

PLUMAS BANCORP  
Form 10-K  
March 23, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011**

or

**Transaction report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission file number: 000-49883**

**PLUMAS BANCORP**

(Exact name of Registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)  
  
35 S. Lindan Avenue, Quincy, CA  
(Address of principal executive offices)

**75-2987096**  
(IRS Employer  
Identification No.)  
  
**95971**  
(Zip Code)

Edgar Filing: PLUMAS BANCORP - Form 10-K

Registrant's telephone number, including area code: (530) 283-7305

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

<b>Title of Each Class:</b>	<b>Name of Each Exchange on which Registered:</b>
Common Stock, no par value	The NASDAQ Stock Market LLC
<b>Securities registered pursuant to Section 12(g) of the Act:</b>	

None.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicated 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

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

As of June 30, 2011, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$10.5 million, based on the closing price reported to the Registrant on that date of \$2.42 per share.

Shares of Common Stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of the affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock of the registrant outstanding as of March 22, 2012 was 4,776,339.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2012 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.



**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
<u>Item 1. Business</u>	4
<u>Item 1A Risk Factors</u>	17
<u>Item 1B Unresolved Staff Comments</u>	18
<u>Item 2. Properties</u>	18
<u>Item 3. Legal Proceedings</u>	19
<u>Item 4. Mine Safety Disclosures</u>	19
<b><u>PART II</u></b>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
<u>Item 6. Selected Financial Data</u>	22
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 8. Financial Statements and Supplementary Data</u>	45
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	46
<u>Item 9A. Controls and Procedures</u>	46
<u>Item 9B Other Information</u>	47
<b><u>PART III</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	47
<u>Item 11. Executive Compensation</u>	47
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	48
<u>Item 14. Principal Accountant Fees and Services</u>	48
<b><u>PART IV</u></b>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	48
<u>Signatures</u>	52

**Table of Contents**

**PART I**

**Forward-Looking Information**

*This Annual Report on Form 10-K includes forward-looking statements and information is subject to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements (which involve Plumas Bancorp's (the Company's) plans, beliefs and goals, refer to estimates or use similar terms) involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the following factors:*

*Competitive pressure in the banking industry, competition in the markets the Company operates in and changes in the legal, accounting and regulatory environment*

*Changes in the interest rate environment and volatility of rate sensitive assets and liabilities*

*Declines in the health of the economy, nationally or regionally, which could reduce the demand for loans, reduce the ability of borrowers to repay loans and/or reduce the value of real estate collateral securing most of the Company's loans*

*Credit quality deterioration, which could cause an increase in the provision for loan and lease losses*

*Devaluation of fixed income securities*

*Asset/liability matching risks and liquidity risks*

*Loss of key personnel*

*Operational interruptions including data processing systems failure and fraud*

*The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements.*

---

**Table of Contents**

**ITEM 1. BUSINESS**

**General**

**The Company.** Plumas Bancorp (the *Company*) is a California corporation registered as a bank holding company under the *Bank Holding Company Act* of 1956, as amended, and is headquartered in Quincy, California. The Company was incorporated in January 2002 and acquired all of the outstanding shares of Plumas Bank (the *Bank*) in June 2002. The Company's principal subsidiary is the Bank, and the Company exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries it may acquire or establish. At the present time, the Company's only other subsidiaries are Plumas Statutory Trust I and Plumas Statutory Trust II, which were formed in 2002 and 2005 solely to facilitate the issuance of trust preferred securities.

The Company's principal source of income is dividends from the Bank, but the Company may explore supplemental sources of income in the future. The Bank cannot currently pay dividends without the prior approval of its primary regulators. The cash outlays of the Company, including (but not limited to) the payment of dividends to shareholders, if and when declared by the Board of Directors, costs of repurchasing Company common stock, the cost of servicing debt and preferred stock dividends, will generally be paid from dividends paid to the Company by the Bank. The Company cannot currently pay dividends without the prior approval of its primary regulators.

At December 31, 2011, the Company had consolidated assets of \$455 million, deposits of \$391 million, other liabilities of \$24 million and shareholders' equity of \$40 million. The Company's liabilities include \$10.3 million in junior subordinated deferrable interest debentures issued in conjunction with the trust preferred securities issued by Plumas Statutory Trust I (the *Trust I*) in September 2002 and Plumas Statutory Trust II (the *Trust II*) in September 2005. Both Trust I and Trust II are further discussed in the section titled *Trust Preferred Securities*. Shareholders' equity includes \$11.8 million in preferred stock issued pursuant to the U.S. government's Capital Purchase Program which is discussed in the section titled *Capital Purchase Program TARP Preferred Stock and Stock Warrant*.

References herein to the *Company*, *we*, *us* and *our* refer to Plumas Bancorp and its consolidated subsidiary, unless the context indicates otherwise. Our operations are conducted at 35 South Lindan Avenue, Quincy, California. Our annual, quarterly and other reports, required under the Securities Exchange Act of 1934 and filed with the Securities and Exchange Commission, (the *SEC*) are posted and are available at no cost on the Company's website, [www.plumasbank.com](http://www.plumasbank.com), as soon as reasonably practicable after the Company files such documents with the SEC. These reports are also available through the SEC's website at [www.sec.gov](http://www.sec.gov).

**The Bank.** The Bank is a California state-chartered bank that was incorporated in July 1980 and opened for business in December 1980. The Bank is not a member of the Federal Reserve System. The Bank's Administrative Office is located at 35 South Lindan Avenue, Quincy, California. At December 31, 2011 the Bank had approximately \$454 million in assets, \$287 million in net loans and \$392 million in deposits (including deposits of \$0.7 million from the Bancorp). It is currently the largest independent bank headquartered in Plumas County. The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation (the *FDIC*) up to maximum insurable amounts.

The Bank's primary service area covers the Northeastern portion of California, with Lake Tahoe to the South and the Oregon border to the North. The Bank, through its eleven branch network, serves the seven contiguous California counties of Plumas, Nevada, Sierra, Placer, Lassen, Modoc and Shasta. The branches are located in the communities of Quincy, Portola, Greenville, Truckee, Fall River Mills, Alturas, Susanville, Chester, Tahoe City, Kings Beach and Redding. The Bank maintains fifteen automated teller machines ( *ATMs* ) tied in with major statewide and national networks. In addition to its branch network, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California. The Bank's primary business is servicing the banking needs of these communities. Its marketing strategy stresses its local ownership and commitment to serve the banking needs of individuals living and working in the Bank's primary service areas.

