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FNB Bancorp

Annual Report 2011

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. MCGRA
Chief Executive Office
Secretary of the Board

MICHAEL PACELLI
President
Bay Relations

EDWARD J. WATSO
Attorney, Partner
Watson & Lanctot, LL

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 Presiden
Chief Financial Office

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 Presiden
Central Services
Director

OFFICERS ADMINISTRATION

MADELEINE LINDSAY
Senior Vice President
Risk and Compliance
Officer

MICHELLE MCGHEE
Vice President
Central Services
Manager

GINA MORALES
Vice President
Central Operations
Manager

MALCOLM A. MORRIS
Vice President
Controller

TAUS RAZA
Vice President
Electronic Banking
Manager

JANELLE SANTIAGO
Vice President
Assistant Director
Information Technology

JEAN SIGUA
Vice President
Branch Operations
Administrator

MICHAEL TRAINOR
Vice President
Maintenance and
Facilities Manager

TERENCE YU
Vice President
Assistant Controller

EILEEN GARCIA
Assistant Vice President
Compliance Assistant

AMIT HADA
Assistant Vice President
Information Technology
Systems Administrator

ESTEBAN MORALES
Assistant Vice President
Purchasing Manager

MIKE NIGHTINGALE
Assistant Vice President
Information Technology
Senior Network Systems
Administrator

NATHALIA RODRIGUEZ
Assistant Vice President
Personal Banking
Administrator

BRENDA SHOOMILOFF
Assistant Vice President
Training Manager

KURT VALLEY
Assistant Vice President
Information Technology
Security Officer

JAMES YAO
Assistant Vice President
Human Resources
Generalist

CAROLYN ARIAS
Bank Officer
Payroll & Benefits
Administrator

SHIRLEY CABANERO
Bank Officer
Finance Officer

EVELYN CAKEBREAD
Bank Officer
ACH/EFT Specialist

GLORIA FLORES
Bank Officer
Wire Transfer Specialist

YOLANDA GONZALEZ
Bank Officer
Risk Officer Assistant

MY LEVAL
Bank Officer
Operations Supervisor

MAUNG LIN
Bank Officer
Computer Operator

MARIA MECCARIELLO
Bank Officer
Executive Assistant

BUSINESS DEVELOPMENT & COMMERCIAL BANKING DIVISION

EDWARD CRUZ
Vice President
Senior Business
Development Officer

CATHERINE LEVITT
Vice President
Corporate Banking Officer

DEBORAH SANWAL
Vice President
Treasury Management
Officer

CREDIT ADMINISTRATION

BILL TECSON
Senior Vice President
Credit Administrator

SHEILA MACNAUGHTON
Vice President
Loan Servicing & Support Manager

ANGELA TURNER
Bank Officer
Loan Servicing
and Support
Assistant Manager

LOAN ADMINISTRATION

RANDY BRUGIONI
Senior Vice President
Chief Credit Officer

KATHY CASTOR
Vice President
Construction Loan
Department Manager

SUSAN KEMP
Vice President
Mortgage Loan
Officer

RICHARD LEE
Vice President
Commercial Loan
Officer

PAULINE LIM
Vice President
Commercial Loan
Officer

CASSANDRA MONTEITH
Vice President
Commercial Loan
Officer Team Leader

JANINE PERRIGNON
Vice President
SBA Loan Department
Manager

LUCHO VIVANCO
Vice President
Commercial Loan
Officer

TERRY WARD
Vice President
Commercial Loan
Officer Team Leader

CATHERINE XU
Vice President
Commercial Loan
Officer

ROGER TAKI
Assistant Vice President
Commercial Loan
Officer

LISTI WONG
Assistant Vice President
Commercial Loan
Officer

ZAID KHAN
Bank Officer
Construction Loan
Disbursement Specialist

DANIEL MCKENZIE
Bank Officer
Senior Credit Analyst

GRACE TURLA
Bank Officer
Premier Banking Deposit
Services Officer

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

DEREK CHAN
Vice President
Branch Manager

BELMA DURAN
Branch Officer
Operations Supervisor

OLIVIA VEGA
Branch Officer
Operations Supervisor

TERESITA RIVERA
Branch Officer
Universal Banker

SOUTH SAN FRANCISCO

211 Airport Boulevard, South San Francisco, California 94080
Telephone (650) 873-0211

JENNIE DAVIS
Assistant Vice President
Branch Manager

SHERRIE LANDERITO
Branch Officer
Operations Supervisor

MILLBRAE/SAN BRUNO

1551 El Camino Real, Millbrae, California 94030
Telephone (650) 871-4400

HILDA DELGADO
Assistant Vice President
Branch Manager

MARINA TOLENTINO
Branch Officer
Operations Supervisor

MIROSLAV MIKLOS
Branch Officer
Universal Banker

BURI BURI

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

GARRETT MOORE
Vice President
Branch Manager

RYAN HO
Branch Officer
Operations Supervisor

LUZVIMINDA PALATINO
Branch Officer
Universal Banker

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

SARA WATSON Vice President Branch Manager	SARITA CHARAN Branch Officer Operations Supervisor

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

HEM PATEL Assistant Vice President Branch Manager	MARINE KEKLIKIAN Branch Officer Universal Banker	ERNESTO SALAK Branch Officer Operations Supervisor

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

LEILA PERRERAS 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

KATHY STROHMEIER Assistant Vice President Branch Manager	MY LEVAL Branch Officer Operations Supervisor	FARISHA ORNELAS Branch Officer Universal Banker

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

SARA WATSON Vice President Branch Manager	ELIANA FALK Branch Officer Operations Supervisor

SAN FRANCISCO***
Financial District
65 Post Street, San Francisco, California 94104
Telephone (415) 661-4800
DONNA MESCHI
Branch Officer
Operations Supervisor

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

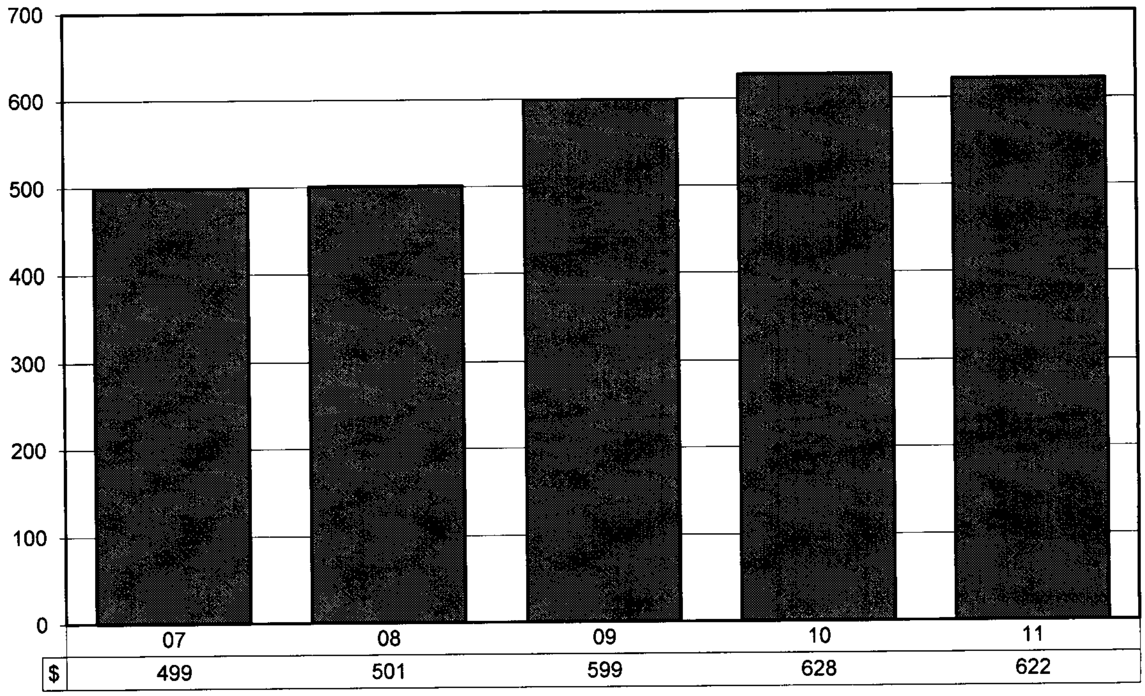
DEREK CHAN Vice President Branch Manager	JAYNE ABAD Branch Officer Operations Supervisor

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

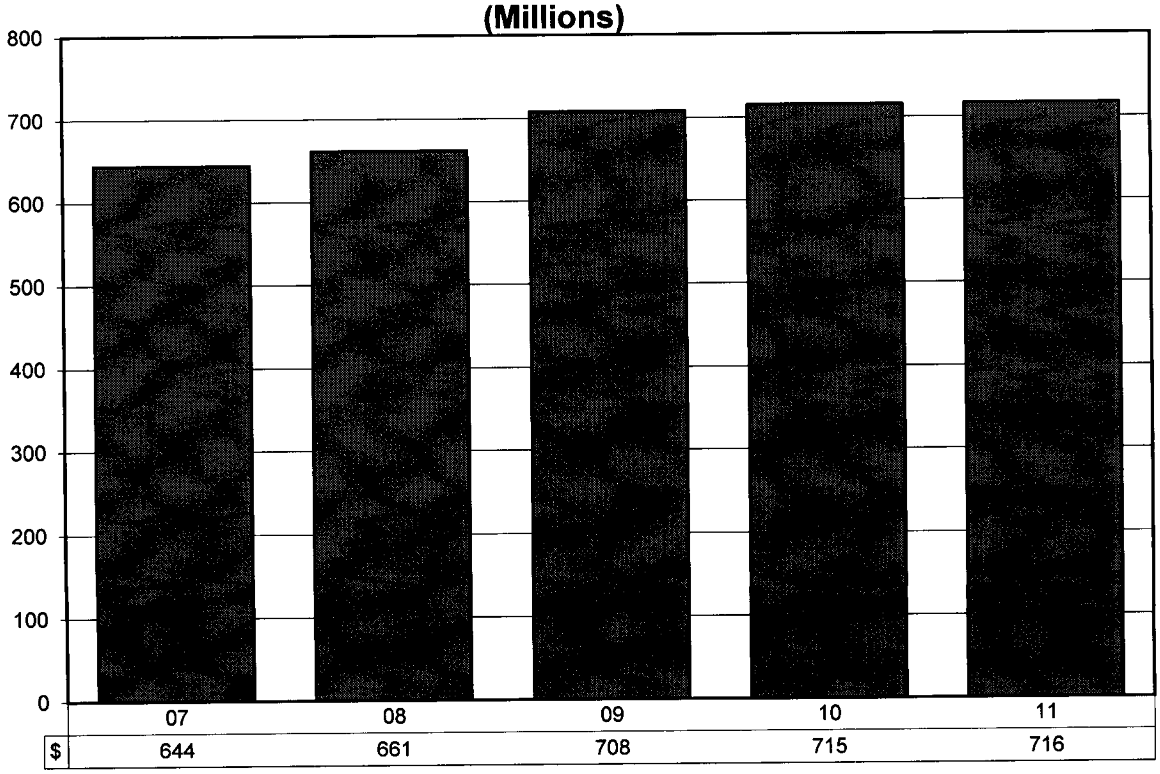
REINA CEJA Vice President Branch Manager	NELLY LEE Branch Officer Operations Supervisor

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

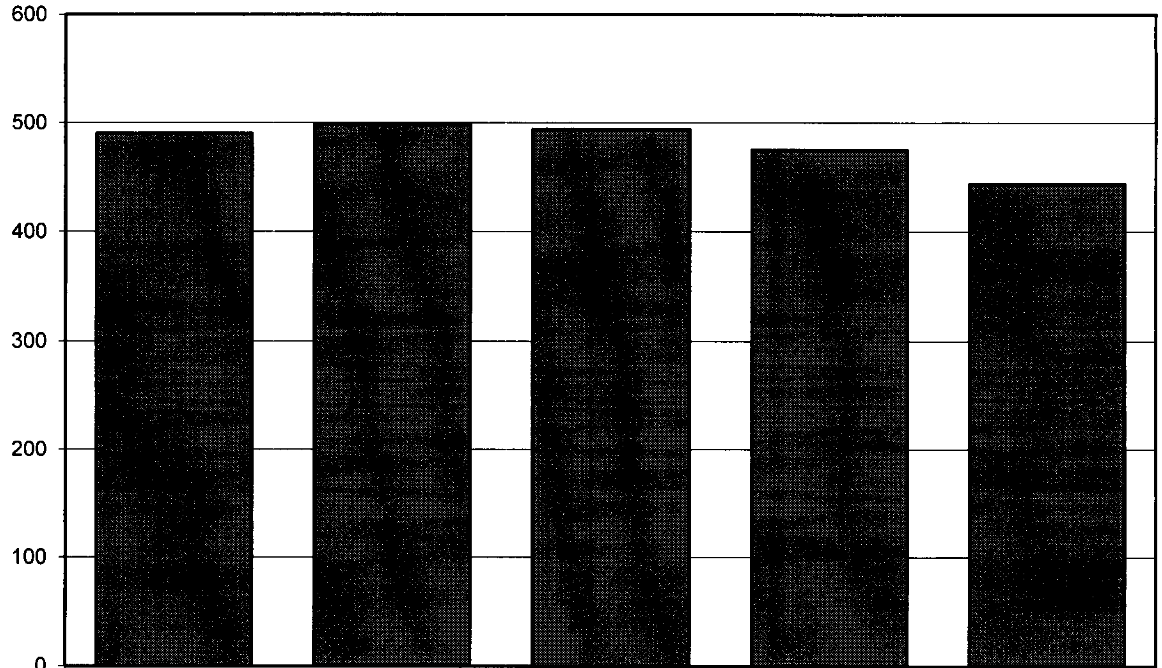
DEPOSITS
(Millions)



ASSETS
(Millions)

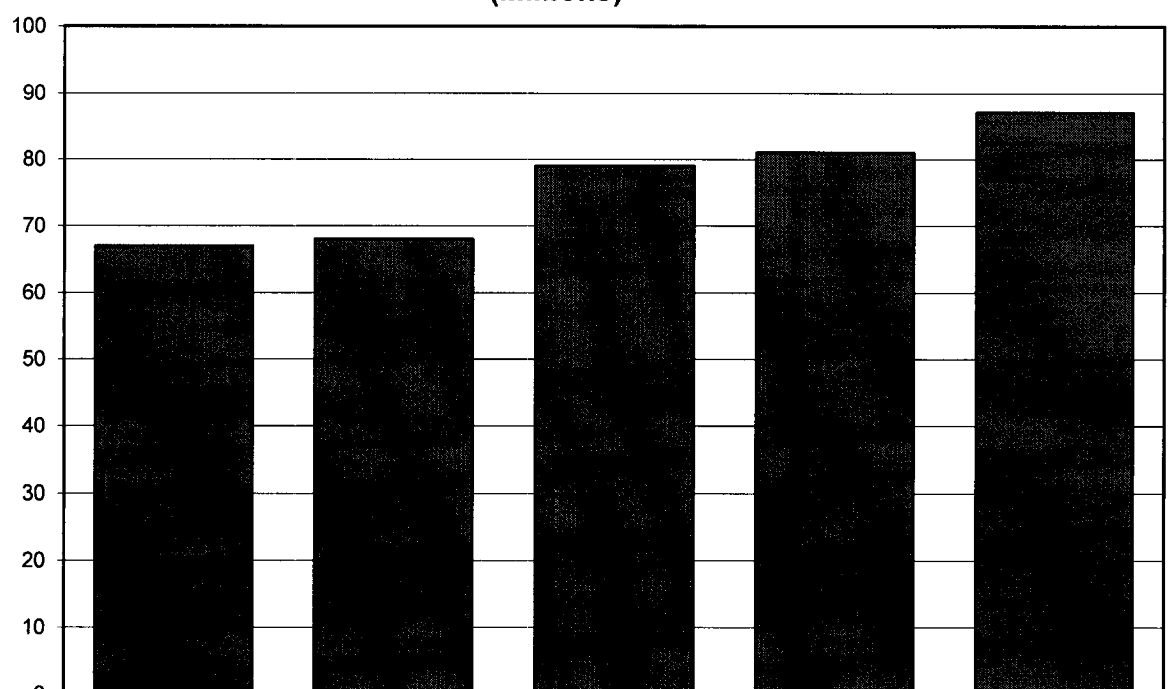


LOANS
(Millions)



	07	08	09	10	11
$	490	498	494	475	444

CAPITAL
(Millions)



	07	08	09	10	11
$	67	68	79	81	87

FNB Bancorp

April 3, 2012

Dear Shareholder:

Thank you for taking the time to review our 2011 annual report. We hope you can join us for our annual shareholder meeting, to be held at the Basque Cultural Center, 599 Railroad Avenue, South San Francisco, 94080 at 6:30 PM on Wednesday, May 16, 2012.

We continue to make progress as we work our way out of the worst financial recession since the Great Depression. While there are still many challenges that face us as a country, a state and a community, there are indications that our economy is gradually, if slowly, improving. Consumer confidence is increasing; national unemployment decreased from 9.1% in January of 2011 to 8.5% by year end and unemployment in California saw a drop from the beginning of 2011 from 12% to 11.2% at year end. Unfortunately, housing foreclosures continue with the supply of housing increasing and prices softening, except in certain pockets within the State. If .325, was a consistent batting average, the ballplayer would be generating a sizeable income, but 3.25% as a prolonged prime rate puts enormous pressure on earnings; while business development and looking for quality acquisitions remains a high priority.

With all these challenges, your bank, under the leadership of the Board of Directors, has accomplished much during 2011. Here are some of the highlights. We repaid $12.6 million dollars to the United States Treasury from the Capital Purchase Plan and purchased an equal amount from the Small Business Lending Fund program. Our intent was twofold: (1) to be relieved from some of the onerous conditions of the CPP Program; and (2) our heartfelt desire to be a part of the solution in small business lending. We will continue to evaluate this program to determine how successful we are in funding new small business loans. Should we not meet certain benchmarks that we have established, we will begin to pay the SBLF money back to the Federal Government. We opened a new branch at 2197 Chestnut Street in the Marina District of San Francisco on April 4th of 2011. Surrounded by five of the large nationwide banks, we are the only community bank in the area and the beneficiary of the disillusioned, disappointed and departing customers from these large banks. At year end, our Chestnut St. branch had $13,592,000 in deposits and $4,467,000 in loans. This high net worth area has significant business development potential. We also purchased an empty branch building from Wells Fargo in Sunnyvale, California. This is our first foray into Santa Clara County, which will be a new market for us. We hope to open a full service branch late in 2012 or early 2013. Currently, the facility serves as a loan production office originating loans in the Santa Clara Valley. As we reduced our concentration in commercial real estate lending, we opened a mortgage origination business unit in late 2010. For 2011, we originated 24 mortgages for a total of $18,263,650. Not only are we originating these mortgages, but we are keeping them on our balance sheet and not selling them into the secondary market. In this sustained low interest rate environment we continue to watch expenses and have added only essential hires, all the while making sure that our service doesn't suffer. Periodically we use the services of a "mystery shopper" firm to help us evaluate our staff for service, product knowledge and professionalism. While many of these evaluations are positive, areas identified for improvement are valuable tools for developing and ensuring consistency in our knowledge and service skills. We can always improve.

