FNB BANCORP/CA/
Form 10-K/A
November 06, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, 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	92-2115369
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID Number)
975 El Camino Real, South San Francisco, California	94080
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: ____________

Title of Class: Common Stock, no par value

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

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 [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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 or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

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

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: $80,097,545

Number of shares outstanding of each of the registrant's classes of common stock, as of October 30, 2007

No par value Common Stock - 2,828,936 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 2007 annual meeting of shareholders.

2

EXPLANATORY NOTE

This Form 10-K/A amends our report on Form 10-K for the fiscal year ended December 31, 2006 solely for the purpose of amending the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, which appeared on page 50 of the original report on Form 10-K for the fiscal year ended December 31, 2006, to include our independent registered public accounting firm's opinion on (i) management's assessment of the effectiveness of internal control over financial reporting; and (ii) the effectiveness of our internal control over financial reporting in all material respects. The amended Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting (the "Amended Report") set forth below includes these opinions. In addition, we have included as exhibits to this Form 10-K/A: (i) currently dated certifications from our Chief Executive Officer and Chief Financial Officer, and (ii) a Consent of Independent Registered Public Accounting Firm to use of the Amended Report in certain Securities Act filings into which the Amended Report is incorporated by reference. Management acknowledges that we are responsible for the adequacy and accuracy of all of the disclosures in the filing.

Except as described above, no attempt has been made in this Form 10-K/A to modify or update other disclosures presented in the original report on Form 10-K for the fiscal year ended December 31, 2006. Accordingly, this Form 10-K/A does not reflect events occuring after the date of the original filing of the Form 10-K or modify or update those disclosures affected by subsequent events. Consequently, all other information not affected by this Form 10-K/A is unchanged by this Form 10-K/A and reflects the disclosures made at the time of the original filing of the Form 10-K on March 14, 2007. For a description of subsequent events, this Form 10-K/A should be read in conjunction with our filings made subsequent to March 14, 2007, including our report on Form 10-Q for the quarters ended March 31, and June 30, 2007 and each of our reports on Form 8-K since March 14, 2007.

FNB BANCORP

Unless the context otherwise requires, all references to this Annual Report on Form 10-K/A to "the Company" refer to FNB Bancorp and its subsidiary, first National Bank of Northern California.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Directors
FNB Bancorp

We have audited the accompanying consolidated balance sheets of FNB Bancorp and subsidiary (the Company) as of December 31, 2006 and 2005 and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows for the two years ended December 31, 2006. We have also audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

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

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

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

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the 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 policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FNB Bancorp and subsidiary as of December 31, 2006 and 2005 and the results of their operations and cash flows for the two years ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion management's assessment that FNB Bancorp and subsidiary maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Furthermore, in our opinion, FNB Bancorp and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

As discussed in notes 1 and 16 to the financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based payment arrangements to conform to Statement of Financial Accounting Standard No. 123(R), "Share-Based Payment".

/s/ Moss Adams LLP

Stockton, California
March 14, 2007

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

FNB BANCORP

Dated: November 6, 2007

By: /s/ David A. Curtis

David A. Curtis
Chief Financial Officer

/s/ Michael R. Wyman -------------------------- Michael R. Wyman	Chairman of the Board of Directors	November 6, 2007
/s/ Thomas C. McGraw -------------------------- Thomas C. McGraw	Director, Chief Executive Officer and Secretary (Principal Executive Officer)	November 6, 2007
/s/ David A. Curtis -------------------------- David A. Curtis	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 6, 2007
/s/ Edward J. Watson -------------------------- Edward J. Watson	Director	November 6, 2007
/s/ Lisa Angelot -------------------------- Lisa Angelot	Director	November 6, 2007
/s/ Merrie Turner Lightner -------------------------- Merrie Turner Lightner	Director	November 6, 2007
/s/ Michael Pacelli -------------------------- Michael Pacelli	Director	November 6, 2007
/s/ Jim D. Black --------------------------	Director and President	November 6, 2007

Jim D. Black

/s/ Anthony J. Clifford ------------------------- Anthony J. Clifford	Director, Executive Vice President and Chief Operating Officer	November 6, 2007

FNB BANCORP AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	20
Assets		
Cash and due from banks	18,297,000	19,06
Federal funds sold	8,725,000	16,23
Cash and cash equivalents	27,022,000	35,29
Securities available-for-sale	94,945,000	113,46
Loans, net	419,437,000	380,22
Bank premises, equipment, and leasehold improvements	13,476,000	12,02
Other real estate owned	--	2,60
Goodwill	1,841,000	1,84
Accrued interest receivable and other assets	24,549,000	23,86
Total Assets	581,270,000	569,31
Liabilities and stockholders' equity		
Deposits:		
Demand, noninterest bearing	123,884,000	123,64
Demand, interest bearing	60,378,000	62,58
Savings	162,915,000	180,48
Time	134,390,000	140,83
Total deposits	481,567,000	507,54
Federal Home Loan Bank advances	30,000,000	
Accrued expenses and other liabilities	7,640,000	6,52
Total liabilities	519,207,000	514,07
Commitments and contingencies (notes 9 and 13)		
Stockholders' equity:		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,853,000 and 2,700,000 shares on December 31, 2006 and 2005, respectively	39,824,000	34,79
Additional paid-in capital	141,000	1
Retained earnings	22,102,000	20,83
Accumulated other comprehensive loss	(4,000)	(40
Total stockholders' equity	62,063,000	55,24

Total liabilities and stockholders' equity	581,270,000	569,31
	===========	======

See accompanying notes to consolidated financial statements.