---

**Table of Contents**

With a predominant focus on personal service, the Bank has positioned itself as a multi-community independent bank serving the financial needs of individuals and businesses within the Bank's geographic footprint. Our principal retail lending services include consumer, automobile and home equity loans. Our principal commercial lending services include term real estate, commercial and industrial term loans. In addition, we provide government-guaranteed and agricultural loans as well as credit lines. We provide land development and construction loans on a limited basis.

The Bank's Government-guaranteed lending center, headquartered in Auburn, California with additional personnel in Truckee, provides Small Business Administration and USDA Rural Development loans to qualified borrowers throughout Northern California and Northern Nevada. During 2007 the Bank was granted nationwide Preferred Lender status with the U.S. Small Business Administration and we expect government-guaranteed lending to continue to be an important part of our overall lending operation. During 2010 proceeds from the sale of government-guaranteed loans totaled \$14.9 million and we generated a gain on sale of \$1.1 million. In 2011 proceeds from the sale of government guaranteed loans totaled \$23.4 million and we generated a gain on sale of \$1.9 million.

The Agricultural Credit Centers located in Susanville and Alturas provide a complete line of credit services in support of the agricultural activities which are key to the continued economic development of the communities we serve. Ag lending clients include a full range of individual farming customers, small- to medium-sized business farming organizations and corporate farming units.

As of December 31, 2011, the principal areas to which we directed our lending activities, and the percentage of our total loan portfolio comprised by each, were as follows: (i) commercial real estate 40.6%; (ii) commercial and industrial loans 10.3%; (iii) consumer loans (including residential equity lines of credit) 16.8%; (iv) agricultural loans (including agricultural real estate loans) 13.2%; (v) residential real estate 13.3%; and (vi) construction and land development 5.8% .

In addition to the lending activities noted above, we offer a wide range of deposit products for the retail and commercial banking markets including checking, interest-bearing checking, business sweep, public funds sweep, savings, time deposit and retirement accounts, as well as remote deposit, telephone and mobile banking and internet banking with bill-pay options. Interest bearing deposits include high yield sweep accounts designed for our commercial customers and for public entities such as municipalities. In addition we offer a premium interest bearing checking account for our consumer customers. As of December 31, 2011, the Bank had 29,359 deposit accounts with balances totaling approximately \$392 million, compared to 30,372 deposit accounts with balances totaling approximately \$425 million at December 31, 2010. We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, extended hours, remote deposit operations and drive-up banking, all provided with a high level of customer service.

Most of our deposits are attracted from individuals, business-related sources and smaller municipal entities. This mix of deposit customers resulted in a relatively modest average deposit balance of approximately \$13,000 at December 31, 2011. However, it makes us less vulnerable to adverse effects from the loss of depositors who may be seeking higher yields in other markets or who may otherwise draw down balances for cash needs.

We also offer a variety of other products and services to complement the lending and deposit services previously reviewed. These include cashier's checks, bank-by-mail, ATMs, night depository, safe deposit boxes, direct deposit, electronic funds transfers, on-line banking, remote deposit, mobile banking and other customary banking services.

In order to provide non-deposit investment options, we have developed a strategic alliance with Financial Network Investment Corporation ( FNIC ). Through this arrangement, certain employees of the Bank are also licensed representatives of FNIC. These employees provide our customers throughout our branch network with convenient access to annuities, insurance products, mutual funds, and a full range of investment products.

Through our offering of a Remote Deposit product our customers are able to make non-cash deposits remotely from their physical location. With this product, we have extended our service area and can now meet the deposit needs of customers who may not be located within a convenient distance of one of our branch offices.

---

**Table of Contents**

Additionally, the Bank has devoted a substantial amount of time and capital to the improvement of existing Bank services, during 2009 we replaced our on-line banking service with a new state of the art product that greatly expands the features available to our customers. In addition we utilized this platform to add mobile banking services during the first quarter of 2010. During 2010 Plumas Bank began offering a new Green Account which promotes protecting the environment, reducing clutter and making life simpler for the customer through technological advancements such as eStatements, online banking, and debit card usage while providing the customer with the opportunity to grow their savings through monthly monetary rewards for green behavior. In 2011, we introduced a new product for our larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at December 31, 2011 was \$8.3 million. Interest paid on this product is similar to that which can be earned on the Bank's premium money market account; however, these are not deposits and are not FDIC insured. During the first quarter of 2012 we replaced our ATMs with new state of the art machines that are capable of accepting check and cash deposits without a deposit envelope.

The officers and employees of the Bank are continually engaged in marketing activities, including the evaluation and development of new products and services, to enable the Bank to retain and improve its competitive position in its service area.

We hold no patents or licenses (other than licenses required by appropriate bank regulatory agencies or local governments), franchises, or concessions. Our business has a modest seasonal component due to the heavy agricultural and tourism orientation of some of the communities we serve. As our branches in less rural areas such as Truckee have expanded and with the opening of our Auburn commercial lending office, the agriculture-related base has become less significant. We are not dependent on a single customer or group of related customers for a material portion of our deposits, nor are a material portion of our loans concentrated within a single industry or group of related industries. There has been no material effect upon our capital expenditures, earnings, or competitive position as a result of federal, state, or local environmental regulation.

**Commitment to our Communities.** The Board of Directors and Management believe that the Company plays an important role in the economic well being of the communities it serves. Our Bank has a continuing responsibility to provide a wide range of lending and deposit services to both individuals and businesses. These services are tailored to meet the needs of the communities served by the Company and the Bank.

We offer various loan products which promote home ownership and affordable housing, encourage job growth and support community economic development. Types of loans offered range from personal and commercial loans to real estate, construction, agricultural, and government-guaranteed community infrastructure loans. Many banking decisions are made locally with the goal of maintaining customer satisfaction through the timely delivery of high quality products and services.

