law. See "Supervision and Regulation" below.

The Bank's market areas consist primarily of the counties of San Francisco, San Mateo and Santa Clara. Based on latest available reports from the U. S. Department of Commerce Bureau of Economic Analysis, per capita incomes in the counties of San Francisco, San Mateo and Santa Clara for the year 2014 were $90,600, $89,659 and $74,883, respectively, which represented increases of 6.5%, 4.5% and 4.5%, respectively, over 2012 levels. Management believes per capita income levels grew at single digit growth rates during the year ended December 31, 2015, based upon expected economic activity levels and overall employment prospects. Unemployment data published by the California Employment Development Department reports unemployment levels of 3.3% in San Francisco County, 3.1% in San Mateo County, 3.7% in Santa Clara County, and 5.8% for the State of California in 2015; 3.8% in San Francisco County, 3.5% in San Mateo County, 4.5% in Santa Clara County and 6.7% for the State of California, in December 2014. In December 2013, San Francisco County unemployment was 4.8%, San Mateo County was 4.6%, Santa Clara County was 5.7% and the State of California was 7.9%.

A report from the California Employment Development Department ("EDD"), based on information published by America's Labor Market Information System (ALMIS) Employer Database 2014 2nd Edition, lists the following major employers in San Francisco County: Bechtel, Deloitte, Federal Reserve Bank, GSA Pacific Rim Region, California Pacific Medical Center, Kaiser Permanente Medical Center, San Francisco General Hospital, Pacific Gas & Electric, San Francisco Chronicle, San Francisco State University, UCSF-Medical Center, U.S. Veterans Medical Center and University of California-San Francisco.

The following were listed as major employers in San Mateo County: Gilead Sciences, Kaiser Permanente Medical Group, Mills-Peninsula Medical Center, San Mateo County Human Resources, Oracle Corp., SRI International, Stanford Linear Accelerator, U.S. Interior Department, and Visa International Services Association. The major labor force in San Francisco County and San Mateo County is represented by the service industries, including financial services, educational and health services, professional and business services, leisure and hospitality and state government.

The following were listed as major employers in Santa Clara County: Adobe Systems, Inc., Advanced Micro Devices, Inc., Apple Inc., Bon Appetit-Café, Adobe, California's Great America, Christopher Ranch, Inc., Fine Pitch, General Motors Advanced Tech, Hewlett-Packard Co., Intel Corp, Kaiser Permanente Medical Center, Kaiser Permanente Medical Group, Lockheed Martin Corp, Lockheed Martin Space Systems, Microsoft Corp, NASA, Net App Inc, Philips Lumileds Lighting Co, San Jose State University, Santa Clara Valley Medical Center, SAP Center At San Jose, Silicon Valley Sports & Entertainment, Stanford University School of Medicine, U.S. Post Office and VA Medical Center-Palo Alto.

The Bank offers a broad range of services to individuals and businesses in its primary service area, including a full line of business financial products with specialized services such as courier, appointment banking, and business Internet banking. The Bank offers personal and business checking and savings accounts, including individual interest-bearing negotiable orders of withdrawal ("NOW"), money market accounts and/or accounts combining checking and savings accounts with automatic transfer capabilities, IRA accounts, time certificates of deposit, direct deposit services and computer cash management with access through the Internet. The Bank also makes available commercial loans and standby letters of credit, construction, accounts receivable, inventory, automobile, home improvement, residential real estate, commercial real estate loans, home equity lines, Small Business Administration loans, office equipment, leasehold improvement and consumer loans as well as overdraft protection and lines of credit. In addition, the Bank sells travelers checks and cashier's checks, offers automated

teller machine (ATM) services tied in with major statewide and national networks and offers other customary commercial banking services.

Most of the Bank's deposits are obtained from commercial and non-profit businesses, professionals and individuals. As of December 31, 2015, the Bank had a total of 21,838 deposit accounts. The Bank has obtained deposits through deposit brokers for which it pays a broker fee. As of December 31, 2015, the Bank had $205,000 in such deposits. As of December 31, 2015 the Bank had one customer with more than 5% of the Bank's total deposits.

At December 31, 2015, the Company had total assets of $1,124,349,000, net loans of $722,747,000, deposits of $983,189,000, and stockholders' equity of $104,162,000. The Company competes with approximately 126 other banking or savings institutions in its San Francisco, San Mateo and Santa Clara County service area. The Company's market share of Federal Deposit Insurance Corporation insured deposits in the service area of Santa Clara County is less than 1.68%; of San Mateo County is approximately 2.55%, and 0.05% in the San Francisco County market area (based upon the most recent information available from the Federal Deposit Insurance Corporation through June 30, 2015). See "Competitive Data" below.

Employees

At December 31, 2015, the Company employed 183 persons on a full-time equivalent basis. The Company believes its employee relations are good. The Company is not a party to any collective bargaining agreement.

Available Information

The Company and the Bank maintain an Internet website at http://www.fnbnorcal.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available free of charge on or through such website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Also made available on or through such website are the Section 16 reports of ownership and changes in ownership of the Company's common stock which are filed with the Securities and Exchange Commission by the directors and executive officers of the Company and by any persons who own more than 10 percent of the outstanding shares of such stock. Simply select the "Investor Relations" menu item and then click on "Financial Statements." Information on such website is not incorporated by reference into this report.

SUPERVISION AND REGULATION

General

FNB Bancorp. The common stock of the Company is subject to the registration requirements of the Securities Act of 1933, as amended, and the qualification requirements of the California Corporate Securities Law of 1968, as amended. FNB Bancorp has registered its common stock under Section 12 (g) of the Securities Exchange Act of 1934, as amended. The Company is also subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934, as amended, which include, but are not limited to, annual, quarterly and other current reports required to be filed with the Securities and Exchange Commission.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and is registered as such with, and subject to the supervision of, the Board of Governors of the Federal Reserve System (the "Board of Governors"). The Company is required to obtain the approval of the Board of Governors before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, FNB Bancorp would own or control more than 5% of the voting shares of such bank. The Bank Holding Company Act prohibits the Company from acquiring any voting shares of, or interest in, all or substantially all of the assets of a bank located outside the State of California unless such an acquisition is specifically authorized by the laws of the state in which such bank is located. Any such interstate acquisition is also subject to the provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

The Company, and any non-bank subsidiary which it may acquire or organize, are deemed to be "affiliates" of the Bank within the meaning of that term as defined in the Federal Reserve Act. This means, for example, that there are limitations (a) on loans by the Bank to its affiliates, and (b) on investments by the Bank in affiliates' stock as collateral for loans to any borrower. The Company and the Bank are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

In addition, regulations of the Board of Governors under the Federal Reserve Act require that reserves be maintained by the Bank in conjunction with any liability of the Company under any obligation (promissory note, acknowledgment of advance, banker's acceptance or similar obligation) with a weighted average maturity of less than seven (7) years to the extent that the proceeds of such obligations are used for the purpose of supplying funds to the Bank for use in its banking business, or to maintain the availability of such funds.

First National Bank of Northern California. As a national banking association licensed under the national banking laws of the United States, the Bank is regularly examined by the Office of the Comptroller of the Currency and is further subject to supervision and regulation by the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System.

This supervision and regulation includes comprehensive reviews of all major aspects of the Bank's business and condition, including its capital ratios, allowance for possible loan losses and other factors. However, no inference should be drawn that such authorities have approved any such factors. The Bank is required to file reports with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Bank's deposits are insured by the Federal Deposit Insurance Corporation up to the applicable legal limits.

The Company and the Bank are also subject to the applicable provisions of California law to the extent those provisions are not in conflict with or preempted by Federal banking law. This includes regulations of the California Department of Business Oversight.

Capital Standards.

During July, 2013, the Federal Reserve Board approved a final rule that implements changes to regulatory capital requirements. The rule affects the capital requirements at both the Company and the Bank and (1) introduced a new "Common Equity Tier 1" capital requirement; (2) established higher minimum levels of capital; (3) introduced a "capital conservation buffer"; (4) increased the risk-weighting of certain assets; and (5) established limits on the amount of deferred tax assets with any excess treated as a deduction from Tier 1 Capital.

See "Capital" under Item 7 "Management's Discussion and Analysis of Financial Condition and the Results of Operations" below. Also see Note 19 to the Financial Statements set forth in Item 8 below and incorporated here by reference.

Effective January 1, 2015, the risk-based capital regulations were amended, as described below under "Prompt Corrective Action" and "Basel III Capital."

Prompt Corrective Action

The Board of Governors, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency have adopted regulations implementing a system of prompt corrective action pursuant to Section 38 of the Federal Deposit Insurance Act and Section 131 of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). The regulations establish five capital categories with the following characteristics:

(1) "Well capitalized" – consisting of institutions with a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater, and the institution is not subject to an order, formal written agreement, capital directive or prompt corrective action directive;

(2) "Adequately capitalized" – consisting of institutions with a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater and a leverage ratio of 4% or greater, and the institution does not meet the definition of a "well capitalized" institution;

(3) “Undercapitalized” – consisting of institutions with a total risk-based capital ratio less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 4%;

(4) “Significantly undercapitalized” – consisting of institutions with a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%;

(5) “Critically undercapitalized” – consisting of an institution with a ratio of tangible equity to total assets that is equal to or less than 2%.

The regulations established procedures for classification of financial institutions within the capital categories, filing and reviewing capital restoration plans required under the regulations and procedures for issuance of directives by the appropriate regulatory agency, among other matters. The regulations impose restrictions upon all institutions to refrain from certain actions which would cause an institution to be classified within any one of the three “undercapitalized” categories, such as declaration of dividends or other capital distributions or payment of management fees, if following the distribution or payment the institution would be classified within one of the “undercapitalized” categories. In addition, institutions that are classified in one of the three “undercapitalized” categories are subject to certain mandatory and discretionary supervisory actions. Mandatory supervisory actions include:

(1) increased monitoring and review by the appropriate federal banking agency;
(2) implementation of a capital restoration plan;
(3) total asset growth restrictions; and
(4) limitation upon acquisitions, branch expansion, and new business activities without prior approval of the appropriate federal banking agency. Discretionary supervisory actions may include:

(a) requirements to augment capital;
(b) restrictions upon affiliate transactions;
(c) restrictions upon deposit gathering activities and interest rates paid;
(d) replacement of senior executive officers and directors;
(e) restrictions upon activities of the institution and its affiliates;
(f) requiring divestiture or sale of the institution; and
(g) any other supervisory action that the appropriate federal banking agency determines is necessary to further the purposes of the regulations. Further, the federal banking agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan.

The aggregate liability of the parent holding company under the guaranty is limited to the lesser of (i) an amount equal to 5 percent of the depository institution’s total assets at the time it became undercapitalized, and (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it were “significantly undercapitalized.” FDICIA also restricts the solicitation and acceptance of and interest rates payable on brokered deposits by insured depository institutions that are not “well capitalized” and an “undercapitalized” institution is not allowed to solicit deposits by offering rates of interest that are significantly higher than the prevailing rates of interest on insured deposits in the particular institution’s normal market areas or in the market areas in which such deposits would otherwise be accepted.

Any financial institution which is classified as “critically undercapitalized” must be placed in conservatorship or receivership within 90 days of such determination unless it is also determined that some other course of action would better serve the purposes of the regulations. Critically undercapitalized institutions are also prohibited from making (but not accruing) any payment of principal or interest on subordinated debt without prior regulatory approval and regulators must prohibit a critically undercapitalized institution from taking certain other actions without prior approval, including (1) entering into any material transaction other than in the usual course of business, including investment expansion, acquisition, sale of assets or other similar actions; (2) extending credit for any highly leveraged transaction; (3) amending articles or bylaws unless required to do so to comply with any law,

regulation or order; (4) making any material change in accounting methods; (5) engaging in certain affiliate transactions; (6) paying excessive compensation or bonuses; and (7) paying interest on new or renewed liabilities at rates which would increase the weighted average costs of funds beyond prevailing rates in the institution's normal market areas.

Under FDICIA, the federal financial institution agencies have adopted regulations which require institutions to establish and maintain comprehensive written real estate policies which address certain lending considerations, including loan-to-value limits, loan administrative policies, portfolio diversification standards, and documentation, approval and reporting requirements. FDICIA further generally prohibits an insured bank from engaging as a principal in any activity that is impermissible for a national bank, absent Federal Deposit Insurance Corporation determination that the activity would not pose a significant risk to the Bank Insurance Fund, and that such bank is, and will continue to be, within applicable capital standards.

Effective January 1, 2015, the risk-based-capital regulations and prompt corrective regulations, described above under "Capital Standards" and in "Prompt Corrective Action," were amended to the extent described below under "Basel III Capital".

Basel III Capital

In July 2013, the federal bank regulatory agencies issued interim final rules that revise and replace the current risk-based capital requirements. These rules implement the "Basel III" regulatory capital reforms released by the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Basel III reforms reflected in the final rules include an increase in the risk-based capital requirements and certain changes to capital components and the calculation of risk-weighted assets.

Effective January 1, 2015, bank holding companies with consolidated assets of $1 billion or more and organizations like the Bank must comply with new minimum capital ratio requirements to be phased in between January 1, 2015 and January 1, 2019, which consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a total capital to total risk weighted assets ratio of 6% (increased from 4%); (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets ("leverage") ratio of 4%.

In addition, a "capital conservation buffer" is established which when fully phased-in will require maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer would increase the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new buffer requirement would be phased in between January 2016 and January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, discretionary payments under Tier 1 instruments and paying discretionary bonuses if its capital ratio level fell below the buffer amount.

The federal bank regulatory agencies have also proposed changes to the prompt corrective action framework (described above under "Prompt Corrective Action") which is designed to place restrictions on insured depository institutions if their capital ratios begin to show signs of weakness. These changes took effect beginning on January 1, 2015 and will require insured depository institutions to meet the following increased capital ratio requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8%; (iii) a total capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%.

Management believes that the Bank is in compliance with the minimum capital requirements, including the fully phased-in "capital conservation buffer" requirement, based upon its capital position at December 31, 2015.

Transition for New Ratios and Capital Definitions for Community Banks

Years (as of Jan.1)	2015	2016	2017	2018	2019
Minimum CET1 ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital conservation buffer	N/A	0.625%	1.25%	1.875%	2.50%
CET1 plus capital conservation buffer	4.50%	5.125%	5.75%	6.375%	7.00%
Phase-in of deductions from CET1*	40.0%	60.0%	80.0%	100.0%	100.0%
Minimum Tier 1 capital	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Tier 1 capital plus capital conservation buffer	N/A	6.625%	7.25%	7.875%	8.5%
Minimum total capital	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital plus conservation buffer.	N/A	8.625%	9.25%	9.875%	10.5%

*Including threshold deduction items that are over the limits.

N/A means not applicable.

Uniform Rating System

The Federal Financial Institutions Examination Council ("FFIEC") utilizes the Uniform Financial Institutions Rating System ("UFIRS"), commonly referred to as "CAMELS," to classify and evaluate the soundness of financial institutions. Bank examiners use the CAMELS measurements to evaluate capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk.

Effective January 1, 2005, bank holding companies such as the Company became subject to evaluation and examination under a revised bank holding company rating system.

The federal financial institution agencies have established bases for analysis and standards for assessing financial institution's capital adequacy in conjunction with the risk-based capital guidelines, including analysis of interest rate risk, concentrations of credit risk, risk posed by non-traditional activities, and factors affecting overall safety and soundness. If an agency determines that an institution fails to meet any standard, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency will require the institution to correct the deficiency. The agencies may elect to initiate enforcement action in certain cases rather than rely on an existing plan, particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

CRA Compliance

Community Reinvestment Act ("CRA") regulations evaluate banks' lending to low and moderate income individuals and businesses across a four-point scale from "outstanding" to "substantial noncompliance," and are a factor in regulatory review of applications to merge, establish new branches or form bank holding companies. In addition, any bank rated in "substantial noncompliance" with the CRA regulations may be subject to enforcement proceedings. The Bank has a current rating of "satisfactory" for CRA compliance.

FDIC Insurance

The Federal Deposit Insurance Corporation ("FDIC") is an independent federal agency that insures deposits of federally insured banks (such as the Bank) and savings institutions up to prescribed limits through the Deposit Insurance Fund ("DIF"). All depository accounts of the Bank are covered by FDIC insurance up to established maximum limits.

The amount of FDIC assessments paid by each DIF member institution for insurance coverage is based on its risk profile as measured by regulatory capital ratios and other supervisory factors. In 2011, as required by the Dodd-Frank Act, the FDIC revised the assessment rates and the deposit insurance assessment base used to calculate

premiums paid to DIF. The FDIC also increased the minimum designated reserve ratio ("DRR") to 2.0 percent, which has remained in effect.

On June 16, 2015, the FDIC proposed changes to the deposit insurance assessments for small insured banks having total assets less than $10 billion which have been insured for at least five years, based upon experience with bank failures. The changes, among other matters, revise the financial ratios method of determining assessments to reflect a statistical model estimating the probability of failure over three years and updating the financial measures used in the financial ratios method consistent with the statistical model. Te FDIC proposed additional changes on October 25, 2015 to require banks with over $10 billion in assets to be responsible for the recapitalization of the DIF to 1.35 percent of insured deposits after achieving a1.15 percent reserve ratio. On January 21, 2016, the FDIC proposed further revisions to the small insured bank assessments as the result of comments and recommendations received in response to its earlier proposal. The FDIC proposes that a final rule would go into effect the quarter after adoptions, but the amendments would not become operative until the quarter after the DIF reserve ratio reaches 1.15 percent.

If economic conditions continue to negatively impact financial institutions and there are additional bank and other financial institutions failures, or if the FDIC otherwise determines, the Bank may be required to pay higher FDIC premiums in the future (including the possibility of special assessments and the requirement to prepay estimated quarterly risk-based assessments), which could have a material and adverse effect on the earnings of the Company.

Limitation on Dividends

FNB Bancorp. The Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law. See discussion under "Small Business Jobs Act of 2010," below.

Funds for payment of any cash dividends by the Company could be obtained from its investments, equity sales or dividends received from the Bank. The Bank's ability to pay cash dividends is subject to restrictions imposed under the National Bank Act and regulations promulgated by the OCC.

The Company has paid quarterly dividends for each quarter commencing with the second quarter of 2002. Future dividends will continue to be determined after consideration of the Company's earnings, financial condition, future capital funds, regulatory requirements and other relevant factors.

The California General Corporation Law provides that neither a corporation nor any of its subsidiaries shall make a distribution to the corporation's shareholders unless the board of directors has determined in good faith either of the following: (1) the amount of retained earnings of the corporation immediately prior to the distribution equals or exceeds the sum of (A) the amount of the proposed distribution plus (B) the preferential dividends arrears amount; or (2) immediately after the distribution, the value of the corporation's assets would equal or exceed the sum of its total liabilities plus the preferential rights amount. The good faith determination of the board of directors may be based upon (1) financial statements prepared on the basis of reasonable accounting practices and principles, (2) a fair valuation, or (3) any other method reasonable under the circumstances; provided, that a distribution may not be made if the corporation or subsidiary making the distribution is, or is likely to be, unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature. The term "preferential dividends arrears amount" means the amount, if any, of cumulative dividends in arrears on all shares having a preference with respect to payment of dividends over the class or series to which the applicable distribution is being made, provided that if the articles of incorporation provide that a distribution can be made without regard to preferential dividends arrears amount, then the preferential dividends arrears amount shall be zero. The term "preferential rights amount" means the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy the preferential rights, including accrued but unpaid dividends, of other shareholders upon dissolution that are superior to the rights of the shareholders receiving the distribution, provided that if the articles of incorporation provide that a distribution can be made without regard to any preferential rights, then the preferential rights amount shall be zero.

The Board of Governors of the Federal Reserve System generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's

financial position. The Federal Reserve Board policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

First National Bank of Northern California. As the Bank's sole shareholder, the Company is entitled to receive dividends when and as declared by the Bank's Board of Directors, out of funds legally available therefore, subject to the restrictions set forth in the National Bank Act.

The payment of cash dividends by the Bank may be subject to the approval of the Office of the Comptroller of the Currency, as well as restrictions established by federal banking law and the FDIC. Approval of the Office of the Comptroller of the Currency is required if the total of all dividends declared by the Bank's Board of Directors in any calendar year will exceed the Bank's net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus or to a fund for the retirement of preferred stock.

Additionally, the FDIC and/or the Office of the Comptroller of the Currency, might, under some circumstances, place restrictions on the ability of a bank to pay dividends.

Competitive Data

In its market area, the Bank competes for deposit and loan customers with other banks (including those with much greater resources), thrifts and, to a lesser extent, credit unions, finance companies and other financial service providers.

Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns, along with significant investment banking, trust and insurance operations. The Bank has made arrangements with its correspondent banks and with others to provide some of these services for its customers.

For borrowers requiring loans in excess of the Bank's legal lending limits, the Bank has offered, and intends to offer in the future, such loans on a participating basis with other insured financial institutions, retaining the portion of such loans which is within its lending limits.

As of December 31, 2015, the Bank's aggregate legal lending limits to a single borrower and such borrower's related parties were $16,736,000 on an unsecured basis and $27,893,000 on a fully secured basis, based on regulatory Total Risk-Based Capital of $111,573,000. The Bank's business is concentrated in its service area, which primarily encompasses San Mateo County, Santa Clara County and the City and County of San Francisco. The economy of the Bank's service area is dependent upon government, manufacturing, tourism, retail sales, population growth and smaller service oriented businesses.

Based upon the most recent information made available by the FDIC Summary of Deposits at June 30, 2015, there were 29 commercial and savings banking institutions in San Mateo County with a total of $31,279,057,000 in deposits at June 30, 2015. The Bank had a total of 8 offices in the county with total deposits of $797,315,000 at the same date, or 2.55% of the San Mateo County totals. There were 48 banking and savings institutions in the City and County of San Francisco with a total of $193,608,252,000 in deposits at June 30, 2015. The Bank had a total of 3 offices in the county with total deposits of $91,041,000, or 0.05% of the County of San Francisco totals. There were 49 commercial and savings banking institutions in Santa Clara County with a total of $114,437,681,000 in deposits at June 30, 2015. The Bank had a total of one office in the county, opened in April, 2014, with total deposits of $5,840,000 or 0.01% of the Santa Clara County totals at June 30, 2015. Offices of the Bank in San Mateo County and the City and County of San Francisco have averaged annual deposit growth of 5.30% over the two-year period ended June 30, 2015.

General Competitive Factors

In order to compete with the financial institutions in their primary service areas, community banks such as the Bank, use, to the fullest extent possible, the flexibility which is accorded by their independent status. This includes an emphasis on specialized services, local promotional activity, and personal contacts by their respective

officers, directors and employees. The Bank's management and employees develop a thorough knowledge of local businesses and markets.

Community banks also seek to provide special services and programs for individuals in their primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture and tools of the trade or expansion of practices or businesses. In the event there are customers whose loan demands exceed their respective lending limits, they seek to arrange for such loans on a participation basis with other financial institutions. They also assist those customers requiring services not available at such banks to obtain such services from correspondent banks.

Banking is a business that depends on interest rate differentials. In general, the difference between the interest rate paid by a bank to obtain their deposits and other borrowings and the interest rate received by a bank on loans extended to customers and on securities held in a bank's investment portfolio comprise the major portion of a bank's earnings. The Bank competes with savings and loan associations, credit unions, other financial institutions and other entities for funds.

The Bank also competes for loans with savings and loan associations, credit unions, consumer finance companies, banking and other financial institutions, mortgage companies and other lending institutions.

The interest rate differentials of a bank, and therefore its earnings, are affected not only by general economic conditions, but also by statutes, as implemented by federal agencies. The Federal Reserve Board can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States government securities, and adjustments to the discount rates applicable to borrowing by banks from the Federal Reserve Banks.

These activities influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and timing of any future changes in monetary policies and their impact on the Bank are not predictable.

Impact of Certain Legislation and Regulation

National banks that are well capitalized, have a high overall rating and a satisfactory CRA rating, and are not subject to an enforcement order may engage in activities related to banking through operating subsidiaries subject to an expedited application process. In addition, a national bank may apply to the Office of the Comptroller of the Currency to engage in an activity through a subsidiary in which the Bank itself may not engage.

The Gramm-Leach-Bliley Act of 1999 (the "Act"), eliminated most of the remaining depression-era "firewalls" between banks, securities firms and insurance companies which were established by the Banking Act of 1933, also known as the Glass-Steagall Act ("Glass-Steagall").

Glass-Steagall sought to insulate banks as depository institutions from the perceived risks of securities dealing and underwriting, and related activities. The Act repealed Section 20 of Glass-Steagall, which prohibited banks from affiliating with securities firms. Bank holding companies that can qualify as "financial holding companies" can now, among other matters, acquire securities firms or create them as subsidiaries, and securities firms can now acquire banks or start banking activities through a financial holding company. The Act includes provisions which permit national banks to conduct financial activities through a subsidiary that are permissible for a national bank to engage in directly, as well as certain activities authorized by statute, or that are financial in nature or incidental to financial activities to the same extent as permitted to a "financial holding company" or its affiliates. This liberalization of United States banking and financial services regulation applies both to domestic institutions and foreign institutions conducting business in the United States. Consequently, the common ownership of banks, securities firms and insurance is now possible, as is the conduct of commercial banking, merchant banking, and investment management, securities underwriting and insurance within a single financial institution using a structure authorized by the Act.

The Act removed these restrictions and substantially eliminated the prohibitions under the Bank Holding Company Act on affiliations between banks and insurance companies. Bank holding companies which qualify as financial holding companies can now, among other matters, insure, guarantee, or indemnify against loss, harm,

damage, illness, disability, or death; issue annuities; and act as a principal, agent, or broker regarding such insurance services.

A bank holding company will qualify if (i) its banking subsidiaries are "well capitalized" and "well managed" and (ii) it files with the Board of Governors a certification to such an effect and a declaration that it elects to become a financial holding company. The amendment of the Bank Holding Company Act now permits financial holding companies to engage in activities, and acquire companies engaged in activities, that are financial in nature or incidental to such financial activities.

Financial holding companies are also permitted to engage in activities that are complementary to financial activities if the Board of Governors determines that the activity does not pose a substantial risk to the safety or soundness of depository institutions or the financial system in general. These standards expand upon the list of activities "closely related to banking" which to date have defined the permissible activities of bank holding companies under the Bank Holding Company Act. One further effect of the Act was to require that federal financial institution and securities regulatory agencies prescribe regulation to implement the policy that financial institutions must respect the privacy of their customers and protect the security and confidentiality of customers' non-public personal information. These regulations require, in general, that financial institutions (1) may not disclose non-public information of customers to non-affiliated third parties without notice to their customers, who must have an opportunity to direct that such information not be disclosed; (2) may not disclose customer account numbers except to consumer reporting agencies; and (3) must give prior disclosure of their privacy policies before establishing new customer relationships. Neither the Company nor the Bank has determined whether or when it may seek to acquire and exercise new powers or activities under the Act.