53

FNB BANCORP AND SUBSIDIARY

Consolidated Statements of Earnings

Years ended December 31, 2006, 2005 and 2004

	2006	2005	
Interest income:			
Interest and fees on loans	$ 31,898,000	$ 26,754,000	2
Interest and dividends on securities	2,576,000	2,173,000	
Interest on tax-exempt securities	2,039,000	1,512,000	
Federal funds sold	683,000	293,000	
Total interest income	37,196,000	30,732,000	2
Interest expense:			
Deposits	8,839,000	5,440,000	
Federal Home Loan Bank advances	880,000	41,000	
Federal funds purchased	102,000	52,000	
Total interest expense	9,821,000	5,533,000	
Net interest income	27,375,000	25,199,000	2
Provision for loan losses	683,000	628,000	
Net interest income after provision for loan losses	26,692,000	24,571,000	2
Noninterest income:			
Gain on sale of other equity securities	1,352,000	--	
Gain on sale of other real estate owned	756,000	--	
Service charges	2,463,000	2,305,000	
Credit card fees	839,000	856,000	
Gain (loss) on impairment and sale of investment securities	(11,000)	(101,000)	
Other	860,000	781,000	
Total noninterest income	6,259,000	3,841,000	
Noninterest expense:			
Salaries and employee benefits	12,300,000	11,344,000	1
Occupancy expense	1,728,000	1,444,000	
Equipment expense	1,665,000	1,624,000	
Advertising expense	770,000	710,000	
Data processing expense	452,000	416,000	
Professional fees	1,278,000	952,000	
Director expense	207,000	180,000	
Surety insurance	479,000	555,000	
Telephone, postage, supplies	1,056,000	939,000	
Bankcard expenses	797,000	802,000	
Other	1,028,000	1,289,000	

Total noninterest expense	21,760,000	20,255,000	1
Earnings before income tax expense	11,191,000	8,157,000	
Income tax expense	3,609,000	2,429,000	
Net earnings	$ 7,582,000	$ 5,728,000	
Earnings per share data:			
Basic	$ 2.67	$ 2.02	$
Diluted	$ 2.60	$ 1.98	$
Weighted average shares outstanding:			
Basic weighted average shares outstanding	2,845,000	2,834,000	
Diluted weighted average shares outstanding	2,915,000	2,893,000	

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Years ended December 31, 2006, 2005 and 2004

	Common stock		Additional		Accum
	Shares	Amount	paid-in capital	Retained earnings	ot compre in
Balance at December 31, 2003	2,519,000	$ 28,903,000	3,000	22,041,000	1,
Net earnings	--	--	--	4,688,000	
Other comprehensive income:					
Unrealized gain on securities, net of tax benefit of $330,000	--	--	--	--	(
Comprehensive income					
Cash dividends of $0.12 per share, quarterly	--	--	--	(1,210,000)	
Special cash dividend of $0.12 per share				(316,000)	
Stock dividend of 5%	124,000	4,514,000		(4,514,000)	
Stock-based compensation expense	--	--	6,000	--	
Stock repurchased and retired	(69,000)	(2,324,000)	--	--	
Stock options exercised	12,000	272,000	--	--	
Balance at December 31, 2004	2,586,000	31,365,000	9,000	20,689,000	
Net earnings	--	--	--	5,728,000	
Other comprehensive income:					
Unrealized loss on securities, net of tax benefit of $671,000	--	--	--	--	(
Comprehensive income					
Cash dividends of $0.15					

per share, quarterly	--	--	--	(1,535,000)	
Stock dividend of 5%	128,000	4,043,000		(4,043,000)	
Cash on fractional shares related to stock dividend				(7,000)	
Stock-based compensation expense	--	--	10,000	--	
Stock repurchased and retired	(21,000)	(765,000)	--	--	
Stock options exercised	7,000	150,000	--	--	
Balance at December 31, 2005	2,700,000	34,793,000	19,000	20,832,000	(
Net earnings	--	--	--	7,582,000	
Other comprehensive income:					
Unrealized gain on securities, net of tax provision of $276,000	--	--	--	--	
Comprehensive income					
Cash dividends of $0.15 per share share, quarterly	--	--	--	(1,625,000)	
Stock dividend of 5%	136,000	4,679,000		(4,679,000)	
Stock-based compensation expense			39,000		
Cash on fractional shares related To stock dividend expense				(8,000)	
Stock repurchased and retired	(2,000)	(73,000)	--	--	
Stock options exercised, including tax benefit of $83,000	19,000	425,000	83,000	--	
Balance at December 31, 2006	2,853,000	$ 39,824,000	141,000	22,102,000	

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

December 31, 2006, 2005 and 2004

	2006	2005
Cash flows from operating activities:		
Net earnings	$ 7,582,000	5,728
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation, amortization and accretion, net	1,220,000	1,594
Loss on sale of investment securities	11,000	101
Gain on sale of other equity securities	(1,352,000)	
Securities write-down	--	116
Stock-based compensation expense	39,000	10
Gain on sale of other real estate owned	(756,000)	
Provision for loan losses	683,000	600
Deferred taxes	(7,000)	(181
Changes in assets and liabilities:		