Some financial highlights from 2011:	2010	2011
Net earnings available to common shareholders	$ 2,812,000	$ 3,457,000
Earnings Per Share:		
Basic	$ 0.80	$ 0.99
Diluted	$ 0.80	$ 0.98
Return on Average Assets	0.39%	0.48%
Return on Average Equity	3.48%	4.14%
Net Loans	$ 474,828,000	$ 443,721,000
Total Deposits	$ 628,440,000	$ 621,778,000
Total Assets	$ 714,639,000	$ 715,641,000
Total Equity	$ 80,924,000	$ 87,196,000

Regulatory Capital Ratios	2011	2010	2009	Minimum Requirements "Well Capitalized"
Total Capital	16.44%	14.85%	14.24%	10.00%
Tier 1 Capital	15.18%	13.60%	12.99%	6.00%
Leverage Ratio	11.15%	10.46%	10.73%	5.00%

Further explanation of these numbers can be found in our annual report. While we see the outlook going forward as positive, there are still some problem loans that we continue to work through. For that reason we have deliberately kept our Provision for Loan Losses at a level that we believe is prudent for possible future losses.

	2011	2010
Allowance for Loan and Lease Losses	$ 9,897,000	$ 9,524,000

Some banks have aggressively decreased their ALLL and backed those dollars into earnings. We believe we are not yet at a point where this would be a sound strategy. There remain too many unknowns that could impact our borrowers; spiking energy prices, uncertain property value trends, decreasing but still high unemployment levels and acute competition. We are not doom and gloom prognosticators, but realists, and until we see more positive certainty in these areas, we will continue to maintain a higher dollar reserve as an abundance of caution. Risk is our business and your bank's risk profile is conservative; better to be over reserved than under reserved. Sadly, we have seen many banks fail as a result of being too aggressive with their balance sheets. We hope that by next year, should stability gain a significant presence in the marketplace, we will be able to address this ALLL issue. Finally, while this is a 2012 event, FNB Bancorp has agreed in principle, subject to regulatory approval, to acquire Oceanic Bank, $157 million in assets, with two branches in San Francisco and one branch in Guam. We believe this deal will be accretive to earnings and add assets and liabilities to our balance sheet. We hope to discuss this in more detail at our shareholders meeting in May. In any event, we will keep you posted regarding the progress of this deal.

On a personal note I would like to acknowledge our talented employees. Of the 178 fulltime staff, over 80 have been with us 10 years or more. Not many banks, or businesses, can say that. We have many outstanding people who also happen to be outstanding bankers. Our progress is a direct result of their dedication and hard work. 2012 also saw the passing of our cherished former Chairman and CEO, Mike Wyman. Mike dedicated 43 years of his life to our bank and led us successfully for many years. Mike was one of a kind and his name was synonymous with First National Bank of Northern California. He will be dearly missed by many, many people whose lives he touched.

We look forward to 2012 with cautious optimism and a commitment to seeing your investment grow. Should you have any questions, I can be reached at 650-875-4865 or tmcgraw@fnbnnorcal.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, 2011, 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	91-21[illegible]
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID Number)
975 El Camino Real, South San Francisco, California	9408[illegible]
(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 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:$27,328,884

Page 1 of 100 pages

Number of shares outstanding of each of the registrant's classes of common stock, as of March 25, 2012
No par value Common Stock – 3,506,405 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 2012 annual meeting of shareholders.

TABLE OF CONTENTS

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 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 further 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 in Iraq and Afghanistan, 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 and8-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 there-under. 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, a national banking association ("First National Bank" or the "Bank"). 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 is locally owned and 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, plus its Financial District Chestnut Street and Portola offices in San Francisco. The Bank also has a loan production office in Sunnyvale. The Bank's primary business is servicing the business or commercial banking needs of individuals and small to mid-sized businesses within San Mateo and San Francisco Counties.

The Bank is chartered under the laws of the United States and is governed by the National Bank Act, and 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 and San Mateo. Based on latest available reports from the U. S. Department of Commerce Bureau of Economic Analysis, per capita income in the counties of San Francisco and San Mateo for the year 2009 were $68,727 and $69,562, respectively, which represented a decrease of 15.7% and 16.3%, respectively, over 2004 levels. Management believes per capita income levels will grow at single digit growth rates during the year ending December 31, 2012, based upon expected economic activity levels and overall employment prospects. Unemployment data published by the California Employment Development Department unemployment levels of 7.6% in San Francisco County, 7.2% in San Mateo County, and 10.9% for the State of California, in December 2011. For December 2010 (revised May 2011), San Francisco County showed 9.1%, San Mateo County showed 8.2%, and the state of California 12.3%.

In addition, a report from the California Employment Development Department ("EDD"), based on information published by America's Labor Market Information System (ALMIS) Employer Database 2011 1st Edition, lists the following major employers in San Francisco County: Bechtel, Deloitte, 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, and University of California-San Francisco. The following were listed as major employers in San Mateo County: Genentech, Gilead Sciences, Kaiser Permanente Medical Group, Mills-Peninsula Medical Center, San Mateo County Human Resources, San Mateo County Mental Health, Oracle Corp., SRI International, Stanford Linear Accelerator and Visa International Services Association. The major labor force in both counties is represented by the service industries, including financial activities, educational and health services, professional and business services, leisure and hospitality and state government.

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. First National Bank also makes available commercial loans and standby letters of credit and construction, accounts receivable, inventory, automobile, home improvement, residential real estate, commercial real estate, home equity lines, Small Business Administration loans, office equipment, leasehold improvement and consumer loans as well as overdraft protection lines of credit. In addition, the Bank sells travelers checks and cashiers 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, 2011, First National Bank had a total of 23,046 deposit accounts. On occasion, First National Bank has obtained deposits through deposit brokers for which it pays a broker fee. As of December 31, 2011, First National Bank had no such deposits. There is no concentration of deposits or any customer with 5% or more of First National Bank's deposits.

At December 31, 2011, the Company had total assets of $715,641,000, net loans of $443,721,000, deposits of $621,778,000 and stockholders' equity of $87,196,000. The Company competes with approximately 82 other banking or savings institutions in its San Francisco and San Mateo County service area. The Company's market share of Federal Deposit Insurance Corporation insured deposits in the service area of San Mateo County is approximately 2.44%, and 0.04% in the San Francisco County market area (based upon the most recent information available from the Federal Deposit Insurance Corporation through June 30, 2011). See "Competitive Data" below.

Employees

At December 31, 2011, the Company employed 175 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 "SEC Information." 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.

Capital Standards.

The Board of Governors, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the "OCC") have adopted risk-based guidelines for evaluating the capital adequacy of bank holding companies and banks. The guidelines are designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to aid in making the definition of bank capital uniform internationally.

Under the risk-based capital guidelines, assets reported on an institution's balance sheet and certain off-balance sheet items are assigned to risk categories, each of which has an assigned risk weight. Capital ratios are calculated by dividing the institution's qualifying capital by its period-end risk-weighted assets. The guidelines establish two categories of qualifying capital: Tier 1 capital (defined to include common stockholders' equity and noncumulative perpetual preferred stock) and Tier 2 capital which includes, among other items, limited life (and in the case of banks, cumulative) preferred stock, mandatory convertible securities, subordinated debt and a limited amount of reserve for credit losses. Tier 2 capital may also include up to 45% of the pretax unrealized gains on certain available-for-sale equity securities having readily determinable fair values (i.e. the excess, if any, of fair market value over the book value or historical cost of the investment security). The federal regulatory agencies reserve the right to exclude all or a portion of the unrealized gains upon a determination that the equity securities are not prudently valued. Unrealized gains and losses on other types of assets, such as bank premises and available-for-sale debt securities, are not included in Tier 2 capital, but may be taken into account in the evaluation of overall capital adequacy. Net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital as a cushion against risk.

A leverage capital standard was adopted as a supplement to the risk-weighted capital guidelines. Under the leverage capital standard, an institution is required to maintain a minimum ratio of Tier 1 capital to the sum of its quarterly average total assets and quarterly average reserve for loan losses, less intangibles not included in Tier 1 capital. Period-end assets may be used in place of quarterly average total assets on a case-by-case basis. The Board of Governors and the Federal Deposit Insurance Corporation have also adopted a minimum leverage ratio for bank holding companies as a supplement to the risk-weighted capital guidelines. The leverage ratio establishes a minimum Tier 1 ratio of 3% (Tier 1 capital to total assets) for the highest rated bank holding companies or those that have implemented the risk-based capital market risk measure. All other bank holding companies must maintain a minimum Tier 1 leverage ratio of 4% with higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weakness, a high risk profile, or are undergoing or anticipating rapid growth.

At December 31, 2011, the Company and the Bank were in compliance with the risk-based capital and leverage ratios described above. See "Capital" under Item 7 "Management's Discussion and Analysis of Financial Condition and the Results of Operation as" below. Also see Note 17 to the Financial Statements incorporated by reference in Item 8 below.

Prompt Corrective Action

On May 10, 2010, in connection with a regularly scheduled examination of the Bank by the OCC, the Bank entered into an informal Memorandum of Agreement ("Bank MOU") with the OCC, covering actions to be taken by the Board of Directors and management to (i) reduce a high level of problem and non-performing assets, (ii) to enhance procedures for managing the risks associated with a concentration of credit in commercial real estate loans, and (iii) to maintain an adequate allowance for loan and lease losses. The Bank MOU also restricted the ability of the Bank to declare dividends and required the formation of a Compliance Committee to monitor compliance with the MOU and submit quarterly progress reports to the OCC. Also, by letter dated June 9, 2010, the OCC notified the Board of Directors of its determination that the Bank must maintain, on an ongoing basis, a minimum ratio of Tier 1 capital to adjusted total assets of 9% and a minimum ratio of total risk-based capital to risk-weighted assets of 12%.

On June 23, 2010, the Company entered into a Memorandum of Understanding ("Company MOU") with the Federal Reserve Bank of San Francisco (the "Reserve Bank"), agreeing that, without prior approval of the Reserve Bank, the Company would not (a) receive dividends or any other reduction of capital from the Bank; (b) pay any dividends (including TARP dividends) or make any other capital distributions; (c) incur, renew, increase or guarantee any debt; (d) issue any trust preferred securities; (e) purchase, redeem or otherwise acquire any of its stock; (f) appoint any new director or senior executive officer; or (g) make or agree to make any indemnification or severance payments in the nature of a "golden parachute."

During the fourth quarter of 2011, the OCC and the Federal Reserve Bank of San Francisco removed their Memorandums of Understanding.

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". The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") also restricts the solicitation and acceptance of and interest rates payable on brokered deposits by insured depository institutions that are not "well capitalized."

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.

Additional Regulations

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. This so-called BOPEC (Bank, Other subsidiaries, Parent, Earnings, Capital) rating system, implemented in 1979, has been focused primarily on financial condition, consolidated capital and consolidated earnings. The new rating system reflects a change toward analysis of risk management (as reflected in bank examination under the CAMELS measurements), in addition to financial factors and the potential impact of nondepository subsidiaries upon depository institution subsidiaries.

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. The safety and soundness standards for insured financial institutions include analysis of (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest rate exposure; (5) asset growth; (6) compensation, fees and benefits; and (7) excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss. 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 must 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.

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. First National Bank has a current rating of "satisfactory" for CRA compliance.

FDIC Insurance

The 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"). The Emergency Economic Stabilization Act of 2008 ("EESA") temporarily raised the limit on federal deposit insurance coverage provided by the FDIC from $100,000 to $250,000 per depositor. The Dodd-Frank Act (described in more detail below) made the $250,000 amount permanent.

In addition, on November 9, 2010, the FDIC issued a final rule (implementing the Dodd-Frank Act) which provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts, through December 31, 2012. In 2008, the FDIC had implemented a Temporary Liquidity Guarantee Program ("TLGP") to strengthen confidence and encourage liquidity in the financial system.

The TLGP included a Transaction Account Guarantee Program ("TAGP"). The TAGP offered a full guarantee for non-interest bearing transaction accounts held at FDIC-insured depository institutions. That unlimited deposit coverage was voluntary for eligible institutions and was in addition to the $250,000 FDIC deposit insurance included as part of EESA. The Bank was a participant in the TAGP until the TAGP expired on December 31, 2011.

The amount of FDIC assessments paid by each DIF member institution is based on its risk profile as measured by regulatory capital ratios and other supervisory factors. Under the assessment rate system established in 2006, the FDIC set the assessment rates (effective January 1, 2007) for most institutions from $0.05 to $0.07 per $100 of insured deposits and established a Designated Reserve Ratio ("DRR") for the DIF during 2007 at 1.25% of insured deposits. Since 2008, due to higher levels of bank failures and the need to maintain a strong DIF, the FDIC has increased the assessment rates of insured institutions and may continue to do so in the future. On November 17, 2009, the FDIC amended its regulations and required all insured financial institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012, unless they were notified they were exempt from the prepayment. For the year ended December 31, 2011, the assessment rate for the Bank averaged $0.044196 per $100 in assessable deposits, compared to $0.048330 per $100 in assessable deposits for the year ended December 31, 2010.

As required by the Dodd-Frank Act, the FDIC has revised the assessment rates, to be effective on April 1, 2011, and the deposit insurance assessment base used to calculate premiums paid to DIF, substituting the average consolidated total assets less average tangible equity of an institution in place of deposits. Also pursuant to the Dodd-Frank Act, the FDIC increased the DRR to 2.0 percent, effective January 1, 2011.

If economic conditions continue to impact financial institutions and there are additional bank and other financial institution failures, or if the FDIC otherwise determines, the Bank may be required to pay higher FDIC premiums in the future, which could have a material and adverse effect on the earnings of the Company.

On December 16, 2008, the FDIC approved an earlier proposed seven basis point rate increase for the first quarter 2009 assessment period effective January 1, 2009 as part of the DIF (Deposit Insurance Fund) restoration plan to achieve a minimum DRR (Designated Reserve Ratio) of 1.15% within five years.

On February 28, 2009, the FDIC established increased assessment rates effective as of April 1, 2009 and included adjustments to improve differentiation of risk profiles among institutions. The FDIC concurrently adopted an interim rule that imposed a 20 basis point emergency special assessment effective June 30, 2009, to be collected from all insured depository institutions on September 30, 2009, in addition to the imposition of an emergency special assessment of up to 10 basis points at the end of any calendar quarter after June 30, 2009 if the FDIC determines that the DRR will fall to a level that would adversely affect public confidence, among other factors.

The changes to differentiate risk profiles will require riskier institutions to pay higher assessment rates based on classification into one of four risk categories. Within each category, the FDIC will be able to assess higher rates to institutions with a significant reliance on secured liabilities, which generally raises the FDIC's loss in the event of failure without providing additional assessment revenue. Higher rates will be assessed for institutions with a significant reliance on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. The changes also provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. Together, the changes would improve the way the system differentiates risk among insured institutions and help ensure that a minimum DRR of at least 1.15% is achieved by the end of 2013.

On November 17, 2009, the FDIC amended its regulations and required all insured financial institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. The prepaid assessment was collected on December 30, 2009. The FDIC also approved a three basis point increase in the assessment rate applied to insured financial institutions beginning in 2011. The amount of the Company's prepaid assessment was $3,011,000 as of December 31, 2009.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000.

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. Also, the Company is required to make dividend payments to the U. S. Treasury on the shares of Series C, Senior Non-cumulative Perpetual Preferred Stock that were issued on September 15, 2011 as part of the Small Business Lending Fund program established under the Small Business Jobs Act of 2010. See discussion under "Small Business Jobs Act of 2010," below.

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 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 factors such as the Board of Directors may deem relevant. It is the intention of the Company to continue to pay cash dividends, subject to legal restrictions on the payment of cash dividends and depending upon the level of earnings, management's assessment of future capital needs and other factors to be considered by the Board of Directors.

The California General Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The California General Corporation Law further provides that, in the event sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if, after giving effect to the distribution, it meets two conditions, which generally stated are as follows: (i) the corporation's assets must equal at least 125% of its liabilities; and (ii) the corporation's current assets must equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of the corporation's interest expense for those fiscal years, then the corporation's current assets must equal at least 125% of its current liabilities.

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 Federal Deposit Insurance Corporation. 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 Federal Deposit Insurance Corporation 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 based upon peer group averages and the performance and maturity of that bank.

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 its correspondent banks and with other independent banks, retaining the portion of such loans which is within its lending limits. As of December 31, 2011, the Bank's aggregate legal lending limits to a single borrower and such borrower's related parties were $13,075,000 on an unsecured basis and $21,792,000 on a fully secured basis, based on regulatory capital of $87,169,000. The Bank's business is concentrated in its service area, which primarily encompasses San Mateo County, but also includes portions of 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 Federal Deposit Insurance Corporation Summary of Deposits at June 30, 2011, there were 30 commercial and savings banking institutions in San Mateo County with a total of $22,944,161,000 in deposits at June 30, 2011. The Bank had a total of 9 offices in the county with total deposits of $560,866,000 at the same date, or 2.44% of the San Mateo County totals. Based on the same survey, there were 52 banking and savings institutions in the County of San Francisco with a total of $156,159,125,000 in deposits at June 30, 2011.

The Bank had a total of 3 offices in the county with total deposits of $68,148,000, or 0.04% of the County of San Francisco totals. San Mateo County and the City and County of San Francisco have averaged deposit growth of 18.33% over the last two years.

General Competitive Factors

In order to compete with the financial institutions in their primary service areas, community banks 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.

They 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 offered by either bank 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 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. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits.

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, both domestic and foreign, but also by statutes, and as implemented by federal agencies, particularly the Federal Reserve Board. 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 Board. 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.

Legislative and Regulatory Impact

Since 1996, California law implementing certain provisions of prior federal law has (1) permitted interstate merger transactions; (2) prohibited interstate branching through the acquisition of a branch business unit located in California without acquisition of the whole business unit of the California bank; and (3) prohibited interstate branching through de novo establishment of California branch offices. Initial entry into California by an out-of-state institution must be accomplished by acquisition or merger with an existing whole bank, which has been in existence for at least five years.The Dodd-Frank Act (enacted on July 21, 2010 and described below) 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.

The federal financial institution agencies, especially the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, have taken steps to increase the types of activities in which national banks and bank holding companies can engage, and to make it easier to engage in such activities. The Office of the Comptroller of the Currency has issued regulations permitting national banks to engage in a wider range of activities through subsidiaries.

"Eligible institutions" (those 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 (the "Act"), eliminated most of the remaining depression-era "firewalls" between banks, securities firms and insurance companies which was 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, investment management, securities underwriting and insurance within a single financial institution using a structure authorized by the Act.

