FNB BANCORP/CA/
Form 10-Q
May 12, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2006

FNB BANCORP
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation)

000-49693	92-2115369
(Commission File Number)	(IRS Employer Identification No.)

975 El Camino Real, South San Francisco, California	94080
(Address of principal executive offices)	(Zip Code)

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

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

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 [ ]   Non-accelerated filer [X]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock as of May 10, 2006: 2,704,014 shares.

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Dollars in thousands)
ASSETS

	March 31, 2006	D
Cash and due from banks	$ 21,123	$
Federal funds sold	22,710	
Cash and cash equivalents	43,833	
Securities available-for-sale	121,295	
Loans, net	357,037	
Bank premises, equipment, and leasehold improvements	12,361	
Other real estate owned	2,600	
Goodwill	1,841	
Accrued interest receivable and other assets	23,906	
Total assets	$ 562,873	$

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2006	D
Deposits		
Demand, noninterest bearing	$ 120,960	$
Demand, interest bearing	60,036	
Savings and money market	177,601	
Time	139,487	
Total deposits	498,084	
Accrued expenses and other liabilities	7,853	
Total liabilities	505,937	
Stockholders' equity		
Common stock, no par value, authorized 10,000,000 shares; issued and outstanding 2,704,000 shares at March 31, 2006 and 2,700,000 shares at December 31, 2005	34,871	
Additional paid-in capital	22	
Retained earnings	22,469	
Accumulated other comprehensive loss	(426)	
Total stockholders' equity	56,936	
Total liabilities and stockholders' equity	$ 562,873	$

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)
(Dollars in thousands, except share and per share amounts)

	Three months ended March 31, 2006	Three months ended March 31, 2005
Interest income:		
Interest and fees on loans	$ 7,660	$ 5,694
Interest on securities	560	441
Interest on tax-exempt securities	445	329
Federal funds sold	172	51
Total interest income	8,837	6,515
Interest expense:		
Interest on deposits	1,951	909
Other interest expense	--	56
Total interest expense	1,951	965
Net interest income	6,886	5,550
Provision for loan losses	150	120
Net interest income after provision for loan losses	6,736	5,430
Noninterest income:		
Gain on sale of other equity securities	1,348	--
Service charges	603	567
Credit card fees	193	216
Other income	172	120
Total noninterest income	2,316	903
Noninterest expense:		
Salaries and employee benefits	3,179	2,805
Occupancy expense	416	315
Equipment expense	433	370
Professional fees	273	250
Telephone, postage and supplies	249	194
Bankcard expenses	184	199
Other expense	795	769
Total noninterest expense	5,529	4,902
Earnings before income tax expense	3,523	1,431
Income tax expense	1,075	415
NET EARNINGS	$ 2,448	1,016
Dividends declared per common share	$ 0.15	$ 0.15
Earnings per share data:		

Basic	$ 0.86	$ 0.38
Diluted	$ 0.84	$ 0.37
Weighted average shares outstanding:		
Basic	2,834,000	2,706,000
Diluted	2,905,000	2,764,000

See accompanying notes to consolidated financial statements.

FNB BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(Dollars in thousands)

	Three months ended March 31	
	2006	2005
Net earnings	$ 2,448	$ 1,016
Unrealized gain/(loss) on AFS securities	(25)	(563)
Total comprehensive income	$ 2,423	$ 453

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31	
	2006	2005
Cash flow from operating activities		
Net earnings	$ 2,448	$ 1,016
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, amortization and accretion, net	373	379
Stock-based compensation expense	3	2
Provision for loan losses	150	120
Securities write-down	--	66
Gain on sale of other equity securities	(1,348)	
Changes in assets and liabilities:		
Accrued interest receivable and other assets	1,302	(716)
Accrued expenses and other liabilities	1,112	626
Net cash provided by operating activities	4,040	1,493
Cash flows from investing activities		