Volcker Rule

On December 10, 2013, the federal banking agencies jointly issued a final rule implementing the so-called "Volcker Rule" (set forth in Section 619 of the Dodd-Frank Act). The Volcker rule prohibits depository institutions, companies that control such institutions, bank holding companies, and the affiliates and subsidiaries of such banking entities, from engaging as principal for the trading account of the banking entity in any purchase or sale of one or more covered financial instruments (so-called "proprietary trading") and imposes limitations upon retaining interests in, sponsoring, investing in and transacting with certain investment funds, including hedge funds and private equity funds. Certain activities involving underwriting, risk mitigation hedging, and transactions on behalf of customers as a fiduciary or riskless principal are not prohibited proprietary trading, including purchases and sales of financial instruments which are either obligations of or issued or guaranteed by (i) the United States or agencies thereof; (ii) a State or political subdivision including municipal securities; or (iii) the FDIC. Notwithstanding these permissible activities, no such activities are permitted if they would (i) involve or result in a material conflict of interest between the banking entity and its clients, customers, or counterparties; (ii) result, directly or indirectly, in a material exposure by the banking entity to a high-risk asset or a high-risk trading strategy; or (iii) pose a threat to the safety and soundness of the banking entity or the financial stability of the United States. Neither the Company nor the Bank engages in activities prohibited by the Volcker Rule and management does not expect the Volcker Rule to have a material impact upon the Company or the Bank.

The Patriot Act

On October 26, 2001, President Bush signed the USA Patriot Act (the "Patriot Act"), which included provisions pertaining to domestic security, surveillance procedures, border protection, and terrorism laws to be administered by the Secretary of the Treasury.

Title III of the Patriot Act entitled, "International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001" includes amendments to the Bank Secrecy Act which expand the responsibilities of financial institutions in regard to anti-money laundering activities with particular emphasis upon international money laundering and terrorism financing activities through designated correspondent and private banking accounts.

Effective December 25, 2001, Section 313(a) of the Patriot Act prohibits any insured financial institution such as the Bank, from providing correspondent accounts to foreign banks which do not have a physical presence in any country (designated as "shell banks"), subject to certain exceptions for regulated affiliates of foreign banks. Section 313(a) also requires financial institutions to take reasonable steps to ensure that foreign bank correspondent

accounts are not being used to indirectly provide banking services to foreign shell banks, and Section 319(b) requires financial institutions to maintain records of the owners and agent for service of process of any such foreign banks with whom correspondent accounts have been established.

Effective July 23, 2002, Section 312 of the Patriot Act created a requirement for special due diligence for correspondent accounts and private banking accounts. Under Section 312, each financial institution that establishes, maintains, administers, or manages a private banking account or a correspondent account in the United States for a non-United States person, including a foreign individual visiting the United States, or a representative of a non-United States person, shall establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures, and controls that are reasonably designed to detect and record instances of money laundering through those accounts.

The Patriot Act contains various provisions in addition to Sections 312 and 313(a) that affect the operations of financial institutions by encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. The Company and the Bank are not currently aware of any account relationships between the Bank and any foreign bank or other person or entity as described above under Sections 312 or 313(a) of the Patriot Act.

Certain surveillance provisions of the Patriot Act, scheduled to expire, were extended by President Bush. Then, in May 2011, President Obama signed a further four-year extension of the surveillance provisions. Some surveillance provisions of the Patriot Act expired on June 1, 2015, but were renewed the next day by the passage of the USA Freedom Act on June 2, 2015 and extended through 2019. However, the provision under which the National Security Agency("NSA") conducted mass phone data collection on individuals was changed to require the NSA to seek permission from a federal court in order to obtain such data from phone companies.

The effect which the Patriot Act and any amendments to the Patriot Act or any additional legislation enacted by Congress may have upon financial institutions is uncertain; however, such legislation could increase compliance costs and thereby potentially may have an adverse effect upon the Company's results of operations.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President George W. Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Act"), legislation designed to address certain issues of corporate governance and accountability. The key provisions of the Act and the rules promulgated by the SEC pursuant to the Act include the following:

- Created expanded oversight of the accounting profession by creating a new independent public company oversight board to be monitored by the SEC.

- Revised rules on auditor independence to restrict the nature of non-audit services provided to audit clients and to require such services to be pre-approved by the audit committee.

- Created mandatory listing standards relating to audit committees, certifications of periodic reports by the CEO and CFO and it made issuer interference with an audit a crime.

- Required enhanced financial disclosures, including periodic reviews for largest issuers and real time disclosure of material company information.

- Enhanced criminal penalties for a broad array of white collar crimes and increased the statute of limitations time period for filing securities fraud lawsuits.

- Required disclosure of whether a company has adopted a code of ethics that applies to the company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and disclosure of any amendments or waivers to such code of ethics.

- Required disclosure of whether a company's audit committee of its board of directors has a member of the audit committee who qualifies as an "audit committee financial expert."

- Created a prohibition on insider trading during pension plan black-out periods.
- Mandated disclosure of off-balance sheet transactions.
- Created a prohibition on personal loans to directors and officers.
- Specified conditions related to the use of non-GAAP (generally accepted accounting principles) financial measures.
- Created standards of professional conduct for attorneys, requiring attorneys having an attorney-client relationship with a company, among other matters, to report "up the ladder" to the audit committee, to another board committee or to the entire board of directors regarding certain material violations.
- Created expedited filing requirements for Form 4 reports of changes in beneficial ownership of securities, reducing the filing deadline to within 2 business days of the date on which an obligation to report is triggered.
- Created accelerated filing requirements for reports on Forms 10-K and 10-Q by public companies which qualify as "accelerated filers." Required disclosure concerning website access to reports on Forms 10-K, 10-Q and 8-K, and any amendments to those reports, by "accelerated filers" as soon as reasonably practicable after such reports and material are filed with or furnished to the SEC.
- Created rules requiring national securities exchanges and national securities associations to prohibit the listing of any security whose issuer does not meet audit committee standards established pursuant to the Act.

The Company's common stock is not currently listed on any exchange. The common stock is quoted and traded on the OTC market. If the Company were to be listed on NASDAQ, in addition to the rules promulgated by the SEC pursuant to the Act, the Company would be required to comply with the listing standards applicable to all exchange listed companies.

The Company has incurred and it is anticipated that it will continue to incur costs to comply with the Act and the rules and regulations promulgated pursuant to the Act by the Securities and Exchange Commission and other regulatory agencies having jurisdiction over the Company on the issuance and listing of its securities. The Company does not currently anticipate, however, that compliance with the Act and such rules and regulations will have a material effect upon its financial position or results of its operations or its cash flows.

California Corporate Disclosure Act

Effective January 1, 2003, the California Corporate Disclosure Act (the "CCD Act") required publicly traded corporations incorporated or qualified to do business in California to disclose information about their past history, auditors, directors and officers. Effective September 28, 2004, the CCD Act, as currently in effect and codified at California Corporations Code Section 1502.1, requires such companies (including the Company) to file with the California Secretary of State and disclose within 150 days after the end of its fiscal year certain information including the following:

- The name of a company's independent auditor and a description of services, if any, performed for a company during the previous two fiscal years and the period from the end of the most recent fiscal year to the date of filing;
- The annual compensation paid to each director and the five most highly compensated non-director executive officers (including the CEO) during the most recent fiscal year, including all plan and non-plan compensation for all services rendered to a company as specified in Item 402 of Regulation S-K such as grants, awards or issuance of stock, stock options and similar equity-based compensation;
- A description of any loans made to a director or executive officer at a "preferential" loan rate during the company's two most recent fiscal years, including the amount and terms of the loans;

- Whether any bankruptcy was filed by a company or any of its directors or executive officers within the previous 10 years;

- Whether any director or executive officer of a company has been convicted of fraud during the previous 10 years; and

- A description of any material pending legal proceedings other than ordinary routine litigation as specified in Item 103 of Regulation S-K and a description of such litigation where the company was found legally liable by a final judgment or order.

The Company does not currently anticipate that compliance with the CCD Act will have a material adverse effect upon its financial position or results of its operations.

Emergency Economic Stabilization Act of 2008

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the United States Department of the Treasury (the "U.S. Treasury") was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the U.S. financial markets and has implemented several programs, including the purchase by the U.S. Treasury of certain troubled assets from financial institutions under the Troubled Asset Relief Program" (the "TARP") and the direct purchase by the U.S. Treasury of equity securities of financial institutions under the Capital Purchase Program (the "CPP"). The Company no longer participates in the CPP.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law. Section 7001 of the ARRA amended Section 111 of the EESA in its entirety.

While the U.S. Treasury was required to promulgate regulations to implement the restrictions and standards set forth in Section 7001, the ARRA, among other things, significantly expands the executive compensation restrictions previously imposed by the EESA. Such restrictions apply to any entity that has received or will receive financial assistance under the TARP, and shall generally continue to apply for as long as any obligation arising from financial assistance provided under the TARP, including preferred stock issued under the CPP, remains outstanding. These ARRA restrictions do not apply to any TARP recipient during such time when the federal government (i) only holds any warrants to purchase common stock of such recipient or (ii) holds no preferred stock or warrants to purchase common stock of such recipient.

Small Business Jobs Act of 2010

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the "SBJ Act"), which, among other matters, authorizes the U.S. Treasury to buy up to $30 billion in preferred stock or subordinated debt issued by community banks (or their bank holding companies provided 90% of the funds received are down-streamed to the bank subsidiary) with assets less than $10 billion pursuant to the Small Business Lending Fund (the "SBLF") created under the SBJ Act. Funds received as capital investments will qualify as Tier 1 capital. The SBLF investments are intended to increase the availability of credit for small businesses and thereby induce the creation of jobs in support of economic recovery The participating banks (or bank holding companies) will pay an annual dividend on the preferred stock or subordinated debt purchased by the U.S. Treasury in an amount which ranges between 5% and 1% during the initial measurement period of approximately two years determined by reducing the dividend rate 1% for every 2.5% increase in the bank's small business lending up to a lending increase of 10%. The dividend rate will be adjusted quarterly during the initial period. If a participant's lending activity does not increase in the initial period, the dividend rate will increase thereafter to 7%. After 4.5 years, the dividend rate increases to 9% until the SBLF funds are repaid.

On December 23, 2010, the federal banking agencies jointly issued guidance on underwriting standards for small business loans originated under the SBLF which require adherence to safe and sound credit standards and risk management processes. It is uncertain whether the SBLF will have the intended effect of creating jobs in sufficient numbers to positively impact the economic recovery.

On September 15, 2011, as part of the Small Business Lending Fund ("SBLF") program established under the Small Business Jobs Act of 2010, the Company entered into and consummated a SBLF Securities Purchase Agreement (the "Purchase Agreement") with the Secretary of the Treasury ("Treasury"), pursuant to which the Company (i) issued and sold to Treasury a total of 12,600 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), having a liquidation preference amount of $1,000 per share, for a purchase price of $12,600,000. The Series C Preferred Stock qualifies as Tier 1 capital.

All of the $12,600,000 proceeds from the Company's sale of its Series C Preferred Stock were immediately applied to the Company's repurchase of outstanding shares of preferred stock which were issued to the United States Department of the Treasury on February 27, 2009, pursuant to the TARP Capital Purchase Program authorized by the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009. The aggregate redemption price for the outstanding shares of preferred stock was $12,654,500. The $54,500 price differential was paid by the Company in cash.

Subject to the prior approval of the appropriate Federal Banking Agency, the Series C Preferred Stock may be redeemed, in whole or in part, at any time at the option of the Company, at a redemption price of 100% of the liquidation preference amount plus any accrued and unpaid dividends for the then current period, to the date of redemption.

On May 6, 2013, the Company redeemed 25% of the original issue $12,600,000 of Series C Preferred Stock for a cash payment of $3,150,000. Subsequently, on January 23, 2014, the remaining $9,450,000 of Series C Preferred Stock was redeemed by the Company, also in a cash transaction.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank act is intended to restructure the regulation of the financial services sector by, among other things, (i) establishing a framework to identify systemic risks in financial system implemented by a newly created Financial Stability Oversight Council and other federal banking agencies; (ii) expanding the resolution authority of the federal banking agencies over troubled financial institutions; (iii) authorizing changes to capital and liquidity requirements; (iv) changing deposit insurance assessments; and (v) enhancing regulatory supervision to improve the safety and soundness of the financial services sector. The Dodd-Frank Act is expected to have a significant impact upon our business as its provisions are implemented over time. Below is a summary of certain provisions of the Dodd-Frank Act which, directly or indirectly, may affect the Company and the Bank.

Changes to Capital Requirements. The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies which will not be lower and could be higher than current regulatory capital and leverage standards for insured depository institutions. Under these requirements, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Company has no trust preferred securities outstanding. The Dodd-Frank Act requires capital increases in times of economic expansion and decreases in times of economic contraction consistent with safety and soundness.

Enhanced Regulatory Supervision. The Dodd-Frank Act increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency.

Consumer Protection. The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") within the Federal Reserve System. The CFPB is responsible for establishing and implementing rules and regulations under various federal consumer protection laws governing certain consumer products and services.

The CFPB has primary enforcement authority over large financial institutions with assets of $10 billion or more, while smaller institutions will be subject to the CFPB's rules and regulations through the enforcement authority of the federal banking agencies. States are permitted to adopt consumer protection laws and regulations that are more stringent than those laws and regulations adopted by the CFPB and state attorneys general are permitted to enforce consumer protection laws and regulations adopted by the CFPB.

Deposit Insurance. The Dodd-Frank Act permanently increased the deposit insurance limit for insured deposits to $250,000 per depositor and extended unlimited deposit insurance to non-interest bearing transaction accounts until December 31, 2012. Other deposit insurance changes under the Dodd-Frank Act include (i) amendment of the assessment base used to calculate an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund ("DIF") by elimination of deposits and substitution of average consolidated total assets less average tangible equity during the assessment period as the revised assessment base; (ii) increasing the minimum designated reserve ratio ("DRR") of the DIF from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits; (iii) eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds; and (iv) repeal of the prohibition upon the payment of interest on demand deposits to be effective one year after the date of enactment of the Dodd-Frank Act. In December 2010, pursuant to the Dodd-Frank Act, the FDIC increased the reserve ratio of the DIF to 2.0 percent effective January 1, 2011, which has remained in effect.

Transactions with Affiliates. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

Transactions with Insiders. Insider transaction limitations were expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions were also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution's board of directors.

Enhanced Lending Limitations. The Dodd-Frank Act strengthened the existing limits on a depository institution's credit exposure to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

Debit Card Interchange Fees. The Dodd-Frank Act required that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. Within nine months of enactment of the Dodd-Frank Act, the Federal Reserve Board was required to establish standards for reasonable and proportional fees which may take into account the costs of preventing fraud. The restrictions on interchange fees, however, do not apply to banks that, together with their affiliates, have assets of less than $10 billion.

Interstate Branching. The Dodd-Frank Act authorized national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Charter Conversions. Effective one year after enactment of the Dodd-Frank Act, depository institutions that are subject to a cease and desist order or certain other enforcement actions issued with respect to a significant supervisory matter were prohibited from changing their federal or state charters, except in accordance with certain notice, application and other procedures involving the applicable regulatory agencies.

Compensation Practices. The Dodd-Frank Act provided that the appropriate federal banking regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other "covered financial institution" that provides an insider or other employee with "excessive compensation" or could lead to a material financial loss to such firm. In June 2010, prior to the enactment of the Dodd-Frank Act, the federal bank regulatory agencies jointly issued the Interagency Guidance on Sound Incentive Compensation Policies ("Guidance"), which requires that financial institutions establish metrics for measuring the risk to the financial institution of such loss from incentive compensation arrangements and implement policies to prohibit inappropriate risk taking that may lead to material financial loss to the institution. Together, the Frank-Dodd Act and the Guidance may impact the Company's compensation policies and arrangements.

Corporate Governance. The Dodd-Frank Act has enhanced corporate governance requirements to include (i) requiring publicly traded companies to give shareholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders; (ii) authorizing the SEC to promulgate rules that would allow shareholders to nominate their own candidates for election as directors using a company's proxy materials; (iii) directing the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether or not the company is publicly traded; and (iv) authorizing the SEC to prohibit broker discretionary voting on the election of directors and on executive compensation matters.

Many of the requirements under the Dodd-Frank Act will be implemented over an extended period of time and therefore, the nature and extent of regulations that will be issued by various regulatory agencies and the impact such regulations will have on the operations of financial institutions such as the Company and the Bank is unclear. Such regulations resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Future Legislation and Regulations

Certain legislative and regulatory proposals that could affect the Company, the Bank, and the banking business in general are periodically introduced before the United States Congress, the California State Legislature and federal and state government agencies. It is not known to what extent, if any, legislative proposals will be enacted and what effect such legislation would have on the structure, regulation and competitive relationships of financial institutions. It is likely, however, that such legislation could subject the Company and the Bank to increased regulation, disclosure and reporting requirements, competition, and costs of doing business.

In addition to legislative changes, the various federal and state financial institution regulatory agencies frequently propose rules and regulations to implement and enforce already existing legislation. It cannot be predicted whether or in what form any such rules or regulations will be enacted or the effect that such regulations may have on the Company and the Bank.

ITEM 1A. RISK FACTORS

In addition to the risks associated with the business of banking generally, as described above under Item 1 (Description of Business), the Company's business, financial condition, operating results, future prospects and stock price can be adversely impacted by certain risk factors, as set forth below, any of which could cause the Company's actual results to vary materially from the recent results or from the Company's anticipated future results.

Extensive Regulation of Banking. The Company's operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of its operations. The Company believes that it is in substantial compliance in all material respects with laws, rules and regulations applicable to the conduct of its business. Because the Company's business is highly regulated, the laws, rules and regulations applicable to it are subject to regular modification and change. There can be no assurance that these laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance much more difficult or expensive, restrict the Company's ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by the Company, or otherwise adversely affect the Company's results of operations, financial condition, or future prospects.

Governmental Fiscal and Monetary Policies. The business of banking is affected significantly by the fiscal and monetary policies of the federal government and its agencies. Such policies are beyond the control of the Company. The Company is particularly affected by the policies established by the Board of Governors of the Federal Reserve System in relation to the supply of money and credit in the United States, and the target federal funds rate.

The instruments of monetary policy available to the Board of Governors can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on the Company's business, results of operations and financial condition. Federal monetary policy may also affect the longer-term inflation rate which directly affects the national and local economy.

The Effects of Legislation in Response to Credit Conditions. Legislation passed at the federal level and/or by the State of California in response to conditions affecting credit markets could cause the Company to experience higher credit losses if such legislation reduces the amount that borrowers are otherwise contractually required to pay under existing loan contracts with the Bank. Such legislation could also result in the imposition of limitations upon the Bank's ability to foreclose on property or other collateral or make foreclosure less economically feasible. Such events could result in increased loan losses and require a material increase in the allowance for loan losses and thereby adversely affect the Company's results of operations, financial condition, future prospects, profitability and stock price.

Geographic Concentration. All of the banking offices of the Company are located in the Northern California Counties of San Mateo, Santa Clara and San Francisco. The Company and the Bank conduct business primarily in the San Francisco Bay Area. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in this area. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets, and adverse economic conditions could reduce our growth rate, or affect the ability of our customers to repay their loans, and generally impact our financial condition and results of operations. Economic conditions in the State of California are subject to various uncertainties at this time, including the budgetary and fiscal difficulties facing the State government.

Competition. Increased competition in the market areas served by the Bank may result in reduced loans and deposits. Ultimately, the Bank may not be able to compete successfully against current and future bank and non-bank competitors.

Many competitors offer the banking services that are offered by the Bank in its service area. These competitors include national and super-regional banks, finance companies, investment banking and brokerage firms, credit unions, government-assisted farm credit programs, other community banks and technology-oriented financial institutions offering online services. In particular, the Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances, such as Internet-based banking services that cross traditional geographic bounds, enable more companies to provide financial services.

The Effects of Changes to FDIC Insurance Coverage Limits and Assessments. FDIC insurance assessments are uncertain and increased premiums may adversely affect the Company's earnings. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures. In such event, the FDIC would take control of failed banks and guarantee payment of deposits up to applicable insured limits from the Deposit Insurance Fund. Insurance premium assessments to insured financial institutions may increase as necessary to maintain adequate funding of the Deposit Insurance Fund.

Despite the increase in deposit insurance to $250,000 per depositor, some depositors may reduce the amount of deposits held at the Bank if concerns regarding bank failures arise, which could affect the level and composition of the Bank's deposit portfolio and thereby directly impact the Bank's funding costs and net interest margin. The Bank's funding costs may also be adversely affected in the event that activities of the Federal Reserve Board and the U.S. Treasury to provide liquidity for the banking system and improvement in capital markets are curtailed or are unsuccessful. Such events could reduce liquidity in the markets, thereby increasing funding costs to the Bank or reducing the availability of funds to the Bank to finance its existing operations and thereby adversely affect the Company's results of operations, financial condition, future prospects, profitability and stock price.

Interest Rate Risk. Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds.

Interest rates are sensitive to many factors outside our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System, which regulates the supply of money and credit in the United States. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and interest we pay on deposits and borrowings, but could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our mortgage-backed securities portfolio. Our portfolio of securities is subject to interest rate risk and will generally decline in value if market interest rates increase, and generally increase in value if market interest rates decline.

Technology and Technological Change. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology will enable efficiency and meeting customers' changing needs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations.

Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to retain and compete for customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact of the long-term aspect of our business and, in turn, our financial condition and results of operations.

Dependence on Key Officers and Employees. We are dependent on the successful recruitment and retention of highly qualified personnel. Our ability to implement our business strategies is closely tied to the strengths of our executive officers who have extensive experience in the banking industry but who are not easily replaced.

In addition, business banking, one of the Company's principal lines of business, is dependent on relationship banking, in which the Bank personnel develop professional relationships with small business owners and officers of larger business customers who are responsible for the financial management of the companies they represent. If these employees were to leave the Bank and become employed by a local competing bank, we could potentially lose business customers. In addition, we rely on our customer service staff to effectively serve the needs of our consumer customers. We actively recruit for all open positions and management believes that its relations with employees are good.

Growth strategy. The Company continues to pursue a growth strategy which depends primarily on generating an increasing level of loans and deposits at acceptable risk levels. We may not be able to sustain our growth strategy without establishing new branches or developing new products. We may attempt to expand by opening new branch offices or acquiring other financial institutions or branch offices or through a purchase, in whole or in part, of other financial institutions. This expansion may require significant investments in equipment, technology, personnel and site locations. We cannot assure you of our success in implementing our growth strategy either through expansion of our existing branch system or through mergers and acquisitions, and there may be significant increases in our noninterest expenses, without any corresponding balance sheet growth. Mergers and acquisitions may not add to the growth of the Bank's loans, deposits or the Bank's profitability due to integration problems, collateral differences, changes in business conditions, or other unforeseen circumstances.

Commercial loans. As of December 31, 2015, approximately 7% of our loan portfolio consisted of commercial business loans, which could have a higher degree of risk than other types of loans. Commercial lending is dependent on borrowers making payments on their loans and lines of credit in accordance with the terms of their notes. Worsening economic conditions could make it difficult for many commercial borrowers to make their required loan payments. This credit risk is increased when there is a concentration of principal in a limited number of loans and borrowers, the mobility of collateral, and the increased difficulty of evaluating and monitoring these types of loans. The availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired.

In addition, unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. If the Bank is required to repossess equipment or pursue collection efforts under personal guarantees, there could be a substantial decrease in value of collateral, if any, increased legal costs, and an increased risk of loss on the amount outstanding.

Real Estate Values. A large portion of the loan portfolio of the Company is dependent on the performance of our real estate portfolio. At December 31, 2015, real estate (including construction loans) served as the principal source of collateral with respect to approximately 93% of the Company's loan portfolio.

A substantial decline in the economy in general, coupled with a continued decline in real estate values in the Company's primary operating market areas could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, and the value of real estate and other collateral securing loans. Real estate values have declined, due in part to reduced construction lending, tighter underwriting requirements, and reduced borrower ability to make payments. Real estate loans may pose collection problems, resulting in increased collection expenses, and delays in the ultimate collection of these loans. In addition, acts of nature, including fires, earthquakes and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact the Company's financial condition.

Allowance for Loan and Lease Losses. The Company maintains an allowance for loan losses to provide for inherent loan defaults and non-performance, but its allowance for loan losses may not be adequate to cover actual loan and lease losses. In addition, future provisions for loan and lease losses could materially and adversely affect the Company and therefore the Company's operating results. The Company's allowance for loan and lease losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Company's control, and these losses current estimates. Federal regulatory agencies, as an integral part of their examination process, review the Company's loans and the allowance for loan and lease losses. Although we believe that the Company's allowance for loan and lease losses is adequate to cover inherent future losses, we cannot assure you that we will not further increase the allowance for loan and lease losses or that the regulators will not require us to increase this allowance. Either of these occurrences could materially and adversely affect the Company's earnings.

Other Real Estate Owned ("OREO"). Real estate acquired through, or in lieu of, loan foreclosures is expected to be sold and is recorded at its fair value less estimated costs to sell (fair value). The amount, if any, by which the recorded amount of the loan exceeds the fair value (less estimated costs to sell) are charged to the allowance for loan or lease losses, if necessary. The Company's earnings could be materially and adversely affected by various expenses associated with OREO, including legal expenses, personnel costs, insurance and taxes, completion and repair costs, valuation adjustments, and other expenses associated with property ownership. Also, any further decrease in market prices of real estate in our market areas may lead to additional OREO write downs, with a corresponding expense in our income statement. At December 31, 2015 and 2014, our OREO totaled $1,026,000 and $763,000, respectively.

Environmental Liabilities. In the course of our business, we may foreclose and take title to real estate, and could become subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigations or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we could become subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business prospects, financial condition, liquidity, results of operations and stock price could be materially and adversely affected.

Dilution of Common Stock. The Articles of Incorporation of the Company authorize the issuance of 10,000,000 shares of common stock, of which 4,541,680 were outstanding at December 31, 2015. Pursuant to its 1997, 2002 and 2008 Stock Option Plans, at December 31, 2015, the Company had outstanding options to purchase

a total of 465,414 shares of common stock. As of December 31, 2015, 404,766 shares of common stock remained available for grants under the 2008 Stock Option Plan.

The issuance of substantial amounts of the Company's newly issued common stock in the public market could adversely affect the market price of the Company's common stock. The market for the Company's common stock is limited, making the ability to raise funds in the future through a stock offering more difficult.