Prior to the Act, significant restrictions existed on the affiliation of banks with securities firms and related securities activities. Banks were also (with minor exceptions) prohibited from engaging in insurance activities or affiliating with insurers.

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.

In order for a commercial bank to affiliate with a securities firm or an insurance company pursuant to the Act, its bank holding company must qualify as a financial holding company. 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.

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 First National 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 313(a) and 312 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 313(a) or 312 of the Patriot Act.

Certain surveillance provisions of the Patriot Act were scheduled to expire on December 31, 2005, and actions to restrict the use of the Patriot Act surveillance provisions were filed by the ACLU and other organizations. On March 9, 2006, after temporary extensions of the Patriot Act, President Bush signed the "USA Patriot Improvement and Reauthorization Act of 2005" and the "USA Patriot Act Additional Reauthorizing Amendments Act of 2006," which reauthorized all expiring provisions of the Act and extended certain provisions related to surveillance and production of business records until December 31, 2009. The extended deadline for those provisions was subsequently further extended at various times during 2010 and 2011, and on May 26, 2011, President Obama signed a further three month extension. On May 26, 2011, Congress approved a four–year extension of three expiring provisions, which are now set to expire June 1, 2015.

The effects 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:

- 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.
- Improved corporate responsibility through mandatory listing standards relating to audit committees, certifications of periodic reports by the CEO and CFO and making issuer interference with an audit a crime.
- 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 increases in the statute of limitations for securities fraud lawsuits.
- 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.
- 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."
- A prohibition on insider trading during pension plan black-out periods.
- Disclosure of off-balance sheet transactions.
- A prohibition on personal loans to directors and officers.

- Conditions on the use of non-GAAP (generally accepted accounting principles) financial measures.

- 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.

- 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.

- Accelerated filing requirements for reports on Forms 10-K and 10-Q by public companies which qualify as "accelerated filers," with a phased-in reduction of the filing deadline for Form 10-K and Form 10-Q.

- 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.

- 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 securities are not currently listed on any exchange. In the event of such a listing in the future, 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 of approximately $100,000 annually.

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 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 the 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.

Emergency Economic Stabilization Act of 2008

On October3, 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").

On September 15, 2011, the Company entered into and consummated a letter agreement (the "Repurchase Document") with the United States Department of the Treasury (the "Treasury Department"), pursuant to which the Company redeemed all 12,000 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, liquidation amount $1,000 per share (the "Series A Preferred Stock"), for a redemption price of $12,050,000 (including all accrued but unpaid dividends to the date of redemption) and all 600 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation amount $1,000 per share (the Series B Preferred Stock"), for a redemption price of $604,500 (including all accrued but unpaid dividends to the date of redemption). (See additional comments under the "Small Business Jobs Act of 2010," section.)

American Recovery and Reinvestment Act of 2009

On February17, 2009, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law. Section7001 of the ARRA amended Section111 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 Section7001, 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. Since the Company participates in the CPP, the restrictions and standards set forth in Section7001 of the ARRA are applicable to the Company.

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 downstreamed to the bank subsidiary) with assets less that $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, FNB Bancorp (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. A copy of the Purchase Agreement is included as Exhibit 10.1 to this report and is incorporated herein by reference.

All of the proceeds ($12,600,000) 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.

As described more fully in the next following paragraph, 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.

On September 15, 2011, the Company also entered into and consummated a letter agreement (the "Repurchase Document") with the United States Department of the Treasury (the "Treasury Department"), pursuant to which the Company redeemed, out of the proceeds of the issuance of the Series C Preferred Stock, all 12,000 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, liquidation amount $1,000 per share (the "Series A Preferred Stock"), for a redemption price of $12,050,000 (including all accrued but unpaid dividends to the date of redemption) and all 600 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation amount $1,000 per share (the Series B Preferred Stock"), for a redemption price of $604,500 (including all accrued but unpaid dividends to the date of redemption).

The Series C Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, beginning on October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first ten quarters during which the Series C Preferred Stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the Purchase Agreement) by the Company's wholly-owned subsidiary, First National Bank of Northern California (the "Bank"). Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period has been set at five percent (5%). For the second through tenth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QSBL. If the level of the Bank's qualified small business loans declines such that the percentage increase in QSBL as compared to the baseline level is less than 10%, then the dividend rate payable on the Series C Preferred Stock would increase. For the eleventh through eighteenth calendar quarters through the date which is four and one-half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QSBL as compared to the baseline. After four and one-half years from issuance, the dividend rate will increase to 9%. In addition, beginning on April 1, 2014, and on all Series C Preferred Stock dividend payment dates thereafter ending on April 1, 2016, the Company may be required to pay to Treasury, on each share of Series C Preferred Stock, but only out of assets legally available therefor, a lending incentive fee equal to 0.5% of the liquidation amount per share of Series C Preferred Stock.

The Series C Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, whether or not consecutive, the holder(s) of the Series C Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, whether or not consecutive, and if the then outstanding aggregate liquidation amount of the Series C Preferred Stock is at least $25,000,000, then the holder(s) of the Series C Preferred Stock will have the right, but not the obligation, to elect two directors to the Board of Directors of the Company. (Since the aggregate liquidation amount of the Series C Preferred Stock on September 15, 2011 was $12,600,000, this right to elect two directors is unlikely to come into effect.)

The Company entered into a letter agreement with Treasury dated September 15, 2011, confirming that at all times while any shares of Series C Preferred Stock are outstanding, the Company will maintain a range of directors that will permit the holder(s) of the Series C Preferred Stock to elect two directors.

The current Bylaws of the Company provide for a range of directors of no less than six and no more than eleven members and presently there are nine members serving on the Company's Board of Directors. Pursuant to the letter agreement with Treasury, the Company agreed to amend its Bylaws to implement these requirements. These Bylaw provisions are described in Item 3.03 below.

The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the Series C Preferred Stock under certain circumstances set forth in Annex E to the Purchase Agreement. The Series C Preferred Stock is not subject to any contractual restrictions on transfer. The Company is required to take all steps as may be reasonably requested by Treasury to facilitate the transfer of the Series C Preferred Stock.

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 dividend period, to the date of redemption.

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 the 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 us.

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 Dodd-Frank Act requires capital requirements to be countercyclical so that the required amount of 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 increases the deposit insurance limit for insured deposits to $250,000 per depositor and extends unlimited deposit insurance to non-interest bearing transaction accounts through 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 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 threshholds; 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.

Transactions with Affiliates. The Dodd-Frank Act enhances 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 are 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 are 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 strengthens 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 requires 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-Franck Act, the Federal Reserve Board is 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 authorizes 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 are 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 provides 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 our compensation policies and arrangements.

Corporate Governance. The Dodd-Frank Act will enhance 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.

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 ours 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.

Other Regulatory Developments

In response to global credit and liquidity issues involving a number of financial institutions, the United States government, particularly the U.S. Treasury and the Federal financial institution regulatory agencies, have taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks.

Temporary Liquidity Guarantee Program. Among other programs and actions taken by the U.S. Treasury and other regulatory agencies in 2008, the FDIC implemented the Temporary Liquidity Guarantee Program (the "TLGP") to strengthen confidence and encourage liquidity in the financial system. The TLGP is comprised of the Debt Guarantee Program (the "DGP") and the Transaction Account Guarantee Program (the "TAGP"). The DGP guarantees all newly issued senior unsecured debt (e.g.,promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits issued by participating entities beginning on October14, 2008 and continuing through April 30, 2010. For eligible debt issued by that date, the FDIC will provide the guarantee coverage until the earlier of the maturity date of the debt or December 31, 2012.

The Bank did not participate in the DGP Program but elected to participate in the TAGP. The TAGP offers full guarantee for noninterest-bearing transaction accounts held at FDIC-insured depository institutions. The unlimited deposit coverage was voluntary for eligible institutions and was in addition to the $250,000 FDIC deposit insurance per account that was included as part of the EESA. The TAGP coverage became effective on October14, 2008 and was extended through December 31, 2011. On November 9, 2010, the FDIC issued a final rule, implementing the Dodd-Frank Act, which provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2012.

Financial Stability Plan. On February 10, 2009, the U.S. Treasury announced a Financial Stability Plan (the "FSP") as a comprehensive approach to strengthening the financial system and credit crisis.

The Plan includes a Capital Assistance Program (the "CAP") that is intended to serve as a bridge to raising private capital and to ensure sufficient capital to preserve or increase lending in a worse-than-expected economic deterioration. Eligibility to participate in the CAP will be consistent with the criteria for QFI's under the CPP.

Eligible institutions with consolidated assets in excess of $100 billion will be able to obtain capital under the CAP, subject to a supervisory review process and comprehensive stress test assessment of the losses that could occur over a two year period in the future across a range of economic scenarios, including conditions more severe than anticipated or as typically used in capital planning processes.

Eligible institutions with consolidated assets below $100 billion will be able to obtain capital under the CAP after a supervisory review. As announced, the CAP includes issuance of a convertible preferred security to the U.S. Treasury at a discount to the participating institution's stock price as of February 9, 2009, subject to a dividend to be determined. The security instrument was designed to incentivize institutions to replace the CAP capital with private capital or redeem it. Institutions participating in the CPP under TARP may also be permitted to exchange their CPP preferred stock for the convertible preferred CAP security. The Company did not participate in the CAP.

Term Asset-Backed Securities Loan Facility. On March 3, 2009, the U.S. Treasury and the Board of Governors announced the Term Asset-Backed Securities Loan Facility (the "TALF"). The TALF is one of the programs under the Financial Stability Plan announced by the U.S. Treasury on February 10, 2009. The TALF is intended to help stimulate the economy by facilitating securitization activities which allow lenders to increase the availability of credit to consumers and businesses.

Under the TALF, the Federal Reserve Bank of New York ("FRBNY") would lend up to $200 billion to provide financing to investors as support for purchases of certain AAA-rated asset-backed securities ("ABS") initially for newly and recently originated auto loans, credit card loans, student loans, SBA-guaranteed small business loans, and rental, commercial, and government vehicle fleet leases, small ticket equipment, heavy equipment, and agricultural equipment loans and leases.

ABS fundings were held monthly. The loan asset classes may be expanded in the future to include commercial mortgages, non-Agency residential mortgages, and/or other asset classes. Credit extensions under the TALF will be non-recourse loans to eligible borrowers secured by eligible collateral for a three-year term with interest paid monthly. Any U.S. company that owned eligible collateral could borrow from the TALF, provided the company maintained an account with a primary dealer who would act as agent for the borrower and deliver eligible collateral to the FRBNY custodian in connection with the loan funding. The FRBNY would create a special purpose vehicle ("SPV") to purchase and manage any assets received by the FRBNY in connection with the TALF loans.

The U.S. Treasury would provide $20 billion of credit protection to the FRBNY in connection with the TALF through the Troubled Assets Relief Program (the "TARP") by purchasing subordinated debt issued by the SPV to finance the first $20 billion of asset purchases. If more than $20 billion in assets are purchased by the SPV, the FRBNY would lend additional funds to the SPV to finance such additional purchases. The FRBNY's loan to the SPV would be senior to the TARP subordinated loan and secured by all of the assets of the SPV. The FRBNY indicated an intention to cease making new loans on June 30, 2010, but loans collateralized by certain types of ABS were scheduled to cease on March 31, 2010, subject to extension of the TALF by the Board of Governors.

The Bank did not participate in this program.

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 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 Bank 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 Current Credit Conditions. Legislation passed at the federal level and/or by the State of California in response to current 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 and San Francisco. The Bank also has a loan production facility in Santa Clara County. 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. The Company can provide no assurance that conditions in the California economy will not deteriorate further or that such deterioration will not adversely affect the Company.

Competition. Increased competition in the market of 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.

If the Bank is unable to attract and retain banking customers, it may be unable to continue its loan growth and level of deposits, which may adversely affect its and the Company's results of operations, financial condition and future prospects.

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.

The Emergency Economic Stabilization Act of 2008 included a provision for an increase in the amount of deposits insured by the FDIC to $250,000, which was scheduled to remain in effect through December 31, 2013. With enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the $250,000 per depositor insurance limit was made permanent and, among other matters, unlimited deposit insurance for non-interest bearing transaction accounts was extended through December 31, 2012.

It is not clear how depositors may respond regarding the increase in insurance coverage. Despite the increase, some depositors may reduce the amount of deposits held at the Bank if concerns regarding bank failures persist, 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.

We are Subject to 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.

We Rely on Technology and Continually Encounter 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. We have pursued and continue 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 this growth strategy without establishing new branches or new products. We may attempt to expand in our current market by opening or acquiring branch offices or 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.

Commercial loans. As of December 31, 2011, approximately 9% 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. Our current economic recession has made 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, the effect of general economic conditions 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, 2011, real estate (including construction loans) served as the principal source of collateral with respect to approximately 90% of the Company's loan portfolio. The current 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 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 expected future losses, we cannot assure you that it will not further increase the allowance for loan and lease losses or that the regulators will not require it 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, 2011, 2010 and 2009, our OREO totaled $2,747,000, $6,680,000 and $7,320,000, 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. Shares of the Company's common stock eligible for future sale could have a dilutive effect on the market for common stock and could adversely affect the market price.

The Articles of Incorporation of the Company authorize the issuance of 10,000,000 shares of common stock, of which 3,506,405 were outstanding at December 31, 2011. Pursuant to its 1997, 2002 and 2008 Stock Option Plans, at December 31, 2011, the Company had outstanding options to purchase a total of 487,124 shares of common stock. As of December 31, 2011, 238,488 shares of common stock remained available for grants under the 2008 Stock Option Plan, as well as an additional 48,606 shares under the 2002 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. The ability to raise funds in the future through a stock offering could be difficult.

Operating Losses. The Company is subject to certain operations risks, including, but not limited to, data processing system failures and errors 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.

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, the failure of investment firms such as Bear Stearns and Lehman Brothers, and the bailout of AIG Inc., the insurance giant, as well as large write-offs at some major financial institutions have had a ripple effect on the entire financial services industry. Such events have had an adverse effect on the economy in the Company's market areas. Such continued economic deterioration could adversely affect the Company's future results of operations by, among other matters, reducing the demand for loans and the amounts required to be reserved for loan losses, reducing the value of collateral held as security for the Company's loans, and causing a decline in the Company's stock price.

Certain Restrictions Related to Series C Preferred Stock. The Certificate of Determination for the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), sold to the Secretary of the Treasury ("Treasury") pursuant to the Securities Purchase Agreement between the Company and Treasury dated September 15, 2011, imposes certain limits on the ability of the Company to pay dividends and repurchase or acquire shares of its common stock. The Series C Preferred Stock will also receive preferential treatment in the distribution of assets of the Company in the event of any liquidation, dissolution or winding up of the Company. These restrictions could have a negative effect on the value of the Company's common stock. Dividends paid by the Company on the shares of Series C Preferred Stock will reduce the net income available to the holders of Company common stock and the Company's earnings per common share. The holders of the Company's common stock are entitled to receive dividends only when, as and if declared by the Company's Board of Directors. Although the Company has historically paid stock and cash dividends on the Company's common stock, the Company is not required to do so and the Company's Board of Directors could reduce or eliminate these common stock dividends in the future, depending on the circumstances.

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 is immediately 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, 2011, we held $3.3 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 no value.

At December 31, 2011, we maintained a line of credit with the FHLB of San Francisco with a maximum borrowing capacity of $189,066,000, of which the entire amount was available. Advances under the line of credit are secured by a blanket collateral agreement, a pledge of our FHLB of San Francisco common stock and certain other qualifying collateral, such as commercial and mortgage loans. We are highly dependent on the FHLB of San Francisco to provide 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, California 94080.

The Bank owns the land and building at 975 El Camino Real, South San Francisco, California 94080. The premises consist of a modern, 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 this three-story building 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 South San Francisco Branch Office (211 Airport Boulevard, South San Francisco, CA 94080); 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); and the land and two-story building occupied by the Pescadero Branch Office (239 Stage Road, Pescadero, CA 94060). All properties include adequate vehicle parking for customers and employees.

The Bank owns approximately 30,900 square feet of land and an approximately 5,100 square foot one story building located at 425 South Mathilda Avenue, Sunnyvale, CA 94086. The building is currently being used as a loan production office of the Bank.

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 65 Post Street, San Francisco, CA 94104, for its Financial District Office. The current lease term expires April 30, 2013, with one 5-year option to extend the lease remaining. The location consists of approximately 2,826 square feet of street level, 1,322 square feet of basement, and 1,077 square feet of mezzanine space.

The Bank leases premises at 6599 Portola Drive, San Francisco, CA 94127, for its Portola Office. The current lease expires June 30, 2012, and has a remaining 2-year option to extend the lease to June 30, 2014. The location consists of approximately 1,325 square feet of street level space.

The Bank subleases premises at 2197 Chestnut Street, San Francisco, CA, 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 current lease term expires July 31, 2013. It has one remaining five-year option to extend the lease. The location consists of approximately 4,000 square feet of ground floor usable commercial space.

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.

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

Since March 18, 2002, the common stock of the Company has been quoted on the OTC Bulletin Board under the trading symbol, "FNBG." There has been limited trading in the shares of common stock of the Company. On February 28, 2012, the Company had approximately 700 shareholders of common stock of record.

The following table summarizes sales of the Common Stock of the Company during the periods indicated of which management has knowledge, including the approximate high and low bid prices during such periods and the per share cash dividends declared for the periods indicated. All information has been adjusted to reflect 5% stock dividends effected on December 20, 2010 and on December 27, 2011. The prices indicated below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Bid Price of FNB Bancorp Common Stock		Cash Dividends
2010	High	Low	Declared (1)
First Quarter	$ 8.33	$ 6.71	$ 0.05
Second Quarter	9.05	6.67	0.05
Third Quarter	8.57	7.14	0.05
Fourth Quarter	9.52	6.67	0.05
2011			
First Quarter	$ 14.70	10.34	$ 0.05
Second Quarter	15.75	9.56	0.05
Third Quarter	14.12	9.46	0.06
Fourth Quarter	12.50	11.35	0.06

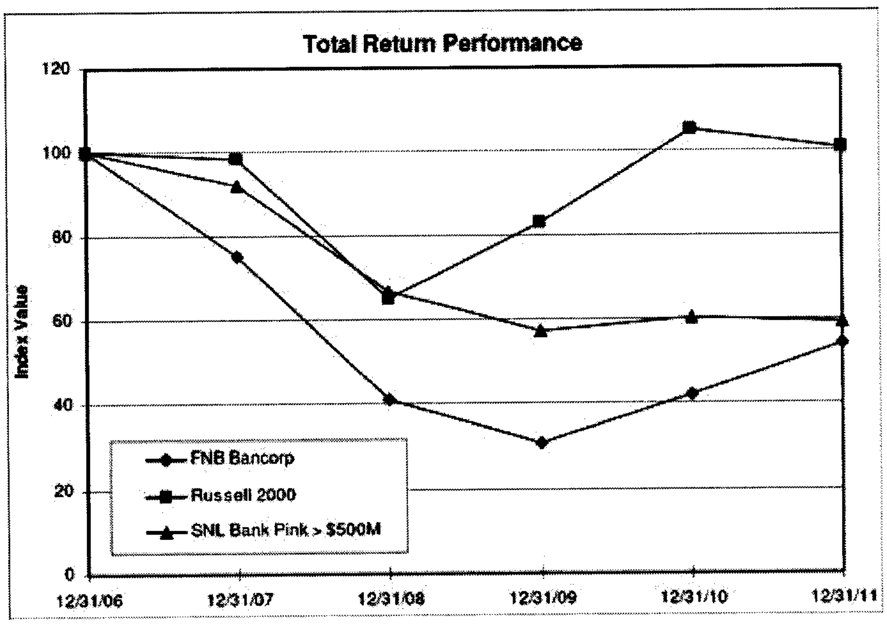
See Item 1, "Limitations on Dividends," above (following the "Additional Regulations") sub section, for a description of the limitations applicable to the payment of dividends by the Company.