**Capital Purchase Program TARP Preferred Stock and Stock Warrant.** On January 30, 2009 the Company entered into a Letter Agreement (the Purchase Agreement) with the United States Department of the Treasury ( Treasury ), pursuant to which the Company issued and sold (i) 11,949 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock) and (ii) a warrant (the Warrant) to purchase 237,712 shares of the Company's common stock, no par value (the Common Stock), for an aggregate purchase price of \$11,949,000 in cash.

The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Company may redeem the Series A Preferred Stock at its liquidation preference (\$1,000 per share) plus accrued and unpaid dividends under the American Recovery and Reinvestment Act of 2009, subject to the Treasury's consultation with the Company's appropriate federal regulator.

The Warrant has a 10-year term and was immediately exercisable with an exercise price, subject to antidilution adjustments, equal to \$7.54 per share of the Common Stock. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.



**Table of Contents**

Prior to January 30, 2012, unless the Company has redeemed the Series A Preferred Stock, or the Treasury has transferred the Series A Preferred Stock to a third party, the consent of the Treasury will be required for the Company to: (1) declare or pay any dividend or make any distribution on shares of the Common Stock (other than regular quarterly cash dividends of not more than \$0.04 per share or regular semi-annual cash dividends of not more than \$0.08 per share); or (2) redeem, purchase or acquire any shares of Common Stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement. At the request of the Federal Reserve Bank of San Francisco (FRB), Plumas Bancorp suspended quarterly cash dividend payments on its Series A Preferred Stock. As of December 31, 2011 the amount of the arrearage on the dividend payments of the Series A Preferred Stock is \$1,046,000 representing seven quarterly payments.

**Trust Preferred Securities.** During the third quarter of 2002, the Company formed a wholly owned Connecticut statutory business trust, Plumas Statutory Trust I (the Trust I). On September 26, 2002, the Company issued to the Trust I, Floating Rate Junior Subordinated Deferrable Interest Debentures due 2032 (the Debentures) in the aggregate principal amount of \$6,186,000. In exchange for these debentures the Trust I paid the Company \$6,186,000. The Trust I funded its purchase of debentures by issuing \$6,000,000 in floating rate capital securities (trust preferred securities), which were sold to a third party. These trust preferred securities qualify as Tier I capital under current Federal Reserve Board guidelines. The Debentures are the only asset of the Trust I. The interest rate and terms on both instruments are substantially the same. The rate is based on the three-month LIBOR (London Interbank Offered Rate) plus 3.40%, not to exceed 11.9%, adjustable quarterly. The proceeds from the sale of the Debentures were primarily used by the Company to inject capital into the Bank.

During the third quarter of 2005, the Company formed a wholly owned Connecticut statutory business trust, Plumas Statutory Trust II (the Trust II). On September 28, 2005, the Company issued to the Trust II, Floating Rate Junior Subordinated Deferrable Interest Debentures due 2035 (the Debentures) in the aggregate principal amount of \$4,124,000. In exchange for these debentures the Trust II paid the Company \$4,124,000. The Trust II funded its purchase of debentures by issuing \$4,000,000 in floating rate capital securities (trust preferred securities), which were sold to a third party. These trust preferred securities qualify as Tier I capital under current Federal Reserve Board guidelines. The Debentures are the only asset of the Trust II. The interest rate and terms on both instruments are substantially the same. The rate is based on the three-month LIBOR (London Interbank Offered Rate) plus 1.48%, adjustable quarterly. The proceeds from the sale of the Debentures were primarily used by the Company to inject capital into the Bank.

The Debentures and trust preferred securities accrue and pay distributions quarterly based on the floating rate described above on the stated liquidation value of \$1,000 per security. The Company has entered into contractual agreements which, taken collectively, fully and unconditionally guarantee payment of: (1) accrued and unpaid distributions required to be paid on the capital securities; (2) the redemption price with respect to any capital securities called for redemption by either Trust I or Trust II, and (3) payments due upon voluntary or involuntary dissolution, winding up, or liquidation of either Trust I or Trust II.

The trust preferred securities are mandatorily redeemable upon maturity of the Debentures on September 26, 2032 for Trust I and September 28, 2035 for Trust II, or upon earlier redemption as provided in the indenture.

Neither Trust I nor Trust II are consolidated into the Company's consolidated financial statements and, accordingly, both entities are accounted for under the equity method and the junior subordinated debentures are reflected as debt on the consolidated balance sheet. At the request of the FRB, Plumas Bancorp deferred its regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities. As of December 31, 2011 the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities is \$569,000 representing seven quarterly payments.

**Recent Developments.** Effective in March, 2011, in connection with the Bank's regularly scheduled 2010 Joint FDIC and California Department of Financial Institutions (DFI) examination, the Bank entered into a Consent Order (Order) with the FDIC and the DFI. The FDIC and DFI in the Order, required certain actions to be taken by the Bank including among others: continue to reduce certain classified asset balances, maintain strong capital ratios, improve lending policies and practices, and retain qualified management as stated in the terms of the Order. On February 15, 2012 the FDIC and DFI terminated this Order. While the Bank is no longer subject to an Order, the Bank has entered into an informal agreement with the FDIC and DFI which, among other things, requests that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At December 31, 2011 this ratio was 68% and the Bank's Tier 1 Leverage Capital Ratio was 9.8%.

## Table of Contents

The lifting of the Order reflects the progress made by the Bank's management and board of directors in reducing classified asset balances, increasing capital ratios, improving lending policies and practices, and retaining qualified management as stated in the terms of the Order.

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the "FRB Agreement"). Under the terms of the FRB Agreement, Plumas Bancorp has agreed to take certain actions that are designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement requires prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. In addition, the FRB Agreement requires Plumas Bancorp to submit, within 60 days of the FRB Agreement, a written statement of Plumas Bancorp's planned sources and uses of cash for debt service, operating expense and other purposes ("Cash Flow Statement") for the remainder of 2011 and annually thereafter. The Company submitted the Cash Flow Statements within the required time frames.

See Note 2 "Regulatory Matters" of the Company's Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10K for additional information related to the Order and FRB Agreement.

**Business Concentrations.** No individual or single group of related customer accounts is considered material in relation to the Bank's assets or deposits, or in relation to our overall business. However, at December 31, 2011 approximately 81% of the Bank's total loan portfolio consisted of real estate-secured loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate. Moreover, our business activities are currently focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta and Sierra and Washoe County in Nevada. Consequently, our results of operations and financial condition are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in these areas of California and Nevada exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions in California and Nevada.