Accrued interest receivable and other assets	669,000	(5,149
Accrued expenses and other liabilities	1,011,000	1,720
Net cash provided by operating activities	9,100,000	4,539
Cash flows from investing activities:		
Proceeds from sold, matured, called securities available-for-sale	65,092,000	31,207
Purchases of securities available-for-sale	(45,949,000)	(43,386
Proceeds from sale of other real estate owned	3,356,000	
Net decrease (increase) in loans	(40,069,000)	892
Proceeds from sales of bank premises, equipment, and leasehold improvements	541,000	156
Purchases of bank premises, equipment, and leasehold Improvements	(3,172,000)	(1,733
Cash and equivalents received in bank acquisition, net of cash paid	--	9,602
Net cash used in investing activities	(20,201,000)	(3,262
Cash flows from financing activities:		
Net increase (decrease) in demand and savings deposits	(19,534,000)	16,215
Net increase (decrease) in time deposits	(6,443,000)	22,051
Net increase in Federal Home Loan Bank advances	30,000,000	
Net (decrease) increase in federal funds purchased	--	(19,172
Cash dividends paid	(1,633,000)	(1,542
Repurchases of common stock	(73,000)	(765
Exercise of stock options including tax benefit of $83,000 in 2006	508,000	150
Net cash provided by financing activities	2,825,000	16,937
Net increase (decrease) in cash and cash Equivalents	(8,276,000)	18,214
Cash and cash equivalents at beginning of year	35,298,000	17,084
Cash and cash equivalents at end of year	$ 27,022,000	35,298
Additional cash flow information:		
Interest paid	$ 9,533,000	4,980
Income taxes paid	4,020,000	2,224
Noncash - stock dividend	4,679,000	4,043

See accompanying notes to consolidated financial statements.

56

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(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 Bank and the Company entered into an Agreement and Plan of Reorganization dated November 1, 2001 (the Plan of Reorganization), and the shareholders of the Bank approved the Plan of Reorganization at a Special Meeting of the Shareholders of the Bank held on February 27, 2002. The Plan of Reorganization was consummated on March 15, 2002. Each outstanding share of the common stock, par value $1.25 per share, of the Bank (other than any shares as to which dissenters' rights of appraisal have been properly exercised) was converted into one share of the no par common stock of the Company, and the former holders of Bank common stock became the holders of all of the Company common stock. The change in capital structure has been included for all periods presented.

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 estimate is the allowance for loan losses (note 1f). 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 amounts restricted for the Federal Reserve requirement of approximately $1,219,000 and $2,358,000 at December 31, 2006 and 2005, 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 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, 2006 or 2005. Available-for-sale securities 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.

A decline in the market value of any available-for-sale or held-to-maturity security 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 held-to-maturity or available-for-sale security 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.

(d) Derivatives

All derivatives are recognized as either assets or liabilities in the balance sheet and measured at fair value. The Company did not hold any derivatives at December 31, 2006 and 2005.

(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.

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. Net interest written off in 2006 was not considered material (see Allowance for Loan Losses caption on page 34 in the Management Discussion and Analysis section).

(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. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. 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 original life. Those set up for 50 years were before 1986, when the IRS rules shortened the allowable lives for assets. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

(h) 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 First National Bank. First National Bank's ability to pay cash dividends is subject to restrictions imposed under the National Bank Act and regulations promulgated by the Office of the Comptroller of the Currency.

(i) Stock Dividend

On October 27, 2006, the Company announced that its Board of Directors had declared a stock dividend of approximately 135,947 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 15, 2006, to shareholders of record on December 1, 2006. The earnings per share data presented have been adjusted for this stock dividend.

(j) Income Taxes

Deferred income taxes are determined using the assets and liabilities 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. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

(k) 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 no antidilutive shares in the years ended December 31, 2006, 2005 and 2004. For each of the years presented, net income is the same for basic and diluted earnings per share. Reconciliation of weighted average shares used in computing basic and diluted earnings per share is as follows:

	Year ended December 31,		
	2006	2005	2004
Weighted average common shares outstanding-used in computing basic earnings per share	2,845,000	2,834,000	2,883,000
Dilutive effect of stock options outstanding, using the treasury stock method	70,000	59,000	51,000
Shares used in computing diluted earnings per share	2,915,000	2,893,000	2,934,000

(l) Stock Option Plans

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This Statement requires that compensation costs related to share-based payment transactions be recognized in the financial statements. 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 ratably over each option's five year vesting 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, 2006, 2005 and 2004. Net income and earnings per share calculations include the amortized cost of stock options that vested during each year.

Effective January 1, 2006, the Company adopted SFAS No. 123(R) "Share-Based Payment", on a modified prospective basis.

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. FNB Bancorp 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.

(m) Fair Values of Financial Instruments

The notes to financial statements include various estimated fair value information as of December 31, 2006 and 2005. Such information, which pertains to the Company's financial instruments, does not purport to represent the aggregate net fair value of the Company. Further, the fair value estimates are based on various assumptions, methodologies and subjective consideration, which vary widely among different financial institutions and which are subject to change.

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(n) Income Tax Credits

At December 31, 2006, the Bank had a $2,077,000 equity investment in three 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 effective yield method and are recorded in other assets on the balance sheet. Under the effective yield method, the Company recognizes tax credits as they are allocated and amortizes the initial cost of the investments to provide a constant effective yield over the period that tax credits are allocated to the Company. The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the Company. Any expected residual value of the investment was excluded from the effective yield calculation. Cash received from operations of the limited partnership or sale of the properties, if any, will be included in earnings when realized or realizable. These investments are included in other securities in securities available-for-sale.

(o) Reclassifications

Certain prior year information has been reclassified to conform to current year presentation.