Purchase of securities available-for-sale	(14,183)	(3,746)
Proceeds from matured/called/securities available-for-sale	6,251	10,361
Net decrease in loans	22,864	8,447
Purchases of bank premises, equipment, leasehold improvements	(650)	(237)
Net cash provided by investing activities	14,282	14,825
Cash flows from financing activities		
Net increase (decrease) in demand and savings deposits	(8,114)	5,289
Net increase (decrease) in time deposits	(1,346)	6,080
Net decrease in federal funds purchased	--	(19,172)
Dividends paid	(405)	(382)
Repurchase of common stock	--	(765)
Issuance of common stock	78	28
Net cash provided by financing activities	(9,787)	(8,922)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,535	7,396
Cash and cash equivalents at beginning of period	35,298	17,084
Cash and cash equivalents at end of period	$ 43,833	$ 24,480
Additional cash flow information		
Interest paid	$ 1,799	$ 864
Income taxes paid	$ 410	$ 337
Non-cash financial activity		
Accrued dividends	$ 405	$ 384

See accompanying notes to consolidated financial statements.

4

FNB BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2006

(UNAUDITED)

NOTE A - BASIS OF PRESENTATION

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

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

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2005.

Results of operations for interim periods are not necessarily indicative of results for the full year.

Sequoia National Bank was acquired and merged into the Bank effective April 30, 2005. The estimated fair values of the assets acquired and liabilities assumed by First National Bank of Northern California included Cash and equivalents $20,583,000, Net loans $40,652,000, Core deposit intangibles and goodwill $3,116,000, All other assets $2,837,000, Total deposits $56,025,000, Other liabilities $274,000, or Total net assets of $10,889,000.

NOTE B - 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 stock option plan known as the 2002 FNB Bancorp Plan. The Plans allow the Company to grant options to employees of up to 348,997 shares, which includes the effect of stock dividends of common stock.

At March 31, 2006, the Company has two stock-based employee compensation plans. Prior to 2003, the Company accounted for the plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Effective January 1, 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, prospectively to all employee awards granted, modified, or settled after January 1, 2003. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2005 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of Statement No. 123. Incentive stock options are

granted to bank officers who have been employed for at least one year at the time the options are granted. Non-qualified options are granted to non-employee directors at the same time as the bank officers, but do not require a minimum of one year service.

Awards under the Company's plan vest at a rate of 20 percent per year over a period of five years for Incentive Options and vest immediately for Nonstatutory Options. All Options are exercisable for a period of 10 years. Options are granted at an exercise price equal to the market price of the Company's stock at the date of grant. The expected life is the five-year vesting period. The options granted are increased by the amount, if any, of stock dividends granted annually.

There were no options granted in the first quarter of 2006.

The amount of compensation expense for options recorded in the quarters ended March 31, 2006 and March 31, 2005 was $5,000 and $3,000, respectively. The income tax benefit recognized in the income statements for these amounts was $2,000 and $1,000, respectively for the same two periods.

The total intrinsic value of option exercised during the quarter ended March 31, 2006 was $19,000 under the 2002 Plan and $26,000 under the 1997 Plan.

The amount of total unrecognized compensation expense related to non-vested options at March 31, 2006 was $56,000, and the weighted average period it will be amortized over is 3.1 years.

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

A summary of option activity under the 2002 FNB Bancorp Plan as of March 31, 2006 and changes during the quarter 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	154,899	$ 25.83		
Granted	--	--		
Exercised	1,827	24.85		
Forfeited or expired	--	--		
Outstanding at march 31, 2006	153,072	25.84	7.8	$ 1,4
Exercisable at March 31, 2006	47,290	23.96	7.1	$ 5

A summary of option activity under the 1997 FNB Bancorp Plan as of March 31, 2006, and changes during the quarter then ended is presented below:

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	68,739	$ 19.84		
Granted	--	--		
Exercised	1,659	19.66		
Forfeited or expired	--	--		
Outstanding at March 31, 2006	67,080	$ 19.84	3.9	$ 1,5
Exercisable at March 31, 2006	62,347	$ 19.86	3.9	$ 9

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards at March 31, 2005

	Three months ended March 31,

	2005
Net earnings as reported	$ 1,016
Add: stock-based employee compensation expense included in reported net earnings, net of related tax effects	2
Deduct: total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	(3)
Pro forma net earnings	$ 1,015
Earnings per share:	
Basic - as reported	$ 0.38
Basic - pro forma	$ 0.38
Diluted - as reported	$ 0.37
Diluted - pro forma	$ 0.37