**Competition.** With respect to commercial bank competitors, the business is largely dominated by a relatively small number of major banks with many offices operating over a wide geographical area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their resources to regions of highest yield and demand. Many of the major banks operating in the area offer certain services that we do not offer directly but may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, such banks also have substantially higher lending limits than we do. For customers whose loan demands exceed our legal lending limit, we attempt to arrange for such loans on a participation basis with correspondent or other banks.

In addition to other banks, our competitors include savings institutions, credit unions, and numerous non-banking institutions such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal financial software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers. Mergers between financial institutions have placed additional competitive pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues. Competition has also intensified due to federal and state interstate banking laws enacted in the mid-1990's, which permit banking organizations to expand into other states. The relatively large California market has been particularly attractive to out-of-state institutions. The Financial Modernization Act, which became effective March 11, 2000, has made it possible for full affiliations to occur between banks and securities firms, insurance companies, and other financial companies, and has also intensified competitive conditions.

---

## **Table of Contents**

Currently, within the Bank's branch service area there are 55 banking branch offices of competing institutions, including 30 branches of 8 major banks. As of June 30, 2011, the Federal Deposit Insurance Corporation (FDIC) estimated the Bank's market share of insured deposits within the communities it serves to be as follows: Chester 68%, Quincy 59%, Portola 55%, Alturas 47%, Fall River Mills 36%, Susanville 33%, Kings Beach 32%, Truckee 15%, Tahoe City 5%, Redding less than 1% and 100% in Greenville. Redding is the location of our most recently opened branch, which became operational in June 2007.

Technological innovations have also resulted in increased competition in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously were considered traditional banking products. In addition, many customers now expect a choice of delivery systems and channels, including telephone, mail, home computer, mobile, ATMs, full-service branches, and/or in-store branches. The sources of competition in such products include traditional banks as well as savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, internet-only financial intermediaries, and mortgage banking firms.

For many years we have countered rising competition by providing our own style of community-oriented, personalized service. We rely on local promotional activity, personal contacts by our officers, directors, employees, and shareholders, automated 24-hour banking, and the individualized service that we can provide through our flexible policies. This approach appears to be well-received by our customers who appreciate a more personal and customer-oriented environment in which to conduct their financial transactions. To meet the needs of customers who prefer to bank electronically, we offer telephone banking, mobile banking, remote deposit, and personal computer and internet banking with bill payment capabilities. This high tech and high touch approach allows the customers to tailor their access to our services based on their particular preference.

**Employees.** At December 31, 2011, the Company and its subsidiary employed 156 persons. On a full-time equivalent basis, we employed 142 persons. None of the Company's employees are represented by a labor union, and management considers its relations with employees to be good.

**Code of Ethics.** The Board of Directors has adopted a code of business conduct and ethics for directors, officers (including Plumas Bancorp's principal executive officer and principal financial officer) and financial personnel, known as the Corporate Governance Code of Ethics. This Code of Ethics Policy is available on Plumas Bancorp's website at [www.plumasbank.com](http://www.plumasbank.com). Shareholders may request a free copy of the Code of Ethics Policy from Plumas Bancorp, Ms. Elizabeth Kuipers, Investor Relations, 35 S. Lindan Avenue, Quincy, California 95971.

## **Supervision and Regulation**

**General.** We are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Any change in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation may have in the future. The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. As a listed company on NASDAQ, the Company is subject to NASDAQ rules for listed companies.

**Holding Company Regulation.** We are a registered bank holding company under the Bank Holding Company Act, and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a bank holding company, we are examined by and file reports with the Federal Reserve. The Federal Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

---

**Table of Contents**

**Federal and State Bank Regulation.** The Bank, as a state chartered bank with deposits insured by the FDIC, is primarily subject to the supervision and regulation of the California Department of Financial Institutions, the FDIC, and the Consumer Financial Protection Bureau (CFPB). These agencies may prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices. The California Department of Financial Institutions regularly examines the Bank or participates in joint examinations with the FDIC.

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than Satisfactory rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination the Bank's CRA rating was Satisfactory.

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not affiliated with the bank, and must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

The Federal Reserve Act and related Regulation W limit the amount of certain loan and investment transactions between the Bank and its affiliates, require certain levels of collateral for such loans, and limit the amount of advances to third parties that may be collateralized by the securities of the Company or its subsidiaries. Regulation W requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving nonaffiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to or would apply to nonaffiliated companies. The Company and its subsidiaries have adopted an Affiliate Transactions Policy and have entered into various affiliate agreements in compliance with Regulation W.

The Federal Reserve and the FDIC have adopted non-capital safety and soundness standards for institutions. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that it will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. We believe that the Bank is in compliance with these standards.

**Federal Deposit Insurance.** Substantially all deposits with the Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a bank's capital level and supervisory ratings. The base assessment rates under the Federal Deposit Insurance Reform Act of 2005 (Reform Act), enacted in February 2006, ranged from \$0.02 to \$0.40 per \$100 of deposits annually. The FDIC could increase or decrease the assessment rate schedule five basis points (annualized) higher or lower than the base rates in order to manage the DIF to prescribed statutory target levels.

In December 2008, the FDIC adopted a rule that amended the system for risk-based assessments and changed assessment rates in attempt to restore targeted reserve ratios in the DIF. Effective January 1, 2009, the risk-based assessment rates were uniformly raised by seven basis points (annualized). On February 27, 2009, the FDIC further modified the risk-based assessment system, effective April 1, 2009, to effectively require larger risk institutions to pay a larger share of the assessment. Characteristics of larger risk institutions include a significant reliance on secured liabilities or brokered deposits, particularly when combined with rapid asset growth. The rule also provided incentives for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. The initial base assessment rates range from \$0.12 to \$0.45 per \$100 of deposits annually. The Bank's assessment rate for 2010 fell at the middle of this range.