Cybersecurity Losses. The Company is subject to certain operations risks, including, but not limited to, data processing system or cybersecurity failures and customer or employee fraud. The Company maintains a system of internal controls to mitigate against such occurrences and maintains insurance coverage for such risks, but should such an event occur that is not prevented or detected by the Company's internal controls, uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on the Company's business, financial condition or results of operations. Additionally, the Company is dependent on network and computer systems. If these systems and their back-up systems were to fail or were breached, the Company could be adversely affected. The company cannot be certain that the continued implementation of safeguards will eliminate the risk of vulnerability to technological difficulties or failures or ensure the absence of a breach of information or security, including as a result of a cybersecurity breach. The bank regulatory agencies have recently emphasized cybersecurity as a critical challenge facing the financial services industry in light of the frequency and sophistication of cyber attacks. The Company and the Bank will continue to enhance their information security programs consistent with regulatory requirements, including reliance on the services of various vendors who provide data processing and communications services to the financial services industry. Nonetheless, if information security is compromised or other technology difficulties or failures occur at the Bank or with one of its vendors, information may be lost or misappropriared, services and operations may be interrupted and the Bank could be exposed to claims from its customers.

Business Confidence Uncertainty. Terrorist activities in the future and the actions taken by the United States and its allies in combating terrorism on a worldwide basis could adversely impact the Company and the extent of such impact is uncertain. Even more so, the problems in the mortgage and credit markets, the government conservatorship of Fannie Mae and Freddie Mac, as well as large write-offs at some major financial institutions have had a negative impact on the entire financial services industry. Such events have had an adverse effect on the economy in the Company's market areas.

Federal Home Loan Bank Risk. The failure of the Federal Home Loan Bank ("FHLB") of San Francisco or the national Federal Home Loan Bank System may have a material negative impact on our earnings and liquidity.

Even though the FHLB of San Francisco has announced it does not anticipate that additional capital will be necessary, nor does it believe that its capital level is inadequate to support realized losses in the future, the FHLB of San Francisco could require its members, including the Bank, to contribute additional capital in order to return the FHLB of San Francisco to compliance with capital guidelines.

At December 31, 2015, the Bank held $5.2 million of common stock in the FHLB of San Francisco. Should the FHLB of San Francisco fail, we anticipate that our investment in the FHLB's common stock would be "other than temporarily" impaired and may have limited value.

At December 31, 2015, the Bank maintained a line of credit with the FHLB of San Francisco with a maximum borrowing capacity of $332,836,000, of which $317,377,000 was available. Advances under the line of credit are secured by a blanket collateral agreement, a pledge of our FHLB common stock and certain other qualifying collateral, such as commercial and mortgage loans. The Bank is highly dependent on the FHLB of San Francisco as the primary source of wholesale funding for immediate liquidity and borrowing needs. The failure of the FHLB of San Francisco or the FHLB system in general, may materially impair our ability to meet our growth plans or to meet short and long term liquidity demands.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company does not own any real property. Since its incorporation on February 28, 2001, the Company has conducted its operations at the administrative offices of the Bank, located at 975 El Camino Real, South San Francisco, CA 94080.

The Bank owns the land and building at 975 El Camino Real, South San Francisco, CA 94080. The premises consist of a three-story building of approximately 15,000 square feet and off-street parking for employees and customers of approximately 45 vehicles.

The Buri Buri Branch Office of the Bank is located on the ground floor of the building at 975 El Camino Real, South San Francisco, CA 94080, and administrative offices, including the offices of senior management and credit administration, occupy the second and third floors.

The Bank owns the land and two-story building occupied by the Daly City Branch Office (6600 Mission Street, Daly City, CA 94014); the land and two-story building occupied by the Colma Branch Office (1300 El Camino Real, Colma, CA 94014); the land and two-story building occupied by the Redwood City Branch Office (700 El Camino Real, Redwood City, CA 94063); the land and two-story building occupied by the Millbrae Branch Office (1551 El Camino Real, Millbrae, CA 94030); the land and single-story building occupied by the Half Moon Bay Branch Office (756 Main Street, Half Moon Bay, CA 94019); the land and two-story building occupied by the Pescadero Branch Office (239 Stage Road, Pescadero, CA 94060); and the land and one story building occupied by the Sunnyvale Branch Office (425 South Mathilda Avenue, Sunnyvale, CA 94086). All properties include adequate vehicle parking for customers and employees.

The Bank leases premises at 1450 Linda Mar Shopping Center, Pacifica, California 94044, for its Linda Mar Branch Office. This ground floor space is approximately 4,100 square feet. The lease will expire on August 31, 2019.

The Bank leases premises at 6599 Portola Drive, San Francisco, CA 94127, for its Portola Office. The current lease expired June 30, 2012, and the premises are currently leased on a month-to-month basis. The location consists of approximately 1,325 square feet of street level space.

The Bank subleases premises at 2197 Chestnut Street, San Francisco, CA 94123, for its Chestnut Street Branch, which opened for business on April 4, 2011, and consists of 2,150 square feet at street level and approximately 2,000 square feet on the second floor. The sublease ends on July 15, 2024.

The Bank leases premises at 150 East Third Avenue, San Mateo, CA 94401, for its San Mateo Branch Office. The Bank exercised the remaining option to extend the lease term to August 12, 2018. The location consists of approximately 4,000 square feet of ground floor usable commercial space.

The Bank leases premises at 130 Battery Street, San Francisco, CA, 94000, for its Battery Street Branch Office. The lease has been extended to February 28, 2018. It has an option remaining to extend the lease for a final five years. The location consists of approximately 13,000 square feet, consisting of ground floor, mezzanine and lower level.

The Bank leased a warehouse facility at 450 Cabot Road, South San Francisco, CA 94080. The lease expired February 28, 2011. The facility is currently leased on a month-to-month basis and consists of approximately 7,600 square feet of office/warehouse space.

The foregoing summary descriptions of leased premises are qualified in their entirety by reference to the full text of the lease agreements listed as exhibits to this report.

As of December 31, 2015, the Bank's investment in premises and equipment totaled $10,202,000. See Note 8 to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings adverse to the Company or the Bank to which any director, officer, affiliate of the Company, or 5% shareholder of the Company, or any associate of any such director, officer, affiliate

or 5% shareholder of the Company are a party, and none of the foregoing persons has a material interest adverse to the Company or the Bank.

From time to time, the Company and/or the 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 the 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 the Bank, taken as a whole.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of the Company is not listed on any exchange. Trades are quoted on the OTCQB marketplace under the trading symbol, "FNBG." There is limited trading in the shares of common stock of the Company. On February 28, 2015, the Company had approximately 700 shareholders of common stock of record.

The following table summarizes the range of high and low bid information reported on the OTCQB marketplace during the periods indicated of which management has knowledge, including the per share cash dividends declared for the periods indicated. These over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. All information has been adjusted to reflect the 5% stock dividends payable on January 16, 2015 to shareholders of record on December 15, 2014 and payable on December 28, 2015 to shareholders of record on November 25, 2015.

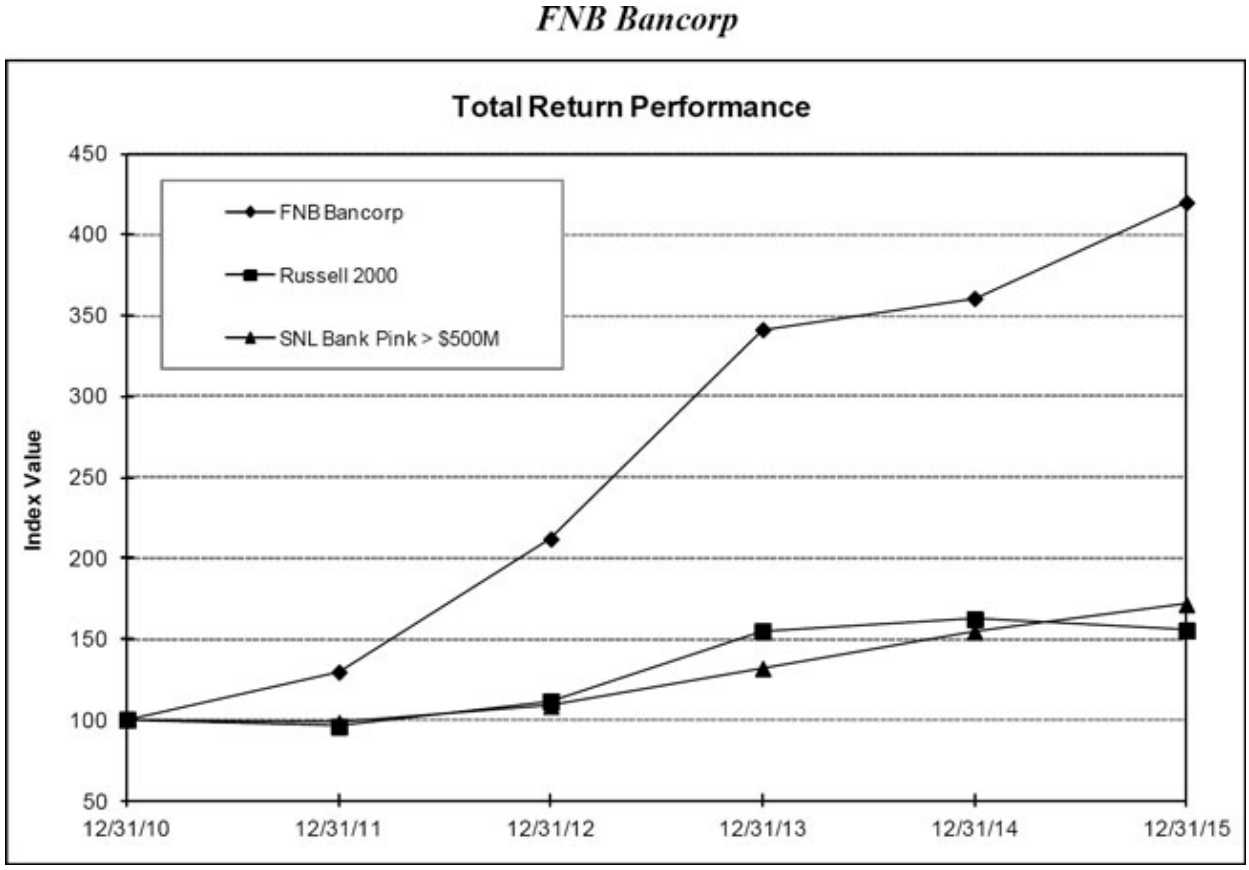
	Bid Price of FNB Bancorp Common Stock		Cash Dividends
2014	High	Low	Declared (1)
First Quarter	$ 26.90	24.90	$ 0.10
Second Quarter	27.86	25.10	0.10
Third Quarter	27.33	26.19	0.11
Fourth Quarter	27.00	25.48	0.11
2015			
First Quarter	$ 28.40	26.70	$ 0.12
Second Quarter	28.95	27.60	0.13
Third Quarter	28.84	27.45	0.13
Fourth Quarter	30.90	28.40	0.15

(1) See "Limitation on Dividends" (following "FDIC Insurance") in Item 1 (above), for a description of the limitations applicable to the payment of dividends by the Company.

STOCK PERFORMANCE GRAPH

Set forth below is a line graph comparing the annual percentage change in the cumulative total return on the Company's Common Stock with the cumulative total return of the SNL Securities Index of Pink Banks (asset size of over $500 million) and the Russell 2000 Index as of the end of each of the last five fiscal years.

The graph assumes that $100.00 was invested on December 31, 2010 in the Company's Common Stock and each index, and that all dividends were reinvested. Returns have been adjusted for any stock dividends and stock splits declared by the Company. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.



	Period Ending					
Index	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**
FNB Bancorp	100.00	129.55	211.81	341.37	360.65	419.92
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
SNL Bank Pink > $500M	100.00	98.32	108.42	131.77	154.48	171.37

ITEM 6 - SELECTED FINANCIAL DATA

The following table presents a summary of selected financial information that should be read in conjunction with the Company's consolidated financial statements and notes thereto included under Item 8 - "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

Dollar amounts in thousands, except per share amounts and ratios	At and for the years ended December 31,				
	2015	2014	2013	2012	2011
STATEMENT OF EARNINGS DATA					
Total interest income	$ 39,282	$ 36,859	$ 37,389	$ 33,588	$ 32,897
Total interest expense	2,597	2,093	2,395	2,727	3,327
Net interest income	36,685	34,766	34,994	30,861	29,570
(Recovery) of provision for loan losses	(305)	(1,020)	1,385	1,833	1,750
Net interest income after provision for loan losses	36,990	35,786	33,609	29,028	27,820
Total noninterest income	4,496	6,589	4,183	9,159	5,079
Total noninterest expenses	29,925	27,868	29,028	27,739	27,074
Earnings before provision for income taxes	11,561	14,507	8,764	10,448	5,825
Provision for income taxes	3,364	5,098	1,325	1,645	1,568
Net earnings	8,197	9,409	7,439	8,803	4,257
Dividends and discount accretion on preferred stock	—	170	567	658	800
Net earnings available to common shareholders	$ 8,197	$ 9,239	$ 6,872	$ 8,145	$ 3,457
PER SHARE DATA - see note (1)					
Net earnings per share:					
Basic	$ 1.82	$ 2.08	$ 1.58	$ 1.90	$ 0.81
Diluted	$ 1.77	$ 2.02	$ 1.55	$ 1.88	$ 0.81
Cash dividends per share	$ 0.53	$ 0.42	$ 0.33	$ 0.15	$ 0.18
Weighted average shares outstanding:					
Basic	4,516,000	4,444,000	4,339,000	4,277,000	4,270,000
Diluted	4,644,000	4,585,000	4,436,000	4,344,000	4,292,000
Shares outstanding at period end	4,542,000	4,472,000	4,386,000	4,282,000	4,262,000
Book value per common share	$ 22.93	$ 21.71	$ 21.49	$ 22.27	$ 20.46
Investment securities	329,207	264,881	263,988	234,945	187,664
Net loans	722,747	583,715	552,343	541,563	443,721
Allowance for loan losses	9,970	9,700	9,879	9,124	9,897
Total assets	1,124,349	917,164	891,930	875,340	715,641
Total deposits	983,189	792,194	773,615	768,352	621,778
Stockholders' equity	104,162	97,088	94,249	95,358	87,196
SELECTED PERFORMANCE DATA					
Return on average assets (2)	0.81%	1.02%	0.76%	1.03%	0.48%
Return on average equity (2)	8.15%	10.16%	7.38%	9.00%	4.14%
Net interest margin	4.06%	4.21%	4.31%	4.52%	4.88%
Average loans as a percentage of average deposits	70.70%	72.83%	70.09%	69.68%	75.11%
Average total stockholders' equity as a percentage of average total assets	9.96%	10.09%	10.31%	11.40%	11.62%
Common dividend payout ratio	29.85%	19.27%	21.13%	11.82%	22.59%
SELECTED ASSET QUALITY RATIOS					
Net loan charge-offs/ total loans	0.08%	-0.14%	0.11%	0.47%	0.30%
Allowance for loan losses/Total Loans	1.36%	1.63%	1.76%	1.66%	2.18%
CAPITAL RATIOS (3)					
Total Regulatory Capital Ratio	13.39%	14.60%	14.30%	14.65%	16.53%
Tier 1 Capital Ratios	12.79%	13.34%	13.05%	13.40%	15.27%
Leverage Ratios	8.06%	10.30%	9.81%	9.75%	11.21%
Common Equity Tier 1 Capital Ratio	12.79%	N/A	N/A	N/A	N/A

(1) Per share data has been adjusted for stock dividends.
(2) Calculated using net earnings available to common shareholders.
(3) Ratios are for the Company, substantially same as Bank regulatory capital ratios.
(4) Quarterly cash dividends/share and annual dividends/share may not be the same due to rounding considerations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF FNB BANCORP AND SUBSIDIARY

Critical Accounting Policies And Estimates

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to its loans and allowance for loan losses. The Company bases its estimates on current market conditions, historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. The Company believes the following critical accounting policies 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 charge-offs and loan loss provisions.

Goodwill

Goodwill arises when the Company's purchase price exceeds the fair value of 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 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 taxing authorities.

Fair Values of Financial Instruments

Certain assets and liabilities are either carried at fair value on a recurring or non-recurring basis or are required to be disclosed at fair value. Accounting principles have established a fair value measurement model which establishes a framework that quantifies fair value estimates by the level of pricing precision. The degree of judgment utilized in measuring the fair value of assets generally correlates to the level of pricing precision. Financial instruments rarely traded or not quoted will generally have a higher degree of judgment utilized in measuring fair value. Pricing precision is impacted by a number of factors including the type of asset or liability, the availability of the asset or liability, the market demand for the asset or liability, and other conditions that were considered at the time of the valuation.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-01 *Accounting for Investments in Qualified Affordable Housing Projects*. This ASU provides "guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit." It allows the proportional amortization method to be used by a reporting entity if certain conditions are met. The ASU also defines when a qualified affordable housing project through a limited liability entity should be tested for impairment. If a qualified affordable housing project does not meet the conditions for using the proportional amortization method, the investment should be accounted for using an equity method investment or a cost method investment. The ASU is effective for fiscal years beginning after December 15, 2014, and interim periods therein. The adoption of ASU 2014-01 did not have a material impact on the Company's consolidated financial statements.

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

In September 2015, FASB issued ASU 2015-16, *Business Combinations (Topic 805) –Simplifying the Accounting for Measurement-Period Adjustments*. GAAP requires that during the amendment period, the acquirer

retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this Update eliminate the requirement to retrospectively account for those adjustments. These amendments in this Update are effective for fiscal years beginning after December 15, 2015.

In January, 2016 FASB issued ASU 2016-1, *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. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016 FASB issued ASU 2016-2*, 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. To meet that objective, the FASB is amending the *FASB Accounting Standards Codification*® and creating *Leases, Topic 842*. This Update, along with IFRS 16, *Leases*, are the results of the FASB's and the International Accounting Standards Board's (IASB's) efforts to meet that objective and improve financial reporting. The adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

Earnings Analysis

The principal source of the Company's income is interest income on loans. The level of interest income can be affected by changes in interest rate, volume of loans outstanding, and the quality of our loan portfolio. Loans that are 90 days or more past due are placed on non-accrual status. Income on such loans is then recognized only to the extent that cash is received, and where the future collection of principal is probable. All other loans accrue interest at the stated contract rate.

Net interest income for 2015 totaled $36,685,000. Net interest income for 2014 totaled $34,766,000. Net interest income for 2013 totaled $34,994,000. Interest income was $39,282,000 in 2015, an increase of $2,423,000 or 6.6% over 2014. Interest income was $36,859,000 in 2014, a decrease of $530,000 or 1.4% from 2013. Interest income was $37,389,000 in 2013. The decrease in net interest income in 2014 was attributable to a decline in our net interest margin whereby yields on our interest earning assets decreased by more than the reduction of interest expense on our interest bearing liabilities. The increase in net interest income in 2013 was attributable to an increase in loans and taxable securities, and a decrease in interest expense on deposits, coupled with a full year of loans acquired from Oceanic Bank in September 2012. Most of the interest earning assets are tied to the prime lending rate, which did not change during 2013 through November, 2015. The rate was raised 25 basis points in December 16, 2015. Total nonaccrual loans were $7,915,000 and $5,648,000 as of December 31, 2015 and 2014, respectively. Payments received for loans on nonaccrual status, where principal is believed to be fully collectible, are credited to interest income when they are received.

Average interest earning assets were $923,700,000 in 2015 compared to $840,360,000 in 2014, an increase of $83,340,000 or 9.9%. Average interest earning assets were $840,360,000 in 2014, an increase of $11,985,000 or 1.45% over average interest earning assets of $828,375,000 in 2013. The yield on interest earning assets decreased 13 basis points in 2014 compared to 2013, and decreased 32 basis points in 2013 compared to 2012. The principal earning assets were loans. With the acquisition of America California Bank, average loans increased $57,744,000 in 2015 over 2014, and their yield decreased 20 points. Average loans outstanding increased $17,755,000 in 2014 compared to 2013, and increased $72,416,000 in 2013 compared to 2012. Their yield decreased 28 points in 2014 compared to 2013, and decreased 25 basis points in 2013 compared to 2012. With the Oceanic Bank and America

California Bank acquisitions, average loans outstanding increased during 2013, 2014 and 2015. Interest expense for 2015 totaled $2,597,000, compared to $2,093,000 in 2014, and $2,395,000 in 2013. Average interest bearing liabilities were $656,115,000 in 2015, $594,946,000 in 2014 and $610,796,000 in 2013. This represented an increase of $61,169,000 in 2015 over 2014, and a decrease of $15,850,000 in 2014 over 2013. We increased our deposit rates slightly, as the general market rose slightly, and to help to increase deposits at our Sunnyvale Branch. The cost of these liabilities increased 5 basis points in 2015, and decreased 4 basis points in 2014 compared to 2013. Time deposit costs increased 3 basis points in 2015 compared to 2014 and decreased 9 basis points in 2014 compared to 2013. The Bank generally lowered rates paid on interest bearing liabilities during 2013 and 2014 but raised them during 2015. Management believes that further rate reductions on interest bearing liabilities may be difficult to achieve given the low absolute levels of existing market interest rates on deposits.

TABLE 1 Net Interest Income and Average Balances

(Dollar amounts in thousands)	2015			2014			2013		
	Average Balance	Interest Income Expense	Average Yield Cost	Average Balance	Interest Income Expense	Average Yield Cost	Average Balance	Interest Income Expense	Average Yield Cost
INTEREST EARNING ASSETS									
Loans, gross (1) (2)	$ 629,814	$ 33,235	5.28%	$ 572,070	$ 31,355	5.48%	$ 554,315	$ 31,937	5.76%
Taxable securities	188,286	3,554	1.89%	189,595	3,464	1.83%	191,543	3,283	1.71%
Nontaxable securities (3)	103,611	3,272	3.16%	74,436	2,614	3.51%	73,638	2,684	3.64%
Federal funds sold	—	—	n/a	8	—	n/a	20	—	n/a
Interest on deposits- other financial institutions	1,989	39	1.96%	4,251	81	1.91%	8,859	156	1.76%
Total interest earning assets	923,700	40,100	4.34%	840,360	37,514	4.46%	828,375	38,060	4.59%
Cash and due from banks	44,774			19,451			28,484		
Premises and equipment	10,557			12,326			12,690		
Other assets	31,404			29,396			34,276		
Total noninterest earning assets	86,735			61,173			75,450		
TOTAL ASSETS	$ 1,010,435			$ 901,533			$ 903,825		
Deposits:									
Demand, interest bearing	$ 92,267	$ 104	0.11%	$ 77,613	$ 65	0.08%	$ 76,754	$ 92	0.12%
Money market	368,858	1,589	0.43%	326,399	1,212	0.37%	312,608	1,334	0.43%
Savings	75,861	77	0.10%	66,695	68	0.10%	63,418	98	0.15%
Time deposits	112,414	589	0.52%	109,743	539	0.49%	147,928	852	0.58%
Fed Home Loan Bank advances	1,452	9	0.62%	10,055	17	0.17%	10,088	19	0.19%
Note payable	5,263	229	4.35%	4,441	192	4.32%	—	—	—
Total interest bearing liabilities	656,115	2,597	0.40%	594,946	2,093	0.35%	610,796	2,395	0.39%
NONINTEREST BEARING LIABILITIES:									
Demand deposits	240,969			205,031			190,134		
Other liabilities	12,730			10,618			9,729		
Total noninterest bearing liabilities	253,699			215,649			199,863		
TOTAL LIABILITIES	909,814			810,595			810,659		
Stockholders' equity	100,621			90,938			93,166		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,010,435			$ 901,533			$ 903,825		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$ 37,503	4.06%		$ 35,421	4.21%		$ 35,665	4.31%

(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 include loan fees of $1,514,000, $1,790,000 and $1,159,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

(3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable securities portfolio are $818,000, $655,000 and $671,000 for the years ended December 31, 2015, 2014 and 2013, respectively, and were derived from nontaxable municipal interest income.

(4) The net interest margin is computed by dividing net interest income by total average interest earning assets.

The following table analyzes the dollar amount of change in interest income and expense and the changes in dollar amounts attributable to (a) changes in volume (changes in volume at the current year rate), (b) changes in rate (changes in rate times the prior year's volume) and (c) changes in rate/volume (changes in rate times changes in volume). In this table, the dollar change in rate/volume is prorated to volume and rate proportionately.

TABLE 2

(Dollar amounts in thousands)	Rate/Volume Variance Analysis Year Ended December 31					
	2015 compared to 2014 Increase (decrease) (2)			2014 compared to 2013 Increase (decrease) (2)		
	Interest Income/ Expense Variance	Variance Attributable To Rate	Variance Attributable To Volume	Interest Income/ Expense Variance	Variance Attributable To Rate	Variance Attributable To Volume
INTEREST EARNING ASSETS:						
Loans	$ 1,880	$ (1,167)	$ 3,047	$ (582)	$ (1,555)	$ 973
Taxable securities	90	114	(24)	181	214	(33)
Nontaxable securities (1), (3)	658	(367)	1,025	(70)	(98)	28
Interest-time deposits - other financial institutions	(42)	1	(43)	(75)	6	(81)
Total	$ 2,586	$ (1,419)	$ 4,005	$ (546)	$ (1,433)	$ 887
INTEREST BEARING LIABILITIES:						
Demand deposits	$ (39)	$ (27)	$ (12)	$ 27	$ 28	$ (1)
Money market	(377)	(194)	(183)	122	173	(51)
Savings deposits	(9)	—	(9)	30	33	(3)
Time deposits	(50)	(37)	(13)	313	93	220
Federal Home Loan Bank advances	8	(7)	15	2	2	—
Interest on note payable	(37)	(1)	(36)	(192)	—	(192)
Total	$ (504)	$ (266)	$ (238)	$ 302	$ 329	$ (27)
NET INTEREST INCOME	$ 2,082	$ (1,685)	$ 3,767	$ (244)	$ (1,104)	$ 860

(1) Nontaxable securities in this Table are shown on a tax equivalent basis.
(2) Increases (decreases) shown are in relation to their effect on net interest income.
(3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable portfolio are $818,000, $655,000 and $671,000 for the years ended December 31, 2015, 2014 and 2013, respectively, and were derived from nontaxable municipal interest income.

There were nominal amounts of federal funds sold in 2015 and 2014, respectively. Yields on deposits at other financial institutions averaged 1.96% in 2015, 1.91% in 2014, and 1.76% in 2013. On the expense side, the market decline in income on interest-bearing assets was also followed by declines in competitive market rates offered on interest-bearing liabilities.

Allowance For Loan Losses

The Board of Directors has the ultimate oversight responsibility over the processes utilized in assessing the overall risks in the Company's loan portfolio, assessing the specific loss expectancy, and determining the adequacy of the loan loss reserve. The level of reserves is determined by management and documented with internally generated credit quality ratings, a review of the local economic conditions in the Bank's market area, and consideration of the Bank's historical loan loss experience. The Bank is committed to maintaining adequate reserves, identifying credit weaknesses through frequent loan reviews, and updating loan risk ratings and changing those risk ratings in a timely manner as circumstances change.

Real estate loans outstanding (net of deferred loan fees and allowance for loan losses increased by $139,616,000 to $722,747,000 in 2015 compared to 2014, and $28,191,000 to $583,715,000 in 2014 compared to 2013. Bank management maintained conservative underwriting standards during 2013 through 2015, which generally required borrowers to maintain at most a loan-to-value ratio of 70%; maintain a debt service coverage ratio of at least 1.25; and required borrowers to make monthly mortgage payments out of documented cash flows.