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005, and 2004

(p) Bank Owned Life Insurance

The Corporation purchased insurance on the lives of certain employees. 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 income. The cash surrender value of bank owned life insurance is reflected in other assets on the consolidated balance sheets in the amount of $7,267,000 and $7,011,000 at December 31, 2006 and 2005, respectively.

(q) Acquisition

On May 2, 2005, the Company announced that its wholly owned subsidiary, First National Bank of Northern California, completed its acquisition of Sequoia National Bank, which had two offices in San Francisco. Sequoia was consolidated with and merged into First National Bank of Northern California effective April 30, 2005. Sequoia had approximately $62,000,000 in total assets on an historical cost basis. A table showing the fair values of the assets acquired follows this note. Under the terms of the Acquisition Agreement, holders of Sequoia shares of common stock and options received approximately $10,450,000 in cash, after adjustments for certain contingencies specified in the Acquisition Agreement. At closing of the transaction $9,350,000 was paid to the former Sequoia National Bank shareholders, and on November 1, 2005, after submission and payment of all such claims and expenses, the escrow was terminated and the approximately $1,100,000, the balance of funds remaining in escrow, was distributed to the former shareholders of Sequoia National Bank in accordance with their interests. Effective April 30, 2005, the former banking offices of Sequoia National Bank began operating as branch offices of First National Bank of Northern California. In accordance with SFAS No. 141 the Bank recorded the assets acquired and liabilities assumed at their fair values at the acquisition date. The total acquisition cost exceeded the fair value of the new assets acquired by $4,781,000. This amount was recognized at acquisition date as intangible assets consisting of Goodwill of $3,235,000, Loan Premium of $271,000 and Core Deposit intangibles of $1,275,000. Goodwill has been adjusted for tax benefits of $1,394,000, net of deferred income tax liability of $525,000, related to Sequoia National Bank net operating losses that became available to the Company, the Core Deposit Intangibles, and the book reserve for possible loan losses. The tax benefits (Net deferred tax assets) are included in Other Assets, and the Loan Premium included in Net Loans in the table shown below.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed by First National Bank of Northern California at the date of the acquisition:

Assets:	
Cash and due from banks	$ 3,218,000
Federal funds sold	17,365,000
Securities available for sale	627,000
Loans, net	40,652,000
Other assets	2,210,000
Core deposit intangibles	1,275,000
Goodwill	1,841,000
Total Assets	67,188,000

Liabilities:	
Deposits:	
Noninterest-bearing	6,945,000
Interest-bearing	49,080,000
Total deposits	56,025,000
Accrued interest payable and other liabilities	274,000
Total Liabilities	56,299,000
Net Assets	$ 10,889,000

The following table summarizes the carrying amount of goodwill:

Gross acquisition consideration in excess of identifiable asset values	$ 4,781,000
Less allocation to the following:	
Core deposit premium	1,275,000
Loan premium	271,000
Deferred tax asset	1,394,000
Goodwill at December 31, 2005	$ 1,841,000

65

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

During 2006 and 2005, Core Deposit Intangible and Loan Premium were amortized $106,000 and $15,000, respectively.

In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets", goodwill will not be expensed over a fixed period of time, but will be tested for impairment at least annually. None of the goodwill is deductible for income tax purposes. Identifiable intangible assets, namely core deposit intangibles and premium on loans, are amortized over their period of benefit. In the fourth quarter of 2006, the annual review of goodwill for impairment was performed, and it was determined that no adjustment was necessary. Additionally, the core deposit intangible and loan premium were evaluated for impairment at the end of each quarter, and no adjustments were determined to be necessary.

66

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

The following table shows proforma earnings of FNB Bancorp and its subsidiary combined with Sequoia National Bank as if the acquisition had taken place as of

January 1, 2004:

(thousands, except per share data)	Consolidated Statements of Earnings Year ended December 31 2005	2004
Interest income	$ 31,858	$ 27,379
Interest expense	5,836	3,402
Net interest income	26,022	23,977
Provision for loan losses	610	480
Net interest income after provision for loan losses	25,412	23,497
Noninterest income	3,938	4,136
Noninterest expense	21,860	21,310
Earnings before income tax expense	7,490	6,323
Income tax expense	2,232	1,593
Net earnings	$ 5,258	$ 4,730
Earnings per share data:		
Basic	$ 1.95	$ 1.72
Diluted	$ 1.91	$ 1.69
Weighted average shares outstanding:		
Basic	2,699,000	2,748,000
Diluted	2,758,000	2,799,000

(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, 2006 and 2005, the Bank maintained deposits in excess of the FRB reserve requirement.

(3) Securities Available-for-Sale

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

	Amortized cost	Unrealized gains	Unrealized losses	Carrying Value
December 31, 2006:				

Obligations of U.S. Government agencies	$ 29,197,000	2,000	(67,000)	29,132,000
Obligations of states and political subdivisions	59,693,000	297,000	(229,000)	59,761,000
Corporate debt	3,984,000	--	(10,000)	3,974,000
Other securities	2,078,000	--	--	2,078,000
	$ 94,952,000	299,000	(306,000)	94,945,000
December 31, 2005:				
Obligations of U.S. Government agencies	$ 50,571,000	65,000	(510,000)	50,126,000
Obligations of states and political subdivisions	56,208,000	384,000	(564,000)	56,028,000
Corporate debt	5,918,000	8,000	(62,000)	5,864,000
Other securities	1,445,000	--	--	1,445,000
	$ 114,142,000	457,000	(1,136,000)	113,463,000

An analysis of gross unrealized losses of the available for sale investment securities portfolio as of December 31, 2006 and December 31, 2005 follows.