**Table of Contents**

After potential adjustments related to unsecured debt, secured liabilities and brokered deposit balances, the final total assessment rates range from \$0.07 to \$0.775 per \$100 of deposits annually. Initial base assessment rates for well managed, well capitalized institutions ranged from \$0.12 to \$0.16 per \$100 of deposits annually.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates schedules for January 1, 2011 and maintain the current schedule of assessment rates. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates. On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system from a domestic deposit base to a scorecard based assessment system, effective April 1, 2011. Effective as of April 1, 2011, the Bank was categorized as a small institution as the Bank has less than \$10 billion in assets. The initial base assessment rates range from five to 35 basis points. After potential adjustments related to unsecured debt and brokered deposit balances, the final total assessment rates range from 2.5 to 45 basis points. Initial base assessment rates for large institutions ranged from five to 35 basis points. The Bank's assessment rate for 2011 fell at the middle of this range. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

In 2006, the Reform Act increased the deposit insurance limit for certain retirement plan deposit accounts from \$100,000 to \$250,000. The basic insurance limit for other deposits, including individuals, joint account holders, businesses, government entities, and trusts, remained at \$100,000. The Reform Act also provided for the merger of the two deposit insurance funds administered by the FDIC, the Bank Insurance Fund ( BIF ) and the Savings Association Insurance Fund ( SAIF ), into the DIF. On October 3, 2008, the EESA temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. While the basic deposit insurance limit was to have returned to \$100,000 after December 31, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the standard maximum deposit insurance amount to \$250,000 per depositor through December 31, 2013, and the enactment of the Dodd-Frank Act permanently raised the current standard maximum federal deposit insurance amount from \$100,000 to \$250,000 per qualified account.

In November 2008, the FDIC approved the final ruling establishing the Transaction Account Guarantee Program ( TAGP ) as part of the Temporary Liquidity Guarantee Program ( TLGP ). Under this program, all non-interest bearing transaction accounts became fully guaranteed by the FDIC for the entire amount in the account. This unlimited coverage also extended to NOW (interest bearing deposit accounts) earning an interest rate no greater than 0.50% and all IOLTAs (lawyers' trust accounts). TAGP was extended with the enactment of the Dodd-Frank Act provides for unlimited deposit insurance for noninterest bearing transactions accounts (excluding NOW, but including IOLTAs) expiring on December 31, 2012.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC. The termination of deposit insurance for the Bank could have a material adverse effect on our financial condition and results of operations due to the fact that the Bank's liquidity position would likely be affected by deposit withdrawal activity.

**Capital Adequacy.** The FDIC has risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are reported as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Since December 31, 1992, the FRB and the FDIC have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance-sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance-sheet items of 4%.

**Table of Contents**

In addition to the risk-based guidelines, the FRB requires banking organizations to maintain a minimum amount of Tier 1 capital to average total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. It is improbable; however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators' ratings. For all banking organizations not rated in the highest category, the minimum leverage ratio is at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, is at least 4% or 5%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the FRB and FDIC have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FRB and/or DFI to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital, as is the Bank. The regulatory capital guidelines as well as the actual capitalization for the Bank and Bancorp as of December 31, 2011 follow:

	September 30, Requirement for the Bank to be:	September 30, Well Capitalized	September 30, Plumas Bank	September 30, Plumas Bancorp	
Tier 1 leverage capital ratio	Adequately Capitalized	4.0%	5.0%	9.8%	9.8%
Tier 1 risk-based capital ratio		4.0%	6.0%	13.7%	13.7%
Total risk-based capital ratio		8.0%	10.0%	15.0%	15.0%

Management believes that the Company and the Bank met all of the above capital adequacy requirements as of December 31, 2011 and 2010.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ) requires federal banking regulators to take prompt corrective action with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. The Company could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered Well Capitalized as of December 31, 2011.

If capital falls below the minimum levels established by these regulatory capital guidelines, a holding company or a bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities.

Banks with capital ratios below the required minimums are subject to certain administrative actions, including prompt corrective action, the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing.

**Effects of Government Monetary Policy.** Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, through its open market operations in U.S. Government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits. These activities influence growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

---

## **Table of Contents**

**Consumer Protection Laws and Regulations.** The banking regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Company is subject to many federal and state consumer protection and privacy statutes and regulations, some of which are discussed below.

The *Equal Credit Opportunity Act* (the ECOA ) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The *Truth in Lending Act* (the TILA ) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The *Fair Housing Act* (the FH Act ) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The *Home Mortgage Disclosure Act* (the HMDA ), in response to public concern over credit shortages in certain urban neighborhoods, requires public disclosure of information that shows whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The *Right to Financial Privacy Act* (the RFPA ) imposes a new requirement for financial institutions to provide new privacy protections to consumers. Financial institutions must provide disclosures to consumers of its privacy policy, and state the rights of consumers to direct their financial institution not to share their nonpublic personal information with third parties.

Finally, the *Real Estate Settlement Procedures Act* (the RESPA ) requires lenders to provide noncommercial borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

Penalties for noncompliance or violations under the above laws may include fines, reimbursement and other penalties. Due to heightened regulatory concern related to compliance with CRA, ECOA, TILA, FH Act, HMDA, RFPA and RESPA generally, the Company may incur additional compliance costs or be required to expend additional funds for investments in its local communities.

**Recent Legislation and Other Changes.** Federal and state laws affecting banking are enacted from time to time, and similarly federal and state regulations affecting banking are also adopted from time to time. The following include some of the recent laws and regulations affecting banking.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ), signed into law in July, 2010, will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act creates of a new interagency council, the Financial System Oversight Council that is charged with identifying and monitoring the systemic risk to the U.S. economy posed by systemically significant, large financial companies, including bank holding companies and non-bank financial companies. The Office of Thrift Supervision will be eliminated and its powers distributed among the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

---

**Table of Contents**

The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as the Bank, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also repeals the prohibition on payment of interest on demand deposits.

Section 613 of the Dodd-Frank Act eliminates interstate branching restrictions that were implemented as part of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, and removes many restrictions on de novo interstate branching by national and state-chartered banks. The FDIC and the OCC now have authority to approve applications by insured state nonmember banks and national banks, respectively, to establish de novo branches in states other than the bank's home state if the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State. The enactment of this section may significantly increase interstate banking by community banks in western states, where barriers to entry were previously high.

Many of the provisions of the Dodd-Frank Act will not take effect for at least a year, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, will increase the Bank's operating and compliance costs as it is likely that the Bank's existing regulatory agencies will adopt the same or similar consumer protections as the new Consumer Financial Protection Bureau will adopt.