NOTE C - EARNINGS PER SHARE CALCULATION

Earnings per common share (EPS) are computed based on the weighted average number of common shares outstanding during the period. Basic EPS excludes dilution and is computed by dividing net earnings by the weighted average of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(In thousands, except number of shares)

	Three months ended March 31,	
	2006	2005
Net earnings	$ 2,448	$ 1,016
Weighted average basic shares outstanding	2,834,000	2,706,000
Effect of dilutive options	71,000	58,000
Weighted average number of shares outstanding used to calculate diluted earnings per share	2,905,000	2,764,000

All outstanding options were included in the 2006 and 2005 computations.

NOTE D - COMPREHENSIVE INCOME

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income consists of net unrealized losses on investment securities available for sale. Comprehensive income for the three months ended March 31, 2006 was $2,422,000 compared to $453,000 for the three months ended March 31, 2005.

NOTE E - OTHER REAL ESTATE OWNED

Loans that have become delinquent through non payment of scheduled principal and/or interest for 90 days are placed in nonaccrual and interest is no longer accrued. If a favorable restructuring can not be made for the loan (provided the market value of the collateral is sufficient), or, if insufficient, the borrower is unable to make further payments, foreclosure procedures are initiated. If there are no bidders, or if bids are made and are insufficient to cover the debt, the Bank will acquire the property at sale under judgments, decrees, or mortgages where the property was originally security for debts previously contracted. On April 1, 2005, the Bank foreclosed on a loan previously held in non accrual with a balance of $2,600,000, its appraised value at February 2005, less estimated costs to sell and is currently in Other Real Estate Owned. The property securing the loan is a research and development 19,000 square foot office building in Mountain View, California.

NOTE F - SALE OF SHARES OF PACIFIC COAST BANKERS' BANCSHARES.

A sale of 3,950 shares of Pacific Coast Bankers' Bancshares was arranged by Pacific Coast Bankers' Bancshares (PCBB) as part of its desire to expand the number of PCBB shareholders. The Bank continues to hold a remaining 1,450 shares. The sale resulted in a gain on sale of equity securities, of $1,348,000.

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

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. The Company believes the following policies require significant judgments and estimates.

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 borrowers' ability to repay loans. Determination of the allowance is in part objective and in part a subjective judgment by management based on the information it currently has in its possession. Adverse changes in any of these factors or the discovery of new adverse information could result in higher than expected charge-offs and loan loss provisions.

EARNINGS ANALYSIS

Net earnings for the quarter ended March 31, 2006 were $2,448,000, compared to net earnings of $1,016,000 for the quarter ended March 31, 2005. Gross earnings before income tax expense for the quarter ended March 31, 2006 were $3,523,000, compared to $1,431,000 for the quarter ended March 31, 2005. The $1,432,000 improvement in net earnings was largely attributable to the $1,348,000 gain on sale of other equity securities and the changes in prime rate and cost of funds, as mentioned below. The $1,336,000 increase in net interest income was partly offset by a $627,000 increase in noninterest expense.

Net interest income for the quarter ended March 31, 2006 was $6,886,000, compared to $5,550,000 for the quarter ended March 31, 2005. The prime lending rate was 5.25% at the beginning of 2005, and rose to 5.50% on February 2, 2005 and 5.75% on March 22, 2005. This compares with 7.25% on January 1, 2006, 7.50% on January 31, 2006 and 7.75% on March 28, 2006. The Federal Home Loan Bank of San Francisco's Weighted Monthly Cost of Funds Index, based on the months when it is announced, averaged 3.42% for the quarter ended March 31, 2006 compared with 2.21% for the quarter ended March 31, 2005. This, coupled with a net increase in average earning assets over interest bearing liabilities of $4,041,000 in the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005, resulted in a $1,336,000 increase in net interest for the quarter ended March 31, 2006 compared to March 31, 2005. The volume of loans affected by the prime lending rate compared to the volume of interest-bearing deposits, and the size of the rate changes, as well as the timing of when they took effect all contributed to the improvement of 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.