December 31, 2006:

	Fair Value	Less than 12 Months Unrealized Losses	Fair Value	12 Months or Longer Unrealized Losses	Fair Value	T Unre Lo
Obligations of U.S. government agencies	$ 14,708,000	(10,000)	11,945,000	(57,000)	26,653,000	(6
Obligations of states and political subdivisions	7,053,000	(25,000)	22,009,000	(204,000)	29,062,000	(22
Corporate debt	2,973,000	(3,000)	1,001,000	(7,000)	3,974,000	(1
Other securities	--	--	--	--	--	
Total	24,734,000	(38,000)	34,955,000	(268,000)	59,689,000	(30

	Fair Value	Less than 12 Months Unrealized Losses	Fair Value	12 Months or Longer Unrealized Losses	Fair Value	T Unre Lo
Obligations of U.S. government agencies	$ 23,184,000	(212,000)	24,676,000	(298,000)	47,860,000	(5
Obligations of states and political subdivisions	29,456,000	(463,000)	8,082,000	(101,000)	37,538,000	(5
Corporate debt	4,019,000	(39,000)	1,011,000	(23,000)	5,030,000	(
Other securities	--	--	--	--	--	
Total	56,659,000	(714,000)	33,769,000	(422,000)	90,428,000	(1,1

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

A total of 78 securities make up the amount of securities 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. The unrealized losses are due solely to interest rate changes and the Company has the ability and intent to hold all investment securities with identified impairments resulting from interest rate changes 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, 2006, 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.

	Amortized Cost	Carrying Value
Available -for-sale:		
Due in one year or less	$ 28,628,000	28,557,000
Due after one year though five years	34,023,000	33,975,000
Due after five years through ten years	29,094,000	29,210,000
Due after ten years	3,207,000	3,203,000
	$ 94,952,000	94,945,000

For the years ended December 31, 2006, 2005, and 2004, gross realized gains amounted to $185,000, $15,000, and $4,000, respectively. For the years ended December 31, 2006, 2005, and 2004, gross realized losses amounted to $196,000, $116,000, and $35,000, respectively.

At December 31, 2006 and 2005, securities with an amortized cost of $49,551,000 and $57,801,000 and fair value of $49,635,000 and $57,646,000, respectively, were pledged as collateral for public deposits and for other purposes required by law.

As of December 31, 2006 and 2005, the Bank had investments in Federal Reserve Bank stock classified as other assets in the accompanying balance sheets of $702,000. These investments in Federal Reserve Bank stock are carried at cost, and evaluated periodically for impairment.

BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(4) Loans, Net

Loans are summarized as follows at December 31:

	2006	2005
Real estate	$ 318,655,000	302,813,000
Construction	37,094,000	26,243,000
Commercial	66,139,000	53,070,000
Consumer & other	3,279,000	3,420,000
	425,167,000	385,546,000
Allowance for loan losses	(5,002,000)	(4,374,000)
Net deferred loan fees	(728,000)	(948,000)
	$ 419,437,000	380,224,000

The Bank had total impaired loans of $2,628,000 and$17,000 at December 31, 2006 and 2005, respectively. The allowance for loan losses related to the impaired loans was $51,000 and $9,000 as of December 31, 2006 and 2005, respectively. The amount of the recorded investment in impaired loans for which there is no related allowance is $2,577,000 and $8,000 as of December 31, 2006 and 2005. During 2006 and 2005, nonaccrual loans represented all impaired loans. The average recorded investment in impaired loans during 2006, 2005 and 2004 was $610,000, $1,205,000 and $4,010,000, respectively. Interest income on impaired loans of $3,000, $0, and $4,800, was recognized for cash payments received in 2006, 2005, and 2004, respectively. The amount of interest on impaired loans not collected in 2006, 2005 and 2004, respectively was $70,000, $2,000 and $255,000.

70

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(5) Allowance for Loan Losses

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

	2006	2005	2004
Balance, beginning of year	$ 4,374,000	3,133,000	3,155,000
Loans charged off	(59,000)	(110,000)	(431,000)
Recoveries	4,000	23,000	1,000
Net loans charged off	(55,000)	(87,000)	(430,000)
Provision for loan losses	683,000	628,000	408,000
Allowance acquired in			

business combination	--	700,000	--
Balance, end of year	$ 5,002,000	4,374,000	3,133,000

(6) 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 in 2006 and 2005:

	2006	2005
Balance, beginning of year	$ 3,918,000	3,376,000
Additions	3,354,000	5,673,000
Repayments	3,751,000	5,131,000
Balance, end of year	$ 3,521,000	3,918,000

(7) 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:

	2006	2005
Buildings	$ 8,619,000	7,969,000
Equipment	10,226,000	8,642,000
Leasehold improvements	1,093,000	1,173,000
	19,938,000	17,784,000
Accumulated depreciation and amortization	(10,876,000)	(9,817,000)
	9,062,000	7,967,000
Land	4,414,000	4,061,000
	$ 13,476,000	12,028,000

71

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

Depreciation expense for the years ended December 31, 2006, 2005, and 2004 was $1,183,000, $1,163,000 and $1,282,000, respectively.

(8) Deposits

The aggregate amount of jumbo time certificates, each with a minimum denomination of $100,000 or more, was $77,039,000 and $77,572,000 at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of all time certificates are as follows:

Year ending December 31:	
2007	$ 119,567,000
2008	10,536,000
2009	4,022,000
2010	265,000
	$ 134,390,000

(9) Commitments and Contingencies

The Bank leases a portion of its facilities and equipment under noncancelable operating leases expiring at various dates through 2009. 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, 2006 are as follows:

Year ending December 31:	
2007	$ 499,000
2008	351,000
2009	163,000
	$ 1,013,000

Total rent expense for operating leases was $554,000, $401,000 and $284,000, in 2006, 2005, and 2004, respectively.