On June 21, 2010, the federal banking agencies issued final guidance on incentive compensation. The final guidance is largely unchanged from the FRB's preliminary guidance published in 2009, with the exception of a few adjustments/clarifications in response to feedback the FRB received during the open comment period. The guidance became effective on June 25, 2010 (the date published in the Federal Register, and applies to all banks. Except for the largest banking organizations, enforcement of this guidance will be handled through the supervisors' regular risk-focused examination process. The guidance is principles-based, rather than prescriptive, and also identifies expectations of large banking organizations that go beyond what will be expected of community banks, and emphasizes that the application of the guidance should be scaled appropriately for the complexity of the organization and the extent to which incentive arrangements are utilized. The employees covered by the final guidance are senior executives and others who are responsible for oversight of the organization's firm-wide activities or material business lines; individual employees, including non-executive employees, whose activities may expose the organization to material amounts of risk; and groups of employees who are subject to the same or similar incentive compensation arrangements and who, in the aggregate, may expose the organization to material amounts of risk, even if no individual employee is likely to expose the organization to material risk. The guidance provides for three principles for safe and sound incentive compensation arrangements:

**Balanced Risk-Taking:** Incentive compensation arrangements should balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risks;

**Compatibility with Effective Controls and Risk-Management:** A banking organization's risk-management processes and internal controls should reinforce and support the development and maintenance of balanced incentive compensation arrangements;

**Strong Corporate Governance:** Banking organizations should have strong and effective corporate governance to help ensure sound compensation practices, including active and effective oversight by the board of directors.



---

**Table of Contents**

The Electronic Funds Transfer Act (the EFTA ) provides a basic framework for establishing the rights, liabilities, and responsibilities of consumers who use electronic funds transfer ( EFT ) systems. The EFTA is implemented by the Federal Reserve s Regulation E, which governs transfers initiated through ATMs, point-of-sale terminals, payroll cards, automated clearinghouse ( ACH ) transactions, telephone bill-payment plans, or remote banking services. Regulation E was amended in January 2010 to require consumers to opt in (affirmatively consent) to participation in the Bank s overdraft service program for ATM and one-time debit card transactions before overdraft fees may be assessed on the consumer s account. Notice of the opt-in right must be provided to all existing and new customers who are consumers, and the customer s affirmative consent must be obtained, before charges may be assessed on the consumer s account for paying such overdrafts.

The new rule provides bank customers with an ongoing right to revoke consent to participation in an overdraft service program for ATM and one-time debit card transactions, as opposed to being automatically enrolled in such a program. The new rule also prohibits banks from conditioning the payment of overdrafts for checks, ACH transactions, or other types of transactions that overdraw the consumer s account on the consumer s opting into an overdraft service for ATM and one-time debit card transactions. For customers who do not affirmatively consent to overdraft service for ATM and one-time debit card transactions, a bank must provide those customers with the same account terms, conditions, and features that it provides to consumers who do affirmatively consent, except for the overdraft service for ATM and one-time debit card transactions.

The mandatory compliance date for the Regulation E amendments is July 1, 2010 provided that the Bank may continue to assess overdraft service fees or charges on existing customer accounts prior to August 15, 2010, without obtaining the consumer s affirmative consent. The Bank s compliance with the new Regulation E amendments may have an impact on the Bank s revenue from overdraft service fees and non-sufficient funds ( NSF ) charges.

In May 2009 the Helping Families Save Their Homes Act of 2009 was enacted to help consumers avoid mortgage foreclosures on their homes through certain loss mitigation actions including special forbearance, loan modification, pre-foreclosure sale, deed in lieu of foreclosure, support for borrower housing counseling, subordinate lien resolution, and borrower relocation. The new law permits the Secretary of Housing and Urban Development (HUD), for mortgages either in default or facing imminent default, to: (1) authorize the modification of such mortgages; and (2) establish a program for payment of a partial claim to a mortgagee who agrees to apply the claim amount to payment of a mortgage on a 1- to 4-family residence. In implementing the law, the Secretary of HUD is authorized to (1) provide compensation to the mortgagee for lost income on monthly mortgage payments due to interest rate reduction; (2) reimburse the mortgagee from a guaranty fund in connection with activities that the mortgagee is required to undertake concerning repayment by the mortgagor of the amount owed to HUD; (3) make payments to the mortgagee on behalf of the borrower, under terms defined by HUD; and (4) make mortgage modification with terms extended up to 40 years from the modification date. The new law also authorizes the Secretary of HUD to: (1) reassign the mortgage to the mortgagee; (2) act as a Government National Mortgage Association (GNMA, or Ginnie Mae) issuer, or contract with an entity for such purpose, in order to pool the mortgage into a Ginnie Mae security; or (3) resell the mortgage in accordance with any program established for purchase by the federal government of insured mortgages. The new law also amends the Foreclosure Prevention Act of 2008, with respect to emergency assistance for the redevelopment of abandoned and foreclosed homes (neighborhood stabilization), to authorize each state that has received certain minimum allocations and has fulfilled certain requirements, to distribute any remaining amounts to areas with homeowners at risk of foreclosure or in foreclosure without regard to the percentage of home foreclosures in such areas.

Also in May 2009, the Credit Card Act of 2009 was enacted to help consumers and ban certain practices of credit card issuers. The new law allows interest rate hikes on existing balances only under limited conditions, such as when a promotional rate ends, there is a variable rate or if the cardholder makes a late payment. Interest rates on new transactions can increase only after the first year. Significant changes in terms on accounts cannot occur without 45 days advance notice of the change. The new law bans raising interest rates on customers based on their payment records with other unrelated credit issuers (such as utility companies and other creditors) for existing credit card balances, though card issuers would still be allowed to use universal default on future credit card balances if they give at least 45 days advance notice of the change. The new law allows consumers to opt out of certain significant changes in terms on their accounts. Opting out means cardholders agree to close their accounts and pay off the balance under the old terms. They have at least five years to pay the balance. Credit card issuers will be banned from issuing credit cards to anyone under 21, unless they have adult co-signers on the accounts or can show proof they have enough income to repay the card debt.