Noninterest income was $2,316,000 and $903,000 for the quarters ended March 31, 2006 and 2005, respectively. The principal item was the $1,348,000 gain on sale of other equity securities, mentioned above. Service charges rose $36,000. Other income increased $52,000, and Credit card fees decreased $23,000.

Noninterest expense increased $627,000 in the quarter ended March 31, 2006 compared to the same quarter in 2005. Salaries and employee benefits increased $374,000, while the remaining categories increased by $253,000.

The effective tax rate was 30.5% in the first quarter of 2006 compared to 29.0% in the same quarter of 2005. The variance from period to period was due to different volumes of investments in tax-free securities, Low Income Housing Credits, loans in Enterprise Zones, and the effective state tax rate.

Basic earnings per share were $0.86 for the first quarter of 2006 compared to $0.38 for the first quarter of 2005. Diluted earnings per share were $0.84 for the first quarter of 2006, compared to $0.37 for the first quarter of 2005.

The following table presents an analysis of net interest income and average earning assets and liabilities for the three-month period ended March 31, 2006 compared to the three-month period ended March 31, 2005.

Table 1 NET INTEREST INCOME AND AVERAGE BALANCES

(Dollars in thousands)

	Three months ended March			
	2006			
INTEREST EARNING ASSETS	Average Balance	Interest Income (Expense)	Annualized Average Yield (Cost)	Avera Balan
Loans, gross	$ 378,617	$ 7,660	8.21%	$ 337
Taxable securities	60,514	560	3.75	58
Nontaxable securities	51,892	445	3.48	40
Federal funds sold	15,583	172	4.48	8
Total interest earning assets	$ 506,606	$ 8,837	7.07	$ 444
NONINTEREST EARNING ASSETS				
Cash and due from banks	$ 19,320			$ 19
Premises and equipment	12,152			11
Other assets	23,477			14
Total noninterest earning assets	$ 54,949			$ 45
TOTAL ASSETS	$ 561,555			$ 490
INTEREST BEARING LIABILITIES				
Deposits:				
Demand, interest bearing	$ 60,535	$ (60)	(0.40)	$ 53
Money market	122,284	(713)	(2.36)	102
Savings	57,162	(57)	(0.40)	59
Time deposits	140,094	(1,121)	(3.25)	97
Federal funds purchased and other borrowings	--	--	--	8
Total interest bearing liabilities	$ 380,075	(1,951)	(2.08)	$ 322
NONINTEREST BEARING LIABILITIES				
Demand deposits	117,480			109
Other liabilities	7,417			5
Total noninterest bearing liabilities	$ 124,897			$ 115
TOTAL LIABILITIES	$ 504,972			$ 437
Stockholders' equity	$ 56,583			$ 52
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 561,555			$ 490
NET INTEREST INCOME AND MARGIN ON TOTAL EARNING ASSETS		$ 6,886	5.51%	

Interest income is reflected on an actual basis, not on a fully taxable basis due to immaterial effect. Yield on gross loans was not adjusted for nonaccrual loans, which were not considered material for this calculation.

Table 1, above, shows the various components that contributed to changes in net interest income for the two quarterly periods of 2006 and 2005. Average interest earning assets for the quarter ended March 31, 2006 increased $61,640,000 or 13.9% over the same quarter the year before. The principal interest earning assets are loans, from a volume perspective as well as from an earnings rate perspective. For the quarter ended March 31, 2006, average loans outstanding represented 74.7% of average earning assets. For the quarter ended March 31, 2005, they represented 75.9% of average earning assets. Average loan volume increased $40,930,000 in the first quarter of 2006 compared to the same quarter in 2005, an increase of 12.1%. Loan income increased $1,966,000 in the same period, or 34.5%. The yield increased by 137 basis points. The average volume of taxable securities increased by $1,710,000, and the yield increased by 71 basis points, as a result of the return of rising interest rates.

The cost on total interest bearing liabilities increased from 1.21% to 2.08%, an increase of 87 basis points. Most of the change could be seen in time deposits, where rates paid in the first quarter of 2005 were 2.00%, and rose to 3.25% in the first quarter of 2006. Higher interest rates paid on money market deposits, caused an increase in money market deposits, which averaged $19,321,000 or 18.8% higher in the first quarter of 2006. Average time deposits increased by $42,784,000 from the first quarter of 2005 compared to the first quarter in 2006. Interest paid increased 125 basis points the same quarter to quarter .