During 2013 through 2015, we priced our loans competitively, and we did not discount our pricing in order to attract new business. The loan loss reserve as a percentage of outstanding loans increased during 2013, declined during 2014 and 2015.

The allowance for loan losses totaled $9,970,000, $9,700,000 and $9,879,000 in December 31, 2015, 2014 and 2013, respectively. This represented 1.36%, 1.63% and 1.76% of total loans outstanding on those dates. These balances reflect amounts that, in management's judgment, are adequate to provide for probable loan losses based on the considerations listed above. Management performs stress testing of our loan portfolio to gain a better understanding of the portfolio effects of additional declines in real estate values and expected cash values. Management also evaluates all commercial loans, secured and unsecured, at least quarterly.

Loans acquired in the Oceanic Bank acquisition in 2012 and the America California Bank acquisition in 2015 were accounted for at fair value, resulting in a discount at the time of the acquisition, due in part to credit quality. If expected potential credit losses are actually incurred, they will be evaluated against the net book discount remaining. Only those losses that occur after the acquisition date or exceed the amount of discount remaining on the acquired Oceanic Bank loan portfolio will be charged to the allowance for loan losses. At December 31, 2015, 2014, and 2013, the remaining discount related to the Oceanic Bank and America California Bank acquisitions totaled $1,397,000, $1,341,000 and $1,963,000, respectively.

TABLE 3

Allocation of the Allowance for Loan Losses

(Dollar amounts in thousands)

	2015		2014		2013		2012		2011	
	Amount	Percent of loans in each category to total Loans	Amount	Percent of loans in each category to total Loans	Amount	Percent of loans in each category to total Loans	Amount	Percent of loans in each category to total Loans	Amount	Percent of loans in each category to total Loans
Commercial real estate	$ 6,059	54.5%	$ 5,549	53.6%	$ 5,763	57.8%	$ 4,812	65.7%	$ 4,745	56.8%
Real estate construction	589	6.1%	849	6.7%	734	6.1%	857	3.4%	1,171	6.2%
Real estate multi family	243	8.7%	206	9.1%	293	8.2%	—	n/a	671	8.0%
Real estate 1 to 4 family	2,176	23.4%	1,965	21.7%	1,788	19.0%	1,516	20.5%	1,592	19.0%
Commercial & industrial	853	7.1%	1,073	8.7%	1,237	8.6%	1,875	10.1%	1,618	9.5%
Consumer	50	0.2%	58	0.2%	64	0.3%	64	0.3%	100	0.5%
Total	$ 9,970	100.0%	$ 9,700	100.0%	$ 9,879	100.0%	$ 9,124	100.0%	$ 9,897	100.0%

Table 4 summarizes transactions in the allowance for loan losses and details the charge-offs, recoveries and net loan losses by loan category for each of the last five fiscal years ended December 31, 2015. The amount added to the provision and charged to operating expenses for each period is based on the risk profile of the loan portfolio.

TABLE 4

(Dollar amounts in thousands)	Allowance for Loan Losses Historical Analysis For the year ended December 31,				
	2015	2014	2013	2012	2011
Balance at Beginning of Period	$ 9,700	$ 9,879	$ 9,124	$ 9,897	$ 9,524
(Recovery) of/povision for Loan Losses	(305)	(1,020)	1,385	1,833	1,750
Charge-offs:					
Real Estate	(45)	(328)	(728)	(1,216)	(721)
Commercial	(23)	(28)	(57)	(1,706)	(651)
Consumer	(13)	(26)	(7)	(11)	(74)
Total	(81)	(382)	(792)	(2,933)	(1,446)
Recoveries:					
Real Estate	591	1,065	88	182	41
Commercial	60	154	73	124	27
Consumer	5	4	1	21	1
Total	656	1,223	162	327	69
Net recoveries (charge-offs)	575	841	(630)	(2,606)	(1,377)
Balance at End of Period	$ 9,970	$ 9,700	$ 9,879	$ 9,124	$ 9,897
Percentages					
Allowance for loan losses/total loans	1.36%	1.63%	1.76%	1.66%	2.18%
Net (recoveries) charge-offs/realestate loans	-0.08%	-0.14%	0.13%	0.22%	0.18%
Net (recoveries) charge-offs/commercial loans	-0.07%	-0.24%	-0.03%	2.85%	1.45%
Net charge-offs/consumer loans	0.51%	1.52%	0.36%	-0.55%	3.13%
Net (recoveries) charge-offs/total loans	-0.08%	-0.14%	0.11%	0.47%	0.30%
Allowance for loan losses/non-performing loans	118.65%	171.74%	134.39%	73.14%	51.82%

The level of yearly charge-offs were primarily attributable to problems that were identified with specific borrowers rather than problems with a particular segment of the loan portfolio. In particular, borrowers who had exposure to real estate projects outside of San Mateo and San Francisco counties were identified as having a relatively higher risk profile than those operating solely within these two counties. If real estate values or lease rates continue to decline in the future, additional increases in our allowance for loan losses may be warranted.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, foreclosed assets, and loans that are 90 days or more past due but are still accruing interest. The accrual of interest on non-accrual loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. For the years ended December 31, 2015, 2014 and 2013, had non-accrual loans performed as agreed, approximately $460,000, $91,000, and $79,000, respectively, would have been recognized in additional interest income.

Table 5 provides a summary of nonperforming assets for the most recent five years. Nonperforming loans were 1.2% of total loans at December 31, 2015, 1.0% of total loans at December 31, 2014 and 1.3% of total loans at December 31, 2013. Management believes the current list of past due loans as of December 31, 2015 are collectible and does not anticipate future significant losses that exceed the current allowance for loan losses.

TABLE 5
(Dollar amounts in thousands)

Analysis of Nonperforming Assets					
	December 31				
	2015	2014	2013	2012	2011
Nonaccrual loans	$ 7,915	$ 5,648	$ 7,351	$ 12,474	$ 19,098
Other real estate owned	1,026	763	5,318	6,650	2,747
Total	$ 8,941	$ 6,411	$ 12,669	$ 19,124	$ 21,845

Nonaccrual loans at December 31, 2015 consist of several single family residence loans, commercial loans and some commercial real estate secured loans. The Bank is working with its borrowers to develop strategies that can give the borrowers time to work through their financial difficulties. The other real estate owned property is a commercial building with a current balance of $1,026,000 in December 31, 2015 and $763,000 at the end of 2014.

A troubled debt restructuring occurs when the Bank offers, at favorable terms, a modification of loan terms and conditions because management believes the borrower may not be able to make payments at their original note rate and terms. During the year ended December 31, 2015, the Bank restructured one loan totaling $472,000 that was considered a troubled debt restructuring. This consisted of one 1 to 4 family real estate loan. Total restructured loans outstanding as of December 31, 2015 and 2014 were $13,268,000 and $16,517,000 respectively.

Noninterest Income

The following table sets forth the principal components of noninterest income:

TABLE 6
(Dollar amounts in thousands)

	Noninterest Income			Variance		Variance	
	Years ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	Amount	Percent	Amount	Percent
Service charges	$ 2,501	$ 2,548	$ 2,630	$ (47)	-1.8%	$ (82)	-3.1%
Gain on sale of premises	—	2,085	—	(2,085)	-100.0%	2,085	n/a
Net gain on sale of available-for-sale securities	339	138	324	201	145.7%	(186)	-57.4%
Earnings on bank-owned life insurance	364	359	366	5	1.4%	(7)	-1.9%
Break-up fee from terminated definitive agreement	—	500	—	(500)	-100.0%	500	n/a
Other income	1,292	959	863	333	34.7%	96	11.1%
Total noninterest income	$ 4,496	$ 6,589	$ 4,183	$ (2,093)	-31.8%	$ 2,406	57.5%

Total noninterest income consists mainly of service charges on deposits. The pretax gain on sale of fixed assets in 2014 of $2,085,000 was related to the sale of the Bank's South Airport Boulevard branch office that was closed in 2013. The sale of the building was completed in the fourth quarter of 2014.

The gain on sale of available-for-sale securities during 2015, 2014 and 2013 was derived primarily from the sale of U. S. government and mortgage-backed securities, municipal securities and U. S. Treasury securities.

A significant source of other income was dividends on equity securities, which totaled $651,000, $398,000, and $262,000 in the years 2015, 2014, and 2013, respectively. In 2014, the Company received a $500,000 break-up fee from Valley Community Bank when they terminated their definitive agreement to be purchased by the Company in the fourth quarter of 2014. In 2013, $249,000 rental income on other real estate owned was received.

Noninterest Expenses

The following table sets forth the various components of noninterest expense:

TABLE 7

(Dollar amounts in thousands)	Noninterest Expenses Years ended December 31,			Variance 2015 vs. 2014		Variance 2014 vs. 2013	
	2015	2014	2013	Amount	Percent	Amount	Percent
Salaries and employee benefits	$ 18,523	$ 16,731	$ 17,156	$ 1,792	10.7%	$ (425)	-2.5%
Occupancy expense	2,517	2,773	3,166	(256)	-9.2%	(393)	-12.4%
Equipment expense	1,926	1,624	1,549	302	18.6%	75	4.8%
Professional fees	1,471	1,845	1,661	(374)	-20.3%	184	11.1%
FDIC assessment	600	655	720	(55)	-8.4%	(65)	-9.0%
Telephone, postage, supplies	1,074	1,250	1,220	(176)	-14.1%	30	2.5%
Advertising expense	500	414	458	86	20.8%	(44)	-9.6%
Data processing expense	1,076	572	616	504	88.1%	(44)	-7.1%
Low income housing expense	283	439	438	(156)	-35.5%	1	0.2%
Surety insurance	381	278	265	103	37.1%	13	4.9%
Directors expense	288	252	252	36	—	—	—
Gain on sale of other real estate owned, net	—	(220)	(96)	220	-100.0%	(124)	129.2%
Loss on impairment of other real estate owned	—	—	69	—	n/a	(69)	-100.0%
Other real estate owned expenses, net	4	87	249	(83)	-95.4%	(162)	-65.1%
Other	1,282	1,168	1,305	114	9.8%	(137)	-10.5%
Total noninterest expense	$ 29,925	$ 27,868	$ 29,028	$ 2,057	7.4%	$ (1,160)	-4.0%

Salaries and employee benefits were $18,523,000 in 2015, $16,731,000 in 2014, and $17,156,000 in 2013. Salaries and employee benefits represented 62%, 60%, and 59% of noninterest expense for the years 2015, 2014, and 2013, respectively. Increase in salaries and employee benefits is derived primarily from normal salary progression and in 2015 by the America California Bank acquisition and changes related to executive salary continuation agreements.

Occupancy expense decreased $256,000 in 2015, and decreased $393,000 in 2014 as three former Oceanic branches were closed by the second half of 2013, as well as our South San Francisco branch, which was later sold in the fourth quarter of 2014. Occupancy expense increased $558,000 in 2013, the first full year of operations of the acquired Oceanic Bank branches.

The loss on impairment of other real estate owned expense was recorded primarily to reflect the decrease in valuation of our real estate owned properties since their initial values which were established on the foreclosure date. These properties were still on the books in the year the impairment losses were recorded.

Provision for Loan Losses

The allowance for loan losses in 2015, 2014 and 2013 was recorded at levels management believed were necessary in order to insure the allowance for loan losses reflected the estimated loss exposure identified in the loan portfolio during the year. The allowance for loan losses was $9,970,000 or 1.36% of total gross loans at December 31, 2015. It was $9,700,000 or 1.63% of total gross loans at December 31, 2014. It was $9,879,000 or 1.76% of total gross loans at December 31, 2013. During the fourth quarter of 2014, a reversal of $1,095,000 in loan loss provision was recorded to reflect improving credit metrics that occurred within the loan portfolio during 2014. A further reversal of $530,000 in loan provision was made in October 2015 for the same reason.

The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the loan portfolio. Management is taking steps necessary to work with borrowers and has granted modified loan terms to certain borrowers willing to make payments on loans secured by their primary residence, even though they were delinquent and/or the value of their home had declined substantially. The purchased Oceanic Bank and America California Bank loans have a fair value discount that was created at acquisition pursuant to acquisition accounting and representing, in part, expected credit losses inherent in the acquired loan portfolio. The fair value discount is not part of the allowance for loan losses.

Balance Sheet Analysis

Total assets of the Company at December 31, 2015 were $1,124,349,000 compared to $917,164,000 at December 31, 2014 and compared to $891,930,000 at December 31, 2013. Assets averaged $1,010,435,000 in 2015, $901,533,000 in 2014 and $903,825,000 in 2013. Average earning assets represented 91.4% of total average assets in 2015. This included a$29,175,000 increase in nontaxable securities at lower yields. 93.2% of total average assets in 2014, and represented 91.7% of total average assets in 2013. Asset growth in 2015 was obtained from the America California Bank acquisition as well as growth in customer business generated through our branch offices. Asset growth in 2014 and 2013 was derived by bringing in new business through our existing branch structure. Asset growth in 2012 was derived primarily from the Oceanic Bank acquisition, as well as through organic growth within the existing customer base and the development of new customer relationships.

Loans

The loan portfolio is the principal earning asset of the Bank. Gross loans outstanding (net of loan fees) at December 31, 2015 increased by $139,302,000 or 23.8% from December 31, 2014. Gross loans outstanding at December 31, 2014 increased by $31,193,000 or 5.5% from December 31, 2013. During 2013, loan volumes increased, but payoffs and reductions in credit line usage kept growth levels low. During 2015, principal changes were an increase of $81,566,000 in commercial real estate, offset by increases of $5,045,000 in real estate construction, $9,773,000 in real estate multi-family, and $43,232,000 in real estate 1 to 4 family, and smaller increases in commercial and industrial loans, with a nominal decrease in consumer loans. The increase in loans during 2015 over 2014, was $140,113,000. About $93,000,000 of this total was from the acquisition of America California Bank in September, 2015. The remainder was from organic growth.

Table 8 presents a detailed analysis of loans outstanding at December 31, 2011 through December 31, 2015.

TABLE 8

	Loan Portfolio									
	December 31									
	2015		2014		2013		2012		2011	
(Dollar amounts in thousands)										
Commercial real estate	$ 399,993	55%	$ 318,427	54%	$ 325,199	58%	$ 303,860	57%	$ 257,413	57%
Real estate construction	44,816	6%	39,771	7%	34,318	6%	18,946	6%	28,229	6%
Real estate multi family	63,597	9%	53,824	9%	46,143	8%	58,004	8%	36,369	8%
Real estate 1 to 4 family	171,964	23%	128,732	22%	106,903	19%	112,719	19%	86,322	19%
Commercial & industrial	52,033	7%	51,662	9%	48,504	9%	55,564	9%	43,074	9%
Consumer	1,574	0%	1,448	0%	1,650	0%	1,824	1%	2,335	1%
Sub total	733,977	100%	593,864	100%	562,717	100%	550,917	100%	453,742	100%
Net deferred loan fees	(1,260)	0%	(449)	-1%	(495)	0%	(230)	0%	(124)	0%
Total	$ 732,717	100%	$ 593,415	100%	$ 562,222	100%	$ 550,687	100%	$ 453,618	100%

Loans that are not guaranteed by the U. S. Government contain some level of risk of principal repayment. Real estate and loans supported by UCC filing requirements contain less risk of loss than unsecured loans. By securing loans with various types of collateral, the Bank is able to better assure repayment, either from the liquidation of collateral or from the borrower. For commercial loans, both secured and unsecured, the Bank will generally require personal guarantees from our borrowers. These financial guarantees allow the Bank to initiate collection activity against the borrowers individually if the liquidation of collateral is insufficient to repay the loan. The underwriting policies of the Bank require our borrowers to document the source of repayment for their loans, maintain equity positions in any secured financings, and provide ongoing financial statement information. Current appraisals, financial statements, and tax returns allow Bank management to evaluate our borrower's repayment ability on at least an annual basis. Commercial loans are generally variable rate in nature. Real estate loans more than five years to maturity generally contain variable interest rates. Loans that mature in five years or less may be

either fixed or variable rate in nature, with fixed rate loans containing initial rates that are higher than those with variable rates. A borrower's preference and interest rate risk tolerance will generally dictate whether to utilize fixed or variable rate financing. The following table shows the Bank's loan maturities and sensitivities to changes in interest rates as of December 31, 2015.

TABLE 9

(Dollar amounts in thousands)	Maturing Within 1 Year	Maturing After 1 But Within 5 Years	Maturing After 5 Years	Total
Commercial real estate	$ 163,262	163,860	72,871	$ 399,993
Real estate construction	18,293	18,359	8,164	44,816
Real estate multi family	25,958	26,053	11,586	63,597
Real estate 1 to 4 family	70,190	70,446	31,328	171,964
Commercial & industrial	21,239	21,315	9,479	52,033
Consumer	642	645	287	1,574
Sub total	299,584	300,678	133,715	733,977
Net deferred loan fees	(514)	(516)	(230)	(1,260)
Total	$ 299,070	$ 300,162	$ 133,485	$ 732,717
With predetermined fixed interest rates	$ 85,365	$ 85,677	$ 38,103	$ 209,145
With floating interest rates	213,705	214,485	95,382	523,572
Total	$ 299,070	$ 300,162	$ 133,485	$ 732,717

Investment Portfolio

The primary purpose of the Bank's investment portfolio is to ensure the Bank has sufficient available funds to fund the Company's liquidity needs, including the ability to fund loans or pay down liabilities. The Company's primary source of funds is the deposit base. If more funds are needed, investment maturities, calls and sales from the investment portfolio may be used. The Bank's investment portfolio is composed primarily of debt securities of U. S. Government Agencies, mortgage-backed securities that have their principal guaranteed by U. S. Government Agencies, and in obligations of States and their political subdivisions. The Bank believes this provides for an appropriate liquidity level and minimal credit risk.

The following table sets forth the maturity distribution and interest rate sensitivity of investment securities at December 31, 2015.

TABLE 10

(Dollar amounts in thousands)	Due In 1 Year Or Less	Yield	After 1 Year Through 5 Years	Yield	After 5 Years Through 10 Years	Yield	Due After 10 Years	Yield	Fair Value	Maturity In Years	Average Yield
U. S. Treasury securities	$ —	—	$ 5,994	1.53%	$ 1,006	1.87%	$ —	—%	$ 7,000	1.57	1.57%
Obligations of U. S. Government Agencies	2,018	1.57%	75,099	1.50%	7,492	2.00%	—	—	84,609	1.54	1.54%
Mortgage-backed securities	—	—	10,214	2.11%	25,671	2.39%	25,778	2.64%	61,663	2.10	2.10%
Obligations of states and political subdivisions	4,444	3.69%	37,625	2.35%	88,590	2.39%	4,531	4.03%	135,190	2.55	2.55%
Corporate debt	5,030	0.00%	28,546	2.18%	7,169	3.25%	—	—	40,745	3.19	2.34%
Total	$ 11,492	0.00%	$ 157,478	0.00%	$ 129,928	0.00%	$ 30,309	0.00%	$ 329,207	5.61	2.22%

The following table shows the securities portfolio mix at December 31, 2015, 2014 and 2013.

TABLE 11

(Dollar amounts in thousands)	Years Ended December 31,					
	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U. S. Treasury securities	$ 7,004	$ 7,000	$ 3,975	$ 3,958	$ 3,069	$ 3,027
Obligations of U.S. Government Agencies	84,842	84,609	63,090	63,062	73,691	73,319
Mortgage-backed securities	61,579	61,663	78,076	78,417	79,873	77,860
Obligations of states and political subdivisions	132,125	135,190	82,151	84,542	82,526	82,676
Corporate debt	41,045	40,745	34,931	34,902	26,958	27,106
Total	$ 326,595	$ 329,207	$ 262,223	$ 264,881	$ 266,117	$ 263,988

Deposits

During 2015, average deposits were $890,369,000, an increase of $104,888,000 or 13.30% over 2014**.** During 2014, average deposits were $785,481,000, a decrease of $5,361,000 or 0.68% over 2013. During 2013, average deposits were $790,842,000. The prime lending rate was 3.25% on December 31, 2013, and remained unchanged until December 16, 2015, when it was raised to 3.50%. Deposit interest rates have moved lower in a steady fashion over the last few years. Interest-bearing demand interest rates averaged 0.12% in 2013, 0.08% in 2014, and 0.11% in 2015. Money market deposit costs averaged 0.43% in 2013, 0.37% in 2014, and 0.43% in 2015. Savings rates averaged 0.15% in 2013, 0.10% in 2014 and 0.10% in 2015. Average rates on time certificates of deposit of $100,000 or more were 0.51% in 2013, 0.48% in 2014 and 0.36% in 2015. On certificates under $100,000, average rates were 0.56% in 2013, 0.55% in 2014 and 0.16% in 2015.

The following table summarizes the distribution of average deposits and the average rates paid for them in the periods indicated:

TABLE 12

	Average Deposits and Average Rates paid for the period ending December 31,								
	2015			2014			2013		
(Dollar amounts in thousands)	Average Balance	Average Rate	% of total Deposits	Average Balance	Average Rate	% of total Deposits	Average Balance	Average Rate	% of total Deposits
Interest-bearing demand	$ 92,267	0.11%	10.4	$ 77,613	0.08%	9.9	$ 76,754	0.12%	9.7
Money market	368,858	0.43%	41.4	326,399	0.37%	41.6	312,608	0.43%	39.5
Savings	75,861	0.10%	8.5	66,695	0.10%	8.5	63,418	0.15%	8.0
Time deposits $100,000 or more	78,842	0.36%	8.9	73,803	0.48%	9.4	102,872	0.51%	13.0
Time deposits under $100,000	33,572	0.16%	3.8	35,940	0.55%	4.6	45,056	0.56%	5.7
Total interest bearing deposits	$ 649,400	0.00%	72.0	$ 580,450	0.32%	74.0	$ 600,708	0.40%	75.9
Demand deposits	240,969	—	27.1	205,031	—	26.0	190,134	—	24.1
Total deposits	$ 890,369	0.21%	100.0	$ 785,481	0.24%	100.0	$ 790,842	0.30%	100.0

The following table indicates the maturity schedule of time deposits of $250,000 or more:

TABLE 13

(Dollar amounts in thousands)	Analysis of Time Deposits $250,000 or more at December 31, 2015			
Total Deposits of $250,000 Or More	Three Months Or Less	Over Three To Six Months	Over Six To Twelve Months	Over Twelve Months
$ 50,988	$ 9,180	$ 23,226	$ 8,256	$ 10,326

Capital

The increases in retained earnings were primarily attributable to retention of net income in 2015, and to retention of income less cash dividends on preferred stock of $170,000 in 2014 and $567,000 in 2013; and cash dividends declared on common stock of $2,447,000 in 2015, $1,780,000 in 2014 and $1,452,000 in 2013. During 2013, 25% or $3,150,000 of the Series C Preferred Stock was redeemed, with the remaining amount redeemed on January 23, 2014.

Under regulatory capital guidelines, qualifying capital is classified into two tiers, referred to as Tier 1 (core) and Tier 2 (supplementary) capital. The Company's Tier 1 capital consists of common shareholders' equity and preferred stock issued to the U.S. Treasury during 2011. The Company's Tier 2 capital consists of eligible reserves for possible loan losses. Total capital is the sum of Tier 1 plus Tier 2 capital. Risk-weighted assets are calculated by applying risk percentages specified by the FDIC to categories of both balance sheet assets and off-balance sheet obligations. The FDIC also requires the calculation of a leverage ratio requirement. This ratio supplements the risk-based capital ratios and is defined as Tier 1 capital divided by quarterly average assets during the reporting period. This requirement established a minimum leverage ratio of 3.0% for the highest rated banks and ratios of 100 to 200 basis points higher for most other banks. To qualify as "well-capitalized" as defined by regulation, financial institutions must maintain risk-based Tier 1 and total capital ratios of at least 6.0% and 10.0% respectively. "Well-capitalized" financial institutions must also maintain a leverage ratio equal to or exceeding 5.0%.

On September 15, 2011 the Company issued 12,600 shares of Senior, Non-Cumulative, Perpetual Preferred Stock, Series C, to the U. S. Treasury as part of the Treasury's Small Business Lending Fund ("SBLF"). The initial dividend rate payable on these shares was 5%. Depending on the volume of small business lending, the dividend rate could have become as low as one percent. If lending did not increase in the first two years, the rate would have increased to seven percent. After 4.5 years, the rate was scheduled to increase to nine percent, assuming the Company had not redeemed the shares.

The SBLF program did not impose the various restrictions (including restrictions on the payment of dividends to holders of Common Stock) as were required under the U. S. Treasury Capital Purchase Program. The shares of Series A and B Preferred Stock issued to the U.S. Treasury, which contained a blended rate of 6.83% to the expected repayment date, were redeemed with the $12,600,000 in proceeds received from the issuance of Series C Preferred Stock.

On May 6, 2013, 25% or $3,150,000 of the original $12,600,000 of the Series C Preferred Stock was redeemed. On January 23, 2014, the remaining amount was redeemed.

TABLES 14

	At December 31, 2015		Transitional Minimum Regulatory Requirement Effective January 1, 2015	Minimum Regulatory Requirement (1) Effective January 1, 2019	Well-capitalized by Regulatory Definition Under FDICIA Effective January 1, 2015
	Company	Bank			
Common Equity Tier 1 Capital	12.79%	11.15%	4.50%	7.00%	6.50%
Tier 1 Capital	12.79%	11.15%	6.00%	8.50%	8.00%
Total Capital	13.39%	11.88%	8.00%	10.50%	10.00%
Leverage ratio	8.06%	6.99%	4.00%	4.00%	5.00%

(1) Includes 2.5% capital conservation buffer.

December 31, 2014

(Dollar amounts in thousands)	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk weighted assets)						
Consolidated Company	$ 102,452	14.60%	$ 56,138 ≥	8.00%	$ 70,685 ≥	n/a
Bank	$ 106,876	15.24%	$ 58,723 ≥	8.00%	$ 70,129 ≥	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated Company	$ 93,603	13.34%	$ 28,067 ≥	4.00%	$ 42,405 ≥	n/a
Bank	$ 98,097	13.99%	$ 29,481 ≥	4.00%	$ 42,072 ≥	6.00%
Tier 1 leverage capital (to total average assets)						
Consolidated Company	$ 93,603	10.30%	$ 36,351 ≥	4.00%	$ 45,457 ≥	n/a
Bank	$ 98,097	10.79%	$ 36,366 ≥	4.00%	$ 45,457 ≥	5.00%

Liquidity

The Company's primary source of liquidity on a stand-alone basis (see the discussion under "Limitation on Dividends") is dividends from the Bank. The payment of dividends by the Bank is subject to regulatory restrictions. See the discussion under "Limitation on Dividends" in "Item 1-"Business" above.