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, 2006 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.

FNB Bancorp



	Period Ending					
Index	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**
FNB Bancorp	100.00	75.25	41.05	30.61	42.02	54.44
Russell 2000............................	100.00	98.43	65.18	82.89	105.14	100.75
SNL Bank Pink > $500M........	100.00	92.14	66.86	57.16	60.39	59.37

ISSUER PURCHASES OF EQUITY SECURITIES

On August 24, 2007, the Board of Directors of the Company authorized a stock repurchase program which calls for the repurchase of up to five percent (5%) of the Company's then outstanding 2,863,635 shares of Common Stock, or 143,182 shares. There were no repurchases during the quarter and year ended December 31, 2011 and 2010. There were 10,457 shares remaining that may be purchased under this Plan as of December 31, 2011.

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,				
	2011	**2010**	**2009**	**2008**	**2007**
STATEMENT OF EARNINGS DATA					
Total interest income	$ 32,897	$ 34,428	$ 35,817	$ 39,427	$ 42,290
Total interest expense	3,327	5,383	9,011	11,507	13,657
Net interest income	29,570	29,045	26,806	27,920	28,633
Provision for loan losses	1,750	1,854	4,596	3,045	690
Net interest income after provision for loan losses	27,820	27,191	22,210	24,875	27,943
Total noninterest income	5,079	4,574	5,387	5,045	4,300
Total noninterest expenses	27,074	26,873	27,585	25,346	23,182
Earnings before provision (benefit) for income taxes	5,825	4,892	12	4,574	9,061
Provision (benefit) for income taxes	1,568	1,227	(581)	611	2,382
Net earnings	4,257	3,665	593	3,963	6,679
Dividends and discount accretion on preferred stock	800	853	632	—	—
Net (loss) earnings available to common shareholders	$ 3,457	$ 2,812	$ (39)	$ 3,963	$ 6,679
PER SHARE DATA - see note (1)					
Net earnings per share:					
Basic	$ 0.99	$ 0.80	$ (0.01)	$ 1.11	$ 1.84
Diluted	$ 0.98	$ 0.80	$ —	$ 1.11	$ 1.82
Cash dividends per share	$ 0.16	$ 0.18	$ 0.26	$ 0.62	$ 0.47
Weighted average shares outstanding:					
Basic	3,509,000	3,508,000	3,508,000	3,563,000	3,634,000
Diluted	3,529,000	3,508,000	—	3,586,000	3,670,000
Shares outstanding at period end	3,506,000	3,508,000	3,508,000	3,508,000	3,604,000
Book value per share	$ 21.28	$ 19.54	$ 19.01	$ 19.43	$ 18.46
BALANCE SHEET DATA					
Investment securities	187,664	126,189	97,188	99,221	94,432
Net loans	443,721	474,828	494,349	497,984	489,574
Allowance for loan losses	9,897	9,524	9,829	7,075	5,638
Total assets	715,641	714,639	708,309	660,957	644,465
Total deposits	621,778	628,440	598,964	500,910	499,255
Stockholders' equity	87,196	80,924	78,865	68,149	66,545
SELECTED PERFORMANCE DATA					
Return on average assets	0.48%	0.39%	-0.01%	0.60%	1.07%
Return on average equity	4.14%	3.48%	-0.05%	5.87%	10.39%
Net interest margin	4.88%	4.80%	4.47%	4.75%	5.05%
Average loans as a percentage of average deposits	75.11%	78.18%	91.32%	97.93%	91.74%
Average total stockholders' equity as a percentage of average total assets	11.62%	11.07%	11.31%	10.25%	10.31%
Common dividend payout ratio	16.52%	22.97%	n/a	56.17%	25.75%
SELECTED ASSET QUALITY RATIOS					
Net loan charge-offs/ total loans	0.30%	0.45%	0.37%	0.32%	0.01%
Allowance for loan losses/Total Loans	2.18%	1.97%	1.95%	1.40%	1.14%
CAPITAL RATIOS					
Total risk-based capital	16.53%	14.93%	14.29%	11.86%	11.47%
Tier 1 risk-based capital	15.27%	13.67%	13.04%	10.67%	10.52%
Tier 1 leverage capital	11.21%	10.52%	10.77%	9.70%	9.89%

(1) per share data has been adjusted for stock dividends.

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, 2011, the FASB issued ASU No. 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this Update temporarily delayed the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. However, the guidance became effective for interim and annual periods ending after June 15, 2011. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Bank's financial condition or results of operations.

In April, 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* The amendments in this Update apply to all creditors, both public and nonpublic, that restructure receivables that fall within the scope of Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors.*

In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1. The restructuring constitutes a concession.
2. The debtor is experiencing financial difficulties.

For public entities, the amendments in this Update became effective for the first interim or annual period beginning on or after June 15, 2011, and have been applied retrospectively to the beginning of the annual period of adoption. The adoption of this ASU did not impact the Bank's financial condition or results of operations.

In April, 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements.* The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This ASU had no material impact on the Bank's financial condition or results of operations.

In May, 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820.

Some of the amendments clarify the Board's intent about the application of existing fair value measurements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. As this ASU is disclosure-related only, the adoption of this ASU will not impact the Bank's financial condition or results of operations.

In June, 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220).* Under the amendments to Topic 220, Comprehensive Income, in this Update an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total of other comprehensive income, along with a total for comprehensive income.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.

The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. In both cases, the tax effect for each component must be disclosed in the notes to the financial statements or presented in the statement in which other comprehensive income is presented. The amendments do not affect how earnings per share is calculated or presented. This ASU will have no material impact on the Bank when adopted.

In September, 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350).* Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4 of the codified standards. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9 of the codified standards.

Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim impairments tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued, or, for nonpublic entities, have not yet been made available for issuance. The Company early adopted during the fourth quarter of 2011. There was no financial effect due to the early adoption of these amendments.

In December, 2011, the FASB issued ASU 2011-12, Comprehensive Income – *(Topic 220). Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update N0. 2011-05.* In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05.

All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. As a public entity, the Company will apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011.

Earnings Analysis

Net earnings in 2011 were $4,257,000, a $592,000 or a 16.2% increase from 2010 net earnings of $3,665,000. Net earnings for the year 2010 increased $3,072,000 or 518.0% from year 2009 net earnings of $593,000. Net earnings (loss) available to common stockholders were $3,457,000 in 2011, $2,812,000 in 2010, and ($39,000) in 2009. The principal source of 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 the Bank's 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.

Basic earnings (loss) per share were $0.99 in 2011, $0.80 in 2010, and ($0.01) in 2009. Diluted earnings (loss) per share were $0.98 in 2011, $0.80 in 2010, and ($0.01) in 2009.

Net interest income for 2011 totaled $29,570,000, an increase of $525,000 or 1.8% from 2010. Net interest income for 2010 totaled $29,045,000, an increase of $2,239,000, or 8.4% from 2009. Interest income was $32,897,000 in 2011, a decrease of $1,531,000 or 4.4% from 2010. Interest income totaled $34,428,000 in 2010, a decrease of $1,389,000 or 3.9% from 2009. Interest income on deposits at the Federal Reserve Bank of San Francisco totaled $116,000 in 2011, $136,000 in 2010, and $42,000 in 2009. The decrease in net interest income during 2011 and 2010 was caused primarily by a decrease in the interest rate paid on interest bearing liabilities which exceeded the decrease in the interest rate earned on interest earning assets. Most of the interest earning assets are tied to the prime lending rate, which did not change during 2011 or 2010. During 2009, the net interest income reduction from 2008 levels was primarily caused by a decline in interest earned on interest earning assets that was greater than the decline in interest expense on interest bearing liabilities. Total nonaccrual loans were $19,098,000 and $16,712,000 as of December 31, 2011 and 2010, 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 totaled $617,424,000 in 2011, an increase of $3,871,000 or 0.6% from 2010. Average interest earnings assets totaled $613,553,000 in 2010, an increase of $5,231,000 or 0.9% over 2009. The yield on interest earning assets decreased 26 basis points in 2011 compared to 2010, and decreased 27 basis points in 2010 compared to 2009. The principal earning assets were loans, and average loans outstanding decreased $20,104,000in 2011 compared to 2010, and decreased $10,648,000 in 2010 versus 2009. Their yield decreased 16 basis points in 2011, and 13 basis points in 2010 compared to 2009. Loan origination volumes in 2011 were significantly lower than in 2010 and 2009. These lower origination volumes coupled with loan prepayments caused our average 2011 loans outstanding to decrease and contributed to the decline in our 2011 loan interest income from 2010 levels.

Interest expense for 2011 totaled $3,327,000 compared to $5,383,000 in 2010 and $9,011,000 in 2009.The decrease in interest expense during 2011, 2010 and 2009 was caused primarily by rate decreases on deposits, as our rates followed the declines in prevailing short term market interest rates. During 2011 and 2010, the Federal Open Market Committee ("FOMC") federal funds rate was maintained at a target rate between 0% and 0.25%. A new consumer product, the Money Market Maximizer, was created during 2009, and reached $140,503,000 and $122,594,000, respectively, in deposit balances by the end of 2011 and 2010. Average interest bearing liabilities were $486,588,000 in 2011, $511,277,000 in 2010, and $482,900,000 in 2009. This represented a decrease of $24,689,000 in 2011 over 2010, and an increase of $28,377,000 in 2010 over 2009. The cost of these liabilities decreased 37 basis points in 2011 compared to 2010, and 82 basis points in 2010 compared to 2009. Time deposit costs decreased 34 basis points in 2011 compared to 2010, and decreased 76 basis points in 2010 compared to 2009. The Bank generally lowered rates paid on interest bearing liabilities throughout 2009 and continued these rate reductions during 2010 and 2011. 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.

Net Interest Income

Net interest income is the difference between interest yield generated by earning assets and the interest expense associated with the funding of those assets. Net interest income is affected by the interest rate earned or paid and by volume changes in loans, investment securities, deposits and borrowed funds.

TABLE 1

Net Interest Income and Average Balances
Year ended December 31

(Dollar amounts in thousands)	2011			2010			2009		
	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)	$471,487	$ 29,320	6.22%	$491,591	$ 31,386	6.38%	$502,239	$ 32,718	6.51%
Taxable securities (3)	95,075	1,910	2.01%	86,765	1,811	2.09%	58,248	1,779	3.05%
Nontaxable securities (3)	50,831	2,218	4.36%	35,193	1,632	4.64%	34,406	1,634	4.75%
Federal funds sold	31	—	n/a	4	—	n/a	13,429	78	0.58%
Total interest earning assets	617,424	33,448	5.42%	613,553	34,829	5.68%	608,322	36,209	5.95%
NONINTEREST EARNING ASSETS:									
Cash and due from banks	60,811			69,949			33,933		
Premises and equipment	13,494			12,096			12,417		
Other assets	27,792			33,711			29,157		
Total noninterest earning assets	102,097			115,756			75,507		
TOTAL ASSETS	$719,521			$729,309			$683,829		
INTEREST BEARING LIABILITIES:									
Deposits:									
Demand, interest bearing	$ 61,136	$ 126	0.21%	$ 61,397	$ 173	0.28%	$ 57,886	307	0.53%
Money market	267,109	2,111	0.79%	269,661	3,025	1.12%	198,236	4,007	2.02%
Savings	47,059	109	0.23%	44,075	111	0.25%	43,531	123	0.28%
Time deposits	111,284	981	0.88%	124,563	1,523	1.22%	133,388	2,637	1.98%
Fed Home Loan Bank advances	—	—	n/a	11,575	551	4.76%	49,859	1,937	3.88%
Fed funds purchased	—	—	n/a	6	—	n/a	—	—	n/a
Total interest bearing liabilities	486,588	3,327	0.68%	511,277	5,383	1.05%	482,900	9,011	1.87%
NONINTEREST BEARING LIABILITIES:									
Demand deposits	141,113			129,062			116,946		
Other liabilities	8,241			8,261			6,616		
Total noninterest bearing liabilities	149,354			137,323			123,562		
Total liabilities	635,942			648,600			606,462		
Stockholders' equity	83,579			80,709			77,367		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$719,521			$729,309			$683,829		
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS (4)		$30,121	4.88%		$29,446	4.80%		$27,198	4.47%

(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 $1,071,000, $1,075,000 and $1,249,000 for the years ended December 31, 2011, 2010 and 2009, respectively.
(3) Tax equivalent adjustments recorded at the statutory rate of 34% that are included in the nontaxable securities portfolio are $551,000, $401,000, and $392,000 for the years ended December 31, 2011, 2010 and 2009, 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 Rate/Volume Variance Analysis

(Dollar amounts in thousands)	Year Ended December 31					
	2011 compared to 2010 Increase (decrease) (2)			2010 compared to 2009 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	$ (2,066)	$ (816)	$ (1,250)	$ (1,332)	$ (652)	$ (680)
Taxable securities	99	(75)	174	32	(839)	871
Nontaxable securities (1)	586	(139)	725	(2)	(39)	37
Federal funds sold	—	—	—	(78)	(78)	—
Total	$ (1,381)	$ (1,030)	$ (351)	$ (1,380)	$ (1,608)	$ 228
INTEREST BEARING LIABILITIES:						
Demand deposits	$ 47	$ 46	$ 1	$ (134)	$ (153)	$ 19
Money market	914	894	20	(982)	(1,783)	801
Savings deposits	2	9	(7)	(12)	(13)	1
Time deposits	542	380	162	(1,114)	(940)	(174)
Federal Home Loan Bank advances	551	—	551	(1,386)	436	(1,822)
Federal funds purchased	—	—	—	—	—	—
Total	$ 2,056	$ 1,329	$ 727	$ (3,628)	$ (2,453)	$ (1,175)
NET INTEREST INCOME	$ 675	$ 299	$ 376	$ 2,248	$ 845	$ 1,403

(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.

The net interest margin on average earning assets was 4.88% in 2011 compared to 4.80% in 2010 and 4.47% in 2009. The average rate earned on interest earning assets was 5.42% in 2011, 5.68% in 2010 and 5.95% in 2009. The average cost for interest-bearing liabilities was 0.68% in 2011 compared to 1.05% in 2010 and 1.87% in 2009. The improvement in net interest margin in 2011 was related to an overall market rate decline that allowed the Bank to lower deposit rates faster than the corresponding decline in the earning rate on interest earning assets.

Yield on average loans was 6.22% in 2011, 6.38% in 2010 and 6.51% in 2009. Interest on average taxable securities was 2.01% in 2011, 2.09% in 2010 and 3.05% in 2009. Interest on average nontaxable securities on a tax equivalent basis was 4.36% in 2011, 4.64% in 2010 and 4.75% in 2009. Interest on average federal funds sold was 0.58% in 2009. There were no federal funds sold in 2011, and only minimal federal funds sold during 2010. 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, with help from senior executive management, has the ultimate responsibility of 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 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 decreased by $12,157,000 in 2011 compared to 2010, and increased by $6,383,000 in 2010 compared to 2009. Bank management maintained conservative underwriting standards during 2009 through 2011, 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 2009 through 2011, we priced our loans competitively, and we did not discount our loans in order to attract new business. The reserve as a percentage of outstanding loans increased in 2009, 2010 and 2011, to levels designed to accurately reflect the credit risk involved in the loan portfolio.

The allowance for loan losses totaled $9,897,000, $9,524,000 and $9,829,000 at December 31, 2011, 2010 and 2009, respectively. This represented 2.18%, 1.97% and 1.95% 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. During 2011, the provision for loan losses was $1,750,000, and the net charge-offs were $1,377,000. During 2010, the provision for loan losses was $1,854,000, and the net charge-offs were $2,159,000. During 2009, the provision for loan losses was $4,596,000, and the net charge-offs were $1,842,000. 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 annually.

TABLE 3

Allocation of the Allowance for Loan Losses
(Dollar amounts in thousands)

	2011		2010		2009		2008		2007	
	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......	$ 4,745	56.8%	$ 3,787	57.5%	$ 4,168	54.3%	$ 3,316	49.2%	$ 2,609	50.5%
Real estate construction	1,171	6.2%	1,999	5.7%	3,110	9.4%	1,388	13.0%	1,576	11.6%
Real estate multi family	671	8.0%	578	8.8%	881	11.5%	694	10.3%	598	11.6%
Real estate 1 to 4 family....	1,592	19.0%	971	14.7%	832	10.8%	702	10.4%	462	9.0%
Commercial & industrial	1,618	9.5%	2,102	12.7%	809	13.5%	932	16.5%	370	16.6%
Consumer loans................	100	0.5%	87	0.6%	29	0.5%	43	0.6%	23	0.7%
Total	$ 9,897	100.0%	$ 9,524	100.0%	$ 9,829	100.0%	$ 7,075	100.0%	$ 5,638	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, 2011. 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

Allowance for Loan Losses
Historical Analysis

(Dollar amounts in thousands)	For the year ended December 31, 2011	2010	2009	2008	2007
Balance at Beginning of Period	$ 9,524	$ 9,829	$ 7,075	$ 5,638	$ 5,002
Provision for Loan Losses	1,750	1,854	4,596	3,045	690
Charge-offs:					
Real Estate	(721)	(1,376)	(1,471)	(493)	(48)
Commercial	(651)	(812)	(390)	(1,284)	(19)
Consumer	(74)	(34)	(60)	(11)	(13)
Total	(1,446)	(2,222)	(1,921)	(1,788)	(80)
Recoveries:					
Real Estate	41	50	61	36	15
Commercial	27	6	18	144	10
Consumer	1	7	—	—	1
Total	69	63	79	180	26
Net Charge-offs	(1,377)	(2,159)	(1,842)	(1,608)	(54)
Balance at End of Period	$ 9,897	$ 9,524	$ 9,829	$ 7,075	$ 5,638
Percentages					
Allowance for loan losses/total loans	2.18%	1.97%	1.95%	1.40%	1.14%
Net charge-offs/real estate loans	0.18%	0.35%	0.38%	0.14%	0.01%
Net charge-offs/commercial loans	1.45%	1.31%	0.55%	1.37%	0.01%
Net charge-offs/consumer loans	3.13%	1.00%	2.25%	0.35%	0.33%
Net charge-offs/total loans	0.30%	0.45%	0.37%	0.32%	0.01%
Allowance for loan losses/non-performing loans	51.82%	71.72%	38.41%	50.17%	49.18%

The increase in charge-offs during 2008, 2009 and 2010 was 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, 2011, 2010 and 2009, had non-accrual loans performed as agreed, approximately $872,000, $625,000 and $759,000, 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 4.2% of total loans at December 31, 2011, 3.4% of total loans at December 31, 2010 and 5.1% of total loans at December 31, 2009. Management believes the current list of past due loans are collectible and does not anticipate significant losses.