For the three months ended March 31, 2006 the following table shows the dollar amount of change in interest income and expense and the 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 change in volume). In this table, the dollar change in rate/volume is prorated to volume and rate proportionately.

Table 2

RATE/VOLUME VARIANCE ANALYSIS

(In thousands)	Three Months Ended March 31, 2006 Compared To 2005		
	Interest Income/Expense Variance	Variance Attributable To	
		Rate	Volume
INTEREST EARNING ASSETS			
Loans	$ 1,966	$ 1,138	$ 828
Taxable securities	119	103	16
Nontaxable securities	116	15	101
Federal funds sold	121	77	44
Total	$ 2,322	$ 1,333	$ 989
INTEREST BEARING LIABILITIES			
Demand deposits	$ 24	$ 20	$ 4

Money market	358	245	113
Savings deposits	18	20	(2)
Time deposits	642	431	211
Federal funds and other borrowed money	(56)	--	(56)
Total	$ 986	$ 716	$ 270
NET INTEREST INCOME	$ 1,336	$ 617	$ 719

11

Noninterest income

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

Table 3

NONINTEREST INCOME

(In thousands)	Three months ended March 31, 2006	2005
Gain on sale of other equity securities	$ 1,348	$ --
Service charges	603	567
Credit card fees	193	216
Other income	172	120
Total noninterest income	$ 2,316	$ 903

Noninterest income consists mainly of service charges on deposits, credit card fees, and other miscellaneous types of income. The principal increase was proceeds from the sale of shares of common stock in Pacific Coast Bancshares (see Note F, above). Service charges increased slightly by $36,000 in the quarter ended March 31, 2006 from the same quarter in 2005. Credit card fees decreased by $23,000. Other income increased $52,000 in the first quarter of 2006 compared to the first quarter of 2005. This represents a number of small accounts each with variances under $15,000. The only larger increase was $16,000 in earnings from an outside service which reconciles official checks, and pays interest on the balances maintained until checks are collected. The increased earnings are influenced by the increased interest rates quarter over quarter.

Noninterest expense

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

Table 4

NONINTEREST EXPENSE

(In thousands)	Three months ended March 31, 2006	2005

Salaries and employee benefits	$ 3,179	$ 2,805
Occupancy expense	416	315
Equipment expense	433	370
Professional fees	273	250
Telephone, postage and supplies	249	194
Bankcard expenses	184	199
Other expense	795	769
Total noninterest expense	$ 5,529	$ 4,902

Noninterest expense consists of salaries and employee benefits representing more than half of the total, and various smaller categories. Salaries and employee benefits increased by $374,000 or 13.3% in the quarter ended March 31, 2006 compared to the same quarter of 2005. Occupancy,

equipment,, telephone, postage and supplies expense, as well as salaries and benefits increased due to the acquisition of the two branches of Sequoia National Bank in the second quarter of 2005, which affected the first quarter expenses of 2006, but not 2005.

Income Taxes

The effective tax rate for the quarter ended March 31, 2006 was 30.5% compared to 29.0% for the quarter ended March 31, 2005. This is affected by changing amounts invested in tax-free securities, by available Low Income Housing Credits, by amounts of interest income on qualifying loans in Enterprise zones, and by the effective state tax rate.

Asset and Liability Management

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

In order to ensure that sufficient funds are available for loan growth and deposit withdrawals, as well as to provide for general needs, the Company must maintain an adequate level of liquidity. Asset liquidity comes from the Company's ability to convert short-term investments into cash and from the maturity and repayment of loans and investment securities. Liability liquidity comes from Company's customer base, which provides core deposit growth. The overall liquidity position of the Company is closely monitored and evaluated regularly. Management believes the Company's liquidity sources at March 31, 2006 are adequate to meet its operating needs in 2006 and going forward into the foreseeable future.