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 will not have a material effect on the Bank's financial statements.

(10) Bank Savings Plan

The Bank maintains a salary deferral 401(k) plan covering substantially all employees, known as the First National Bank 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. The Plan expense for the years ended December 31, 2006, 2005, and 2004 was $600,000, $626,000 and $540,000, respectively.

(11) 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, 2006, 2005, and 2004 was $239,000, $325,000 and $305,000, respectively. Accrued compensation payable under the salary continuation plan totaled $1,959,000 and $1,780,000 at December 31, 2006 and 2005, 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 officer will be entitled to receive distribution upon reaching a specified age, passage of at least five years or termination of employment. As of December 31, 2006 and 2005, the related liability included in accrued expenses and other liabilities was $1,935,000 and $1,851,000, respectively.

73

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

(12) Income Taxes

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

	2006	2005	2004
Current:			
Federal	$ 2,789,000	2,223,000	1,275,000
State	827,000	387,000	228,000
	3,616,000	2,610,000	1,503,000
Deferred:			
Federal	(69,000)	(207,000)	62,000
State	62,000	26,000	12,000
	(7,000)	(181,000)	74,000
	$ 3,609,000	2,429,000	1,577,000

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

2006	2005	2004

Statutory rate	34.0%	34.0%	34.0%
Increased (decrease) resulting from:			
Income tax exempt for federal purposes	(6.1)%	(7.1)%	(8.0)%
State taxes on income net of federal benefit	5.2%	3.3%	2.5%
Benefits from low income housing credits	(1.3)%	(1.1)%	(2.8)%
Adjustment to prior year accruals	0.0%	0.0%	(0.6)%
Other, net	0.4%	0.6%	0.1%
Effective rate	32.2%	29.7%	25.2%

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

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

	December 31	
	2006	2005
Deferred tax assets:		
Allowance for loan losses	$ 2,123,000	1,857,000
Capitalized interest on buildings	27,000	29,000
Expenses accrued on books not yet deductible in tax return	2,060,000	1,720,000
Depreciation	572,000	497,000
Net operating loss carryforward	1,236,000	1,439,000
Unrealized loss on available-for-sale securities	3,000	280,000
Total deferred tax assets	6,021,000	5,822,000
Deferred tax liabilities:		
State income taxes	379,000	312,000
Core deposit intangible	453,000	524,000
Expenses and credits deducted on tax return, not books	37,000	42,000
Total deferred tax liabilities	869,000	878,000
Net deferred tax asset (included in other assets)	5,152,000	4,944,000

As of December 31, 2006, the Bank had no state tax credit carryforwards for income tax purposes as these were all used during 2005. Accordingly, there is no valuation allowance as of December 31, 2006 or 2005.

Additionally, 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. The Bank had net operating loss carryforwards resulting from the acquisition of Sequoia National Bank which expire from December 31, 2008 through December 31, 2020, for a total balance of $3,547,000.

(13) Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. 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 institutions whose contract amounts represent credit risk as of December 31:

	2006	2005
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	$ 60,591,000	36,607,000
Lines of credit	72,311,000	49,863,000
MasterCard lines	2,968,000	3,463,000
Standby letters of credit	1,351,000	7,768,000
	$ 137,221,000	97,701,000

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. 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 reserve 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, 2006, there were $1,223,000 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, 2006 there were $128,000 issued in performance standby letters of credit. The terms of the guarantees will expire in 2006.

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 methods and assumptions were used by the Company to estimate the fair value of financial instruments.

(a) Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets fair values.

(b) Securities

Fair values for 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.

(c) Loans

Fair values for variable-rate loans that reprice frequently and have no significant change in credit risk are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

(d) Off-Balance Sheet Commitments

Fair values for the company's off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit standing of the counterparties.

(e) Deposit Liabilities

The fair values estimated for demand deposits (interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates for a schedule of the aggregate expected monthly maturities on time deposits.

(f) Federal Funds Sold/Purchased

The carrying amount of federal funds sold/purchased approximates their fair values.

(g) The carrying amount of Federal Home Loan Bank advances approximates their fair values.

(h) Bank Owned Life Insurance

The carrying amount is the cash surrender value for all policies.

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2006:

	Carrying amount	Fair value
Financial assets:		
Cash and cash equivalents	$ 27,022,000	27,022,000
Securities available for sale	94,945,000	94,945,000
Loans, net	419,437,000	428,195,000
Bank owned life insurance	7,267,000	7,267,000
Accrued interest receivable	3,723,000	3,723,000
Financial liabilities:		
Deposits	481,567,000	481,785,000
Federal Home Loan Bank advances	30,000,000	30,323,000
Accrued interest payable	1,452,000	1,452,000

Off-balance-sheet commitments:		
Undisbursed loan commitments, lines of credit, Mastercard line, and standby letters of credit	--	936,000

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

The following table provides summary information on the estimated fair value of financial instruments at December 31, 2005:

	Carrying amount	Fair value
Financial assets:		
Cash and cash equivalents	$ 35,298,000	35,298,000
Securities available for sale	113,463,000	113,463,000
Loans, net	380,224,000	387,372,000
Bank owned life insurance	7,011,000	7,011,000
Accrued interest receivable	3,437,000	3,437,000
Financial liabilities:		
Deposits	507,544,000	507,604,000
Accrued interest payable	1,165,000	1,165,000
Off-balance-sheet commitments:		
Undisbursed loan commitments, lines of credit, Mastercard line, and standby letters of credit	--	833,000