TABLE 5
(Dollar amounts in thousands)

	Analysis of Nonperforming Assets				
	December 31				
	2011	2010	2009	2008	2007
Accruing loans 90 days or more	$ —	$ —	$ —	$ —	$ —
Nonaccrual loans	19,098	16,712	25,592	14,102	11,465
Other real estate owned	2,747	6,680	7,320	3,557	440
Total	$ 21,845	$ 23,392	$ 32,912	$ 17,659	$ 11,905

There was no commitment to lend additional funds to any customer whose loan was classified as nonperforming at December 31, 2011, 2010 or 2009.

Nonaccrual loans at December 31, 2011 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 properties consist of two construction loans related to single-family home construction, a four-unit apartment building, a retail commercial real estate loan, and a land development parcel. The Bank is actively marketing these properties. However, given current market conditions, there can be no assurance that these properties can be sold in the near future.

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. At December 31, 2011, the Bank had fourteen loans totaling $16,447,000 that were considered troubled debt restructurings. These fourteen loans consist of six commercial real estate loans totaling $9,173,000, one multi-family real estate loan totaling $3,283,000, five commercial loans totaling $2,987,000, and two single family residence loans totaling $1,004,000.

Noninterest Income

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

TABLE 6

	Noninterest Income			Variance		Variance	
	Years ended December 31,			2011 vs. 2010		2010 vs. 2009	
(Dollar amounts in thousands)	2011	2010	2009	Amount	Percent	Amount	Percent
Service charges	$ 3,107	$ 2,703	$ 2,826	$ 404	14.9%	$ (123)	-4.4%
Death benefit bank owned life insurance policy	—	—	316	—	n/a	(316)	-100.0%
Credit card fees	701	649	691	52	8.0%	(42)	-6.1%
Gain on available-for-sale securities	479	619	997	(140)	-22.6%	(378)	-37.9%
Bank owned life insurance policy earnings	325	329	315	(4)	-1.2%	14	4.4%
Other income	467	274	242	193	70.4%	32	13.2%
Total noninterest income	$ 5,079	$ 4,574	$ 5,387	$ 505	11.0%	$ (813)	-15.1%

Total noninterest income consists mainly of service charges on deposits. Noninterest income in 2009 included $316,000 in proceeds from a life insurance contract related to death benefits received from a policy that was placed on the life of an executive who is now deceased. Gain on the sale of available for sale securities was $479,000 in 2011, $619,000 in 2010, and $997,000 in 2009. The gain on sale during 2011 was derived primarily from the sale of U. S. Government and mortgage-backed securities; during 2010, it was derived primarily from the sale of U.S. Treasury and mortgage-backed securities; and in 2009 it was derived primarily from the sale of available for sale municipal securities and mortgage- backed securities within our investment portfolio. The principal source of other income was interest due from the Federal Reserve Bank, which was $116,000, $136,000, and $42,000 in the years 2011, 2010 and 2009, respectively.

Nonininterest Expenses

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

TABLE 7

(Dollar amounts in thousands)	Noninterest Expenses Years ended December 31, 2011	2010	2009	Variance 2011 vs. 2010 Amount	Percent	Variance 2010 vs. 2009 Amount	Percent
Salaries and employee benefits	$ 13,726	$ 13,603	$ 13,359	$ 123	0.9%	$ 244	1.8%
Occupancy expense	2,331	2,036	2,084	295	14.5%	(48)	-2.3%
Equipment expense	1,722	1,943	1,923	(221)	-11.4%	20	1.0%
Professional fees	1,668	1,341	1,194	327	24.4%	147	12.3%
FDIC assessment	1,155	1,350	1,128	(195)	-14.4%	222	19.7%
Telephone, postage, supplies	1,149	1,103	1,068	46	4.2%	35	3.3%
Other real estate owned expense	439	1,012	852	(573)	-56.6%	160	18.8%
Advertising expense	570	411	439	159	38.7%	(28)	-6.4%
Bankcard expenses	658	589	633	69	11.7%	(44)	-7.0%
Operating losses	571	82	58	489	596.3%	24	41.4%
Data processing expense	560	518	554	42	8.1%	(36)	-6.5%
Low income housing expense	278	278	278	—	n/a	—	n/a
Surety insurance	267	274	253	(7)	-2.6%	21	8.3%
Director expense	216	216	201	—	n/a	15	7.5%
Gain on sale of other real estate owned	(66)	(132)	—	66	-50.0%	(132)	n/a
Loss on impairment of other real estate owned	543	957	2,396	(414)	-43.3%	(1,439)	-60.1%
Other	1,287	1,292	1,165	(5)	-0.4%	127	10.9%
Total noninterest expense	$ 27,074	$ 26,873	$ 27,585	$ 201	0.7%	$ (712)	-2.6%

Total noninterest expense for the year ended December 31, 2011 was $27,074,000 compared to $26,873,000and $27,585,000 for the years ended December 31, 2010 and 2009. Salaries and employee benefits were $13,726,000 in 2011, $13,603,000 in 2010, and $13,359,000 in 2009. Salaries and employee benefits represented 51%, 51% and 48% of noninterest expense for the years 2011, 2010 and 2009, respectively. During 2010, the Bank closed our Eureka Square and our Colma branch offices. The increase in salary and benefits costs during 2010 was primarily attributable to normal salary progression and an increase in medical and dental costs offset in large part by employee reductions net of relocation of staff from closed branches. The increase in salary and benefits during 2011 was also attributable to normal salary progression and further increases in medical and dental costs. There was a $500,000 operational loss in 2011 related to fraudulent foreign wire activity. An insurance claim was submitted and initially denied. The Company has hired legal counsel in its effort to collect on our insurance claim. 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 value on the foreclosure date. Another significant expense was the Bank's FDIC deposit insurance assessments, which were $1,128,000 in 2009, $1,350,000 in 2010, and $1,155,000 in 2011. These assessments are expected to remain relatively high until such time as the FDIC is able to build its deposit fund reserve to the targeted levels established by the FDIC. At December 31, 2011, the FDIC insurance reserves were still significantly below targeted levels.

Provision for Loan Losses

There was a provision for loan losses of $1,750,000 for the year ended December 31, 2011 compared to a provision for loan losses of $1,854,000 for the year ended December 31, 2010. The allowance for loan losses was $9,897,000 or 2.18% of total gross loans at December 31, 2011, compared to $9,524,000 or 1.97% of total gross loans at December 31, 2010. 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.

Balance Sheet Analysis

Total assets of the Company at December 31, 2011 were $715,641,000, compared to $714,639,000 at December 31, 2010 and to $708,309,000 at December 31, 2009. Assets averaged $719,521,000 in 2011, compared to $729,309,000 in 2010 and $683,829,000 in 2009. Average earning assets represented 85.8% of total average assets in 2011 and 84.1% of total average assets in 2010. Balance sheet growth during 2011 was minimal, which allowed the Company to increase our GAAP and regulatory capital ratios during the year.

Loans

The loan portfolio is the principal earning asset of the Bank. Gross loans outstanding (net of loan fees) at December 31, 2011 decreased by $30,734,000 or 6.3% from December 31, 2010. At December 31, 2010, they decreased by $19,826,000 or 3.9% from December 31, 2009. The loan portfolio experienced higher nonperforming loan levels in 2009 when compared to 2010 or 2011 levels. During 2010 and 2011, new loan origination volumes decreased from 2009 levels due to the additional time spent working to reduce our nonperforming assets and decreased demand for credit by our borrowers. In addition, the effect of the economic recession was a reduction in the number of applications received for credit during 2010 and 2011. New credit-worthy borrowers were difficult to identify during 2011, and most existing clients were not seeking additional loans, or increase in their credit lines.

Commercial real estate loans decreased by $21,453,000 or 7.7% in 2011 compared to 2010. They increased by $4,885,000 or 1.8% in 2010 compared to 2009. During 2009, the Bank purchased approximately $19,000,000 in performing real estate loans from another community bank. Real estate construction loans increased by $652,000 in 2011, but decreased by $19,612,000 and $18,458,000 in 2010 and 2009, respectively. Real estate multi-family loans decreased by $6,215,000 in 2011 compared to 2010 and decreased by $15,291,000 in 2010 compared to 2009. Real estate 1 to 4 family loans increased by $14,859,000 or 20.8% in 2011 compared to 2010, and increased by $16,789,00 or 30.7% in 2010 compared to 2009. These changes occurred due to a tightening in the Company's underwriting standards in response to current economic conditions. Construction activity was minimal, and we received fewer loan applications. Commercial and industrial loans decreased by $18,419,000, $6,484,000, and $15,465,000 in 2011, 2010 and 2009, respectively. Consumer loans represent a nominal portion of total loans. They decreased by $354,000 in 2011, increased by $28,000 in 2010, and decreased by $475,000 in 2009.

Table 8 presents a detailed analysis of loans outstanding at December 31, 2007 through December 31, 2011.

TABLE 8

	Loan Portfolio									
	December 31									
(Dollar amounts in thousands)	2011		2010		2009		2008		2007	
Commercial real estate	$ 257,413	57%	$ 278,866	56%	$ 273,981	55%	$248,323	49%	$ 250,343	49%
Real estate construction	28,229	6%	27,577	6%	47,189	9%	65,647	13%	57,362	12%
Real estate multi family	36,369	8%	42,584	9%	57,875	11%	52,046	10%	57,373	12%
Real estate 1 to 4 family	86,322	19%	71,463	15%	54,674	11%	52,642	10%	44,334	9%
Commercial & industrial	43,074	9%	61,493	13%	67,977	13%	83,442	17%	82,228	17%
Consumer loans	2,335	1%	2,689	1%	2,661	1%	3,136	1%	3,636	1%
Sub total	453,742	100%	484,672	100%	504,357	100%	505,236	100%	495,276	100%
Net deferred loan fees	(124)	0%	(320)	0%	(179)	0%	(177)	0%	(64)	0%
Total	$ 453,618	100%	$ 484,352	100%	$ 504,178	100%	$505,059	100%	$ 495,212	100%

Loans that are not guaranteed by the U. S. Government contain some level of risk of principal repayment. Real estate and loans that contain 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. Borrower's preference and interest rate risk tolerance will generally dictate whether they 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, 2011.

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	$ 137,557	87,734	32,122	$ 257,413
Real estate construction	15,085	9,621	3,523	28,229
Real estate multi family	19,435	12,396	4,538	36,369
Real estate 1 to 4 family	46,129	29,421	10,772	86,322
Commercial & industrial	23,018	14,681	5,375	43,074
Consumer loans	1,248	796	291	2,335
Sub total	242,472	154,649	56,621	453,742
Net deferred loan fees	(66)	(42)	(16)	(124)
Total	$ 242,406	$ 154,607	$ 56,605	$ 453,618
With predetermined interest rates	$ 71,319	$ 45,488	$ 16,654	$ 133,461
With floating interest rates	$ 171,087	$ 109,119	$ 39,951	$ 320,157
Total	$ 242,406	$ 154,607	$ 56,605	$ 453,618

Investment Portfolio

Investments at December 31, 2011 were $187,664,000, an increase of $61,475,000 or 48.7% over December 31, 2010. At December 31, 2010, investment securities were $126,189,000, an increase of $29,001,000 or 29.8% over December 31, 2009.

The primary purpose of the Bank's investment portfolio is to ensure the Bank has sufficient available funds to fund loans, or pay down our 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, 2011:

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	$ —	—%	12,634	1.17%	$ —	—%	$ —	—%	$ 12,634	2.75	1.17%
U. S. Government Agencies	2,019	1.56%	46,940	1.57%	5,143	2.21%	—	—	54,102	3.37	1.63%
Mortgage-backed securities	—	—	2,067	2.65%	9,895	2.75%	21,473	3.57%	33,435	14.58	3.26%
States & Political Subdivisions	2,775	2.64%	15,784	3.26%	39,632	2.98%	19,060	3.56%	77,251	7.50	3.13%
Corporate Debt	1,688	1.85%	8,554	3.06%	—	—	—	—	10,242	2.89	2.86%
Total	$ 6,482	2.10%	$ 85,979	1.96%	$ 54,670	2.86%	$ 40,533	3.57%	$ 187,664	6.98	2.57%

The following table shows the securities portfolio mix at December 31, 2011, 2010 and 2009.

TABLE 11

	Years Ended December 31,					
	2011		2010		2009	
(Dollar amounts in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U. S. Treasury securities	$ 12,371	$ 12,634	$ 12,440	$ 12,345	$ —	$ —
U.S. Government Agencies	53,150	54,102	45,941	46,114	45,100	45,307
Mortgage-backed securities	32,606	33,435	18,564	19,068	22,185	22,279
States & Political Subdivisions	73,674	77,251	42,738	42,456	24,998	25,867
Corporate Debt	10,314	10,242	6,105	6,206	3,696	3,735
Total	$ 182,115	$ 187,664	$ 125,788	$ 126,189	$ 95,979	$ 97,188

Deposits

During 2011, average deposits were $627,701,000, a decrease of $1,057,000 or 0.2% over 2010. During 2010, average deposits were $628,758,000, an increase of $78,771,000 or 14.3% over 2009. The prime lending rate was 3.25% on December 16, 2008, and remained unchanged through December 31, 2011. Time deposits lagged the prime rate changes because their rates changed only as certificates matured or new certificates were issued. Thus, interest-bearing demand costs averaged 0.5% in 2009, 0.3% in 2010 and 0.2% in 2011. Money market deposit costs averaged 2.0% in 2009, 1.1% in 2010 and 0.8% in 2011. Savings rates averaged 0.3% in 2009, 0.3% in 2010 and 0.2% in 2011. Average rates on time certificates of deposit of $100,000 or more was 2.0% in 2009, 0.9% in 2010 and 0.8% in 2011. On certificates under $100,000, average rates were 2.0% in 2009, 1.2% in 2010, and 0.9% in 2011. During 2009, the Bank introduced a money market account that carried an interest rate that was linked to the number of products the customer utilized. This product was the primary driver of the Bank's deposit growth during 2009 through 2010. The primary decline in deposits during 2011 came from time certificates of deposit, whose interest rates were not attractive, and some funds moved into savings or were not renewed.

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,								
	2011			2010			2009		
(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	61,136	0.2%	9.7	$ 61,397	0.3%	9.8	$ 57,886	0.5%	10.6
Money market	267,109	0.8%	42.6	269,661	1.1%	42.9	198,236	0.2%	36.0
Savings	47,059	0.2%	7.5	44,075	0.3%	7.0	43,531	0.3%	7.9
Time deposits $100,000 or more	69,330	0.8%	11.0	81,838	0.9%	13.0	83,846	2.0%	15.2
Time deposits under $100,000	41,954	0.9%	6.7	42,725	1.2%	6.8	49,542	2.0%	9.0
Total interest bearing deposits	486,588	0.7%	77.5	$ 499,696	1.0%	79.5	433,041	1.6%	78.7
Demand deposits	141,113	—	22.5	129,062	—	20.5	116,946	—	21.3
Total deposits	$ 627,701	0.5%	100.0	$ 628,758	0.8%	100.0	$ 549,987	1.3%	100.0

The following table indicates the maturity schedule of time deposits of $100,000 or more:

TABLE 13 (Dollar amounts in thousands)	Analysis of Time Deposits $100,000 or more at December 31, 2011			
Total Deposits $100,000 Or More	Three Months Or Less	Over Three To Six Months	Over Six To Twelve Months	Over Twelve Months
$ 67,773	$ 13,053	$ 24,247	$ 17,254	$ 13,219

Capital

At December 31, 2011, stockholders' equity of the Company was $87,196,000, an increase of $6,272,000or7.75%over 2010. At December 31, 2010, stockholders' equity of the Company was $80,924,000, an increase of $2,059,000 or 2.6% over 2009. During 2009, the primary reason for the increase in capital was the Company's issuance of $12,600,000 in equity securities to the U. S. Treasury in conjunction with the U. S. Treasury's Capital Purchase Program ("CPP"). The increases in retained earnings were primarily attributable to retention of net income less cash dividends on preferred stock of $545,000 in 2011 and $654,000 in 2010; and cash dividends on common stock of $568,000 in 2011, $646,000 in 2010 and $916,000 in 2009.

The $12,600,000 in equity securities issued to the U.S. Treasury were issued in the form of Series A Preferred Stock with a 5% annual dividend rate, paid quarterly, and Series B Preferred Stock with a 9% annual dividend rate, paid quarterly which accounted for the major part of the 2008-2009 variance in capital. During the third quarter of 2011, all shares of the Series A and B Preferred Stock were redeemed and $12,600,000 in shares of the Company's Series C Preferred Stock were issued under the U. S. Treasury's Small Business Lending Fund.

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 2009. 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. At year-end 1990, the FDIC also adopted 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 is 5%. Depending on the volume of small business lending, it can become as low as one percent. If lending does not increase in the first two years, the rate will increase to seven percent. After 4.5 years, the rate will increase to nine percent, assuming the Company has not redeemed the shares.

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

The following table shows the risk-based capital ratios and the leverage ratios at December 31, 2011, 2010 and 2009 for the Bank. The Company's capital ratios are substantially equivalent to those of the Bank.

TABLE 14

Regulatory Capital Ratios	2011	2010	2009	Minimum "Well Capitalized" Requirements
Total Capital	16.44%	14.85%	14.24%≥	10.00%
Tier 1 Capital	15.18%	13.60%	12.99%≥	6.00%
Leverage ratios	11.15%	10.46%	10.73%≥	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 banks 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, 2011, the Company's primary liquidity was 31.60%, compared to 26.18% in 2010 and 22.59% in 2009. Total Liquid Assets were $226,138,000 in 2011, $187,063,000 in 2010, and $160,041,000 in 2009. 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 81.2% of average total liabilities of $635,942,000 for the year ended December 31, 2011, 77.7% of average total liabilities of $648,600,000 for the year ended December 31, 2010, and 68.7% of average total liabilities of $606,462,000 for the year ended December 31, 2009.