---

**Table of Contents**

The new law requires card issuers to give card account holders a reasonable amount of time to make payments on monthly bills. That means payments would be due at least 21 days after they are mailed or delivered. Credit card issuers would no longer be able to set early morning or other arbitrary deadlines for payments. When consumers have accounts that carry different interest rates for different types of purchases payments in excess of the minimum amount due must go to balances with higher interest rates first. Consumers must opt in to over-limit fees. Those who opt out would have their transactions rejected if they exceed their credit limits, thus avoiding over-limit fees. Fees charged for going over the limit must be reasonable. Finance charges on outstanding credit card balances would be computed based on purchases made in the current cycle rather than going back to the previous billing cycle to calculate interest charges. Fees on credit cards cannot exceed 25 percent of the available credit limit in the first year of the card.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted to provide stimulus to the struggling US economy. ARRA authorizes spending of \$787 billion, including about \$288 billion for tax relief, \$144 billion for state and local relief aid, and \$111 billion for infrastructure and science. In addition, ARRA includes additional executive compensation restrictions for recipients of funds from the US Treasury under the Troubled Assets Relief Program of the Emergency Economic Stimulus Act of 2008 (EESA).

EESA was amended by ARRA to provide additional incentive compensation restrictions for financial institutions receiving TARP funds and also require additional corporate governance provisions with respect to limiting golden parachutes, lavish expenditures and requiring officer certifications of compliance and clawbacks for improperly earned incentive compensation at such institutions.

In addition, EESA as amended by ARRA provides that for any TARP recipient, its annual meeting materials shall include a nonbinding shareholder approval proposal of executive compensation for shareholders to vote.

ARRA also provides \$730 million to the SBA and makes changes to the agency's lending and investment programs so that they can reach more small businesses that need help. The funding includes:

\$375 million for temporarily eliminating fees on SBA-backed loans and raising SBA's guarantee percentage on some loans to 90 percent.

\$255 million for a new loan program to help small businesses meet existing debt payments

\$30 million for expanding SBA's Microloan program, enough to finance up to \$50 million in new lending and \$24 million in technical assistance grants to microlenders.

In October 2008, the President signed the Emergency Economic Stabilization Act of 2008 (EESA), in response to the global financial crisis of 2008 authorizing the United States Secretary of the Treasury with authority to spend up to \$700 billion to purchase distressed assets, especially mortgage-backed securities, under the Troubled Assets Relief Program (TARP) and make capital injections into banks under the Capital Purchase Program. EESA gives the government the unprecedented authority to buy troubled assets on balance sheets of financial institutions under the Troubled Assets Relief Program. Some of the other provisions of EESA are as follows:

accelerated from 2011 to 2008 the date that the Federal Reserve Bank could pay interest on deposits of banks held with the Federal Reserve to meet reserve requirements;

to the extent that the U. S. Treasury purchases mortgage securities as part of TARP, the Treasury shall implement a plan to minimize foreclosures including using guarantees and credit enhancements to support reasonable loan modifications, and to the extent loans are owned by the government to consent to the reasonable modification of such loans;

limits executive compensation for executives for TARP participating financial institutions;

## Edgar Filing: PLUMAS BANCORP - Form 10-K

extends the mortgage debt forgiveness provision of the Mortgage Forgiveness Debt Relief Act of 2007 by three years (2012) to ease the income tax burden on those involved with certain foreclosures; and

On January 1, 2012, SB 664 (Committee on Banking and Financial Institutions, Chapter 243, Statutes of 2011) became operative. While some substantive changes were included in this legislation due to the passage of the Dodd-Frank federal legislation and some technical corrections that resulted from earlier amendments to the Code, the majority of the work involved in SB 664 was to reorder the section numbering in the Code. Among other things, the law requires a bank that establishes a branch office in this state in accordance with the National Bank Act, as amended by the Dodd-Frank Act to provide a specified notice to the Commissioner of DFI within 10 days of the establishment, relocation, or redesignation of offices.

---

**Table of Contents**

In California, the enactment of AB329 in 2009, the Reverse Mortgage Elder Protection Act of 2009 prohibits a lender or any other person who participates in the origination of the mortgage from participation in, being associated with, or employing any party that participates in or is associated with any other financial or insurance activity or referring a prospective borrower to anyone for the purchase of other financial or insurance products; and imposes certain disclosure requirements on the lender.

The enactment of AB1160 in 2009, requires a supervised financial institution in California that negotiates primarily in any of a number of specified languages in the course of entering into a contract or agreement for a loan or extension of credit secured by residential real property, to deliver, prior to the execution of the contract or agreement, and no later than 3 business days after receiving the written application, a specified form in that language summarizing the terms of the contract or agreement; provides for administrative penalties for violations; and requires the California Department of Corporations and the Department of Financial Institutions to create a form for providing translations and make it available in Spanish, Chinese, Tagalog, Vietnamese and Korean. The statute becomes operative on July 1, 2010, or 90 days after issuance of the form, whichever occurs later.

The enactment of AB 1291 in 2009 makes changes to the California Unclaimed Property Law including (among other things): allowing electronic notification to customers who have consented to electronic notice; requiring that notices contain certain information and allow the holder to provide electronic means to enable the owner to contact the holder in lieu of returning the prescribed form to declare the owner's intent; authorizing the holder to give additional notices; and requiring, beginning January 1, 2011, a banking or financial organization to provide a written notice regarding escheat at the time a new account or safe deposit box is opened.

The enactment of SB306 makes specified changes to clarify existing law related to filing a notice of default on residential real property in California, including (among other things): clarifying that the provisions apply to mortgages and deeds of trust recorded from January 1, 2003 through December 31, 2007, secured by owner-occupied 3-4 residential real property containing no more than 4 dwelling units; revising the declaration to be filed with the notice of default; specifying how the loan servicers have to maximize net present value under their pooling and servicing agreements applies to certain investors; specifying how and when the notice to residents of property subject to foreclosure is to be mailed; and extending the time during which the notice of sale must be recorded from 14 to 20 days. The bill also makes certain changes related to short-pay agreements and short-pay demand statements.

On February 20, 2009, Governor Schwarzenegger signed ABX2-7 and SBX2-7, which established the California Foreclosure Prevention Act. The California Foreclosure Prevention Act modifies the foreclosure process to provide additional time for borrowers to work out loan modifications while providing an exemption for mortgage loan servicers that have implemented a comprehensive loan modification program. Civil Code Section 2923.52 requires an additional 90 day period beyond the period already provided before a Notice of Sale can be given in order to allow all parties to pursue a loan modification to prevent foreclosure of loans meeting certain criteria identified in that section.