The carrying amounts of loans include $2,628,000 and $17,000 of nonaccrual loans (loans that are not accruing interest) at December 31, 2006 and 2005, respectively. Management has determined that primarily because of the uncertainty of predicting an observable market interest rate, excessive amounts of time and money would be incurred to estimate the fair values of nonperforming loans. As such, these loans are recorded at their carrying amount in the estimated fair value columns. The following aggregate information is provided at December 31, about the contractual provisions of these loans:

	2006	2005
Aggregate carrying amount	$ 2,628,000	17,000
Effective rate	9.61%	13.11%
Average term to maturity	7 months	5 months

(14) 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, the loans are secured by assets of the borrowers. The 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.

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

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.

(15) 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 components, 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, 2006, that the Company and the Bank have met all capital adequacy requirements to which they are subject.

As of December 31, 2006, 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.

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

The consolidated actual capital amounts and ratios of FNB Bancorp and Subsidiary are also presented in the following table:

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2006:				
Total risk-based capital (to risk weighted assets)				
Consolidated Company	$ 64,297,000	12.00%	42,855,000	8.00%
Bank	64,176,000	11.98	42,855,000	8.00
Tier 1 capital (to risk Weighted assets)				
Consolidated Company	59,216,000	11.05	21,431,000	4.00
Bank	59,095,000	11.03	21,431000	4.00
Tier 1 capital (to average assets)				
Consolidated Company	59,216,000	10.08	23,497,000	4.00
Bank	59,095,000	10.06	23,497,000	4.00

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
December 31, 2005:				
Total risk-based capital (to risk weighted assets)				
Consolidated Company	$ 57,181,000	11.59%	39,478,000	8.00%
Bank	57,045,000	11.56	39,478,000	8.00
Tier 1 capital (to risk Weighted assets)				
Consolidated Company	52,634,000	10.67	19,739,000	4.00
Bank	52,498,000	10.64	19,739,000	4.00
Tier 1 capital (to average assets)				
Consolidated Company	52,634,000	9.50	22,172,000	4.00
Bank	52,498,000	9.47	22,172,000	4.00

(16) Stock Option Plans

In 1997, the Company adopted an incentive employee stock option plan, known as the 1997 FNB Bancorp Plan. In 2002, the Company adopted an incentive employee option plan known as the 2002 FNB Bancorp Plan. The Plans allow the Company to grant options to employees of up to 360,571 shares, which includes the effect of stock dividends of common stock. Options currently outstanding become exercisable in one to

81

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

five years from the grant date, based on a vesting schedule of 20% per year and expire 10 years after the grant date. The options exercise price is the fair value of the options at the grant date.

The amount of compensation expense for options recorded in the years ended December 31, 2006, December 31 2005 and December 31, 2004 was $39,000, $10,000 and $6,000, respectively. The income tax benefit recognized in the income statements for these amounts was under $1,000 for the same three periods.

The total intrinsic value of options exercised during the year ended December 31, 2006 was $54,000 under the 2002 Plan and $39,000 under the 1997 Plan.

The amount of total unrecognized compensation expense related to non-vested options at December 31, 2006 was $91,000, and the weighted average period it will be amortized over is 2.9 years. The amount of total unrecognized compensation expense related to non-vested options at December 31, 2005 was $60,000, and the weighted average period it will be amortized over is 2.5 years. The amount of total unrecognized compensation expense related to non-vested options at December 31, 2004 was $46,000, and the weighted average period it will be amortized over is 1.9 years.

The fair value of each option granted is estimated on the date of grant using the fair value method with the following weighted average assumptions used for grants in 2006; dividend yield of 6.66% for the year; risk-free interest rate of 5.19%; expected volatility of 10.0%; expected life of 6.5 years; and weighted average fair value of $1.50. The assumptions for grants in 2005; dividend yield of 6.98% for the year; risk-free interest rate of 3.91%; expected volatility of 10%; expected life of 5.0 years; and weighted average fair value of $0.75. The assumptions used for grants in 2004; dividend yield of 6.85% for the year; risk-free interest rate of 3.73%; expected volatility of 10%; expected life of 5.0 years; and weighted average fair value of $0.76.

82

FNB BANCORP AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

A summary of option activity under the 2002 FNB Bancorp Plan as of December 31, 2006 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, 2006	162,602	$ 24.60		
Granted	45,206	$ 34.52		
Exercised	(7,014)	$ 24.84		
Forfeited or expired	(4,728)	$ 27.63		
Outstanding at December 31, 2006	196,066	$ 26.81	7.6	$ 1,116
Exercisable at December 31, 2006	77,784	$ 23.89	6.7	$ 670

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

	2006	2005	2004
Options outstanding	196,066	162,602	122,204
Range of exercise prices	$20.57-$34.52	$20.57-$28.07	$20.57-$28.07
Weighted average remaining contractual life	7.6	8.0	8.1
Fully vested options	77,784	51,573	27,549
Weighted average exercise price	$23.89	$22.85	$21.80
Aggregate intrinsic value	$670,000	$1,177,000	$264,000
Weighted average remaining contractual life (in years)	6.7	7.2	7.2

A summary of option activity under the 1997 FNB Bancorp Plan as of December 31, 2006, and changes during the year then ended is presented below. No options have been granted under this plan since 2001.