The Company's asset/liability gap is the difference between the cash flow amounts of interest-sensitive assets and liabilities that will be refinanced (or repriced) during a given period. For example, if the asset amount to be repriced exceeds the corresponding liability amount for a certain day, month, year or longer period, the institution is in an asset-sensitive gap position. In this situation, net interest income would increase if market interest rates rose or decrease if market interest rates fell. Alternatively, if more liabilities than assets will reprice, the institution is in a liability-sensitive position. Accordingly, net interest income would decline when rates rose and increase when rates fell.

The following table sets forth information concerning interest rate sensitive assets and liabilities as of March 31, 2006. The assets and liabilities are classified by the earlier of maturity or repricing date in accordance with their contractual terms. Since all interest rates and yields do not adjust at the same speed or magnitude, and since volatility is subject to change, the gap is only a general indicator of interest rate sensitivity.

Table 5

RATE SENSITIVE ASSETS/LIA
As of March 31, 20

(Dollars in thousands)

	Three Months Or Less	Over Three To Twelve Months	Over One Through Five Years	Over Five Years
Interest earning assets:				
Federal funds sold	$ 22,710	$ --	$ --	$
Securities available for sale	5,660	42,518	43,801	29,3
Loans	262,657	8,600	40,736	49,5
Total interest earning assets	291,027	51,118	84,537	78,9
Cash and due from banks	--	--	--	
Allowance for loan losses	--	--	--	
Other assets	--	--	--	
Total assets	$ 291,027	$ 51,118	$ 84,537	$ 78,9
Interest bearing liabilities:				
Demand, interest bearing	$ 60,036	$ --	$ --	$
Savings and money market	177,601	--	--	
Time deposits	58,144	62,804	18,539	
Total interest bearing liabilities	295,781	62,804	18,539	
Noninterest demand deposits	--	--	--	
Other liabilities	--	--	--	
Stockholders' equity	--	--	--	
Total liabilities and stockholders' equity	$ 295,781	$ 62,804	$ 18,539	$
Interest rate sensitivity gap	$ (4,754)	$ (11,686)	$ 65,998	$ 78,9
Cumulative interest rate sensitivity gap	$ (4,754)	$ (16,440)	$ 49,558	$ 128,4
Cumulative interest rate sensitivity gap ratio	(1.63%)	(4.80%)	11.61%	25.

Financial Condition

Assets. Total assets decreased to $562,873,000 at March 31, 2006 from $569,141,000 at December 31, 2005, a decrease of $6,268,000. Most of this decrease was in net loans, which decreased $23,014,000, offset by an increase of $8,535,000 in cash and equivalents, $7,832,000 in securities available for sale, and an increase of $379,000 in remaining categories. Total liabilities decreased $7,961,000. All deposit categories decreased slightly, with total deposits decreasing $9,460,000, offset by an increase of $1,499,000 in accrued expenses and other liabilities.

Loans. Gross loans at March 31, 2006 were $362,505,000, a decrease of $23,041,000 or 6.0% from December 31, 2005. Real estate and construction loans decreased $22,475,000, representing most of the decrease..The principal reason for the runoff represents Real Estate payoffs due to refinancing at other institutions at rates with which we presently do not choose to compete. Commercial and consumer loans decreased a total of $566,000. The portfolio mix was as follows.

Table 6

LOAN PORTFOLIO

(Dollars in thousands)	March 31, 2006	Percent	December 31, 2005	Percen
Real Estate	$ 281,880	77.8%	$ 302,813	78
Construction	24,701	6.8	26,243	6
Commercial	52,860	14.6	53,070	13
Consumer	3,064	0.8	3,420	0
Gross loans	362,505	100.0%	385,546	100
Net deferred loan fees	(776)		(948)	
Allowance for loan losses	(4,692)		(4,547)	
Net loans	$ 357,037		$ 380,051	

Allowance for loan losses. The Company has the responsibility of assessing the overall risks in its portfolio, assessing the specific loss expectancy, and determining the adequacy of the allowance for loan losses. The level of the allowance is determined by internally generating credit quality ratings, reviewing economic conditions in the Company's market area, and considering the Company's historical loan loss experience. The Company is committed to maintaining an adequate allowance, identifying credit weaknesses by consistent review of loans, and maintaining the ratings and changing those ratings in a timely manner as circumstances change.