Liquidity is a measure of the Company's ability to convert assets into cash. Liquidity consists of cash and due from correspondent bank accounts, including time deposits, federal funds sold, and securities available for sale. The Company's policy is to maintain a liquidity ratio of 5% or greater of total assets. As of December 31, 2015, the Company's primary liquidity was 30.39%, compared to 30.82% in 2014, and compared to 31.79% in 2013. Total liquid assets were $341,726,000 in 2015, $282,643,000 in 2014 and $283,538,000 in 2013. The objective of liquidity management is to ensure that the Company has funds available to meet all present and future financial obligations and to take advantage of business opportunities as they occur. Financial obligations arise from withdrawals of deposits, repayment on maturity of purchased funds, extension of loans or other forms of credit, payment of operating expenses and payment of dividends.

Core deposits, which consist of all deposits other than time deposits, have provided the Company with a sizeable source of relatively stable low-cost funds. The Company's average core deposits represented 71% of average total liabilities of $909,814,000 for the year ended December 31, 2015, 58% of average total liabilities of $810,595,000 for the year ended December 31, 2014, and 79% of average total liabilities of $810,659,000 for the year ended December 31, 2013.

As of December 31, 2015, the Company had contractual obligations and other commercial commitments totaling approximately $171,566,000. The following table sets forth the Company's contractual obligations and other commercial commitments as of December 31, 2015. These obligations and commitments can be funded from other loan repayments, the Company's liquidity sources such as cash and due from other banks, federal funds sold, securities available for sale, as well as from the Bank's lines of credit with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco. For additional information, please see the Consolidated Statements of Cash Flows, in Item 8 of this Form 10-K.

TABLE 15

(Dollar amounts in thousands)	Payments Due by Period				
Contractual Obligations	Total	1 year or less	Over 1 to 3 years	Over 3 to 5 years	Over 5 years
Operating Leases	$ 4,308	$ 1,125	$ 1,673	$ 606	$ 904
Salary Continuation Agreements	5,028	255	457	420	3,896
Total Contractual Cash Obligations	$ 9,336	$ 1,380	$ 2,130	$ 1,026	$ 4,800

(Dollar amounts in thousands) Other Commercial Commitments	Amount of Commitment Expirations Per Period: Total Amounts Committed	1 year or less	Over 1 to 3 years	Over 3 to 5 years	Over 5 years
Lines of Credit	$ 98,396	$ 67,094	$ 11,475	$ 17,140	2,687
Standby Letters of Credit	5,830	5,830	—	—	—
Other Commercial Commitments	63,028	54,108	8,919	1	—
Total Commercial Commitments	$ 167,254	$ 127,032	$ 20,394	$ 17,141	$ 2,687

The largest component of the Company's earnings is net interest income, which can fluctuate widely when significant interest rate movements occur. The prime lending rate was 3.25% at the end of 2009. On December 16, 2015, the prime lending rate was raised to 3.50%. The Company's management is responsible for minimizing the Bank's exposure to interest rate risk and assuring an adequate level of liquidity. By developing objectives, goals and strategies designed to enhance profitability and performance, management is also able to manage the Bank's interest rate exposure.

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 is provided by the Company's ability to attract deposits and obtain short term credit through established borrowing lines.

The primary source of liability liquidity is the Bank's depository customer base. The overall liquidity position of the Company is closely monitored and evaluated regularly. The Company has Federal Funds borrowing facilities for a total of $30,000,000, a Federal Home Loan Bank line of credit of up to 30% of eligible total assets, and a Federal Reserve Bank of San Francisco borrowing facility of approximately $54,000,000. Management believes the Company's liquidity sources at December 31, 2015 are adequate to meet its operating needs in 2016 and into the foreseeable future.

Effect of Changing Prices

The results of operations and financial conditions presented in this report are based on historical cost information and are not adjusted for the effects of inflation. Since the assets and liabilities of banks are primarily monetary in nature (payable in fixed, determinable amounts), the performance of the Company is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same.

The effect of inflation on banks is normally not as significant as its influence on those businesses that have large investments in plant and inventories. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will usually experience above average growth in assets, loans and deposits. Also, increases in the price of goods and services will result in increased operating expenses. The following table includes key ratios, including returns on average assets and equity for the Company.

TABLE 16

Return on Equity and Assets
(Key financial ratios are computed on average balances)

	Year Ended December 31, 2015	2014	2013
Return on average assets	0.81%	1.02%	0.76%
Return on average equity	8.15%	10.16%	7.38%
Dividend payout ratio (accrual basis)	29.85%	19.27%	21.13%
Average equity to assets ratio	9.96%	10.09%	10.31%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Closely related to the concept of liquidity is the concept of interest rate sensitivity (i. e., the extent to which assets and liabilities are sensitive to changes in interest rates). Management uses an asset/liability model that considers the relative sensitivities of the balance sheet, including the effect of interest rate caps on adjustable rate mortgages and the relatively stable aspects of core deposits. As such, management can model a net interest income simulation that is designed to address the probability of interest rate changes and behavioral response of the balance sheet to those changes. Market value of portfolio equity represents the fair value of the net present value of assets, liabilities and off-balance sheet items. The starting point (or "base case") for the following table is the Company's net portfolio at December 31, 2015, using current discount rates, and an estimate of net interest income for 2016 assuming that both interest rates and the Company's interest-sensitive assets and liabilities remain at December 31, 2015 levels.

The "rate shock" information in the table shows estimates of net portfolio value at December 31, 2015 and net interest income for 2016 assuming fluctuations or "rate shocks" of minus 100 and 200 basis points and plus 100 and 200 basis points. Rate shocks assume that current interest rates change immediately. The information set forth in the following table is based on significant estimates and assumptions, and constitutes a forward-looking statement within the meaning of that term set forth in Rule 175 under the Securities Act of 1933 and Rule 3b-6(c) of the Securities Exchange Act of 1934.

TABLE 17
(Dollar amounts in thousands)
Available for Sale securities

Market Risk in Securities
Interest Rate Shock
At December 31, 2015

	Rates Decline			Rates Increase	
Rate change	(2%)	(1%)	Current	+1%	+2%
Unrealized gain (loss)	$ 18,333	$ 14,262	$ 2,612	$ (19,942)	$ (22,209)
Change from current	$ 15,721	$ 11,650		$ (12,554)	$ (24,821)

(Dollar amounts in thousands)

Market Risk on Net Interest Income
At December 31, 2015

	Rates Decline			Rates Increase	
Rate change	(2%)	(1%)	Current	+1%	+2%
Change in net interest income	$ 37,623	$ 37,181	$ 36,685	$ 35,411	$ 34,517
Change from current	$ 938	$ 496		$ (1,274)	$ (2,168)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS **Page**

Management Report on Internal Controls over Financial Reporting	45
Report of Independent Registered Public Accounting Firm	46
Consolidated Balance Sheets, December 31, 2015 and 2014	48
Consolidated Statement of Earnings for the years ended December 31, 2015, 2014 and 2013	49
Consolidated Statements of Comprehensive Earnings for the years ended December 31, 2015, 2014,and 2013	50
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2015, 2014, and 2013	51
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013	52
Notes to Consolidated Financial Statements	54

MANAGEMENT'S REPORT ON 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 performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions 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.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 based upon criteria in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, Management determined that the Company's internal control over financial reporting was effective as of December 31, 2015 based on the criteria in Internal Control - Integrated Framework (2013) issued by COSO.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by Moss Adams LLP, an independent registered public accounting firm, which expresses an unmodified opinion, as stated in their report which appears on the following page.

Dated: March 15, 2016



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
FNB Bancorp

We have audited the accompanying consolidated balance sheets of FNB Bancorp and subsidiary, (the Company) as of December 31, 2015 and 2014 and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting and Compliance with Applicable Laws and Regulations. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.



MOSS-ADAMS LLP

To the Board of Directors and Stockholders
FNB Bancorp
Page 2

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FNB Bancorp and subsidiary as of December 31, 2015 and 2014 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with generally accepted accounting principles in the United States of America. Also in our opinion, FNB Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

Sacramento, California
March 15, 2016

FNB BANCORP AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2015 and 2014

(Dollar amounts in thousands)	2015	2014
ASSETS		
Cash and due from banks	$ 12,314	$ 14,978
Interest-bearing time deposits with financial institutions	205	2,784
Securities available-for-sale, at fair value	329,207	264,881
Other equity securities	6,748	5,769
Loans, net of deferred loan fees and allowance for loan losses of $9,970 and $9,700 on December 31, 2015 and December 31, 2014	722,747	583,715
Bank premises, equipment, and leasehold improvements, net	10,202	10,951
Bank owned life insurance	15,845	12,510
Accrued interest receivable	4,511	3,725
Other real estate owned, net	1,026	763
Goodwill	4,580	1,841
Prepaid expenses	997	1,045
Other assets	15,967	14,202
Total assets	$ 1,124,349	$ 917,164
Liabilities & Stockholders' Equity		
Deposits		
Demand, noninterest bearing	$ 263,822	$ 202,811
Demand, interest bearing	102,304	89,548
Savings and money market	491,633	394,676
Time	125,430	105,159
Total deposits	983,189	792,194
Federal Home Loan Bank advances	17,000	9,000
Note payable	4,950	5,550
Accrued expenses and other liabilities	15,048	13,332
Total liabilities	1,020,187	820,076
Commitments and Contingencies (Note 11)		
Stockholders' equity		
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 4,541,680 shares at December 31, 2015 and 4,472,271 shares at December 31, 2014	74,805	66,791
Retained earnings	27,816	28,729
Accumulated other comprehensive earnings, net of tax	1,541	1,568
Total stockholders' equity	104,162	97,088
Total liabilities and stockholders' equity	$ 1,124,349	$ 917,164

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statements of Earnings
Years ended December 31, 2015, 2014 and 2013

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

	2015	2014	2013
Interest income:			
Interest and fees on loans	$ 33,235	$ 31,355	$ 31,937
Interest and dividends on taxable securities	3,554	3,464	3,283
Interest on tax-exempt securities	2,454	1,959	2,013
Interest on deposits with other financial institutions	39	81	156
Total interest income	39,282	36,859	37,389
Interest expense:			
Interest on deposits	2,359	1,884	2,376
Interest on FHLB advances	9	17	19
Interest on note payable	229	192	—
Total interest expense	2,597	2,093	2,395
Net interest income	36,685	34,766	34,994
(Recovery of) provision for loan losses	(305)	(1,020)	1,385
Net interest income after (recovery of) provision for loan losses	36,990	35,786	33,609
Noninterest income:			
Service charges	2,501	2,548	2,630
Gain on sale of premises	—	2,085	—
Net gain on sale of available-for-sale securities	339	138	324
Earnings on bank-owned life insurance	364	359	366
Break-up fee from terminated definitive agreement	—	500	—
Other income	1,292	959	863
Total noninterest income	4,496	6,589	4,183
Noninterest expense:			
Salaries and employee benefits	18,523	16,731	17,156
Occupancy expense	2,517	2,773	3,166
Equipment expense	1,926	1,624	1,549
Professional fees	1,471	1,845	1,661
FDIC assessment	600	655	720
Telephone, postage, supplies	1,074	1,250	1,220
Advertising expense	500	414	458
Data processing expense	1,076	572	616
Low income housing expense	283	439	438
Surety insurance	381	278	265
Director expense	288	252	252
Gain on sale of other real estate owned	—	(220)	(96)
Loss on impairment of other real estate owned	—	—	69
Other real estate owned expense	4	87	249
Other expense	1,282	1,168	1,305
Total noninterest expense	29,925	27,868	29,028
Earnings before provision for income taxes	11,561	14,507	8,764
Provision for income taxes	3,364	5,098	1,325
Net earnings	8,197	9,409	7,439
Dividends and discount accretion on preferred stock	—	170	567
Net earnings available to common stockholders	$ 8,197	$ 9,239	$ 6,872
Earnings per share available to common stockholders:			
Basic	$ 1.82	$ 2.08	$ 1.58
Diluted	$ 1.77	$ 2.02	$ 1.55
Weighted average shares outstanding:			
Basic	4,516	4,444	4,339
Diluted	4,644	4,585	4,436

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Dollar amounts in thousands)	Twelve months ended December 31,		
	2015	2014	2013
Net earnings	$ 8,197	$ 9,409	$ 7,439
Other comprehensive income:			
Unrealized holding gain (loss) on available-for-sale securities net of tax (expense) benefit of $(120), $(2,020), and $3,560.	173	2,905	(4,933)
Reclassification adjustment for gains recognized on available-for-sale securities sold, net of tax expense of $139, $57 and $133	(200)	(81)	(191)
Total other comprehensive (loss) earnings	(27)	2,824	(5,124)
Total comprehensive earnings	$ 8,170	$ 12,233	$ 2,315

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity
Years ended December 31, 2015, 2014 and 2013

(Shares and dollar amounts in thousands)	Common stock Shares	Common stock Amount	Preferred stock series C	Retained earnings	Accumulated other comprehensive earnings (loss)	Total
Balance at December 31, 2012	3,699	$ 52,610	$ 12,600	$ 26,280	$ 3,868	$ 95,358
Redemption of preferred stock		—	(3,150)	—	—	(3,150)
Net earnings		—	—	7,439	—	7,439
Other comprehensive losses		—	—	—	(5,124)	(5,124)
Dividends on preferred stock		—	—	(567)	—	(567)
Dividends on common stock		—	—	(1,452)	—	(1,452)
Cash in lieu of fractional shares		—	—	(4)	—	(4)
Stock dividend of 5%	189	4,958	—	(4,958)	—	—
Stock options exercised net of shares tendered	91	1,067				1,067
Tax benefit-options exercised		354	—	—	—	354
Stock-based compensation expense		328	—	—	—	328
Balance at December 31, 2013	3,979	59,317	9,450	26,738	(1,256)	94,249
Redemption of preferred stock		—	(9,450)	—	—	(9,450)
Net earnings		—	—	9,409	—	9,409
Other comprehensive earnings		—	—	—	2,824	2,824
Dividends on preferred stock		—	—	(170)	—	(170)
Cash dividends declared on common stock		—	—	(1,780)	—	(1,780)
Stock dividend of 5%	202	5,468	—	(5,468)	—	—
Stock options exercised net of shares tendered	78	1,216				1,216
Tax benefit-options exercised		483	—		—	483
Stock-based compensation expense		307	—	—	—	307
Balance at December 31, 2014	4,259	66,791	—	28,729	1,568	97,088
Net earnings		—	—	8,197	—	8,197
Other comprehensive losses		—	—	—	(27)	(27)
Cash dividends declared on common stock		—	—	(2,447)	—	(2,447)
Stock dividend of 5%	216	6,663		(6,663)	—	—
Stock options exercised, net of shares tendered	67	924				924
Stock based compensation expense		427	—	—	—	427
Balance at December 31, 2015	4,542	$ 74,805	$ —	$ 27,816	$ 1,541	$ 104,162

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years ended December 31, 2015, 2014 and 2013

(Dollar amounts in thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net earnings	$ 8,197	$ 9,409	$ 7,439
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	3,458	3,479	3,708
Gain on sale of securities available-for-sale	(339)	(138)	(324)
Gain on sale of premises	—	(2,085)	—
Gain on sale of other real estate owned	—	(220)	(96)
Loss on impairment of other real estate owned	—	—	69
Stock-based compensation expense	427	307	328
Earnings on bank owned life insurance	(364)	(359)	(366)
(Recovery of) provision for loan losses	(305)	(1,020)	1,385
Deferred tax expense (benefit)	(886)	1,131	341
Change in net deferred loan fees	(133)	(46)	265
Decrease (Increase) in accrued interest receivable	(473)	83	(48)
Decrease (increase) in prepaid expense	1,856	(344)	671
Decrease (increase) other assets	1,852	(2,877)	(632)
Increase in accrued expenses and other liabilities	(2,414)	3,780	1,818
Net cash provided by operating activities	10,876	11,100	14,558
Cash flows from investing activities:			
Proceeds from matured/called/sold securities available-for-sale	50,247	41,699	53,392
Purchases of securities available-for-sale	(116,640)	(39,953)	(93,256)
(Purchases) redemptions of other equity securities	(300)	(469)	164
Acquisition, net of cash paid	(10,855)	—	—
Maturities of time deposits of other banks	2,789	2,759	7,673
Net increase in loans	(45,625)	(26,906)	(12,380)
Increase in bank-owned life insurance	—	—	—
Proceeds from sale of other real estate owned	—	1,461	1,384
Net investment in other real estate owned	(263)	(86)	(25)
Proceeds from sales of bank premises, equipment, and leasehold improvements	—	3,097	15
Purchases of bank premises, equipment, and leasehold improvements	(287)	(645)	(1,068)
Net cash used in investing activities	(120,934)	(19,043)	(44,101)

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years ended December 31, 2015, 2014 and 2013

(Dollar amounts in thousands)

	2015	2014	2013
Cash flows from financing activities:			
Net increase in demand and savings deposits	$ 107,422	$ 37,572	$ 52,177
Net decrease in time deposits	(6,553)	(18,993)	(46,914)
Net advances (repayment) of FHLB borrowings	8,000	(6,000)	13,780
Proceeds from issuance of note payable	—	6,000	—
Principal repayment on note payable	(600)	(450)	—
Cash dividends paid on common stock	(1,786)	(1,294)	(1,054)
Cash in lieu of fractional shares	(13)	—	(4)
Exercise of stock options	924	1,216	1,067
Excess tax benefit from exercised stock options	—	483	354
Redemption of preferred stock series C	—	(9,450)	(3,150)
Cash dividends paid on preferred stock series C	—	(170)	(567)
Net cash provided by financing activities	107,394	8,914	15,689
Net increase (decrease) in cash and cash equivalents	(2,664)	971	(13,854)
Cash and cash equivalents at beginning of year	14,978	14,007	27,861
Cash and cash equivalents at end of year	$ 12,314	$ 14,978	$ 14,007
Additional cash flow information:			
Interest paid	$ 2,543	$ 2,135	$ 2,519
Income taxes paid	4,737	2,590	1,235
Non-cash investing and financing activities:			
Accrued dividends	648	486	398
Change in fair value of available-for-sale securities, net of tax effect	(27)	2,824	(5,124)
Loans transferred to other real estate owned	—	—	—
Loans to finance sales of other real estate owned	—	3,400	—
Stock dividends of 5%	6,663	5,468	4,958
Acquisition:			
Fair value of assets acquired	115,127	—	—
Fair value of liabilities assumed	93,627	—	—

See accompanying notes to consolidated financial statements.

(1) The Company and Summary of Significant Accounting Policies

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, San Francisco and Santa Clara Counties.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting estimates are the allowance for loan losses, the valuation of goodwill, the valuation of the allowance for deferred tax assets and fair value determinations such as OREO and impaired loans. A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

(a) Basis of Presentation

The accounting and reporting policies of the Company and its wholly-owned subsidiary are in accordance with accounting principles generally accepted in the United States of America. All intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are sold for one-day periods. The cash equivalents are readily convertible to known amounts of cash and present insignificant risk of changes in value due to original maturity dates of 90 days or less. Included in cash and cash equivalents are restricted balances at the Federal Reserve Bank of San Francisco which relate to a minimum cash reserve requirement of approximately $2,186,000 and $1,189,000 at December 31, 2015 and 2014, respectively.

(c) Investment Securities

Investment securities consist of U.S. Treasury securities, U.S. agency securities, obligations of states and political subdivisions, obligations of U.S. corporations, mortgage-backed securities and other securities. At the time of purchase of a security, the Company designates the security as held-to-maturity or available-for-sale, based on its investment objectives, operational needs, and intent to hold. The Company classifies securities as held to maturity only if and when it has the positive intent and ability to hold the security to maturity. The Company does not purchase securities with the intent to engage in trading activity. Held to maturity securities are recorded at amortized cost, adjusted for amortization of premiums or accretion of discounts.

The Company did not have any investments in the held-to-maturity portfolio at December 31, 2015 or 2014. Securities available-for-sale are recorded at fair value with unrealized holding gains or losses, net of the related tax effect, reported as a separate component of stockholders' equity until realized.

An impairment charge will be recorded if the Company has the intent to sell a security that is currently in an unrealized loss position or where the Company may be required to sell a security that is currently in an unrealized loss position. A decline in the fair value of any security available-for-sale or held-to-maturity below cost that is deemed other than temporary will cause a charge to earnings to be recorded and the corresponding establishment of a new cost basis for the security. Amortization of premiums and accretion of discounts on debt securities are included in interest income over the life of the related security held-to-maturity or available-for-sale using the effective interest method. Dividend and interest income are recognized when earned. Realized

gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive earnings.

(d) Derivatives

All derivatives contracts and instruments are recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. The Company did not hold any derivative contracts at December 31, 2015 or 2014.

(e) Loans

Loans are reported at the principal amount outstanding, net of deferred loan fees and the allowance for loan losses. An unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. Loan fees net of certain direct costs of origination, which represent an adjustment to interest yield, are deferred and amortized over the contractual term of the loan using the interest method.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. An impaired loan is measured based upon the present value of future cash flows discounted at the loan's effective rate, the loan's observable market price, or the fair value of collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis. If the measurement of the impaired loan is less than the recorded investment in the loan, an impairment is recognized by a charge to the allowance for loan losses. Large groups of smaller balance loans are collectively evaluated for impairment.

Restructured loans are loans on which concessions in terms have been granted because of the borrowers' financial difficulties. Interest is generally accrued on such loans in accordance with the new terms, once the borrower has demonstrated a history of at least six months repayment. A loan

is considered to be a troubled debt restructuring when the Company, for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that makes it easier for the debtor to make their required loan payments. The concession may take the form of a temporary reduction in the interest rate or monthly payment amount due or may extend the maturity date of the loan. Other financial concessions may be agreed to as conditions warrant. Troubled debt restructured loans are accounted for as impaired loans. For an impaired loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement.

Loans acquired in business combinations are recorded on a loan-by-loan basis at their estimated fair value. The Company uses third party valuation specialists to determine the estimated fair value on all acquired loans. The Company acquires both performing and impaired loans (loans acquired with evidence of credit quality deterioration at the time of purchase) in its acquisitions. For acquired performing loans, any discount or premium related to fair value adjustments at the time of purchase is recognized as interest income over the estimated life of the loan using the effective yield method. Loans acquired with evidence of credit quality deterioration, at the time of purchase, are accounted for under ASC 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30 Loans"). For ASC 310-30 loans, the excess of cash flows expected to be collected over a loan's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan using the effective yield method. The acquisition date estimates of accretable yield may subsequently change due to changes in management's estimates of timing and amounts of expected cash flows.

The excess of the contractual amounts due over the cash flows expected to be collected is considered to be the nonaccretable difference. The nonaccretable difference represents the Company's estimate of the credit losses expected to occur and is considered in determining the fair value of the loans as of the acquisition date. Subsequent to the acquisition date, any increases in expected cash flows over those expected at acquisition date in excess of fair value are adjusted through an increase to the accretable yield on a prospective basis. Any subsequent decreases in cash flows attributable to credit deterioration are recognized by recording additional provision for loan losses.

(f) Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb probable losses inherent in existing loans, standby letters of credit, overdrafts, and commitments to extend credit based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans and current and anticipated economic conditions that may affect the borrowers' ability to pay. While management uses these evaluations to determine the level of the allowance for loan losses, future provisions may be necessary based on changes in the factors used in the evaluations. Material estimates relating to the determination of the allowance for loan losses are particularly susceptible to significant change in the near term. Management believes that the allowance for loan losses is adequate as of December 31, 2015. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, and our borrowers' ability to pay. In addition, the banking regulators, as an integral part of its examination process, periodically review the Bank's allowance for loan losses. The banking regulators may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination.

(g) Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation using the straight-line method over the estimated service lives of related assets ranging from 3 to 50 years. Leasehold improvements are amortized over the estimated lives of the respective leases or the service lives of the improvements, whichever is shorter.

(h) Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of the carrying amount of the loan or fair value of the property at the date of foreclosure less selling costs. Subsequent to foreclosure, valuations are periodically performed, and any subsequent revisions in the estimate of fair value are reported as an adjustment to the carrying value of the real estate, provided the adjusted carrying amount does not exceed the original amount at foreclosure. Revenues and expenses from operations and changes in the valuation allowance are included in other operating expenses.

The Company may make loans to facilitate the sale of foreclosed real estate. Gains and losses on financed sales are recorded in accordance with the appropriate accounting standard, taking into account the buyer's initial and continuing investment in the property, potential subordination and transfer of ownership.

(i) Goodwill and Other Intangible Assets

Goodwill is recognized in a business acquisition transaction when the acquisition purchase price exceeds the fair value of identified tangible and intangible assets and liabilities. Goodwill is subsequently evaluated for possible impairment at least annually. If impairment is determined to exist, it is recorded in the period it is identified. The Company evaluated goodwill at December 31, 2015 and found no impairment.

Other intangible assets consist of core deposit and customer intangible assets that are initially recorded at fair value and subsequently amortized over their estimated useful lives, usually no longer than a seven year period.

(j) Cash Dividends

The Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law. Funds for payment of any cash dividends by the Company would be obtained from its investments as well as dividends and/or management fees from the Bank. The Bank's ability to pay cash dividends is also subject to restrictions imposed under the National Bank Act and regulations promulgated by the Office of the Comptroller of the Currency.

(k) Stock Dividend

On October 22, 2015, the Company announced that its Board of Directors had declared a five percent (5%) stock dividend which resulted in approximately 216,000 shares, payable at the rate of one share of Common Stock for every twenty (20) shares of Common Stock owned. The stock dividend was paid on December 28, 2015. The earnings per share data for all periods presented have been adjusted for stock dividends. However, the Consolidated Statement of Changes in Stockholders' Equity shows the historical roll forward of stock options declared.

(l) Other Income

Other income includes the following major items:

(Dollar amounts in thousands)	2015	2014	2013
Dividend income-other equity securities	$ 651	$ 398	$ 262
Rental income-other real estate owned	144	199	249
All other items	497	362	352
Total other income	$ 1,292	$ 959	$ 863

(m) Other Expense

Other expense includes the following major items:

(Dollar amounts in thousands)	2015	2014	2013
Dues and memberships	$ 125	$ 115	$ 109
Real estate appraisals	75	64	129
Training and seminars	66	63	86
Amortization of deposit premium	82	60	68
Mastercard	96	101	98
Dunbar courier fees	113	129	113
OCC Assessment	238	221	215
All other items	487	415	487
	$ 1,282	$ 1,168	$ 1,305

(n) Income Taxes

Deferred income taxes are determined using the asset and liability method. Under this method, the net deferred tax asset or liability is recognized for tax consequences of temporary differences by applying current tax rates to differences between the financial reporting and the tax basis of existing assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. A valuation allowance is established through the provision for income taxes for any deferred tax assets where the utilization of the asset is in doubt. During 2013, the Company recorded a reversal of the deferred tax asset valuation allowance of $934,000 for tax credit carry-forwards from the Bank's investment in low income housing real estate partnerships. As changes in tax laws or rates are enacted, or as significant changes are made in financial projections, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company had no unrecognized tax benefits as of December 31, 2015, and $718,000 as of December 31, 2014, respectively. These unrecognized tax benefits are related to income tax uncertainties surrounding the Bank's Enterprise Zone net interest deduction. The Bank is currently being audited by the Franchise Tax Board for the years ended December 31, 2005 through 2008, and the outcome of these audits is uncertain.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2015 and 2014, the Company believes that any penalties and interest penalties that may exist are not material and the Company has not accrued for them.