As of December 31, 2011, the Company had contractual obligations and other commercial commitments totaling approximately $99,289,000. The following table sets forth the Company's contractual obligations and other commercial commitments as of December 31, 2011. 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 line of credit with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank.

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	$ 4,781	$ 763	$ 994	$ 748	$ 2,276
Salary Continuation Agreements	1,818	130	260	259	1,169
Total Contractual Cash Obligations	$ 6,599	$ 893	$ 1,254	$ 1,007	$ 3,445

(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	$ 59,926	$ 47,665	$ 7,914	$ 3,129	$ 1,218
Standby Letters of Credit	2,462	2,462	—	—	—
Other Commercial Commitments	30,302	29,560	735	7	—
Total Commercial Commitments	$ 92,690	$ 79,687	$ 8,649	$ 3,136	$ 1,218

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, and it remained the same through December 31, 2011. Net interest income increases during 2010 were primarily the result of aggressive reductions to the Bank's deposit product rates. Reductions in 2009's net interest income occurred because rates earned on interest earning assets decreased faster than the rates we paid on interest bearing liabilities.

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 customer base, which provides core deposit growth. 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 total assets, and a Federal Reserve Bank borrowing facility of approximately $49,195,000. Management believes the Company's liquidity sources at December 31, 2010 are adequate to meet its operating needs in 2011 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 normally 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.

TABLE 16

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

	Year Ended December 31, 2011	2010	2009
Return on average assets	0.48%	0.39%	(0.01)%
Return on average equity	4.14%	3.48%	(0.05)%
Dividend payout ratio	16.52%	22.97%	n/a
Average equity to assets ratio	11.62%	11.07%	11.31%

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, 2011, using current discount rates, and an estimate of net interest income for 2012 assuming that both interest rates and the Company's interest-sensitive assets and liabilities remain at December 31, 2011 levels.

The "rate shock" information in the table shows estimates of net portfolio value at December 31, 2011 and net interest income for 2012 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)

Market Risk in Securities
Interest Rate Shock
At December 31, 2011

Available for Sale securities

	Rates Decline			Rates Increase	
Rate change	(2%)	(1%)	Current	+1%	+2%
Unrealized gain (loss)	$ 14,653	$ 10,537	$ 5,549	$ (1,143)	$ (8,032)
Change from current	$ 9,104	$ 4,988		$ (6,692)	$ (13,581)

(Dollar amounts in thousands)

Market Risk on Net Interest Income
At December 31, 2011

	Rates Decline			Rates Increase	
Rate change	(2%)	(1%)	Current	+1%	+2%
Change in net interest income	$ 30,878	$ 30,499	$ 29,570	$ 29,028	$ 28,711
Change from current	$ 1,308	$ 929		$ (542)	$ (859)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 December31, 2011 and 2010, and the related consolidated statements of earnings, changes in stockholders' equity and comprehensive earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 December31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Portland, Oregon
March 30, 2012

FNB BANCORP AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2011 and 2010

(Dollar amounts in thousands)	2011	2010
Assets		
Cash and due from banks	$ 38,474	$ 60,874
Securities available-for-sale, at fair value	187,664	126,189
Loans, net of deferred loan fees and allowance for loan losses of $9,897 and $9,524 on December 31, 2011 and December 31, 2010	443,721	474,828
Bank premises, equipment, and leasehold improvements, net	13,227	13,535
Other real estate owned, net	2,747	6,680
Goodwill	1,841	1,841
Other equity securities	4,608	5,246
Accrued interest receivable	3,614	3,765
Prepaid expenses	2,107	2,843
Other assets	17,638	18,838
Total assets	$ 715,641	$ 714,639
Liabilities & Stockholders' Equity		
Deposits		
Demand, noninterest bearing	$ 139,382	$ 137,237
Demand, interest bearing	63,308	60,413
Savings and money market	310,237	305,390
Time	108,851	125,400
Total deposits	621,778	628,440
Accrued expenses and other liabilities	6,667	5,275
Total liabilities	628,445	633,715
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock - series A - no par value, authorized and outstanding 12,000 shares (liquidation preference of $1,000 per share plus accrued dividends)	—	11,747
Preferred stock - series B - no par value, authorized and outstanding 600 shares (liquidation preference of $1,000 per share plus accrued dividends)	—	615
Preferred stock - series C - no par value, authorized and outstanding 12,600 shares (liquidation preference of $1,000 per share)	12,600	—
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding3,506,405 shares at December 31, 2011 and 3,341,049 shares at December 31, 2010	48,895	46,565
Retained earnings	22,427	21,760
Accumulated other comprehensive income, net of tax	3,274	237
Total stockholders' equity	87,196	80,924
Total liabilities and stockholders' equity	$ 715,641	$ 714,639

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Statements of Earnings

Years ended December 31, 2011, 2010 and 2009

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

	2011	2010	2009
Interest income:			
Interest and fees on loans	$ 29,320	$ 31,386	$ 32,718
Interest and dividends on taxable securities	1,910	1,811	1,779
Interest on tax-exempt securities	1,667	1,231	1,242
Federal funds sold	—	—	78
Total interest income	32,897	34,428	35,817
Interest expense:			
Deposits	3,327	4,832	7,074
Federal Home Loan Bank advances	—	551	1,937
Total interest expense	3,327	5,383	9,011
Net interest income	29,570	29,045	26,806
Provision for loan losses	1,750	1,854	4,596
Net interest income after provision for loan losses	27,820	27,191	22,210
Noninterest income:			
Service charges	3,107	2,703	2,826
Death benefit bank owned life insurance policy	—	—	316
Credit card fees	701	649	691
Gain on sale of available-for-sale securities	479	619	997
Bank owned life insurance policy earnings	325	329	315
Other income	467	274	242
Total noninterest income	5,079	4,574	5,387
Noninterest expense:			
Salaries and employee benefits	13,726	13,603	13,359
Occupancy expense	2,331	2,036	2,084
Equipment expense	1,722	1,943	1,923
FDIC assessment	1,155	1,350	1,128
Other real estate owned expense	439	1,012	852
Professional fees	1,668	1,341	1,194
Telephone, postage, supplies	1,149	1,103	1,068
Advertising expense	570	411	439
Bankcard expense	658	589	633
Data processing expense	560	518	554
Operating losses	571	82	58
Low income housing expense	278	278	278
Surety insurance	267	274	253
Director expense	216	216	201
Gain on sale of other real estate owned	(66)	(132)	—
Loss on impairment of other real estate owned	543	957	2,396
Other expense	1,287	1,292	1,165
Total noninterest expense	27,074	26,873	27,585
Earnings before provision (benefit) for income taxes	5,825	4,892	12
Provision (benefit) for income taxes	1,568	1,227	(581)
Net earnings	4,257	3,665	593
Dividends and discount accretion on preferred stock	800	853	632
Net earnings (loss) available to common stockholders	$ 3,457	$ 2,812	$ (39)
Earnings (loss) per share data:			
Basic	$ 0.99	$ 0.80	$ (0.01)
Diluted	$ 0.98	$ 0.80	$ —
Weighted average shares outstanding:			
Basic	$ 3,509	$ 3,508	$ 3,508
Diluted	$ 3,532	$ 3,508	$ —

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Earnings

Years ended December 31, 2011, 2010 and 2009

(Dollar amounts in thousands)	Common stock Shares	Common stock Amount	Preferred Stock series A	Preferred Stock series B	Preferred Stock series C	Retained earnings	Accumulated other compre-hensive earnings	Compre-hensive earnings	Total
Balance at December 31, 2008......	3,027	$ 43,827	$ –	$ –	$ –	$ 22,960	$ 1,362		$ 68,149
Preferred stock issued			11,360	640					12,000
Net earnings..................................	–	–	–	–	–	593	–	$ 593	593
Other comprehensive earnings:									
Unrealized loss on securities, net of tax benefit of $42	–	–	–	–	–	–	(61)	(61)	(61)
Gain on sale of securities reclassification adjustment net of tax..				–	–	–	(588)	(588)	(588)
Total comprehensive loss								$ (56)	
Dividends and accretion on preferred stock			174	(11)	–	(632)	–		(469)
Cash dividends of $0.15 per share.		–	–	–	–	(462)	–		(462)
Cash dividends of $0.05 per share.		–	–	–	–	(454)	–		(454)
Stock dividend of 5%....................	152	1,060	–	–	–	(1,060)	–		–
Stock-based compensation expense		157	–	–	–	–	–		157
Balance at December 31, 2009......	3,179	45,044	11,534	629	–	20,945	713		78,865
Net earnings..................................						3,665		$ 3,665	3,665
Other comprehensive earnings:									
Unrealized loss on securities, net of tax benefit of $77	–	–	–	–	–	–	(111)	(111)	(111)
Gain of sale of securities reclassification adjustment net of tax..				–	–	–	(365)	(365)	(365)
Total comprehensive earnings.......								$ 3,189	
Dividends and accretion on preferred stock		–	213	(14)	–	(853)	–		(654)
Cash dividends of $0.05 per share.		–	–	–	–	(646)	–		(646)
Stock dividend of 5%....................	159	1,351	–	–	–	(1,351)	–		–
Stock options exercised.................		2				–	–		2
Stock-based compensation expense		168	–	–	–	–	–		168
Balance at December 31, 2010......	3,338	46,565	11,747	615	–	21,760	237		80,924
Preferred stock issued....................					12,600				12,600
Redemption of preferred stock......			(12,017)	(600)		17			(12,600)
Net earnings..................................						4,257		$ 4,257	4,257
Other comprehensive earnings:									
Unrealized gain on securities, net of tax expense of $2,307.............	–	–	–	–	–	–	3,320	3,320	3,320
Gain on sale of securities reclassification adjustment net of tax..				–	–	–	(283)	(283)	(283)
Total comprehensive earnings.......								$ 7,294	
Dividends and accretion on preferred stock		–	270	(15)	–	(800)	–		(545)
Cash dividends of $0.05 per share.		–	–	–	–	(167)	–		(167)
Cash dividends of $0.06 per share.		–	–	–	–	(401)	–		(401)
Cash in lieu of fractional shares		–	–	–	–	(3)	–		(3)
Accrued dividend, not yet paid......		–	–	–	–	(210)	–		(210)
Stock dividend of 5%....................	167	2,026	–	–	–	(2,026)	–		–
Stock options exercised.................	1	11	–	–	–	–	–		11
Stock-based compensation expense		293	–	–	–	–	–		293
Balance at December 31, 2011......	3,506	$ 48,895	$ –	$ –	$ 12,600	$ 22,427	$ 3,274		$ 87,196

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2011, 2010 and 2009

(Dollar amounts in thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net earnings	$ 4,257	$ 3,665	$ 593
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,803	2,554	2,217
Gain on sale of securities available-for-sale	(479)	(619)	(997)
Gain on sale of other real estate owned	(66)	(132)	—
Loss on impairment of other real estate owned	543	957	2,396
Increase in other real estate owned valuation reserve	—	—	1,831
Stock-based compensation expense	293	168	157
Provision for loan losses	1,750	1,854	4,596
Deferred taxes	(308)	468	(2,173)
Decrease (Increase) in accrued interest receivable	151	(693)	345
Decrease (increase) in prepaid expense	736	1,106	(2,993)
Decrease in other assets	1,507	1,140	322
(Decrease) increase in accrued expenses and other liabilities	(925)	126	429
Net cash provided by operating activities	10,262	10,594	6,723
Cash flows from investing activities:			
Proceeds from matured/called/sold securities available-for-sale	41,694	87,223	73,879
Purchases of securities available-for-sale	(98,861)	(117,468)	(72,613)
Decrease (increase) in other equity securities	638	393	(412)
Proceeds from sale of other real estate owned	4,078	4,300	2,291
Investment in other real estate owned	(3)	(468)	—
Net decrease (increase) in loans	28,738	13,518	(8,846)
Proceeds from sales of bank premises, equipment, and leasehold improvements	2	11	—
Purchases of bank premises, equipment, and leasehold improvements	(1,181)	(3,260)	(307)
Net cash used in investing activities	(24,895)	(15,751)	(6,008)
Cash flows from financing activities:			
Net increase in demand and savings deposits	9,887	31,399	112,571
Net decrease in time deposits	(16,549)	(1,923)	(14,517)
Net decrease in FHLB advances	—	(25,000)	(61,100)
Cash dividends paid on common stock	(568)	(646)	(1,212)
Cash dividends paid of preferred stock series A and B	(545)	(654)	(469)
Cash in lieu of franctional shares	(3)	—	—
Issuance of preferred stock series A	—	—	11,360
Issuance of preferred stock series B	—	—	640
Issuance of preferred stock series C	12,600	—	—
Redemption of preferred stock series A and B	(12,600)	—	—
Exercise of stock options	11	2	—
Net cash (used in) provided by financing activities	(7,767)	3,178	47,273
Net (decrease) increase in cash and cash equivalents	(22,400)	(1,979)	47,988
Cash and cash equivalents at beginning of year	60,874	62,853	14,865
Cash and cash equivalents at end of year	$ 38,474	$ 60,874	$ 62,853
Additional cash flow information:			
Interest paid	$ 3,345	$ 5,735	$ 9,517
Income taxes paid	1,955	207	843
Non-cash investing and financing activities:			
Accrued dividends	210	167	159
Change in fair value of available-for-sale securities, net of tax effect	3,037	(476)	(649)
Loans transferred to other real estate owned	619	4,149	7,885
Deemed dividends on preferred stock	255	199	163

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 and San Francisco 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. For the Bank, 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 which relate to a minimum cash reserve requirement of approximately $778,000 and $829,000 at December 31, 2011 and 2010, 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, 2011 or 2010.

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 would also 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 market value of any security available-for-sale or held-to-maturity below cost that is deemed other than temporary results in a charge to earnings 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 are recognized as either assets or liabilities in the balance sheet and measured at fair value. The Company did not hold any derivative contracts at December 31, 2011 or 2010.

(e) Loans

Loans are reported at the principal amount outstanding, net of deferred loan fees and the allowance for loan losses. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. For a 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. 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. 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.

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 Bank, 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.

(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 collectibility 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 collectibility 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, 2011. 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 market 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, 2011, 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 November 18, 2011, the Company announced that its Board of Directors had declared a five percent (5%) stock dividend which resulted in 166,762 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 27, 2011, to stockholders of record on December 12, 2011. The earnings per share data for all periods presented has been adjusted for stock dividends, except for the Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Earnings, which shows the historical rollforward of stock dividends declared.

(l) 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 2011, the Company recorded a reduction to the deferred tax asset valuation allowance of $66,000 for tax credit carryforwards from the Bank's investment in low income housing real estate partnerships. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company had unrecognized tax benefits of $550,000 and $415,000 as of December 31, 2011 and 2010, 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 is uncertain.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2011 and 2010, 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, 2011, the Bank had a $1,745,000 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.

(m) Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share reflects potential dilution from outstanding stock options, using the treasury stock method. There were 342,030, 363,241, and 342,889 antidilutive shares in the years ended December 31, 2011, 2010 and 2009, respectively, which were not included in the calculation. Reconciliation of weighted average shares used in computing basic and diluted earnings (loss) per share is as follows:

(Number of shares in thousands)	2011	2010	2009
Weighted average common shares outstanding-used in computing basic earnings per share	3,509	3,508	3,508
Dilutive effect of stock options outstanding, using the treasury stock method (1)	20	—	—
Shares used in computing diluted earnings per share	3,529	3,508	3,508

(1) Due to a loss for the 2009 period, no incremental shares are included because the effect would be antidilutive.

***(n)* 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 for the three years ended December 31, 2011, 2010 and 2009. 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 contractual life 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.

(o) 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.

(p) 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. Increases in the cash surrender value are recorded as other noninterest income in the consolidated statements of earnings. The cash surrender value of bank owned life insurance is reflected in other assets on the consolidated balance sheets in the amount of $9,521,000 and $9,195,000 at December 31, 2011 and 2010, respectively.

(q) 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. 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 credits.

(r) 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.

(s) Recently Issued Accounting Pronouncements

In January, 2011, the FASB issued ASU No. 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. As this ASU is disclosure-related only, the adoption of this ASU will not impact the Bank's financial condition or results of operations.

In April, 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* Given the recent economic downturn, the volume of debt restructured (modified) by creditors has increased. Several stakeholders raised concerns about whether additional guidance or clarification is needed to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. Diversity in practice could adversely affect the comparability of information for users about restructurings of receivables. The amendments in this Update apply to all creditors, both public and nonpublic, that restructure receivables that fall within the scope of Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors.*

In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1. The restructuring constitutes a concession.

2. The debtor is experiencing financial difficulties.

For public entities, the amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Bank's financial condition or results of operations.

In April, 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements.* The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This ASU had no material impact on the Bank's financial condition or results of operations.

In May, 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820.

Some of the amendments clarify the Board's intent about the application of existing fair value measurements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. As this ASU is disclosure-related only, the adoption of this ASU will not impact the Bank's financial condition or results of operations.

In June, 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220).* Under the amendments to Topic 220, Comprehensive Income, in this Update an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income.

The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total of other comprehensive income, along with a total for comprehensive income.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.

The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. In both cases, the tax effect for each component must be disclosed in the notes to the financial statements or presented in the statement in which other comprehensive income is presented. The amendments do not affect how earnings per share is calculated or presented.

In September, 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350).* Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in paragraph 350-20-35-4 of the codified standards. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9 of the codified standards.

Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim impairments tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued, or, for nonpublic entities, have not yet been made available for issuance. The Company early adopted during the fourth quarter of 2011. There was no financial effect due to the early adoption of these amendments.

In December, 2011, the FASB issued ASU 2011-12, Comprehensive Income – *(Topic 220). Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update N0. 2011-05.* In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05.

All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. As a public entity, the Company will apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011.