A summary of transactions in the allowance for loan losses for the three months ended March 31, 2006 and three months ended March 31, 2005 is as follows:

Table 7

ALLOWANCE FOR LOAN LOSSES

(In thousands)	Three months ended March 31, 2006	Three months ended March 31, 2005
Balance, beginning of period	$ 4,547	$ 3,334
Provision for loan losses	150	120
Recoveries	1	13
Amounts charged off	(6)	(73)
Balance, end of period	$ 4,692	$ 3,394

In management's judgment, the allowance was adequate to absorb losses currently inherent in the loan portfolio at March 31, 2006. However, changes in prevailing economic conditions in the Company's markets or in the financial condition of its customers could result in changes in the level of nonperforming assets and charge-offs in the future and, accordingly, changes in the allowance.

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. At March 31, 2006, there were four non-accrual loans for a total of $144,000, compared to one for $17,000 at December 31, 2005, since paid off.

Deposits. Total deposits at March 31, 2006 were $498,084,000 compared to $507,544,000 on December 31, 2005. Of these totals, noninterest-bearing demand deposits were $120,960,000 or 24.3% of the total on March 31, 2006 and $123,641,000 or 24.4% on December 31, 2005. Time deposits were $139,487,000 on March 31, 2006 and $140,833,000 on December 31, 2005.

The following table sets forth the maturity schedule of the time certificates of deposit on March 31, 2006:

Table 8

(In thousands) Maturities:	Under $100,000	$100,000 or more	Total
Three months or less	$ 20,550	$ 37,594	$ 58,144
Over three to six months	14,010	21,014	35,024
Over six through twelve months	14,947	12,834	27,781
Over twelve months	11,978	6,560	18,538
Total	$ 61,485	$ 78,002	$ 139,487

15

The following table shows the risk-based capital ratios and leverage ratios at March 31, 2006 and December 31, 2005 for the Bank.

Table 9

Minimum "Well

Risk-Based Capital Ratios	March 31, 2006	December 31, 2005		Capitalized" Requirements
Tier 1 Capital	11.48%	10.67%	≥	6.00%
Total Capital	12.48%	11.59%	≥	10.00%
Leverage Ratios	9.70%	9.50%	≥	5.00%

Liquidity. Liquidity is a measure of the Company's ability to convert assets into cash with minimum loss. As of March 31, 2006, Liquid Assets were $165,128,000, or 29.3% of total assets. As of December 31, 2005, Liquid Assets were $148,761,000, or 26.1% of total assets. Liquidity consists of cash and due from other banks accounts, federal funds sold, and securities available-for-sale. The Company's primary uses of funds are loans, and the primary sources of funds are deposits. The relationship between total net loans and total deposits is a useful additional measure of liquidity. The Company also has federal fund borrowing facilities for a total of $50,000,000, a Federal Home Loan Bank line of up to 25% of total assets, and a Federal Reserve Bank facility. As of March 31, 2006, there were no amounts outstanding.

A higher loan to deposit ratio means that assets will be less liquid. This has to be balanced against the fact that loans represent the highest interest earning assets. A lower loan to deposit ratio means lower potential income. On March 31, 2006 net loans were at 71.7% of deposits. On December 31, 2005 net loans were at 74.9%.

Forward-Looking Information and Uncertainties Regarding Future Financial Performance.

This report, including management's discussion above, concerning earnings and financial condition, contains "forward-looking statements". Forward-looking statements are estimates of or statements about expectations or beliefs regarding the Company's future financial performance or anticipated future financial condition that are based on current information and that are subject to a number of risks and uncertainties that could cause actual operating results in the future to differ significantly from those expected at the current time. Those risks and uncertainties include, although they are not limited to, the following components.

Increased competition. Increased competition from other banks and financial service businesses, mutual funds and securities brokerage and investment banking firms that offer competitive loan and investment products could require us to reduce interest rates and loan fees to attract new loans or to increase interest rates that we offer on time deposits, either or both of which could, in turn, reduce interest income and net interest margins.