At December 31, 2015, the Bank had a $2,067,000 investment in five partnerships, which own low-income affordable housing projects that generate tax benefits in the form of federal and state housing tax credits. As a limited partner investor in these partnerships, the Company receives tax benefits in the form of tax deductions from partnership operating losses and federal and state income tax credits.

The federal and state income tax credits are earned over a 10-year period as a result of the investment properties meeting certain criteria and are subject to recapture for noncompliance with such criteria over a 15-year period.

The expected benefit resulting from the low-income housing tax credits is recognized in the period for which the tax benefit is recognized in the Company's consolidated tax returns. These investments are accounted for using the historical cost method less depreciation and amortization and are recorded in other assets on the balance sheet. The Company recognizes tax credits as they are allocated and amortizes the initial cost of the investments over the period that tax credits are allocated to the Company. There is no residual value for the investment at the end of the tax credit allocation period. Cash received from operations of the limited partnership or sale of the properties, if any, will be included in earnings when realized.

(o) Earnings per Share

Earnings per common share (EPS) are computed based on the weighted average number of common shares outstanding during the period. Basic EPS excludes dilution and is computed by dividing net earnings available to common stockholders (after deducting dividends and related accretion on preferred stock) by the weighted average of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The number of potential common shares included in the quarterly diluted EPS is computed using the average market price during the three months included in the reporting period under the treasury method. The number of potential common shares included in year-to-date diluted EPS is a year-to-date weighted average of potential shares included in each quarterly diluted EPS computation. All common stock equivalents are anti-dilutive when a net loss occurs. A 5% stock dividend was declared in the fourth quarter of 2014, and prior per share amounts have been adjusted to reflect the 5% stock dividend. There was also a 5% stock dividend declared in December 2015, and prior per share amounts have been adjusted to reflect the 5% stock dividend.

(Number of shares in thousands)	2015	2014	2013
Weighted average common shares outstanding-used in computing basic earnings per share	4,516	4,444	4,339
Dilutive effect of stock options outstanding, using the treasury stock method	128	141	97
Shares used in computing diluted earnings per share	4,644	4,585	4,436
Anti-dilutive options not included	106	71	179

(p) Stock Option Plans

Measurement of the cost of stock options granted is based on the grant-date fair value of each stock option granted using the Black-Scholes valuation model. The cost is then amortized to expense on a straight-line basis over each option's requisite service period. The amortized expense of the stock option's fair value has been included in salaries and employee benefits expense on the consolidated statements of earnings for the three years ended December 31, 2015, 2014 and 2013. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected term of the option is based on the U. S. Treasury yield curve in effect at the time of the grant. The Company's stock has limited liquidity and limited trading activity. Volatility was calculated using historical price changes on a monthly basis over the expected life of the option.

(q) Fair Values of Financial Instruments

The accounting standards provide for a fair value measurement framework that quantifies fair value estimates by the level of pricing precision. The degree of judgment utilized in measuring the fair value of assets generally correlates to the level of pricing precision. Financial instruments rarely traded or not quoted will generally have a higher degree of judgment utilized in measuring fair value. Pricing precision is impacted by a number of factors including the type of asset or liability, the availability of the asset or liability, the market demand for the asset or liability, and other conditions that were considered at the time of the valuation.

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 values hierarchy are recognized at the actual date of the event or circumstance that caused the transfer.

(r) Bank Owned Life Insurance

The Company purchased insurance on the lives of certain executives. The policies accumulate asset values to meet future liabilities including the payment of employee benefits such as the deferred compensation plan. Changes in the cash surrender value are recorded as other noninterest income in the consolidated statements of earnings.

(s) Federal Home Loan Bank Borrowings

The Bank maintains a collateralized line of credit with the Federal Home Loan Bank ("FHLB") of San Francisco. Under this line, the Bank may borrow on a short term or a long term (over one year) basis at the then stated interest rate. FHLB advances are recorded and carried at their historical cost. FHLB advances are not transferable and may contain prepayment penalties. In addition to the collateral pledged, the Company is required to hold prescribed amounts of FHLB stock that vary with the usage of FHLB borrowings.

(t) Comprehensive Income

Certain changes in assets and liabilities, such as unrealized gain and losses on available-for-sale securities are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

(u) Note Payable

The Company obtained a corporate loan with a five year term, for $6,000,000, payable at $50,000 principal monthly, plus interest, and is based on the 3-month LIBOR rate plus 4%.

(v) Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock represents an equity interest that does not have a readily determinable fair value because its ownership is restricted and it lacks a market (liquidity). FHLB stock is recorded at cost.

(w) Reclassifications

Certain prior year information has been reclassified to conform to current year presentation. The reclassifications had no impact on consolidated net earnings or retained earnings.

(x) Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*. This ASU provides "guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit." It allows the proportional amortization method to be used by a reporting entity if certain conditions are met. The ASU also defines when a qualified affordable housing project through a limited liability entity should be tested for impairment. If a qualified affordable housing project does not meet the conditions for using the proportional amortization method, the investment should be accounted for using an equity method investment

or a cost method investment. The ASU is effective for fiscal years beginning after December 15, 2014, and interim periods therein. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In January 2014, FASB issued ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for annual and interim reports beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The adoption of ASU 2014-04 did not have a significant impact on the Company's consolidated financial statements.

In September 2015, FASB issued ASU 2015-16, *Business Combinations (Topic 805) - Simplifying the accounting for Measurement - Period Adjustments*. GAAP requires that during the amendment period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that , if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this Update eliminate the requirement to retrospectively account for these adjustments. These amendments in this Update are effective for fiscal years beginning after December 15, 2015.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - overall (subtopic 825-10) Recognition and Measurements 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. 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. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within these fiscal years. The adoption of this Update is not expected to have a material impact on the company's Consolidated Financial Statements.

In February, 2016 FASB issued ASU 2016-2, *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. To meet that objective, the FASB is amending the *FASB Accounting Standards Codification*® and creating Topic 842 Leases. This update, along with IFRS *Leases*, are the results of the FASB's and the International Accounting Standards Board's (IASB's) efforts to meet that objective and improve financial reporting. The adoption of this Update is not expected to have a material impact on the Company's Consolidated Financial Statements.

(2) Acquisition

FNB Bancorp acquired all of the assets and liabilities of America California Bank on September 4, 2015, using the acquisition method of accounting for cash consideration of $21,500,000, and accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from the date of the acquisition. On the date of the acquisition, the fair value of the assets acquired and the liabilities assumed were as follows:

(In thousands)	America California Bank September 4, 2015
Assets acquired:	
Cash and due from banks, net of cash paid	$ 10,855
Loans	92,962
Premises and equipment, net	62
Bank owned life insurance	2,971
Goodwill	2,739
Core deposit intangible	727
Other assets	4,803
Total assets acquired	$ 115,119
Liabilities assumed:	
Noninterest-bearing deposits	$ 14,500
Interest-bearing deposits	75,626
Other liabilities	3,493
Total liabilities assumed:	$ 93,619
Merger consideration (all cash)	$ 21,500

(Dollars in thousands)	America California Bank September 4, 2015
Book value of net assets acquired from America California Bank	$ 18,138
Fair value adjustments:	
Loans	2,171
Core deposit intangible asset	727
Time deposits	(243)
Other liabilities	(1,732)
Total purchase accounting adjustments	19,061
Deferred tax liabilities	(300)
Fair value of net assets acquired from America California Bank	$ 18,761
Merger consideration	$ 21,500
Less fair value of net assets acquired	(18,761)
Goodwill	$ 2,739

As a result of this acquisition, the Company recorded $2.7 million in goodwill, which represents the excess of the total purchase price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Goodwill reflects the expected value created through the combination of the Company and the acquired company. The entire amount of recorded goodwill in the America California Bank acquisition is expected to be deductible. In the case of the America California Bank acquisition, the Company gains greater customer relationships to the Asian community in San Francisco, we can increase the borrowing to loan customers due to higher loan borrower concentration limits, and we leverage our capital to help improve our return on equity. At December 31, 2015 and 2014, management determined that the market value of our Company exceeded our carrying value, therefore there was no goodwill impairment. The following is a description of the methods used to determine the fair values of significant assets and liabilities at acquisition date:

Loans

As discussed in Note 1, the fair values of acquired loans are derived from the present values of the expected cash flows for each acquired loan were projected based on contractual cash flows adjusted for expected prepayment, probability of default and expected prepayment, probability of default and expected loss given default, and principal recovery. All loans acquired in the America California Bank acquisition were performing loans. All contractual cash flows are expected to be collected.

Prepayment rates were applied to the principal outstanding based on the type of loan acquired. Prepayments were based on a constant prepayment rate ("CPR") applied over the life of the loan. The Company used a CPR of between 6% and 24%, depending on the characteristics of the loan acquired.

Non-credit-impaired loans with similar characteristics were grouped together and were treated in the aggregate when applying the discount rate to the expected cash flows. Aggregation factors, considered included in the type of loan and related collateral, risk classification, fixed or variable interest rate, term of loan and whether or not the loan was amortizing.

Core Deposit Intangible

The core deposit intangible represents the estimated future benefits of acquired deposits and is recorded separately from the related deposits. The value of the core deposit intangible asset was determined using a discounted cash flow approach to arrive at the cost differential between the core deposits

In thousands	2016	2017	2018	2019	2020	2021 and later	Total
Core deposit intangible amortization	$ 193	$ 157	$ 103	$ 66	$ 45	$ 101	$ 665

Pro Forma Results of Operations

The contribution of the acquired operations of America California Bank to our results of operation for the period September 5, 2015 to December 31, 2015 is as follows: interest income of $1,889,000, interest expense of $152,000, non-interest income of $58,000, non-interest expense of $551,018, and income before taxes of $1,244,000. These amounts include acquisition-related costs, accretion or amortization of the discount or premium on the acquired loans, amortization of the fair value markup on time deposits, and core deposit intangible amortization. America California Bank's results of operations prior to the acquisition date are not included in our operating results for 2015.

The following table presents America California Bank's revenue and earnings included in the Company's consolidated statement of comprehensive income for the year ended December 31, 2015, 2014 and 2013 on a pro forma basis as if the acquisition date had been December 31 in the year before the pro forma year presented. This pro forma information does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the periods presented, nor is it indicative of the results of operations in future periods.

Pro Forma Revenue and Earnings (in thousands)	Revenue	Net Earnings
Actual from September 5, 2015 to December 31, 2015 of America California Bank only	$ 1,889	$ 734
2015 supplemental pro forma of the combined entity for the year ended December 31, 2015	42,749	9,458
2014 Supplemental pro forma of the combined entity for the year ended December 31, 2014	44,812	11,404
2013 Supplemental pro forma of the combined entity for the year ended December 31, 2013	42,634	9,434

Acquisition-related expenses are recognized as incurred and continue until all systems have been converted and operational functions become fully integrated. We incurred one-time third party acquisition related expenses in the consolidated statement of comprehensive income during 2015 as follows:

(in thousands)	December 31, 2015
Data processing expense	$ 515
Occupancy expense	342
Surety insurance	35
Equipment expense	2
Total	$ 894

(3) Restricted Cash Balance

Cash and due from banks includes balances with the Federal Reserve Bank of San Francisco (the FRB). The Bank is required to maintain specified minimum average balances with the FRB, based primarily upon the Bank's deposit balances. As of December 31, 2015 and 2014, the Bank maintained deposits in excess of the FRB reserve requirement, which was $2,186,000 and $1,189,000, respectively.

(4) Securities Available-for-Sale

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
December 31, 2015:				
U.S. Treasury securities	$ 7,004	$ 14	$ (18)	$ 7,000
Obligations of U.S. government agencies	84,842	168	(401)	84,609
Mortgage-backed securities	61,579	641	(557)	61,663
Obligations of states and political subdivisions	132,125	3,148	(83)	135,190
Corporate debt	41,045	50	(350)	40,745
	$ 326,595	$ 4,021	$ (1,409)	$ 329,207
December 31, 2014:				
U.S. Treasury securities	$ 3,975	$ 12	$ (29)	$ 3,958
Obligations of U.S. government agencies	63,090	270	(298)	63,062
Mortgage-backed securities	78,076	1,002	(661)	78,417
Obligations of states and political subdivisions	82,151	2,534	(143)	84,542
Corporate debt	34,931	176	(205)	34,902
	$ 262,223	$ 3,994	$ (1,336)	$ 264,881

December 31, 2015: (Dollar amounts in thousands)	Total Fair Value	< 12 Months Unrealized Losses	Total Fair Value	12 Months or > Unrealized Losses	Total Fair Value	Total Unrealized Losses
U. S. Treasury securities	$ 5,042	$ -18	$ —	$ —	$ 5,042	$ (18)
Obligations of U.S. government agencies	55,382	(338)	4,976	(62)	60,358	(401)
Mortgage-backed securities	19,458	(193)	16,714	(365)	36,172	(557)
Obligations of states and political subdivisions	14,988	(74)	1,856	(10)	16,844	(83)
Corporate debt	27,130	(300)	4,449	(50)	31,579	(350)
Total	$ 122,000	$ (923)	$ 27,995	$ (487)	$ 149,995	$ (1,409)

December 31, 2014: (Dollar amounts in thousands)	Total Fair Value	< 12 Months Unrealized Losses	Total Fair Value	12 Months or > Unrealized Losses	Total Fair Value	Total Unrealized Losses
U. S. Treasury securities	$ —	$ —	$ 2,015	$ (29)	$ 2,015	$ (29)
Obligations of U.S. government agencies	13,178	(43)	19,116	(255)	32,294	(298)
Mortgage-backed securities	5,056	(10)	36,382	(651)	41,438	(661)
Obligations of states and political subdivisions	8,678	(49)	5,696	(94)	14,374	(143)
Corporate debt	18,065	(125)	4,919	(80)	22,984	(205)
Total	$ 44,977	$ (227)	$ 68,128	$ (1,109)	$ 113,105	$ (1,336)

At December 31, 2015, there were 16 securities in an unrealized loss position for greater than 12 consecutive months, and 76 securities in an unrealized loss position for under 12 months. At December 31, 2014, there were 48 securities in an unrealized loss position for greater than 12 consecutive months, and 36 securities in an unrealized loss position for under 12 months. Management periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. Management has determined that no investment security is other-than-temporarily impaired at December 31, 2015 and 2014. 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 resulting from interest rate declines prior to the earliest of forecasted recovery or the maturity of the underlying investment security.

The amortized cost and fair value of debt securities as of December 31, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollar amounts in thousands)	**Amortized Cost**	**Fair Value**
Available-for-sale:		
Due in one year or less	$ 11,430	$ 11,492
Due after one through five years	157,013	157,478
Due after five years through ten years	128,040	129,928
Due after ten years	30,112	30,309
	$ 326,595	$ 329,207

At December 31, 2015 and 2014, securities with an amortized cost of $101,900,000 and $77,808,000, and fair value of $102,336,000 and $78,617,000, respectively, were pledged as collateral for public deposits and for other purposes required by law.

The following table summarizes Other Equity Securities Outstanding:

(Dollar amounts in thousands) **Equity Securities**	**December 31, 2015**	**December 31, 2014**
Federal Home Loan Bank stock	$ 5,164	$ 4,258
Federal Reserve Bank	1,261	1,260
Pacific Coast Bankers Bank Stock	145	145
Texas Independent Bank Stock	174	106
Community Bank of the Bay Stock	4	—
Totals	6,748	5,769

As of December 31, 2015 and 2014, the Bank had investments in FRB of $1,261,000 and $1,260,000, respectively, also carried among other equity securities. These investments are carried at cost, and evaluated periodically for impairment. Federal Home Loan Bank and FRB stock can be redeemed at par by the government agencies. These securities cannot be sold to other investors. Management reviews the financial statements, credit rating and other pertinent financial information of these entities in order to determine if impairment has occurred. So long as there is sufficient evidence to support the ability of these entities to continue to redeem their stock, management believes these securities are not impaired.

(5) Loans

Loans are summarized as follows at December 31:

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance December 31 2015
Commercial real estate	$ 314,141	$ 84,548	$ 1,304	$ 399,993
Real estate construction	38,909	5,907	—	44,816
Real estate multi-family	47,607	15,990	—	63,597
Real estate 1 to 4 family	153,872	18,092	—	171,964
Commercial & industrial	39,894	12,139	—	52,033
Consumer loans	1,574	—	—	1,574
Gross loans	595,997	136,676	1,304	733,977
Net deferred loan fees	(1,260)	—	—	(1,260)
Allowance for loan losses	(9,970)	—	—	(9,970)
Net loans	$ 584,767	$ 136,676	$ 1,304	$ 722,747

(Dollar amounts in thousands)	FNB Bancorp Originated	PNCI	PCI	Total Balance December 31 2014
Commercial real estate	$ 285,252	$ 31,852	$ 1,323	$ 318,427
Real estate construction	37,827	1,944	—	39,771
Real estate multi-family	43,379	10,445	—	53,824
Real estate 1 to 4 family	123,522	5,210	—	128,732
Commercial & industrial	42,551	9,111	—	51,662
Consumer loans	1,448	—	—	1,448
Gross loans	533,979	58,562	1,323	593,864
Net deferred loan fees	(449)	—	—	(449)
Allowance for loan losses	(9,700)	—	—	(9,700)
Net loans	$ 523,830	$ 58,562	$ 1,323	$ 583,715

PNCI means purchased, not credit impaired. PCI means purchased, credit impaired.

A summary of impaired loans, the related allowance for loan losses, average investment and income recognized on impaired loans follows. The following tables include originated and purchased non-credit impaired loans.

Allowance for Credit Losses
As of and For the Year Ended December 31, 2015

(Dollar amounts in thousands)

	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 5,549	$ 849	$ 206	$ 1,965	$ 1,073	$ 58	$ 9,700
Charge-offs	—	—	—	(45)	—	(36)	(81)
Recoveries	576	—	—	15	60	5	656
(Recovery of) provision for loan losses	(66)	(260)	37	241	(280)	23	(305)
Ending balance	$ 6,059	$ 589	$ 243	$ 2,176	$ 853	$ 50	$ 9,970
Ending balance: individually evaluated for impairment	$ 96	$ —	$ —	$ 479	$ 182	$ —	$ 757
Ending balance: collectively evaluated for impairment	$ 5,963	$ 589	$ 243	$ 1,697	$ 671	$ 50	$ 9,213

Allowance for Credit Losses
As of and For the Year Ended December 31, 2014

(Dollar amounts in thousands)

	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 5,763	$ 734	$ 293	$ 1,788	$ 1,237	$ 64	$ 9,879
Charge-offs	(83)	(183)	—	(62)	(28)	(26)	(382)
Recoveries	1,062	—	—	3	154	4	1,223
(Recovery) of/provision for loan losses	(1,193)	298	(87)	236	(290)	16	(1,020)
Ending balance	$ 5,549	$ 849	$ 206	$ 1,965	$ 1,073	$ 58	$ 9,700
Ending balance: individually evaluated for impairment	$ 101	$ —	$ —	$ 432	$ 225	$ 8	$ 766
Ending balance: collectively evaluated for impairment	$ 5,448	$ 849	$ 206	$ 1,533	$ 848	$ 50	$ 8,934

Recorded Investment in Loans at December 31, 2015

(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	$ 399,993	$ 44,816	$ 63,597	$ 171,964	$ 52,033	$ 1,574	$ 733,977
Ending balance: individually evaluated for impairment	$ 11,292	$ 2,154	$ —	$ 4,218	$ 1,782	$ —	$ 19,446
Ending balance: collectively evaluated for impairment	$ 388,701	$ 42,662	$ 63,597	$ 167,746	$ 50,251	$ 1,574	$ 714,531

Recorded Investment in Loans at December 31, 2014

(Dollar amounts in thousands)

	Commercial Real Estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Loans:							
Ending balance	$ 318,427	$ 39,771	$ 53,824	$ 128,732	$ 51,662	$ 1,448	$ 593,864
Ending balance: individually evaluated for impairment	$ 9,530	$ 2,373	$ —	$ 4,333	$ 2,315	$ 64	$ 18,615
Ending balance: collectively evaluated for impairment	$ 308,897	$ 37,398	$ 53,824	$ 124,399	$ 49,347	$ 1,384	$ 575,249

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

(Dollar amounts in thousands)

	Commercial Real estate	Real Estate Construction	Real Estate Multi family	Real Estate 1 to 4 family	Commercial & industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 4,812	$ 857	$ —	$ 1,516	$ 1,875	$ 64	$ 9,124
Charge-offs	(262)	(81)	—	(385)	(57)	(7)	(792)
Recoveries	35	50	—	3	73	1	162
(Recovery of) provision for loan losses	1,178	(92)	293	654	(654)	6	6
Ending balance	$ 5,763	$ 734	$ 293	$ 1,788	$ 1,237	$ 64	$ 8,494
Ending balance: individually evaluated for impairment	$ 165	$ —	$ —	$ 254	$ 176	$ —	$ 595
Ending balance: collectively evaluated for impairment	$ 5,598	$ 734	$ 293	$ 1,534	$ 1,061	$ 64	$ 9,284

Recorded Investment in Loans at December 31, 2013

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

Impaired Loans
As of and for the year ended December 31, 2015

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 8,169	$ 9,271	$ —	8,379	$ 282
Commercial real estate construction	2,154	2,337	—	2,264	130
Residential- 1 to 4 family	457	457	—	460	36
Commercial and industrial	524	524	—	731	27
Consumer	—	—	—	—	—
Total	11,304	12,589	—	11,834	475
With an allowance recorded					
Commercial real estate	$ 2,634	$ 2,638	$ 96	$ 2,664	$ 160
Residential- 1 to 4 family	3,761	3,782	479	3,786	149
Commercial and industrial	1,258	1,497	182	1,484	7
Consumer	—	—	—	—	—
Total	7,653	7,917	757	7,934	316
Total					
Commercial real estate	$ 10,803	$ 11,909	$ 96	$ 11,043	$ 442
Commercial real estate construction	2,154	2,337	—	2,264	130
Residential- 1 to 4 family	4,218	4,239	479	4,246	185
Commercial and industrial	1,782	2,021	182	2,215	34
Consumer	—	—	—	—	—
Grand total	$ 18,957	$ 20,506	$ 757	$ 19,768	$ 791

	Impaired Loans As of and for the year ended December 31, 2014				
(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 4,462	$ 5,333	$ —	$ 4,473	$ 304
Commercial real estate construction	2,373	2,556	—	1,846	150
Residential- 1 to 4 family	1,594	1,737	—	1,379	67
Commercial and industrial	582	939	—	788	54
Consumer	—	—	—	—	—
Total	9,011	10,565	—	8,486	575
With an allowance recorded					
Commercial real estate	$ 5,068	$ 5,071	$ 101	$ 5,127	$ 258
Residential- 1 to 4 family	2,739	2,754	432	2,759	111
Commercial and industrial	1,733	2,100	225	1,907	33
Consumer	64	64	8	67	5
Total	9,604	9,989	766	9,860	407
Total					
Commercial real estate	$ 9,530	$ 10,404	$ 101	$ 9,600	$ 562
Commercial real estate construction	2,373	2,556	—	1,846	150
Residential- 1 to 4 family	4,333	4,491	432	4,138	178
Commercial and industrial	2,315	3,039	225	2,695	87
Consumer	64	64	8	67	5
Grand total	$ 18,615	$ 20,554	$ 766	$ 18,346	$ 982

(Dollar amounts in thousands)	Impaired Loans As of and for the year ended December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial real estate	$ 12,397	$ 13,535	$ —	$ 11,445	$ 565
Commercial real estate construction	—	—	—	—	—
Real estate multi family	375	375	—	384	25
Residential- 1 to 4 family	1,163	1,284	—	1,009	37
Commercial and industrial	1,059	1,232	—	1,204	66
Consumer					
Total	14,994	16,426	—	14,042	693
With an allowance recorded					
Commercial real estate	$ 5,577	$ 5,588	$ 165	$ 4,972	$ 254
Commercial real estate construction	189	196	—	198	18
Real estate multi family	—	—	—	—	—
Residential- 1 to 4 family	2,914	2,923	254	2,989	115
Commercial and industrial	1,438	1,871	176	1,710	15
Consumer	—	—	—	—	—
Total	10,118	10,578	595	9,869	402
Total					
Commercial real estate	$ 17,974	$ 19,123	$ 165	$ 16,417	$ 819
Commercial real estate construction	189	196	—	198	18
Real estate multi family	375	375	—	384	25
Residential - 1 to 4 family	4,077	4,207	254	3,998	152
Commercial and industrial	2,497	3,103	176	2,914	81
Consumer	—	—	—	—	—
Grand total	$ 25,112	$ 27,004	$ 595	$ 23,911	$ 1,095

There has been no additional impairment recognized on previous credit impairment loans subsequent to acquisition. Nonaccrual loans totaled $7,915,000 and $5,648,000 as of December 31, 2015 and 2014. Not all impaired loans are in a nonaccrual status. The majority of the difference between impaired loans and nonaccrual loans represents loans that are restructured and performing under modified loan agreements, and where principal and interest is considered to be collectible.

(Dollar amounts in thousands)	Loans on Nonaccrual Status as of	
	December 31, 2015	December 31, 2014
Commercial real estate	$ 6,021	$ 2,111
Real estate 1 to 4 family	636	1,181
Commercial & industrial	1,258	2,292
Consumer	—	64
Total	$ 7,915	$ 5,648

Interest income on impaired loans of $791,000, $982,000 and $1,095,000 was recognized based upon cash payments received in 2015, 2014, and 2013, respectively. The amount of interest on impaired loans not collected in 2015, 2014 and 2013, was $460,000, $91,000 and $79,000, respectively. The cumulative amount of unpaid interest on impaired loans was $3,405,000, $2,944,000 and $2,854,000 at December 31, 2015, 2014 and 2013, respectively.

The following is a summary of the principal amounts outstanding for troubled debt restructurings added during the years ended December 31, 2015, 2014 and 2013.

	Modifications For the Year Ended December 31, 2015		
(Dollar amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate 1 to 4 family	1	$ 472	$ 472
Total	1	$ 472	$ 472

	Modifications For the Year Ended December 31, 2014		
(Dollar amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	3	$ 1,442	$ 1,442
Real estate 1 to 4 family	1	567	567
Total	4	$ 2,009	$ 2,009

	Modifications For the Year Ended December 31, 2013		
(Dollar amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	6	$ 4,566	$ 4,566
Real Estate-construction	1	189	189
Real estate 1 to 4 family	3	1,236	1,236
Total	10	$ 5,991	$ 5,991

During the years ended December 31, 2015, 2014 and 2013, no loans defaulted within twelve months following the date of restructure. All restructurings were a modification of interest rate and/or payment. There were no principal reductions granted.