(2) **Restricted Cash Balance** Cash and due from banks includes balances with the Federal Reserve Bank (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, 2011 and 2010, the Bank maintained deposits in excess of the FRB reserve requirement, which was $778,000 and $829,000, respectively

(3) **Securities Available-for-Sale**

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

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Carrying value
December 31, 2011:				
U.S. Treasury securities	$ 12,371	$ 263	$ —	$ 12,634
Obligations of U.S. government agencies	53,150	964	(12)	54,102
Mortgage-backed securities	32,606	838	(9)	33,435
Obligations of states and political subdivisions	73,674	3,592	(15)	77,251
Corporate debt	10,314	102	(174)	10,242
	$ 182,115	$ 5,759	$ (210)	$ 187,664
December 31, 2010:				
U.S. Treasury securities	$ 12,440	$ 2	$ (97)	$ 12,345
Obligations of U.S. government agencies	45,941	488	(315)	46,114
Mortgage-backed securities	18,564	521	(17)	19,068
Obligations of states and political subdivisions	42,738	582	(864)	42,456
Corporate debt	6,105	109	(8)	6,206
	$ 125,788	$ 1,702	$ (1,301)	$ 126,189

An analysis of gross unrealized losses within the available-for-sale investment securities portfolio as of December 31, 2011 and December 31, 2010 follows:

December 31, 2011: (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
Obligations of U.S. government agencies	6,293	(12)	—	—	6,293	(12)
Mortgage-backed securities	6,466	(9)	—	—	6,466	(9)
Obligations of states and political subdivisions	2,744	(15)	—	—	2,744	(15)
Corporate debt	5,554	(173)	500	(1)	6,054	(174)
Total	$ 21,057	$ (209)	$ 500	$ (1)	$ 21,557	$ (210)

December 31, 2010: (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	$ 11,341	$ (97)	$ —	$ —	$ 11,341	$ (97)
Obligations of U.S. government agencies	19,983	(315)	—	—	19,983	(315)
Mortgage-backed securities	1,864	(17)	—	—	1,864	(17)
Obligations of states and political subdivisions	22,639	(864)	—	—	22,639	(864)
Corporate debt	1,437	(8)	—	—	1,437	(8)
Total	$ 57,264	$ (1,301)	$ —	$ —	$ 57,264	$ (1,301)

At December 31, 2011, there was one security in an unrealized loss position for greater than 12 consecutive months. Management periodically evaluates each security in an unrealized loss position to determine if the impairment is temporary or other-than-temporary. Management has determined that no investment security is other-than-temporarily impaired at December 31, 2011. 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 carrying value of debt securities as of December 31, 2011, 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**	**Carrying Value**
Available-for-sale:		
Due in one year or less	$ 6,449	$ 6,482
Due after one through five years	84,345	85,979
Due after five years through ten years	52,662	54,670
Due after ten years	38,659	40,533
	$ 182,115	$ 187,664

At December 31, 2011 and 2010, securities with an amortized cost of $72,879,000 and $87,064,000, and fair value of $75,251,000 and $87,755,000, respectively, were pledged as collateral for public deposits and for other purposes required by law.

As of December 31, 2011 and 2010, the Bank had investments in Federal Reserve Bank and Federal Home Loan Bank stock classified as other assets in the accompanying balance sheets of $1,062,000. These investments in Federal Reserve Bank stock are carried at cost, and evaluated periodically for impairment. Federal Home Loan Bank and Federal Reserve Bank 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. As of December 31, 2011 and 2010, the Bank had investments in Federal Home Loan Bank stock classified as other assets in the accompanying balance sheets of $3,300,000 and $3,939,000, respectively.

(4) Loans

Loans are summarized as follows at December 31:

(Dollar amounts in thousands)	2011	2010
Commercial real estate	$ 257,413	$ 278,866
Real estate construction	28,229	27,577
Real estate multi-family	36,369	42,584
Real estate 1 to 4 family	86,322	71,463
Commercial & industrial	43,074	61,493
Consumer loans	2,335	2,689
Gross loans	453,742	484,672
Net deferred loan fees	(124)	(320)
Allowance for loan losses	(9,897)	(9,524)
Net loans	$ 443,721	$ 474,828

A summary of impaired loans, the related allowance for loan losses, average investment and income recognized on impaired loans follows.

Impaired Loans
For the Year Ended December 31, 2011

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial & industrial	$ 2,926	$ 3,560	$ —	$ 4,074	$ 108
Commercial real estate construction	6,232	6,232	—	6,266	314
Commercial real estate	3,269	3,835	—	3,546	130
Residential- 1 to 4 family	1,059	1,145	—	1,097	4
Total	13,486	14,772	—	14,983	556
With an allowance recorded					
Commercial & industrial	$ 5,881	5,896	$ 428	$ 3,905	$ 40
Commercial real estate construction	1,586	1,686	214	2,109	58
Commercial real estate	11,767	11,767	727	11,521	400
Residential- 1 to 4 family	2,254	2,262	200	2,009	89
Total	21,488	21,611	1,569	19,544	587
Total					
Commercial & industrial	$ 8,807	$ 9,456	$ 428	$ 7,979	$ 148
Commercial real estate construction	7,818	7,918	214	8,375	372
Commercial real estate	15,036	15,602	727	15,067	530
Residential - 1 to 4 family	3,313	3,407	200	3,106	93
Grand total	$ 34,974	$ 36,383	$ 1,569	$ 34,527	$ 1,143

Impaired Loans
For the Year Ended December 31, 2010

(Dollar amounts in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Income Recognized
With no related allowance recorded					
Commercial & industrial	$ 4,743	$ 4,841	$ —	$ 4,801	$ 74
Commercial real estate	4,206	4,206	—	4,323	131
Total	8,949	9,047	—	9,124	205
With an allowance recorded					
Commercial	$ 2,644	3,044	$ 527	$ 2,945	$ 31
Commercial real estate - construction	8,931	8,931	368	5,560	303
Commercial real estate	3,474	3,474	364	3,505	171
Residential- 1 to 4 family	3,304	3,349	210	3,347	100
Total	18,353	18,798	1,469	15,357	605
Total					
Commercial & industrial	$ 7,387	$ 7,885	$ 527	$ 7,746	$ 105
Commercial real estate construction	8,931	8,931	368	5,560	303
Commercial real estate	7,680	7,680	364	7,828	302
Residential - 1 to 4 family	3,304	3,349	210	3,347	100
Grand total	$ 27,302	$ 27,845	$ 1,469	$ 24,481	$ 810

Nonaccrual loans totaled $19,098,000 and $16,712,000 as of December 31, 2011 and 2010. Not all impaired loans are in a non-accrual status. The difference between impaired loans and nonaccrual loans is the result of loans that have been restructured, that were performing under modified loan agreements. Interest on these loans is accrued in accordance with the modified loan terms.

The following aggregate information is provided at December 31, about the contractual provisions of these non-accrual loans:

(Dollars amounts in thousands)	December 31 2011	December 31 2010
Aggregate carrying amount	$ 19,098	16,712
Effective rate	6.19%	5.99%
Average term to maturity	73 months	69 months

Interest income on impaired loans of $1,143,000, $810,000 and $467,000 was recognized based upon cash payments received in 2011, 2010, and 2009, respectively. The amount of interest on impaired loans not collected in 2011, 2010 and 2009, was $1,137,000, $290,000 and $759,000, respectively. The cumulative amount of unpaid interest on impaired loans was $1,967,000, $1,095,000 and $806,000 at December 31, 2011, 2010 and 2009, respectively.

A summary of the number, principal amounts outstanding for troubled debt restructurings entered into during December 31, 2011 and 2010.

Modifications
For the Year Ended December 31, 2011

(Amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial & industrial	2	$ 801	$ 801
Commercial real estate	3	8,025	8,025
Total	5	8,826	8,826

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

Modifications
For the Year Ended December 31, 2010

(Amounts in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial & industrial	2	$ 808	$ 808
Real estate 1 to 4 family	2	1,580	1,580
Commercial real estate	1	1,022	1,022
Real estate multi family	1	6,300	6,300
Total	6	9,710	9,710

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

Age Analysis of Past Due Loans
As of December 31, 2011

(Dollar amounts in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial & industrial	$ 247	$ 712	$ 232	$ 1,191	$ 41,883	$ 43,074	$ —
Commercial real estate	1,618	—	6,826	8,444	248,969	257,413	—
Commercial real estate -construction	549	—	527	1,076	27,153	28,229	—
Real estate multi family	—	—	3,283	3,283	33,086	36,369	
Residential	71	2,629	257	2,957	83,365	86,322	—
Consumer	—	—	—	—	2,335	2,335	—
Total	$ 2,485	$ 3,341	$ 11,125	$ 16,951	$ 436,791	$ 453,742	$ —

Age Analysis of Past Due Loans
As of December 31, 2010

(Dollar amounts in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial & industrial	$ 1,466	$ —	$ 5415	$ 6,881	$ 54,612	$ 61,493	$ —
Commercial real estate	4,843	1,000	3,187	9,030	269,836	278,866	—
Commercial real estate -construction	—	—	3,518	3,518	24,059	27,577	—
Real estate multi family	—	—	3,474	3,474	39,110	42,584	
Residential	154	2,777	1,117	4,048	67,415	71,463	—
Consumer	—	—	—	—	2,689	2,689	—
Total	$ 6,463	$ 3,777	$ 16,711	$ 26,951	$ 457,721	$ 484,672	$ —

Credit Quality Indicators
As of December 31, 2011

(Dollar amounts in thousands)

	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial & industrial	$ 35,089	$ —	$ 7,720	$ 265	$ 43,074
Real estate construction	25,987	—	2,242	—	28,229
Commercial real estate	247,253	—	10,160	—	257,413
Real estate multi-family	33,085	—	3,284	—	36,369
Real estate 1 to 4 family	82,014	—	3,862	446	86,322
Consumer loans	2,335	—	—	—	2,335
Totals	$ 425,763	$ —	$ 27,268	$ 711	$ 453,742

Credit Quality Indicators
As of December 31, 2010

(Dollar amounts in thousands)

	Pass	Special mention	Sub-standard	Doubtful	Total loans
Commercial & industrial	$ 54,726	$ 175	$ 6,327	$ 265	$ 61,493
Real estate construction	15,464	—	12,113	—	27,577
Commercial real estate	269,042	3,913	5,911	—	278,866
Real estate multi-family	35,827	—	6,757	—	42,584
Real estate 1 to 4 family	66,460	—	4,734	269	71,463
Consumer loans	2,689	—	—	—	2,689
Totals	$ 444,208	$ 4,088	$ 35,842	$ 534	$ 484,672

Risk rating system

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

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

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

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

Commercial Real Estate Loans

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.

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

Commercial and Industrial Loans

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

Residential Real Estate Loans

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

Consumer and installment Loans

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

(5) Allowance for Loan Losses

Changes in the allowance for loan losses are summarized as follows for the years ended December 31:

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2011

(Dollar amounts in thousands)

		Real Estate					
	Commercial & industrial	Commercial	Construction	Multi family	1 to 4 family	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 2,102	$ 3,787	$ 1,999	578	$ 971	$ 87	$ 9,524
Charge-offs	(651)	(621)	(100)	—	—	(74)	(1,446)
Recoveries	27	5	36	—	—	1	69
Provision	140	1,574	(764)	93	621	86	1,750
Ending balance	$ 1,618	$ 4,745	$ 1,171	$ 671	$ 1,592	$ 100	9,897
Ending balance: individually evaluated for impairment	$ 428	$ 530	$ 214	$ 197	$ 200	$ 0	1,569
Ending balance: collectively evaluated for impairment	$ 1,190	$ 4,215	$ 957	$ 474	$ 1,392	$ 100	8,328
Loans: Ending balance	$ 43,074	$ 257,413	$ 28,229	$ 36,369	$ 86,322	$ 2,335	453,742
Ending balance: individually evaluated for impairment	$ 8,807	$ 11,753	$ 7,818	$ 3,283	$ 3,313	$ 0	34,974
Ending balance: collectively evaluated for impairment	$ 34,267	$ 245,660	$ 20,411	$ 33,086	$ 83,009	$ 2,335	418,768

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2010

(Dollar amounts in thousands)

		Real Estate					
	Commercial & industrial	Commercial	Construction	Multi family	1 to 4 family	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 809	$ 4,168	$ 3,110	$ 881	$ 832	$ 29	$ 9,829
Charge-offs	(881)	(1,003)	—	(88)	(217)	(33)	(2,222)
Recoveries	6	36	—	—	14	7	63
Provision	2,168	586	(1,111)	(215)	342	84	1,854
Ending balance	$ 2,102	$ 3,787	$ 1,999	$ 578	$ 971	$ 87	9,524
Ending balance: individually evaluated for impairment	$ 527	$ 364	$ 368	$ 364	$ 210	$ 0	1,833
Ending balance: collectively evaluated for impairment	$ 1,575	$ 3,423	$ 1,631	$ 214	$ 761	$ 87	7,691
Loans:							
Ending balance	$ 61,493	$ 278,866	$ 27,577	$ 42,584	$ 71,463	$ 2,689	484,672
Ending balance: individually evaluated for impairment	$ 7,117	$ 7,950	$ 8,931	$ 3,474	$ 3,304	$ 0	30,776
Ending balance: collectively evaluated for impairment	$ 54,376	$ 270,916	$ 18,646	$ 39,110	$ 68,159	$ 2,689	453,896

(6) Foreclosed Assets

A summary of the activity in the balance of foreclosed assets follows (in thousands):

	Year ended December 31, 2011	2010
Beginning balance, net	$ 6,680	$ 7,320
Additions/trasnsfers from loans	622	4,617
Disposition/sales	(4,012)	(4,933)
Valuation adjustments	(543)	(324)
Ending balance, net	$ 2,747	$ 6,680
Ending valuation allowance	(2,041)	(2,155)
Ending number of foreclosed assets	4	5
Proceeds from sale of foreclosed assets	$ 4,078	$ 4,300
Gain on sale of foreclosed assets	$ 66	$ 132

(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)	2011	2010
Balance, beginning of year	$ 11,123	$ 16,536
Additions	15,513	6,769
Repayments	(5,063)	(12,182)
Balance, end of year	$ 21,573	$ 11,123

	2011	2010
Related party deposits	$ 1,933	$ 1,839

(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)	**2011**	**2010**
Buildings	$ 10,261	$ 10,242
Equipment	10,224	9,329
Leasehold improvements	1,477	1,328
	21,962	20,899
Accumulated depreciation and amortization	(14,063)	(12,692)
	7,899	8,207
Land	5,328	5,328
	$ 13,227	$ 13,535

Depreciation and amortization expense for the years ended December 31, 2011, 2010, and 2009 was $1,487,000, $1,509,000 and $1,554,000, respectively.

(9) Deposits

The aggregate amount of jumbo time certificates, each with a minimum denomination of $100,000 or more, was $67,773,000 and $82,364,000 at December 31, 2011 and 2010, respectively.

At December 31, 2011, the scheduled maturities of all time certificates of deposit are as follows:

(Dollar amounts in thousands)

Year ending December 31:	
2012	$ 85,331
2013	18,358
2014	5,162
	$ 108,851

(10) Federal Home Loan Bank Advances

As of December 31, 2011, and 2010, respectively, there were no Federal Home Loan Bank ("FHLB") advances.

At December 31, 2011, the Bank had a maximum borrowing capacity under Federal Home Loan Bank advances of $189,000,000, of which the entire amount 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 noncancelable operating leases expiring at various dates through 2024. Some of these leases provide that the Bank pay taxes, maintenance, insurance, and other occupancy expenses applicable to leased premises. Generally, the leases provide for renewal for various periods at stipulated rates.

The minimum rental commitments under the operating leases as of December 31, 2011 are as follows:

(Dollars in thousands)

Year ending December 31:		
2012	$	763
2013		593
2014		401
2015		370
2016		378
Thereafter		2,276
	$	4,781

Total rent expense for operating leases was $846,000, $641,000 and $669,000, in 2011, 2010, and 2009, 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 Bank 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 Bank'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 for the years ended December 31, 2011, 2010, and 2009 was $308,000, $294,000 and $310,000, respectively.

(13) Salary Continuation and Deferred Compensation Plans

The Bank maintains a Salary Continuation Plan for certain Bank officers. Officers 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, 2011, 2010, and 2009 was $250,000, $212,000 and $197,000, respectively. Accrued compensation payable under the salary continuation plan totaled $1,818,000 and $1,698,000 at December 31, 2011 and 2010, respectively. The Deferred Compensation Plan allows eligible officers to defer annually their compensation up to a maximum 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, 2011 and 2010, the related liability included in accrued expenses and other liabilities was $620,000 and $644,000, respectively.

(14) Preferred Stock

Preferred Stock was issued to the U. S. Treasury as part of the Treasury's Capital Purchase Program. The Preferred Stock consists of two issues, Series A and Series B. The Series A and Series B Preferred Stock were both carried at liquidation value less discounts received plus premiums paid that were amortized over the expected timeframe that the Preferred Shares would be outstanding using the level yield method. The Series A and Series B Preferred Stock must have been redeemed after ten years. The Series A Preferred Stock carried a dividend yield of 5% for the first five years. Beginning in year six, the dividend increased to 9% and continued at this rate until repaid. The Series B Preferred Stock carried a 9% dividend until repaid. Allocation of proceeds between the two issues was done in such a manner that the blended level yield of both issues was 6.83% to the expected repayment date, which was anticipated to be three years from the date of issue. Operating restrictions related to the preferred stock are documented on the U. S. Department of the Treasury's website and include restrictions on dividend payments and executive compensation, the establishment of the requirement that the Preferred Stock be repaid first with the proceeds from any future capital offering before any other use of the proceeds was allowed, establishment of additional reporting requirements related to lending activity of the Bank during the time the Preferred Stock was outstanding, and the execution of documents that allowed the U. S. Department of the Treasury to add or change the conditions related to the issuance of the Preferred Stock unilaterally, at their discretion. In addition, beginning in the second quarter of 2010, the Company was required to obtain regulatory approval from the Office of the Comptroller of the Currency before TARP dividends could be paid. On September 15, 2011, the Series A and Series B Preferred Stock was redeemed by the Company. The redemption was funded by the issuance of $12,600,000 in Series C Preferred Stock to the U. S. Treasury as part of their Small Business Lending Fund.

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.

(15) Income Taxes

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

(Dollar amounts in thousands)	2011	2010	2009
Current:			
Federal	$ 1,201	$ 605	$ 828
State	675	153	764
	$ 1,876	$ 758	$ 1,592
Deferred:			
Federal	$ (75)	$ 314	$ (1,775)
State	(233)	155	(398)
	(308)	469	(2,173)
	$ 1,568	$ 1,227	$ (581)

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:

	2011	2010
Statutory rates	34.0%	34.0%
Increase (decrease) resulting from:		
Tax exempt Income for federal purposes	(11.3%)	(10.5%)
State taxes on income, net of federal benefit	5.0%	4.2%
Benefits from low income housing credits	(4.8%)	(4.1%)
Other, net	4.1%	1.5%
Effective tax rate	27.0%	25.1%

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

(Dollar amounts in thousands)	December 31, 2011	December 31, 2010
Deferred tax assets		
Allowance for loan losses	$ 4,378	$ 4,260
Accrued salaries and officers compensation	1,399	1,186
Capitalized interest on buildings	—	18
Expenses accrued on books, not yet deductible in tax return	2,039	1,688
Depreciation	565	763
Net operating loss carryforward	408	568
Tax credit carryforwards	820	886
	9,609	9,369
Less: deferred tax asset valuation allowance	(820)	(886)
	8,789	8,483
Deferred tax liabilities		
Unrealized appreciation on available-for-sale securities	$ 2,283	$ 165
State income taxes	668	625
Core deposit intangible	87	131
Expenses and credits deducted on tax return, not on books	98	98
Total deferred tax liabilities	3,136	1,019
Net deferred tax asset (included in other assets)	$ 5,653	$ 7,464

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, with the exception of a portion of low income housing credit carryforwards. The Bank has federal net operating loss carryforwards resulting from the acquisition of Sequoia National Bank which expire in various tax years ending on December 31, 2013 through December 31, 2020, totaling $1,201,000 as of December 31, 2011. These losses are limited to approximately $469,000 per year under IRS regulations.All operating loss carryforwards are expected to be utilized prior to their expiration.