1997 FNB Bancorp Plan

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000)
Outstanding at January 1, 2006	72,174	$ 18.89		
Granted	--	--		
Exercised	(13,325)	$ 18.80		
Forfeited or expired	--			
Outstanding at December 31, 2006	58,849	$ 18.92	3.2	$ 799
Exercisable at December 31, 2006	58,849	$ 18.92	3.2	$ 799

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

	2006	2005	2004
Options outstanding	58,849	72,174	78,455
Range of exercise prices	$17.86-$20.63	$17.86-$20.63	$17.86-20.63
Weighted average remaining contractual life	3.2	4.1	5.2
Fully vested options	58,849	67,205	63,162
Weighted average exercise price	$18.92	$18.91	$19.00
Aggregate intrinsic value	$799,000	$1,271,000	$781,000
Weighted average remaining contractual life (in years)	3.2	4.0	4.9

The following is a summary of all options exercised

	2006	2005	2004
Weighted average intrinsic value of options exercised	$ 12.92	$ 9.75	$ 10.92
Weighted average of fair value of options exercised	$ 33.80	$ 29.26	$ 29.85

(17) Quarterly Data (Unaudited)

	First	Second	Third	Fourth
2006:				
Interest income	$ 8,837,000	8,928,000	9,502,000	9,929,000
Interest expense	1,951,000	2,168,000	2,786,000	2,916,000
Net interest income	6,886,000	6,760,000	6,716,000	7,013,000
Provision for loan losses	193,000	163,000	163,000	164,000
Net interest income, after provision for loan losses	6,693,000	6,597,000	6,553,000	6,849,000
Non-interest income	2,316,000	1,827,000	1,046,000	1,070,000
Non-interest expense	5,486,000	5,303,000	5,346,000	5,625,000
Income before income taxes	3,523,000	3,121,000	2,253,000	2,294,000
Provision for income taxes	1,075,000	1,012,000	787,000	735,000
Net earnings	$ 2,448,000	2,109,000	1,466,000	1,559,000
Basic earnings per share	$ 0.86	0.74	0.52	0.55
Diluted earnings per share	0.84	0.73	0.51	0.53

	First	Second	Third	Fourth
2005:				
Interest income	$ 6,515,000	7,455,000	8,033,000	8,729,000
Interest expense	965,000	1,208,000	1,567,000	1,793,000
Net interest income	5,550,000	6,247,000	6,466,000	6,936,000
Provision for loan losses	127,000	157,000	172,000	172,000
Net interest income, after provision for loan losses	5,423,000	6,090,000	6,294,000	6,764,000
Non-interest income	903,000	1,009,000	993,000	936,000
Non-interest expense	4,895,000	5,222,000	5,060,000	5,078,000
Income before income taxes	1,431,000	1,877,000	2,227,000	2,622,000
Provision for income taxes	415,000	595,000	674,000	745,000
Net earnings	$ 1,016,000	1,282,000	1,553,000	1,877,000
Basic earnings per share	$ 0.36	0.45	0.55	0.66
Diluted earnings per share	0.35	0.45	0.54	0.64

December 31, 2006, 2005 and 2004

(18) Condensed Financial Information of Parent Company

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

FNB Bancorp
Condensed balance sheets

	2006	2005
Assets:		
Cash and due from banks	$ 37,000	146,000
Investments in subsidiary	61,942,000	55,107,000
Income tax receivable from subsidiary	83,000	--
Other assets	1,000	--
Total assets	$ 62,063,000	55,253,000
Liabilities:		
Other liabilities	$ --	10,000
Stockholders' equity	62,063,000	55,243,000
Total liabilities and stockholders' equity	$ 62,063,000	55,253,000

FNB Bancorp
Condensed statements of income

	2006	2005	2004
Income:			
Dividend from subsidiary	$ 1,172,000	2,269,000	3,446,000
Other income	--	--	1,000
Total income	1,172,000	2,269,000	3,447,000
Expense:			
Other expense	27,000	17,000	10,000
Total expense	27,000	17,000	10,000
Income before income taxes and equity in undistributed earnings of subsidiary	1,145,000	2,252,000	3,437,000
Income tax expense (credit)	1,000	--	(36,000)
Income before equity in undistributed earnings of subsidiary	1,144,000	2,252,000	3,473,000
Equity in undistributed earnings of subsidiary	6,438,000	3,476,000	1,215,000
Net earnings	$ 7,582,000	5,728,000	4,688,000

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

FNB Bancorp

Condensed statements of cash flows	2006	2005	2004
Net earnings	$ 7,582,000	5,728,000	4,688,000
Income tax receivable-subsidiary	(83,000)	--	--
Change in other assets	(1,000)	--	403,000
Change in other liabilities	(10,000)	(309,000)	(19,000)
Undistributed earnings of subsidiary	(6,438,000)	(3,476,000)	(1,215,000)
Stock-based compensation expense	122,000	10,000	6,000
Cash flows provided by operating activities	1,172,000	1,953,000	3,863,000
Increase in investment to subsidiary	--	--	--
Cash flows used in investing activities	--	--	--
Proceeds from exercise of common stock options	425,000	150,000	272,000
Dividends paid	(1,633,000)	(1,542,000)	(1,526,000)
Repurchases of common stock	(73,000)	(765,000)	(2,324,000)
Cash flows provided by financing activities	(1,281,000)	(2,157,000)	(3,578,000)
Net (decrease) increase in cash	(109,000)	(204,000)	285,000
Cash, beginning of year	146,000	350,000	65,000
Cash, end of year	$ 37,000	146,000	350,000