The following is a summary of the principal amounts outstanding for troubled debt restructurings at December 31, 2015 and 2014.

(dollars in thousands)	Total troubled debt restructurings outstanding at year end					
	December 31, 2015			December 31, 2014		
	Accrual status	Non-accrual status	Total modifications	Accrual status	Non-accrual status	Total modifications
Commercial real estate	$ 4,775	$ —	$ 4,775	$ 7,407	$ 2,091	$ 9,498
Real Estate construction	1,283	—	1,283	1,304	—	1,304
Real estate 1 to 4 family	3,583	2,060	5,643	3,153	508	3,661
Commercial & industrial	524	1,043	1,567	294	1,760	2,054
Total	$ 10,165	$ 3,103	$ 13,268	$ 12,158	$ 4,359	$ 16,517

Nonaccrual loans are included among loans that are over 90 days past due. At December 31, 2015 and 2014, there were no loans past due greater than 90 days and still accruing interest.

(Dollar amounts in thousands)	Age Analysis of Past Due Loans As of December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Originated						
Commercial real estate	$ 1,541	$ —	$ —	$ 1,541	$ 312,600	$ 314,141
Real estate construction	706	725	—	1431	37,478	38,909
Real estate multi family	—	—	—	—	47,607	47,607
Real estate 1 to 4 family	1,363	737	71	2,171	151,701	153,872
Commercial & industrial	—	—	1,258	1,258	38,636	39,894
Consumer	—	—	—	—	1,574	1,574
Total	$ 3,610	$ 1,462	$ 1,329	$ 6,401	$ 589,596	$ 595,997
Purchased						
Not credit impaired						
Commercial real estate	$ —	$ —	$ 3,810	$ —	$ 84,548	$ 84,548
Real estate construction	—	—	—	—	5,907	5,907
Real estate multi-family	—	—	—	—	15,990	15,990
Real estate 1 to 4 family	175	—	—	175	17,917	18,092
Commercial & industrial	70	—	—	70	12,069	12,139
Total	$ 245	$ —	$ 3,810	$ 245	$ 136,431	$ 136,676
Purchased						
Credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ 1,304	$ 1,304
Real estate construction	—	—	—	—	—	—
Real estate multi-family	—	—	—	—	—	—
Real estate 1 to 4 family	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ 1,304	$ 1,304

Age Analysis of Past Due Loans
As of December 31, 2014

(Dollar amounts in thousands)

Originated	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans
Commercial real estate	$ 8	$ 879	$ —	$ 887	$ 284,365	$ 285,252
Real estate construction	—	708	—	708	37,119	37,827
Real estate multi family	3,575	—	—	3,575	39,804	43,379
Real estate 1 to 4 family	330	200	1,112	1,642	121,880	123,522
Commercial & industrial	775	73	1,710	2,558	39,993	42,551
Consumer	—	—	64	64	1,384	1,448
Total	$ 4,688	$ 1,860	$ 2,886	$ 9,434	$ 524,545	$ 533,979
Purchased						
Not credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ 31,852	$ 31,852
Real estate construction	—	—	—	—	1,944	1,944
Real estate multi-family	—	—	—	—	10,445	10,445
Real estate 1 to 4 family	—	400	—	400	4,810	5,210
Commercial & industrial	—	—	—	—	9,111	9,111
Total	$ —	$ 400	$ —	$ 400	$ 58,162	$ 58,562
Purchased						
Credit impaired						
Commercial real estate	$ —	$ —	$ —	$ —	$ 1,323	$ 1,323
Real estate construction	—	—	—	—	—	—
Real estate multi-family	—	—	—	—	—	—
Real estate 1 to 4 family	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ 1,323	$ 1,323

Risk rating system

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

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

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

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

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 the primary source of loan 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.

(Dollar amounts in thousands)	Credit Quality Indicators As of December 31, 2015				
Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$ 308,164	$ 1,857	$ 4,120	$ —	$ 314,141
Real estate construction	37,850	—	1,059	—	38,909
Real estate multi-family	47,607	—	—	—	47,607
Real estate 1 to 4 family	153,285	—	587	—	153,872
Commercial & industrial	39,287	—	451	156	39,894
Consumer loans	1,574	—	—	—	1,574
Totals	$ 587,767	$ 1,857	$ 6,217	$ 156	$ 595,997
Purchased					
Not credit impaired					
Commercial real estate	$ 68,936	$ 3,455	$ 12,145	$ 12	$ 84,548
Real estate construction	5,907	—	—	—	5,907
Real estate multi-family	15,990	—	—	—	15,990
Real estate 1 to 4 family	18,092	—	—	—	18,092
Commercial & industrial	12,044	—	95	—	12,139
Total	$ 120,969	$ 3,455	$ 12,240	$ 12	$ 136,676
Purchased					
Credit impaired					
Commercial real estate					$ 1,304
Total					$ 1,304

Purchased credit impaired loans are not included in the Company's risk-rated methodology.

(Dollar amounts in thousands)	Credit Quality Indicators As of December 31, 2014				
Originated	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial real estate	$ 281,216	$ 1,913	$ 2,031	$ 92	$ 285,252
Real estate construction	36,692	—	1,135	—	37,827
Real estate multi-family	43,379	—	—	—	43,379
Real estate 1 to 4 family	122,499	—	1,023	—	123,522
Commercial & industrial	41,394	—	1,157	—	42,551
Consumer loans	1,384	—	64	—	1,448
Totals	$ 526,564	$ 1,913	$ 5,410	$ 92	$ 533,979
Purchased					
Not credit impaired					
Commercial real estate	$ 26,009	$ —	$ 5,843	$ —	$ 31,852
Real estate construction	1,944	—	—	—	1,944
Real estate multi-family	10,445	—	—	—	10,445
Real estate 1 to 4 family	4,810	—	—	400	5,210
Commercial & industrial	9,111	—	—	—	9,111
Total	$ 52,319	$ —	$ 5,843	$ 400	$ 58,562
Purchased					
Credit impaired					
Commercial real estate					$ 1,323
Total					$ 1,323

Purchased credit impaired loans are not included in the Company's risk-rated methodology.

(6) Foreclosed Assets

A summary of the activity in the balance of foreclosed assets follows:

	Year ended December 31,		
(Dollar amounts in thousands)	2015	2014	2013
Beginning foreclosed asset balance, net	$ 763	$ 5,318	$ 6,650
Additions/transfers from loans	263	86	25
Disposition/sales	—	(4,641)	(1,288)
Valuation adjustments	—	—	(69)
Ending foreclosed asset balance, net	$ 1,026	$ 763	$ 5,318
Ending valuation allowance	$ —	$ —	$ (122)
Ending number of foreclosed properties	1	1	4
Proceeds from sale of foreclosed properties	$ —	$ 1,461	$ 1,384
Loans to finance sale of foreclosed properties	$ —	3,400	—
Gain on sale of foreclosed properties	$ —	$ 220	$ 96

(7) Related Party Transactions

In the ordinary course of business, the Bank made loans and advances under lines of credit to directors, officers, and their related interests. The Bank's policies require that all such loans be made at substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk or unfavorable features. The following summarizes activities of loans to such parties at December 31:

(Dollar amounts in thousands)	2015	2014
Balance, beginning of year	$ 9,075	$ 11,082
Additions	1,602	6,041
Repayments	(6,689)	(8,048)
Balance, end of year	$ 3,988	$ 9,075

	2015	2014
Related party deposits	$ 4,441	$ 7,035

(8) Bank Premises, Equipment, and Leasehold Improvements

Bank premises, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization, and are summarized as follows at December 31:

(Dollar amounts in thousands)	**2015**	**2014**
Buildings	$ 9,885	$ 9,856
Equipment & furniture	8,785	8,934
Leasehold improvements	1,496	1,496
	20,166	20,286
Accumulated depreciation and amortization	(14,663)	(14,010)
	5,503	6,276
Land	4,699	4,675
	$ 10,202	$ 10,951

Depreciation and amortization expense for the years ended December 31, 2015, 2014, and 2013 was $1,098,000, $1,194,000 and $1,250,000, respectively.

(9) Deposits

The aggregate amount of time certificates, each with a minimum denomination of $250,000 or more, was $50,988,000 and $41,157,000 at December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of all time certificates of deposit are as follows:

(Dollar amounts in thousands)
Year ending December 31:

	Under $250,000	$250,000 or more	Total
2016	$ 52,518	$ 40,662	$ 93,180
2017	13,229	8,749	21,978
2018	7,166	714	7,880
2019	1,341	863	2,204
2020	188	—	188
	$ 74,442	$ 50,988	$ 125,430

(10) Federal Home Loan Bank Advances As of December 31, 2015, there were $17,000,000 Federal Home Loan Bank borrowings outstanding, consisting of $2,000,000 at 0.27% due January 4, 2016 and $15,000,000 at 0.42% due January 11, 2016. At December 31, 2014, there were $9,000,000 Federal Home Loan Bank ("FHLB") borrowings outstanding, consisting of $9,000,000 at 0.27% due January 2, 2015.

At December 31, 2015, the Bank had a maximum borrowing capacity under Federal Home Loan Bank advances of $332,000,000, of which $317,000,000 was available. The Federal Home Loan Bank advances are secured by a blanket collateral agreement pledge of FHLB stock and certain other qualifying collateral, such as commercial and mortgage loans. Interest rates are at the prevailing rate when advances are made.

(11) Commitments and Contingencies

Operating Lease Commitments

The Bank leases a portion of its facilities and equipment under non-cancelable operating leases expiring at various dates through 2024. Some of these leases provide that the Company pay taxes, maintenance, insurance, and other occupancy expenses applicable to leased premises.

The minimum rental commitments under the operating leases as of December 31, 2015 are as follows:

(Dollars in thousands)

2016	$ 1,125
2017	1,117
2018	556
2019	359
2020	247
Thereafter	904
	$ 4,308

Total rent expense for operating leases was $1,092,000, $1,161,000 and $1,339,000, in 2015, 2014, and 2013, respectively.

Legal Commitments

The Bank is engaged in various lawsuits either as plaintiff or defendant in the ordinary course of business and, in the opinion of management, based upon the advice of counsel, the ultimate outcome of these lawsuits does not expect to have a material effect on the Bank's financial condition or results of operations.

(12) Salary Deferral Plan

The Company maintains a salary deferral 401(k) plan covering substantially all employees, known as the FNB Bancorp Savings Plan (the "Plan"). The Plan allows employees to make contributions to the Plan up to a maximum allowed by law, and the Company's contribution is discretionary.

Beginning in 2008, the Board approved a safe harbor election related to the Plan which requires the Company to contribute 3% of qualifying employees' wages as a profit sharing contribution. The Bank's accrued contribution to the Plan on the safe harbor basis for the years ended December 31, 2015, 2014, and 2013 was $355,000, $358,000, and $398,000, respectively. In addition, the Board of Directors approved an additional $100,000 profit sharing contribution for 2014.

(13) Salary Continuation and Deferred Compensation Plans

The Company maintains Salary Continuation Agreements for certain Executive officers. Executives participating in the Salary Continuation Plan are entitled to receive a monthly payment for a period of fifteen to twenty years upon retirement. The Company accrues such post-retirement benefits over the individual's employment period. The Salary Continuation Plan expense for the years ended December 31, 2015, 2014, and 2013 was $1,786,000, $463,000, and $402,000, respectively. Accrued compensation payable under the salary continuation plan totaled $5,028,000 and $2,665,000 at December 31, 2015 and 2014, respectively. The increase in Salary Continuation Agreement expense during 2015 was due to amending the Agreements for four executives to reduce the remaining service period to 24 months as of December 31, 2015.

The Company has executed Salary Continuation Agreements with all the executive officers of the Bank that will require the payment of a fixed amount over a period of 20 years following the retirement or until certain other events have taken place, such as a change in control event. In December 2015, the current executive officers of the Bank and the Company's Board of Directors agreed to change the salary agreements. The effect of these agreed upon changes was to reduce the remaining time to retirement which accelerated the vesting and increased the service cost component of the Salary Continuation Agreement expense.

During 2015, the expense that would have been recognized if the retirement dates had not been changed would have been $538,000. With the reduction in the remaining term to retirement for the current executive management team, the 2015 salary continuation agreement expense totaled $1,786,000. There was no change in benefits to be paid out under the agreements, only a change in the vesting period.

The Deferred Compensation Plan allows eligible officers to defer annually their compensation up to a maximum of 80% of their base salary and 100% of their cash bonus. The officers are entitled to receive distribution upon reaching a specified age, passage of at least five years or termination of employment. As of December 31, 2015 and 2014, the related liability included in accrued expenses and other liabilities on the consolidated balance sheets was $1,543,000 and $1,250,000, respectively.

(14) Preferred Stock

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

On May 6, 2013, 25% or $3,150,000 of the original $12,600,000 was redeemed. On January 24, 2014, FNB Bancorp (the "Company") redeemed all the remaining outstanding preferred shares that had been issued to the United States Treasury Department through the Small Business Lending Fund ("SB LF") in a cash redemption transaction.

(15) Income Taxes

The provision (benefit) for income taxes for the years ended December 31, consists of the following:

(Dollar amounts in thousands)	2015	2014	2013
Current:			
Federal	$ 2,929	$ 2,501	$ 697
State	1,321	1,466	287
	$ 4,250	$ 3,967	$ 984
Deferred:			
Federal	$ (158)	$ 1,097	$ 197
State	(728)	34	144
	(886)	1,131	341
Total provision for taxes	$ 3,364	$ 5,098	$ 1,325

The reason for the differences between the statutory federal income tax rate and the effective tax rates for the years ending December 31, are summarized as follows:

	2015	2014	2013
Statutory rates	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
Tax exempt Income for federal purposes	-8.2%	-5.4%	-9.1%
State taxes on income, net of federal benefit	3.4%	6.8%	3.3%
Benefits from low income housing credits	-2.3%	-1.9%	-1.0%
True-up of prior year provision	—	-0.1%	-4.3%
Stock based compensation	2.0%	1.2%	1.3%
Valuation reserve addition (reversal)	—	—	-9.9%
Other, net	0.2%	0.5%	0.8%
Effective tax rate	29.1%	35.1%	15.1%

The tax effects of temporary differences giving rise to the Company's net deferred tax asset are as follows:

	December 31,		
(Dollar amounts in thousands)	2015	2014	2013
Deferred tax assets			
Allowance for loan losses	$ 4,470	$ 4,369	$ 4,449
Accrued salaries and officers compensation	2,770	1,502	1,492
Capitalized interest on buildings	—	14	11
Expenses accrued on books, not yet deductible in tax return	1,766	1,574	1,480
Depreciation	399	374	405
Net operating loss carryforward	1,335	—	89
Tax credit carryforwards	—	22	878
Acquisition accounting differences	—	601	885
Unrealized depreciation on available-for-sale securities	—	—	876
	10,740	8,456	10,565
Deferred tax liabilities			
Unrealized appreciation on available-for-sale securities	$ 1,075	$ 1,094	$ —
State income taxes	1070	613	668
Core deposit intangible	323	34	61
Expenses and credits deducted on tax return, not on books	754	102	122
Total deferred tax liabilities	3,222	1,843	851
Net deferred tax assets (included in other assets)	$ 7,518	$ 6,613	$ 9,714

As of December 31, 2015, management believes that it is more likely than not that the deferred tax assets will be realized through recovery of taxes previously paid and/or future taxable income. In assessing the Company's ability to realize the tax benefits of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the recorded benefits of these deductible differences.

(16) Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of those instruments and is usually limited to amounts funded or drawn. The contract or notional amounts of these agreements, which are not included in the balance sheets, are an indicator of the Bank's credit exposure. Commitments to extend credit generally carry variable interest rates and are subject to the same credit standards used in the lending process for on-balance-sheet instruments. Additionally, the Bank periodically reassesses the customer's creditworthiness through ongoing credit reviews. The Bank generally requires collateral or other security to support commitments to extend credit. The following table provides summary information on financial instruments whose contract amounts represent credit risk as of December 31:

(Dollars amounts in thousands)	December 31	
	2015	**2014**
Financial instruments whose contract amounts represent credit risk:		
Lines of credit	$ 98,396	$ 70,472
Other Commercial Commitments:		
Undisbursed loan commitments	56,306	59,592
Mastercard/Visa lines	6,722	6,444
Standby Letters of credit	5,830	5,713
	$ 167,254	$ 142,221

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis, following normal lending policies. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial and residential properties. Equity reserves and unused credit card lines are additional commitments to extend credit. Many of these customers are not expected to draw down their total lines of credit, and therefore, the total contract amount of these lines does not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank issues both financial and performance standby letters of credit. The financial standby letters of credit are primarily to guarantee payment to third parties. As of December 31, 2015, there were financial standby letters of credit of $4,949,000 issued. The performance standby letters of credit are typically issued to municipalities as specific performance bonds.

As of December 31, 2015 there were performance letters of credit of $881,000 issued. The terms of the guarantees will expire in 2016. The Bank has experienced no draws on these letters of credit, and does not expect to in the future. However, should a triggering event occur, the Bank either has collateral in excess of the letters of credit or embedded agreements of recourse from the customer.

(17) Fair Value Measurements

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014. Management has also described the fair value techniques used by the Company to determine such fair value. During 2015 and 2014 there were no transfers of assets and liabilities that are valued using different valuation methodologies.

Fair values established for available-for-sale investment securities are based on estimates of fair values quoted for similar types of securities with similar maturities, risk and yield characteristics. The following table presents the recorded amount of assets measured at fair value on a recurring basis.

(Dollar amounts in thousands)	**at December 31, 2015, Using**			
Description	**Fair Value 12/31/2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U. S. Treasury securities	$ 7,000	$ 7,000	$ —	$ —
Obligations of U.S. Government agencies	84,609	—	84,609	—
Mortgage-backed securities	61,663	—	61,663	—
Obligations of states and political subdivisions	135,190	—	135,190	—
Corporate debt	40,745	—	40,745	—
Total assets measured at fair value	$ 329,207	$ 7,000	$ 322,207	$ —

(Dollar amounts in thousands)	**at December 31, 2014, Using**			
Description	**Fair Value 12/31/2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U. S. Treasury securities	$ 3,958	$ 3,958	$ _	$ —
Obligations of U.S. Government agencies	63,062	—	63,062	—
Mortgage-backed securities	78,417	—	78,417	—
Obligations of states and political subdivisions	84,542	—	84,542	—
Corporate debt	34,902	—	34,902	—
Total assets measured at fair value	$ 264,881	$ 3,958	$ 260,923	$ —

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2015, Using		
Description	Fair Value 12/31/2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate	$ 136	$ —	$ —	$ 136
Residential-1 to 4 family	301	—	—	301
Commercial and industrial	1,065	—	—	1,065
Consumer	—	—	—	—
Total impaired assets measured at fair value	$ 1,502	$ —	$ —	$ 1,502

(Dollar amounts in thousands)		Fair Value Measurements at December 31, 2014, Using		
Description	Fair Value 12/31/2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate	$ 381	$ —	$ —	$ 381
Residential-1 to 4 family	323	—	—	323
Commercial and industrial	1,472	—	—	1,472
Consumer	56	—	—	56
Total impaired assets measured at fair value	$ 2,232	$ —	$ —	$ 2,232

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments that are not carried at fair value on either a recurring or non-recurring basis:

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. 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 on the consolidated balance sheet. These securities can only be issued and redeemed at par by the issuing entities. They cannot be sold in open market transactions. Fair value is estimated to be carrying value.

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 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 currently offered on similar products.

Note payable.

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

Accrued Interest Receivable and Payable.

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

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

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

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

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2015 and 2014:

December 31, 2015	**Carrying**	**Fair**	**Fair value measurements**		
(Dollar amounts in thousands)	**amount**	**value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and cash equivalents	$ 12,314	$ 12,314	$ 12,314		
Interest-bearing time deposits with financial institutions	205	205		205	
Securities available for sale	329,207	329,207	7,000	322,207	
Loans	733,977	725,196			725,196
Other equity securities	6,748	6,748			6,748
Accrued interest receivable	4,511	4,511	4,511		
Financial liabilities:					
Deposits	983,189	983,771	857,759	125,430	
Federal Home Loan Bank advances	17,000	17,000		17,000	
Note payable	4,950	4,950		4,950	
Accrued interest payable	236	236	236		
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,673			1,673

December 31, 2014 (Dollar amounts in thousands)	**Carrying amount**	**Fair value**	**Fair value measurements**		
			Level 1	**Level 2**	**Level 3**
Financial assets:					
Cash and cash equivalents	$ 14,978	$ 14,978	$ 14,978		
Interest-bearing time deposits with financial institutions	2,784	2,813		2,813	
Securities available for sale	264,881	264,881	3,958	260,923	
Loans	593,864	594,524			594,524
Other equity securities	5,769	5,769			5,769
Accrued interest receivable	3,725	3,725	3,725		
Financial liabilities:					
Deposits	792,194	792,552	687,035	105,159	
Federal Home Loan Bank advances	9,000	9,000		9,000	
Note payable	5,550	5,550		5,550	
Accrued interest payable	182	182	182		
Off-balance-sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	1,449			1,449

(18) Significant Group Concentrations of Credit Risk Most of the Bank's business activity is with customers located within San Mateo and San Francisco counties. Generally, loans are secured by assets of the borrowers. Loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrowers. The Bank does not have significant concentrations of loans to any one industry, but does have loan concentrations in commercial real estate loans that are considered high by regulatory standards. The Bank has mitigated this concentration to a large extent by utilizing underwriting standards that are more conservative than regulatory guidelines, and performing stress testing on this segment of the portfolio to insure that the commercial real estate loan portfolio will perform within management expectations given an additional downturn in commercial lease rates and commercial real estate valuations. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The contractual amounts of credit-related financial instruments such as commitments to extend credit, credit-card arrangements, and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

(19) Regulatory matters

The Company, as a bank holding company, is subject to regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off balance-sheet items as calculated under regulatory accounting practices.

The capital amounts and classification are also subject to qualitative judgments by the regulators about asset groupings, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as

defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015, that the Company and the Bank have met all regulatory capital requirements.

As of December 31, 2015, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categories.

The consolidated actual capital amounts and ratios of the Company and the Bank are presented in the following table:

Management believes that the Company and the Bank are both "well capitalized" by regulatory definitions for all required regulatory capital ratios, including leverage, Tier 1 leverage, Tier 1 risk based, total risk based, and Tier 3 capital requirements for all periods presented. The capital position of the company is stable, composed primarily of Common Stock and retained earnings. Management believes that relations with our regulatory agencies are good, as evidenced by the regulatory approval received to purchase America California Bank.

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013, that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") as well as requirements contemplated by the Dodd-Frank Act.

The prompt corrective action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the rules will be a 5.0% leverage ratio, a 6.5% common equity Tier l capital ratio, an 8.0% Tier 1 capital ratio, and a 10.0% total capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

Under the new capital rules, the Bank is required to meet certain minimum capital requirements that differ from current capital requirements. The new rules implement a new capital ratio of common equity Tier 1 capital to risk- weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income ("AOCI"), except to the extent that the Bank exercised a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Bank will also be required to establish a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The Bank was required to comply with the new capital rules on January 1, 2015, with a measurement date of March 31, 2015. The conservation buffer will be phased-in beginning in 2016, and will take full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods. See new capital rules in Table under (19).

The capital ratios for the Company and the Bank under the new capital framework are presented in the table below.

	At December 31, 2015		Transitional Minimum Regulatory Requirement Effective January 1, 2015	Minimum Regulatory Requirement (1) Effective January 1, 2019	Well-capitalized by Regulatory Definition Under FDICIA Effective January 1, 2015
	Company	Bank			
Common Equity Tier 1 Capital	12.79%	11.15%	4.50%	7.00%	6.50%
Tier 1 Capital	12.79%	11.15%	6.00%	8.50%	8.00%
Total Capital	13.39%	11.88%	8.00%	10.50%	10.00%
Leverage ratio	8.06%	6.99%	4.00%	4.00%	5.00%

(1) Includes 2.5% capital conservation buffer.

December 31, 2014

(Dollar amounts in thousands)	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk weighted assets)						
Consolidated Company	$ 102,452	14.60%	$ 56,138≥	8.00%	$ 70,685≥	n/a
Bank	$ 106,876	15.24%	$ 58,723≥	8.00%	$ 70,129≥	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated Company	$ 93,603	13.34%	$ 28,067≥	4.00%	$ 42,405≥	n/a
Bank	$ 98,097	13.99%	$ 29,481≥	4.00%	$ 42,072≥	6.00%
Tier 1 leverage capital (to total average assets)						
Consolidated Company	$ 93,603	10.30%	$ 36,351≥	4.00%	$ 45,457≥	n/a
Bank	$ 98,097	10.79%	$ 36,366≥	4.00%	$ 45,457≥	5.00%

(20) **Stock Option Plans**In 1997, the Board of Directors of the Bank adopted the First National Bank of Northern California 1997 stock option plan. Pursuant to the holding company reorganization effective March 15, 2002, the Bank stock option plan became the FNB Bancorp stock option Plan. In 2002, the Company adopted an incentive employee stock option plan known as the 2002 FNB Bancorp plan. In 2008, the Company adopted an incentive employee stock option plan known as the 2008 FNB Bancorp stock option plan. The plans allow the Company as of December 31, 2015 to grant options to employees covering 404,766 shares.

Incentive stock options currently outstanding become exercisable in one to five years from the grant date, based on a vesting schedule of 20% per year and expire 10 years after the grant date. Nonqualified options to directors become vested on the date of grant. The options exercise price is the fair value of the per share price of the underlying stock options at the grant date.

The amount of compensation expense for options recorded in the years ended December 31, 2015, 2014, and 2013 was $427,000, $307,000, and $328,000, respectively. There was an income tax benefit related to stock option exercises for the years ended December 31, 2014, 2013 and 2012 of $483,000, $354,000 and $30,000, but none in 2015. The amount of unrecognized compensation expense related to non-vested options at December 31, 2015 was $1,061,000, and the weighted average period it will be amortized is 4.0 years. The assumptions for options granted in 2015 were as follows: dividend yield of 1.96% for the year;

risk-free interest rate of 2.14%; expected volatility o 41%; expected life of 8.9 years. This resulted in a weighted average fair value per option of $11.82.

The amount of total unrecognized compensation expense related to non-vested options at December 31, 2014 was $743,000, and the weighted average period it will be amortized over is 3.6 years. The assumptions for options granted in 2014 were as follows: dividend yield of 1.49% for the year; risk-free interest rate of 2.08%; expected volatility of 41.85%; expected life of 9.1 years. This resulted in a weighted average fair value of $4.08 per share. The assumptions for options granted in 2013 were as follows: dividend yield of 1.35% for the year; risk-free interest rate of 2.55%; expected volatility of 24.71%; expected life of 9.3 years. This resulted in a weighted average option fair value of $7.81 per share.