Possible adverse changes in economic conditions. Adverse changes in national or local economic conditions could (i) reduce loan demand which could, in turn, reduce interest income and net interest margins; (ii) adversely affect the financial capability of borrowers to meet their loan obligations, which, in turn, could result in increases in loan losses and require increases in provisions for possible loan losses, thereby adversely affecting operating results; and (iii) lead to reductions in real property values that, due to the Company's reliance on real property to secure many of its loans, could make it more difficult to prevent losses from being incurred on non-performing loans through the sale of such real properties.

Possible adverse changes in national economic conditions and Federal Reserve Board monetary policies. Changes in national economic policies, such as increases in inflation or declines in economic output often prompt changes in Federal Reserve Board monetary policies that could reduce interest income or increase the cost of funds to the Company, either of which could result in reduced earnings.

Changes in regulatory policies. Changes in federal and national bank regulatory policies, such as increases in capital requirements or in loan loss reserve or asset/liability ratio requirements, could adversely affect earnings by reducing yields on earning assets or increasing operating costs.

Due to these and other possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements contained in this report, which speak only as of the date of this report, or to make predictions based solely on historical financial performance. The Company also disclaims any obligation to update forward-looking statements contained in this report.

Other Matters

Off-Balance Sheet Items

The Company has certain ongoing commitments under operating leases. These commitments do not significantly impact operating results. As of March 31, 2006 and December 31, 2005, commitments to extend credit and letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and letters of credit were $105,571,000 and $97,701,000 at March 31, 2006 and December 31, 2005, respectively. As a percentage of net loans, these off-balance sheet items represent 29.6% and 25.7% respectively.

Corporate Reform Legislation

President George W. Bush signed the "Sarbanes-Oxley Act of 2002" (the "Act") on July 30, 2002, which responds to the recent corporate accounting scandals. Among other matters, the Act increases the penalties for securities fraud, establishes new rules for financial analysts to prevent conflicts of interest, creates a new independent oversight board for the accounting profession, imposes restrictions on the consulting activities of accounting firms that audit company records and requires certification of financial reports by corporate executives. The SEC has adopted a number of rule changes to implement the provisions of the Act. The SEC has also approved new rules proposed and adopted by the New York Stock Exchange and the Nasdaq Stock Market to strengthen corporate governance standards for listed companies. The Company does not currently anticipate that compliance with the Act (including the rules adopted pursuant to the Act) will have a material effect upon its financial position or results of its operations or its cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the risk of loss to future earnings, to fair values of assets or to future cash flows that may result from changes in the price or value of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates and other market conditions. Market risk is attributed to all market risk sensitive financial instruments, including loans, investment securities, deposits and borrowings. The Company does not engage in trading activities or participate in foreign currency transactions for its own account. Accordingly, exposure to market risk is primarily a function of asset and liability management activities and of changes in market rates of interest. Changes in rates can cause or require increases in the rates paid on deposits that may take effect more rapidly or may be greater than the increases in the interest rates that the Company is able to charge on loans and the yields that it can realize on its investments. The extent of that market risk depends on a number of variables including the sensitivity to changes in market interest rates and the maturities of the Company's interest earning assets and deposits

(See discussion of comparative changes in prime lending rate and the Federal Home Loan Bank of San Francisco's Weighted Monthly Cost of Funds, in the second paragraph under Earnings Analysis on page 8). The changes did not have a material effect on earnings.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management as of the end of the Company's fiscal quarter ended March 31, 2006. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Internal Control Over Financial Reporting: Management has responsibility for establishing and maintaining adequate internal control over financial reporting for the Company. An evaluation of any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), that occurred during the Company's fiscal quarter ended March 31, 2006, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that no change identified in connection with such evaluation has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II--OTHER INFORMATION

Item 1. Legal Procedures

There are currently no material legal procedures in effect, other than those in the normal course of business.

Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed by the Company in response to Item 1A., Part 1 of Form 10-K as of

December 31, 2005.

Item 6. Exhibits

Exhibits

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

32: Section 1350 Certifications

SIGNATURES

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

FNB BANCORP
(Registrant)

Dated: May 12, 2006.

By: /s/ THOMAS C. MCGRAW

Thomas C. McGraw
Chief Executive Officer
(Authorized Officer)

By: /s/ JAMES B. RAMSEY

James B. Ramsey
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)