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, with the possible exception of our low income housing tax credit carryforwards. The Company owns investments in low income housing tax credit ("LIHTC") that had a book value of $1,745,000 as of December 31, 2011. LIHTC investments are expected to have a fifteen year life and no residual value. LIHTC tax benefits have value to the Company only to the extent that they offset income taxes created from otherwise taxable earnings generated by the Company. In the opinion of management, a valuation allowance of $820,000 and $886,000 was necessary as of December 31, 2011 and 2010, respectively. The valuation allowance is equivalent to 100% of the low income housing credit carryforwards that existed as of December 31, 2011 and 2010.

(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	
	2011	**2010**
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	$ 30,302	$ 46,156
Lines of credit	55,744	43,646
Mastercard/Visa lines	4,182	4,214
Standby letters of credit	2,462	2,067
	$ 92,690	$ 96,083

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, 2011, there were $2,450,000 issued in financial standby letters of credit. The performance standby letters of credit are typically issued to municipalities as specific performance bonds. As of December 31, 2011 there were $12,000 issued in performance standby letters of credit. The terms of the guarantees will expire in 2012.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.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010, and indicates the fair value techniques used by the Company to determine such fair value.

(Dollar amounts in thousands)

Description	Fair Value 12/31/2011	Fair Value Measurements at December 31, 2011, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U. S. Treasury securities	$ 12,634	$ 12,634	$ —	$ —
Obligations of U.S. Government agencies	54,102	—	54,102	—
Mortgage-backed securities	33,435	—	33,435	—
Obligations of states and political subdivisions	77,251	—	77,251	—
Corporate debt	10,242	—	10,242	—
Total assets measured at fair value	$ 187,664	$ 12,634	$ 175,030	$ —

(Dollar amounts in thousands)

Description	Fair Value 12/31/2010	Fair Value Measurements at December 31, 2010, Using — Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U. S. Treasury securities	$ 12,345	$ 12,345	$ –	$ —
Obligations of U.S. Government agencies	46,114	—	46,114	—
Mortgage-backed securities	19,068	—	19,068	
Obligations of states and political subdivisions	42,456	—	42,456	—
Corporate debt	6,206	—	6,206	—
Total assets measured at fair value	$ 126,189	$ 12,345	$ 113,844	$ —

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

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

(Dollar amounts in thousands)

Description	Fair Value 12/31/11	Fair Value Measurements at December 31, 2011, Using — Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total losses
Impaired loans	$ 8,383	$ —	$ —	$ 8,383	$ 1,569
Other real estate owned	2,746	—	—	2,746	934
Total impaired assets measured at fair value	$ 11,129	$ —	$ —	$ 11,129	$ 2,503

(Dollar amounts in thousands)

		Fair Value Measurements at December 31, 2010, Using			
Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total losses
Impaired loans	$ 10,471	$ —	$ —	$ 10,471	$ 1,833
Other real estate owned	6,680	—	—	6,680	552
Total impaired assets measured at fair value	$ 17,151	$ —	$ —	$ 17,151	$ 2,385

The Bank does not record loans at fair value. However, from time to time, if a loan is considered impaired, and a specific allowance for loan losses is established, loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement, are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with the Financial Accounting Standards Board Accounting Standards Codification Section 820. In accordance with this guidance, impaired loans that have a specific allowance established based on the fair value of collateral require classification in the fair value hierarchy. If the fair value of the collateral is based on an observable market price, the Bank records the impaired loans as nonrecurring Level 3. When management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the fair value of the impaired loans using nonrecurring Level 3 valuation inputs. If a loan becomes Other Real Estate Owned ("OREO") property of the Bank, the OREO is valued at the lower of loan principal amount or the appraised valuation of the property at the time the loan is foreclosed upon.

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.

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.

Federal Home Loan Bank and Federal Reserve Bank stock.

Federal Home Loan Bank and Federal Reserve Bank stock can only be issued and redeemed at par by these entities. These securities cannot be sold in open market transactions. Fair value is estimated to be their carrying value.

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.

Bank Owned Life Insurance.

The fair value of bank owned life insurance is the cash surrender value of the policies, net of expenses.

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.

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 following table provides summary information on the estimated fair value of financial instruments at December 31, 2011:

(Dollar amounts in thousands)	**Carrying amount**	**Fair value**
Financial assets:		
Cash and cash equivalents	$ 38,474	$ 38,474
Securities available for sale	187,664	187,664
Loans, net	443,721	454,342
Bank owned life insurance, net	9,521	9,521
Federal Home Loan Bank stock	3,300	3,300
Federal Reserve Bank stock	1,062	1,062
Financial liabilities:		
Deposits	621,778	622,291
Off-balance-sheet liabilities:		
Undisbursed loan commitments, lines of credit, standby letters of credit and Mastercard lines of credit	—	945

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2010:

(Dollar amounts in thousands)	Carrying amount	Fair value
Financial assets:		
Cash and cash equivalents	$ 60,874	$ 60,874
Securities available for sale	126,189	126,189
Loans, net	474,828	466,007
Bank owned life insurance, net	9,195	9,195
Federal Home Loan Bank stock	3,939	3,939
Federal Reserve Bank stock	1,062	1,062
Other equities	5,246	5,246
Financial liabilities:		
Deposits	628,440	628,983
Off-balance-sheet liabilities:		
Undisbursed loan commitments, lines of credit, Mastercard line and standby letters of credit	—	3,603

(17) 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.

(18) 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, 2011, that the Company and the Bank have met all regulatory capital requirements.

As of December 31, 2011, 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 also presented in the following table:

(Dollar amounts in thousands)	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011:						
Total risk-based capital (to risk weighted assets)						
Consolidated Company	$ 87,636	16.53%	46,958 ≥	8.00%	53,023 ≥	n/a
Bank	$ 87,169	16.44%	46,960 ≥	8.00%	53,023 ≥	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated Company	$ 80,967	15.27%	23,692 ≥	4.00%	31,818 ≥	n/a
Bank	$ 80,500	15.18%	23,555 ≥	4.00%	31,818 ≥	6.00%
Tier 1 leverage capital (to total average assets)						
Consolidated Company	$ 80,967	11.21%	30,786 ≥	4.00%	36,099 ≥	n/a
Bank	$ 80,500	11.15%	30,784 ≥	4.00%	36,099 ≥	5.00%

(Dollar amounts in thousands)	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010:						
Total risk-based capital (to risk weighted assets)						
Consolidated Company	$ 82,797	14.93%	44,365 ≥	8.00%	55,483 ≥	n/a
Bank	$ 82,392	14.85%	44,386 ≥	8.00%	55,483 ≥	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated Company	$ 75,830	13.67%	22,189 ≥	4.00%	33,276 ≥	n/a
Bank	$ 75,425	13.60%	22,070 ≥	4.00%	33,276 ≥	6.00%
Tier 1 leverage capital (to total average assets)						
Consolidated Company	$ 75,830	10.52%	28,833 ≥	4.00%	36,054 ≥	n/a
Bank	$ 75,425	10.46%	28,843 ≥	4.00%	36,054 ≥	5.00%

(19) Stock Option Plans

In 1997, the Board of Directors of the Bank adopted the First National Bank of Northern California 1997 stock option plan approved by the shareholders of First National Bank at the 1997 Annual Meeting on October 15, 1997. 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, 2011 to grant options to employees covering 287,000 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, 2011, December 31, 2010, and December 31 2009 was $293,000, $168,000 and $157,000, respectively. There was no income tax benefit related to stock option exercises for the years ended December 31, 2011, 2010 and 2009.

The amount of total unrecognized compensation expense related to non-vested options at December 31, 2011 was $610,000, and the weighted average period it will be amortized over is 3.3 years. The assumptions for options granted in 2011 were as follows: dividend yield of 1.46% for the year; risk-free interest rate of 3.08%; expected volatility of 47.78%; expected life of 8.8 years. This resulted in a weighted average fair value of $6.68 per share. There were no options granted in 2010. The assumptions for options granted in 2009 were as follows: dividend yield of 2.68% for the year; risk-free interest rate of 3.20%; expected volatility of 60.59%; expected life of 8.8 years. This resulted in a weighted average fair value of $3.77 per share.

A summary of option activity under the 2008 FNB Bancorp Plan as of December 31, 2011 and changes during the year then ended is presented below.

2008 FNB Bancorp Plan Options	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000)
Outstanding at January 1, 2011	160,031	$ 8.19		
Granted	65,054	$ 13.05		
Exercised	(1,532)	$ 7.15		$ 0
Forfeited or expired	(2,100)	$ 9.10		
Outstanding at December 31, 2011	221,453	$ 8.72	8.0	$ 615
Exercisable at December 31, 2011	58,612	$ 10.21	8.4	$ 303

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

2008 FNB Bancorp Plan

	2011
Options outstanding	221,453
Range of exercise prices	$6.77-$13.05
Weighted average remaining contractual life	8
Fully vested options	88,612
Weighted average exercise price	$8.72
Aggregate intrinsic value	$305,365
Weighted average remaining contractual life (in years)	7.4

A summary of option activity under the 2002 FNB Bancorp Plan as of December 31, 2011 and changes during the year then ended is presented below.

2002 FNB Bancorp Plan Options	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000)
Outstanding at January 1, 2011	239,908	$ 21.42		
Granted	—	$ 0.00		
Exercised	—	$ 0.00		
Forfeited or expired	(1,550)	$ 22.67		
Outstanding at December 31, 2011	238,358	$ 21.41	3.0	$ 0
Exercisable at December 31, 2011	233,224	$ 21.36	2.9	$ 0

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

2002 FNB Bancorp Plan	2011
Options outstanding	238,358
Range of exercise prices	$16.12-$27.05
Weighted average remaining contractual life	3.0
Fully vested options	233,224
Weighted average exercise price	$21.36
Aggregate intrinsic value	$0
Weighted average remaining contractual life (in years)	2.9

A summary of option activity under the 1997 FNB Bancorp Plan as of December 31, 2011 and changes during the year then ended is presented below.

1997 First National Bank Plan Options	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000)
Outstanding at January 1, 2011	48,262	$ 19.88		
Granted	—	$ 0.00		
Exercised	—	$ 0.00		
Forfeited or expired	(20,949)	$ 14.65		
Outstanding at December 31, 2011	27,313	$ 23.90	5.5	$ 0
Exercisable at December 31, 2011	21,848	$ 23.90	5.5	$ 0

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

1997 FNB Bancorp Plan	2011
Options outstanding	27,313
Range of exercise prices	$23.90-$23.90
Weighted average remaining contractual life	5.5
Fully vested options	21,848
Weighted average exercise price	$23.90
Aggregate intrinsic value	$0
Weighted average remaining contractual life (in years)	5.5

(20) Quarterly Data (Unaudited)

(Dollars in thousands)	First	Second	Third	Fourth
2011				
Interest income	$ 8,219	$ 8,270	$ 8,241	$ 8,167
Interest expense	884	857	842	744
Net interest income	7,335	7,413	7,399	7,423
Provision for loan losses	450	400	450	450
Net interest income, after provision for loan losses	6,885	7,013	6,949	6,973
Non-interest income	1,013	1,389	1,367	1,310
Non-interest expense	6,748	6,772	6,783	6,771
Income before income taxes	1,150	1,630	1,533	1,512
Provision for income taxes	347	450	344	427
Net earnings	803	1,180	1,189	1,085
Dividends and discount accretion on preferred stock	214	214	372	—
Net earnings available to common shareholders	$ 589	$ 966	$ 817	$ 1,085
Basic earnings per share	$ 0.17	$ 0.28	$ 0.23	$ 0.31
Diluted earnings per share	$ 0.17	$ 0.27	$ 0.23	$ 0.31

(Dollars in thousands)	First	Second	Third	Fourth
2010				
Interest income	$ 8,660	$ 8,756	$ 8,616	$ 8,396
Interest expense	1,700	1,330	1,338	1,015
Net interest income	6,960	7,426	7,278	7,381
Provision for loan losses	250	315	464	825
Net interest income, after provision for loan losses	6,710	7,111	6,814	6,556
Non-interest income	1,100	1,026	1,335	1,245
Non-interest expense	6,538	7,237	6,698	6,532
Income before income taxes	1,272	900	1,451	1,269
Provision for income taxes	268	161	426	372
Net earnings	1,004	739	1,025	897
Dividends and discount accretion on preferred stock	212	214	214	213
Net earnings available to common shareholders	$ 792	$ 525	$ 811	$ 684
Basic earnings per share	$ 0.23	$ 0.15	$ 0.23	$ 0.19
Diluted earnings per share	$ 0.23	$ 0.15	$ 0.23	$ 0.19

There may be rounding differences between the sum of the four quarters presented and the annual amounts used throughout the annual report.

(21) 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 (Dollars in thousands)	**Condensed balance sheets** 2011	2010
Assets:		
Cash and due from banks	$ 574	$ 390
Investments in subsidiary	86,606	80,519
Income tax receivable from subsidiary	7	7
Dividend receivable from subsidiary	211	167
Other assets	19	19
Total assets	$ 87,417	$ 81,102
Liabilities:		
Dividend declared	$ 211	$ 167
Other liabilities	10	11
Total liabilities	221	178
Stockholders'equity	87,196	80,924
Total liabilities and stockholders' equity	$ 87,417	$ 81,102

FNB Bancorp (Dollars in thousands)	**Condensed statements of earnings** 2011	2010	2009
Income:			
Dividends from subsidiary	$ 1,269	$ 1,249	$ 1,385
Other income	—	2	13
Total income	1,269	1,251	1,398
Expense:			
Other expense	64	6	1
Total expense	64	6	1
Income before income taxes and equity in undistributed earnings of subsidiary	1,205	1,245	1,397
Income tax (benefit) expense	(2)	—	6
Income before equity in undistributed earnings of subsidiary	1,207	1,245	1,391
Equity in undistributed earnings (loss) of subsidiary	3,050	2,420	(798)
Net earnings	4,257	3,665	593
Dividends and discount accretion on preferred stock	800	853	632
Net earnings (loss) available to common shareholders	$ 3,457	$ 2,812	$ (39)

FNB Bancorp (Dollars in thousands)	**Condensed statement of cash flows** 2011	2010	2009
Net earnings	$ 4,257	$ 3,665	$ 593
Income tax receivable from (payable to) subsidiary	1	1	(2)
Options expense (payable to) receivable from subsidiary	(215)	215	—
Accounts payable reimbursed by bank	—	5	—
Net (increase) decrease in other assets	—	(8)	141
Net (decrease) increase in other liabilities	—	(5)	5
Undistributed (earnings) loss of subsidiary	(3,050)	(2,420)	798
Stock-based compensation expense	293	168	157
Cash flows from operating activities	1,286	1,621	1,692
Capital purchase program funds received	—	—	12,000
Capital purchase program funds invested in subsidiary	—	—	(12,000)
Repayment of capital purchase program	(12,600)	—	—
Small Business Lending Fund funds received	12,600	—	—
Stock options exercised, including tax benefits of $0 in 2010 and 2009, and $8 in 2008	11	2	—
Cash dividends paid on stock	(568)	(646)	(1,212)
Cash dividends paid on preferred stock series A and B	(545)	(654)	(469)
Cash flows provided by financing activities	(1,102)	(1,298)	(1,681)
Net increase in cash	184	323	11
Cash, beginning of year	390	67	56
Cash, end of year	$ 574	$ 390	$ 67

(22) Subsequent Event

On March 26, 2012, the FNB Bancorp entered into a definitive agreement to purchase all the outstanding stock of Oceanic Bank Holding, Inc., parent company of Oceanic Bank which is headquartered in San Francisco, CA, for a cash purchase price of $27,750,000. This purchase agreement is subject to the approval of both the Office of the Comptroller of the Currency and the Federal Reserve Bank.

Oceanic Bank is a wholly owned subsidiary of Oceanic Bank Holding, Inc. Oceanic Bank has been serving their customers for over thirty years, with two offices in San Francisco, CA and an office on the island of Guam. Total assets of Oceanic Bank as of December 31, 2011 were approximately $169,000,000. Net loans totaled approximately $117,000,000 and total deposits as of December 31, 2011 were approximately $120,000,000.

This purchase transaction is expected to close during the third quarter of 2012.

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, 2011. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2011 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 "Internal Control-Integrated Framework" issued 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 assessment, management has concluded that our internal control over financial reporting, based on criteria established in "Internal Control-Integrated Framework" issued by COSO was effective as of December 31, 2011.

Date: March 30, 2012

/s/ Thomas C. Mc Graw	/s/ David A. Curtis
Thomas C. Mc Graw Chief Executive Officer	David A. Curtis Chief Financial Officer

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

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 error 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 2012 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 2012 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER 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 2012 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 2012 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 2012 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 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

10.50 Sublease agreement dated as of September 20, 2010, between Wells Fargo Bank, N. A. as Sublandlord, and First National Bank of Northern California as Subtenant, for Chestnut Street Branch of First National Bank of Northern California

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)
******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
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, 2011, and Notice of Annual Meeting and Proxy Statement for the Company's 2012 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 30, 2012

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 30, 2012
/s/ Thomas C. McGraw Thomas C. McGraw	Director, Chief Executive Officer and Secretary	March 30, 2012
/s/ David A. Curtis David A. Curtis	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2012
/s/ Thomas G. Atwood, D. D. S. Thomas G. Atwood, D. D. S.	Director	March 30, 2012
/s/ Ronald R. Barels, D.D.S. Ronald R. Barels, D.D.S.	Director	March 30, 2012
/s/ Merrie Turner Lightner Merrie Turner Lightner	Director	March 30, 2012
/s/ Michael Pacelli Michael Pacelli	Director	March 30, 2012
/s/ Edward J. Watson Edward J. Watson	Director	March 30, 2012
/s/ Jim D. Black Jim D. Black	Director and President	March 30, 2012
/s/ Anthony J. Clifford Anthony J. Clifford	Director and Executive Vice President and Chief Operating Officer	March 30, 2012

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-91596, 333-98293, 333-106363 and 333-152578) on Form S-8 of our report dated March 29, 2012, relating to the consolidated financial statements appearing in this Annual Report on Form 10-K of FNB Bancorp for the year ended December 31, 2011.

/s/ Moss Adams LLP

Portland, Oregon
March 30, 2012

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 30, 2012

/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 30, 2012.

/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, 2011 (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 30, 2012

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

Dated: March 30, 2012

/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.OB. 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.

Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
800-497-2300

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. Others interested in receiving these reports can contact the Finance Department listed below.

Requests for Information

Shirley Cabanero
Finance Officer
975 El Camino Real
South San Francisco, CA 94080

David A. Curtis
Senior Vice President & Chief Financial Officer
975 El Camino Real
South San Francisco, CA 94080

FNB Bancorp