A summary of option activity, adjusted for stock dividends, issued under the 2008 FNB Bancorp Plan as of December 31, 2015 and changes during the year then ended is presented below.

2008 FNB Bancorp Plan

Options	Shares	Weighted Average Exercise Price/share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value per share
Outstanding at January 1, 2015	334,109	$ 15.67		
Granted	67,742	$ 29.05		
Exercised	29,582	$ 9.04		$ 18.09
Forfeited or expired	—	—		
Outstanding at December 31, 2015	372,269	$ 18.63	7.0	$ 11.57
Exercisable at December 31, 2015	207,288	$ 14.87	5.9	$ 15.33

The following supplemental information applies to the three years ended December 31:

2008 FNB Bancorp Plan

	2015	2014	2013
Options outstanding	372,185	334,109	320,678
Range of exercise prices/share	$ 5.57 to $29.05	$ 5.57 to $25.62	$ 5.57 to $24.13
Weighted average remaining contractual life (in years)	7.0	7.2	7.7
Fully vested options	207,288	178,711	142,137
Weighted average exercise price/sh	$ 14.87	$ 11.80	$ 9.60
Aggregate intrinsic value	$ 3,176,856.23	$ 2,613,994	$ 2,245,369
Weighted average remaining contractual life (in years)	5.9	6.1	6.3

A summary of option activity, adjusted for stock dividends, under the 2002 FNB Bancorp Plan as of December 31, 2015 and changes during the year then ended is presented below.

2002 FNB Bancorp Plan

Options	Shares	Weighted Average Exercise Price/share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value per share
Outstanding at January 1, 2015	110,866	$ 20.30		
Granted	—	—		
Exercised	49,389	$ 19.19		7.56
Forfeited or expired	515	$ 17.57		
Outstanding at December 31, 2015	60,962	$ 21.23	0.9	8.97
Exercisable at December 31, 2015	60,962	$ 21.23	0.9	8.97

The following supplemental information applies to the three years ended December 31

2002 FNB Bancorp Plan

	2015	2014	2013
Options outstanding	60,962	110,866	175,074
Range of exercise prices/share	$ 19.66-$22.25	$ 17.57-$22.25	$ 17.57-$22.25
Weighted average remaining contractual life (in years)	0.9	1.4	0.9
Fully vested options	60,962	110,866	175,074
Weighted average exercise price/sh	$ 21.23	$ 20.30	19.57
Aggregate intrinsic value	$ 547,066.45	$ 679,302	$ 1,045,340
Weighted average remaining contractual life (in years)	0.9	1.4	1.9

A summary of option activity, adjusted for stock dividends, under the 1997 FNB Bancorp Plan as of December 31, 2015 and changes during the year then ended is presented below.

1997 FNB Bancorp Plan

Options	Shares	Weighted Average Exercise Price/share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value per share
Outstanding at January 1, 2015	32,267	$ 19.66		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding at December 31, 2015	32,267	$ 19.66	1.5	$ 10.54
Exercisable at December 31, 2015	32,267	$ 19.66	1.5	$ 10.54

The following supplemental information applies to the three years ended December 31:

1997 FNB Bancorp Plan

	2015	2014	2013
Options outstanding	32,267	32,267	32,267
Range of exercise prices	$ 19.66 to $19.66	$ 19.66 to $19.66	$ 19.66 to $19.66
Weighted average remaining contractual life (in years)	1.5	2.5	3.5
Fully vested options	32,267	32,267	32,267
Weighted average exercise price/sh	$ 19.66	$ 19.66	$ 19.66
Aggregate intrinsic value	$ 340,078.05	$ 224,693	$ 190,442
Weighted average remaining contractual life (in years)	1.5	2.5	3.5

(21) Quarterly Data (Unaudited)

	2015			
Per share amounts are adjusted for stock dividends	**First**	**Second**	**Third**	**Fourth**
(Dollars in thousands)				
Interest income	$ 9,068	$ 9,300	$ 9,893	$ 11,021
Interest expense	514	595	693	795
Net interest income	8,554	8,705	9,200	10,226
Provision for (recovery) of loan losses	75	75	75	(530)
Net interest income, after provision for loan losses	8,479	8,630	9,125	10,756
Noninterest income	1,078	1,267	1,024	1,127
Noninterest expense	6,943	6,789	7,479	8,714
Income before income taxes	2,614	3,108	2,670	3,169
Provision for income taxes	815	1,037	431	1,081
Net earnings available to common shareholders	$ 1,799	$ 2,071	$ 2,239	$ 2,088
Basic earnings per share	$ 0.40	$ 0.46	$ 0.50	$ 0.46
Diluted earnings per share	$ 0.39	$ 0.45	$ 0.48	$ 0.45

	2014			
(Dollars in thousands)	**First**	**Second**	**Third**	**Fourth**
Interest income	$ 8,983	$ 9,267	$ 9,300	$ 9,315
Interest expense	469	555	538	531
Net interest income	8,514	8,712	8,762	8,784
Provision for loan losses	75	—	—	(1,095)
Net interest income, after provision for loan losses	8,439	8,712	8,762	9,879
Non interest income	1,040	980	1,041	3,522
Non interest expense	6,842	7,210	7,055	6,761
Income before income taxes	2,637	2,482	2,748	6,640
Provision for income taxes	803	853	925	2,517
Net earnings	1,834	1,629	1,823	4,123
Dividends and discount accretion on preferred stock	170	—	—	—
Net earnings available to common shareholders	$ 1,664	$ 1,629	$ 1,823	$ 4,123
Basic earnings per share	$ 0.38	$ 0.37	$ 0.41	$ 0.92
Diluted earnings per share	$ 0.37	$ 0.36	$ 0.40	$ 0.89

(22) Condensed Financial Information of Parent Company

The parent company-only condensed balance sheets, condensed statements of earnings, and condensed statements of cash flows information are presented as of and for the years ended December 31, as follows:

FNB Bancorp	**Condensed balance sheets**	
	December 31,	
(Dollars in thousands)	**2015**	**2014**
Assets:		
Cash and due from banks	$ 1,124	$ 754
Investments in subsidiary	107,835	101,582
Income tax (payable) (payable) receivable from subsidiary	(78)	87
Dividend receivable from subsidiary	649	486
Other assets	242	242
Total assets	$ 109,772	$ 103,151
Liabilities:		
Dividend declared	$ 649	$ 486
Note payable	4,950	5,550
Other liabilities	11	27
Total liabilities	5,610	6,063
Stockholders' equity	104,162	97,088
Total liabilities and stockholders' equity	$ 109,772	$ 103,151

FNB Bancorp	**Condensed statements of earnings**		
	Years Ended December 31,		
(Dollars in thousands)	**2015**	**2014**	**2013**
Income:			
Dividends from subsidiary	$ 2,439	$ 10,444	$ 3,955
Total income	2,439	10,444	3,955
Expense:			
Interest on note payable	229	192	—
Other expense	128	155	111
Total expense	357	347	111
Income before income tax benefit and equity in undistributed earnings of subsidiary	2,082	10,097	3,844
Income tax benefit	(56)	(38)	—
Income before equity in undistributed earnings of subsidiary	2,138	10,135	3,844
Equity in undistributed earnings (loss) of subsidiary	6,059	(726)	3,595
Net earnings	8,197	9,409	7,439
Dividends and discount accretion on preferred stock	—	170	567
Net earnings available to common shareholders	$ 8,197	$ 9,239	$ 6,872

FNB Bancorp

	Condensed statement of cash flows		
	Years ended December 31,		
(Dollars in thousands)	**2015**	**2014**	**2013**
Net earnings	$ 8,197	$ 9,409	$ 7,439
Decrease (increase) in income tax receivable from subsidiary	165	(38)	—
Net increase in dividend receivable and other assets	(163)	(88)	(294)
Net increase (decrease) in other liabilities	147	(395)	299
Excess tax benefit from exercised stock options	(222)	(483)	(354)
Distributions in excess of earnings (loss) (undistributed earnings of subsidiary)	(6,059)	726	(3,595)
Stock-based compensation expense	427	307	328
Cash flows from operating activities	2,492	9,438	3,823
Investment in subsidiary	(882)	(6,000)	—
Cash flows from investing activities	(882)	(6,000)	—
Repayment of capital purchase program	—	(9,450)	(3,150)
Proceeds from issuance of note payable	—	6,000	—
Payment on note payable	(600)	(450)	—
Exercise of stock options	924	1,216	1,067
Excess tax benefit from exercised stock options	222	483	354
Dividends on common stock	(1,786)	(1,294)	(1,058)
Cash dividends on preferred stock series A,B,C	—	(170)	(567)
Cash flows provided by financing activities	(1,240)	(3,665)	(3,354)
Net (decrease) increase in cash	370	(227)	469
Cash, beginning of year	754	981	512
Cash, end of year	$ 1,124	$ 754	$ 981
Non-cash investing and financing activities:			
Accrued dividends	649	486	398
Stock dividend of 5%	6,663	5,468	4,958

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in reports filed by the Company under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting. The Company's management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2015. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel, 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. It includes those policies and procedures that:

a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

b) 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 a company are being made only in accordance with authorizations of management and the board of directors of the company; and

c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on its financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management has used the criteria established in updated "Internal Control-Integrated Framework-2013" issued May 14, 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the effectiveness of the Company's internal control over financial reporting. Management has selected the COSO framework for its evaluation as it is a control framework recognized by the SEC and the Public Company Accounting Oversight Board, that is free from bias, permits reasonably consistent qualitative and quantitative measurement of the Company's internal controls, is sufficiently complete so that relevant controls are not omitted and is relevant to an evaluation of internal controls over financial reporting.

Based on our evaluation, the principal executive officer and principal financial officer have concluded that our internal control over financial reporting, based on criteria established in "Internal Control-Integrated Framework-2013" issued in 2013 by COSO, including disclosure controls and procedures, are effective to ensure that material information required to be disclosed by the Company in the reports that it files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Date: March 15, 2016

/s/ Thomas C. Mc Graw	/s/ David A. Curtis
Thomas C. Mc Graw	David A. Curtis
Chief Executive Officer	Chief Financial Officer (Principal Financial and Accounting Officer)

The Attestation Report of the Company's independent Registered Public Accounting firm required to be furnished pursuant to this item is set forth in Item 8 and is incorporated by reference.

Inherent Limitations on Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 of Form 10-K is incorporated by reference to the applicable information contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated by reference to the applicable information contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of Form 10-K is incorporated by reference to the applicable information contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 of Form 10-K is incorporated by reference to the applicable information contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 of Form 10-K is incorporated by reference to the applicable information contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES

(a)(1) Financial Statements. Listed and included in Part II, Item 8.

(2) Financial Statement Schedules. All schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Financial Statements or notes thereto.

(3) Exhibits.

Exhibit Number	Document Description
**2.1	(deleted)
2.2	Acquisition Agreement dated November 5, 2004, signed among First National Bank of Northern California, Sequoia National Bank and Hemisphere National Bank (incorporated by reference from Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the Commission on November 9, 2004).
2.3	First Addendum to Acquisition Agreement, dated December 13, 2004, signed among First National Bank of Northern California, Sequoia National Bank, Hemisphere National Bank and Privee Financial, Inc. (incorporated by reference from Exhibit 2.5 to the Company's Current Report on Form 8-K filed with the Commission on December 17, 2004).
2.4	Second Addendum to Acquisition Agreement. Dated as of April 15, 2005, signed among First National Bank Of Northern California, Sequoia National Bank, Hemisphere National Bank and Privee Financial, Inc. (incorporated by reference from Exhibit 2.4 to the Company's Current Report on Form 8-K filed with the Commission on May 2, 2005).
**3.1	Articles of Incorporation of FNB Bancorp
3.2	Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock"), of FNB Bancorp (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).
3.3	Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), of FNB Bancorp (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).
3.4	Bylaws of FNB Bancorp (as amended through October 28, 2011) incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on October 28, 2011).
3.5	Certificate of Determination of Senior Non-Cumulative Perpetual Preferred Stock, Series C ("Series C Preferred Stock") incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on September 19, 2011).
**4.1	Specimen of the Registrant's common stock certificate.
4.2	Form of Certificate for the Series A Preferred Stock (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).

4.3	Warrant for Purchase of Shares of Series B Preferred Stock ("Warrant") (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).
4.4	Form of Certificate for the Series B Preferred Stock (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).
4.5	Form of Certificate for the Series C Preferred Stock (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on September 19, 2011).
**10.1	Lease agreement dated April 24, 1995, as amended, for Eureka Square Branch Office of First National Bank of Northern California at Eureka Square Shopping Center, Pacifica, California.
10.2	(deleted)
10.3	(deleted)
10.4	(deleted)
10.5	(deleted)
10.6	(deleted)
10.7	(deleted)
10.8(a)	(deleted)
10.8(b)	(deleted)
**10.9	First National Bank Profit Sharing and 401(k) Plan dated August 26, 1969.*
**10.10	First National Bank Deferred compensation Plan dated November 1, 1997.*
**10.11	Salary Continuation Agreement between First National Bank of Northern California and Michael R. Wyman, dated December 20, 1996.*
**10.12	Salary Continuation Agreement between First National Bank of Northern California and Paul B. Hogan dated December 20, 1996.*
**10.13	Salary Continuation Agreement between First National Bank of Northern California and James B. Ramsey, dated December 23, 1999.*
**10.14	Form of Management Continuity Agreement signed on July 20, 2000, between First National Bank of Northern California and Jim D. Black, Charles R. Key and Anthony J. Clifford.*
10.15	(deleted)
**10.16	Communications Site Lease Agreement as amended dated March 30, 1999, between First National Bank of Northern California, as Lessor and Nextel of California, Inc., as Lessee, with respect to Redwood City Branch Office.
10.17	(deleted)
**10.18	Separation Agreement between First National Bank of Northern California and Paul B. Hogan, dated December 5, 2001.*

***10.19 First Amendment to Separation Agreement between First National Bank of Northern California and Paul B. Hogan, dated March 22, 2002.*

****10.20 FNB Bancorp Stock Option Plan (effective March 15, 2002).*

****10.21 FNB Bancorp Stock Option Plan, Form of Incentive Stock Option Agreement.*

****10.22 FNB Bancorp Stock Option Plan, Form of Nonstatutory Stock Option Agreement.*

*****10.23 FNB Bancorp 2002 Stock Option Plan (adopted June 28, 2002).*

*****10.24 FNB Bancorp 2002 Stock Option Plan, Form of Incentive Stock Option Agreement.*

*****10.25 FNB Bancorp 2002 Stock Option Plan, Form of Nonstatutory Stock option Agreement.*

******10.26 Lease Agreement dated August 13, 2003, for San Mateo Branch Office of First National Bank of Northern California, located at 150 East Third Avenue, San Mateo, California.

10.27 Salary Continuation Agreement and Split-Dollar Agreement for Jim D. Black (incorporated by reference from Exhibit 10.27 to the Company's Current Report on Form 8-K filed with the Commission on September 10, 2004).*

10.28 Salary Continuation Agreement and Split-Dollar Agreement for Anthony J. Clifford (incorporated by reference from Exhibit 10.28 to the Company's Current Report on Form 8-K filed with the Commission on September 10, 2004).*

10.29 Amended and Restated Salary Continuation and Split-Dollar Agreement for James B. Ramsey (incorporated by reference from Exhibit 10.29 o the company's current Report on Form 8-K filed with the Commission on September 10, 2004).*

*******10.30 Lease Agreement dated May 1, 2003 as amended by Assignment, Assumption and Consent Agreement for the Financial District Branch of First National Bank of Northern California located at 65 Post Street, San Francisco, California.

*******10.31 Lease Agreement dated July 1, 1999, as amended by Assignment, Assumption and Consent for the Portola Branch Office of First National Bank of Northern California located at 699 Portola Drive, San Francisco, California.

10.32 Amendment to Salary Continuation Agreement for Jim D. Black (incorporated by reference from Exhibit 99.37 to the Company's Current Report on Form 8-K filed with the Commission on July 26, 2006).*

10.33 Amendment to Salary Continuation Agreement for Anthony J. Clifford (incorporated by reference from Exhibit 99.38 to the Company's Current Report on Form 8-K filed with the Commission on July 26, 2006).*

10.34 Amendment to Amended and Restated Salary Continuation Agreement for James B. Ramsey (incorporated by reference from Exhibit 99.39 to the Company's Current report on Form 8-K filed with the Commission on July 26, 2006).*

10.35 Lease Agreement dated February 3, 2006, for warehouse facility of First National Bank of Northern California (incorporated by reference from Exhibit 10.35 to the company's Annual Report on Form 10-K filed with the Commission on March 13, 2008).

10.36 First National Bank Deferred Compensation Plan dated December 1, 2007 (incorporated by reference from Exhibit 10.36 to the Company's Annual Report on Form 10-K filed with the Commission on March 13, 2008).*

10.37 Amendment No. 5 to the First National Bank Profit Sharing and 401(k) Plan dated December 1, 2007 (incorporated by reference from Exhibit 10.37 to the Company's Annual Report on Form 10-K filed with the Commission on March 13, 2008).*

10.38 Executive Supplemental Compensation Agreement between First National Bank of Northern California and David A. Curtis dated March 3, 2008 (incorporated by reference from Exhibit 10.38 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2008).*

10.39 Split-Dollar Life Insurance Agreement between First National Bank of Northern California and David A. Curtis dated March 3, 2008 (incorporated by reference from Exhibit 10.39 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2008).*

********10.40 FNB Bancorp 2008 Stock Option Plan (adopted February 22, 2008).*

10.41 Second 409A Amendment to the Salary Continuation Agreement for Jim D. Black (incorporated by reference from Exhibit 99.66 to the Company's Current Report on Form 8-K filed with the Commission on December 22, 2008).*

10.42 Second 409A Amendment to the Salary Continuation Agreement for Anthony J. Clifford (incorporated by reference from Exhibit 99.67 to the Company's Current Report on Form 8-K filed with the Commission on December 22, 2008).*

10.43 Amendment to the Executive Supplemental Compensation Agreement for David A. Curtis (incorporated by reference from Exhibit 99.68 to the Company's Current Report on Form 8-K filed with the Commission on December 22, 2008).*

10.44 Letter Agreement dated February 27, 2009, between FNB Bancorp and United States Department of the Treasury pertaining to the election of directors by the holder(s) of the Series A and Series B Preferred Stock (incorporated by reference from Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).

10.45 Letter Agreement, including Schedule A and Securities Purchase Agreement Standard Terms, dated February 27, 2009, between FNB Bancorp and United States Department of the Treasury, with respect to the issuance and sale of the Series A and Series B Preferred Stock and the Warrant (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).

10.46 Letter Agreement dated February 27, 2009, between FNB Bancorp and United States Department of the Treasury pertaining to the American Recovery and Reinvestment Act of 2009 (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).

10.47 Letter Agreement dated February 27, 2009, between FNB Bancorp and United States Department of the Treasury amending certain sections of the Securities Purchase Agreement Standard Terms (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).

10.48 Form of Compensation Modification Agreement and Waiver, dated February 27, 2009, executed by each of:

Thomas C. McGraw
Chief Executive Officer
FNB Bancorp and First National Bank of Northern California

Jim D. Black, President
FNB Bancorp and First National Bank of Northern California

Anthony J. Clifford
Executive Vice President and Chief Operating Officer
FNB Bancorp and First National Bank of Northern California

David A. Curtis
Senior Vice President and Chief Financial Officer
FNB Bancorp and First National Bank of Northern California

Randy R. Brugioni
Senior Vice President and Senior Loan Officer
FNB Bancorp and First National Bank of Northern California

(incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on February 27, 2009).*

10.49 Lease agreement dated June 8, 1999, as amended August 18, 2009, for Linda Mar Branch Office of First National Bank of Northern California at Linda Mar Shopping Center, Pacifica, California (incorporated by reference from Form 10-K for 2009 filed with the Commission on March 24, 2010).

10.50 Sublease agreement dated as of September 20, 2010, between Wells Fargo Bank, N. A. as Sub landlord, and First National Bank of Northern California as Subtenant, for Chestnut Street Branch of First National Bank of Northern California (incorporated by reference from Form 10-K for 2010 filed with the Commission on March 28, 2011).

10.51 SBLF Securities Purchase Agreement dated September 15, 2011 between FNB Bancorp and the Secretary of the Treasury of the Treasury with respect to the Series C Preferred Stock (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on September 19, 2011).

10.52 Letter Agreement dated September 15, 2011 between FNB Bancorp and the Secretary of the Treasury pertaining to the election of directors by the holder(s) of the Series C Preferred Stock (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on September 19, 2011).

10.53 Letter Agreement dated September 15, 2011 between FNB Bancorp and the United States Department of the Treasury pertaining to the repurchase of all outstanding shares of Series A Preferred Stock and Series B Preferred Stock (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on September 19, 2011).

10.54 Lease Assumption and underlying lease agreement for the Guam Branch Office (incorporated by reference From Form 10-K for 2012 filed with the Commission on April 1, 2013).

10.55 Lease agreement dated February 8, 2013 between Dalum Corporation, Landlord, and First National Bank of Northern California, as Tenant, for the Battery Street Branch, at 130 Battery Street, San Francisco, CA, 94111 (incorporated by reference from Form 10-K for 2013 filed with the Commission on March 28, 2014).

10.56 Lease agreement dated August 7, 2013, between Eureka Square Shopping Center, L.P., as Landlord, and First National Bank of Northern California, as Tenant, for space to be occupied by the Bank's ATM (incorporated By reference from Form 10-K for 2013 filed with the Commission on March 28, 2014).

10.57 Second Amendment dated August 12, 2013 to Lease between Song Development Inc., as Lessor, and First National Bank of Northern California, as Lessee, for premises at 150 East Third Street, San Mateo, CA, as the San Mateo Branch (incorporated by reference from Form 10-K filed with the Commission on March 28, 2014).

10.58	Loan Agreement, Promissory Note, Pledge and Security Agreements with Nexbank between FNB Bancorp, Maker, and Nexbank, Payee (incorporated by reference to Form 8-K filed with the Commission on March 28, 2014).
10.59	Agreement and Plan of Reorganization and Merger dated May 22, 2014 among FNB Bancorp, Valley Community Bank and First National Bank of Northern California (incorporated by reference to Form 8-K filed with the Commission on May 23, 2014).
10.60	Agreement and Plan of Reorganization and Merger, dated May 14, 2015 among FNB Bancorp, First National Bank of Northern California, America California Bank and ACB Interim Merger Corporation (incorporated by reference to Form 8-K filed with the Commission on May 15, 2015).
10.61	Memorandum of Mutual Agreement to Amend Certain Salary Continuation Agreements, dated December 18, 2015 between First National Bank of Northern California and Messrs. Black, Clifford, Curtis and Brugioni (incorporated by reference to Form 8-K filed with the Commission on December 18, 2015).*
******14.0	Code of Ethics
21.1	The Registrant has one subsidiary, First National Bank of Northern California
23.1	Consent of Moss Adams LLP, Registered Independent Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification (principal executive officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (principal financial officer)
32.0	Section 1350 Certifications
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith)

* Denotes management contracts, compensatory plans or arrangements.

** Incorporated by reference to registrant's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2002.

*** Incorporated by reference to registrant's Annual Report on Form 10-K filed with the Commission on March 31, 2002.

**** Incorporated by reference to registrant's Statement on Form S-8 (No. 333-91596) filed with the Commission on July 1, 2002.

***** Incorporated by reference to the registrant's Registration Statement on Form S-8 (No. 333-98293) filed with the Commission on August 16, 2002.

****** Incorporated by reference to registrant's Annual Report on Form 10-K filed with the Commission on March 30, 2003.

******* Incorporated by reference to registrant's Annual Report on Form 10-K filed with the Commission on March 29, 2006.

******** Incorporated by reference from Appendix A to the Registrant's Definitive Proxy Statement for its 2008 Annual Meeting of Shareholders, filed with the Commission on April 21, 2008.

An Annual Report for the fiscal year ended December 31, 2015, and Notice of Annual Meeting and Proxy Statement for the Company's 2016 Annual Meeting will be mailed to security holders subsequent to the date of filing this report. Copies of said materials will be furnished to the Commission in accordance with the Commission's Rules and Regulations.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FNB BANCORP

Dated: March 15, 2016

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

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Lisa Angelot Lisa Angelot	Chairwoman of the Board of Directors	March 15, 2016
/s/ Thomas C. McGraw Thomas C. McGraw	Director, Chief Executive Officer	March 15, 2016
/s/ David A. Curtis David A. Curtis	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2016
/s/ Thomas G. Atwood Thomas G. Atwood, D. D. S.	Director	March 15, 2016
/s/ Ronald R. Barels Ronald R. Barels, D.D.S.	Director	March 15, 2016
/s/ Merrie Turner Lightner Merrie Turner Lightner	Director	March 15, 2016
/s/ Michael Pacelli Michael Pacelli	Director	March 15, 2016
/s/ Edward J. Watson Edward J. Watson	Director and Secretary	March 15, 2016
/s/ Jim D. Black Jim D. Black	Director and President	March 15, 2016
/s/ Anthony J. Clifford Anthony J. Clifford	Director and Executive Vice President and Chief Operating Officer	March 15, 2016

EXHIBIT 23.1



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Nos. 333-91596, 333-98293, 333-106363 and 333-152578) on Form S-8 of our reports dated March 15, 2016, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of FNB Bancorp for the year ended December 31, 2015.

/s/ Moss Adams LLP

Sacramento, CA
March 15, 2016



Exhibit 31.1

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

I, Thomas C. McGraw, certify that:

1. I have reviewed this annual report on Form 10-K of FNB Bancorp;

2. Based on my knowledge, this annual 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 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 annual 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 fourth fiscal quarter 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: March 15, 2016

/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 annual report on Form 10-K of FNB Bancorp;

2. Based on my knowledge, this annual 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 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 annual 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 fourth fiscal quarter 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: March 15, 2016

/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 Stated Code), each of the undersigned officers of FNB Bancorp, a California corporation (the "Company"). Does hereby certify that:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Form 10-K") 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-K fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: March 15, 2016

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

Dated: March 15, 2016

/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.

Corporate Information

Stock Exchange

FNB common stock is listed on the Bulletin Board under ticker symbol FNBG. For other shareholder related questions, call the Finance Department (650) 588-6800

Dividend Payments

Dividend payments are paid following a declaration by our Board of Directors, and have historically been paid quarterly.

Manhattan Transfer Registrar Company
57 Eastwood Road
Miller Place, NY 11764

Denver Metro
531 Cardens Court
Erie, CO 80516
Telephone (631) 928-7655

Form 10 K

All shareholders receive a copy of the corporation's proxy statement and annual report (Form 10 K) which are filed with the Securities and Exchange Commission. Other interested in receiving these reports can contact the Finance Department listed below.

Request for Information

Shirley Cabanero
Assistant Vice President
Investor Relations
975 El Camino Real
South San Francisco, CA 94080

David A. Curtis
975 El Camino Real
South San Francisco, CA 94080