A mortgage loan servicer who has implemented a comprehensive loan modification program may file an application for exemption from the provisions of Civil Code Section 2923.52. Approval of this application provides the mortgage loan servicer an exemption from the additional 90-day period before filing the Notice of Sale when foreclosing on real property covered by the new law.

**Recent Accounting Pronouncements**

See Note 3 – Summary of Significant Accounting Policies – Adoption of New Accounting Standards of the Company's Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K for information related to recent accounting pronouncements.

**ITEM 1A. RISK FACTORS**

As a smaller reporting company we are not required to provide the information required by this item.

**Table of Contents**

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

No comments have been submitted to the registrant by the staff of the Securities Exchange Commission.

**ITEM 2. PROPERTIES**

Of the Company's eleven depository branches, ten are owned and one is leased. The Company also leases one lending office and one administrative office, and owns four administrative facilities.

**Owned Properties**

35 South Lindan Avenue Quincy, California (1)	32 Central Avenue Quincy, California (1)	80 W. Main St. Quincy, California (3)
424 N. Mill Creek Quincy, California (1)	336 West Main Street Quincy, California	120 North Pine Street Portola, California
43163 Highway 299E Fall River Mills, California	121 Crescent Street Greenville, California	255 Main Street Chester, California
510 North Main Street Alturas, California	3000 Riverside Drive Susanville, California	8475 North Lake Boulevard Kings Beach, California
11638 Donner Pass Road Truckee, California	2175 Civic Center Drive Redding, California	

**Leased Properties**

243 North Lake Boulevard Tahoe City, California	1005 Terminal Way, Ste. 246 Reno, Nevada (1)	470 Nevada St., Suite 108 Auburn, California (2)
--	---	---

(1) Non-branch administrative or credit administrative offices.

(2) Commercial lending office.

(3) Leased to a third party.

Total rental expenses under all leases, including premises, totaled \$150,000, \$20,000 and \$317,000, in 2011, 2010 and 2009 respectively. The decline in rental expense during 2010 resulted from the purchase of our Redding branch building on March 31, 2010. Previously we had leased this building. Under the terms of the lease agreement we were provided free rent for a period of time; however, in accordance with accounting principals we recognized monthly rent expense equal to the total payments required under the lease dividend by the term of the lease in months. At the time of the purchase we reversed this accrual recognizing a \$184 thousand reduction in rental expense. The expiration dates of the leases vary, with the first such lease expiring during 2012 and the last such lease expiring during 2015.

Future minimum lease payments in thousands of dollars are as follows:

**Year Ending**

**September 30,**

**December 31,**

Edgar Filing: PLUMAS BANCORP - Form 10-K

2012	\$	147,000
2013		75,000
2014		51,000
2015		51,000
	\$	324,000

**Table of Contents**

The Company maintains insurance coverage on its premises, leaseholds and equipment, including business interruption and record reconstruction coverage. The branch properties and non-branch offices are adequate, suitable, in good condition and have adequate parking facilities for customers and employees. The Company and Bank are limited in their investments in real property under Federal and state banking laws. Generally, investments in real property are either for the Company and Bank use or are in real property and real property interests in the ordinary course of the Bank's business.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, the Company and/or its subsidiary are a party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or results of operations of the Company taken as a whole.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCK-HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

The Company's common stock is quoted on the NASDAQ Capital Market under the ticker symbol PLBC. As of December 31, 2011, there were 4,776,339 shares of the Company's stock outstanding held by approximately 1,640 shareholders of record as of the same date. The following table shows the high and low sales prices for the common stock, for each quarter as reported by Yahoo Finance.

Quarter	September 30, Common Dividends	September 30, High	September 30, Low
4 <sup>th</sup> Quarter 2011		\$ 2.92	\$ 1.63
3 <sup>rd</sup> Quarter 2011		\$ 2.72	\$ 1.46
2 <sup>nd</sup> Quarter 2011		\$ 2.85	\$ 1.94
1 <sup>st</sup> Quarter 2011		\$ 4.00	\$ 1.85
4 <sup>th</sup> Quarter 2010		\$ 3.09	\$ 1.92
3 <sup>rd</sup> Quarter 2010		\$ 3.22	\$ 2.53
2 <sup>nd</sup> Quarter 2010		\$ 3.39	\$ 2.46
1 <sup>st</sup> Quarter 2010		\$ 3.78	\$ 2.21

Dividends paid to shareholders by the Company are subject to restrictions set forth in California General Corporation Law, which provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal to the amount of the proposed distribution. As a bank holding company without significant assets other than its equity position in the Bank, the Company's ability to pay dividends to its shareholders depends primarily upon dividends it receives from the Bank.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company's stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the Board). The Board will periodically, but on no regular schedule and in accordance with regulatory restrictions, if any, review the appropriateness of a cash dividend payment. No common cash dividends were paid in 2010 or 2011 and none are anticipated to be paid in 2012.

The Company is subject to various restrictions on the payment of dividends. See Note 2 Regulatory Matters and Note 13 Shareholders' Equity Dividend Restrictions of the Company's Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10K.

On January 30, 2009, under the Capital Purchase Program, the Company entered into a Letter Agreement (the Purchase Agreement) with the United States Department of the Treasury ( Treasury ), pursuant to which the Company issued and sold (i) 11,949 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Shares ) and (ii) a ten-year warrant to purchase up to 237,712 shares of the Company's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$7.54 per share, for an aggregate purchase price of \$11,949,000 in cash. The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. As described in the following paragraph the Purchase Agreement contains provisions that restrict the payment of dividends on Plumas Bancorp common stock and restrict the Company's ability to repurchase Plumas Bancorp common stock.

Under the Purchase Agreement, prior to January 30, 2012, unless the Company has redeemed the Preferred Shares, or the Treasury has transferred the Preferred Shares to a third party, the consent of the Treasury will be required for the Company to: (1) declare or pay any dividend or make any distribution on shares of the Common Stock (other than regular quarterly cash dividends of not more than \$0.04 per share or regular semi-annual cash dividends of not more than \$0.08 per share); or (2) redeem, purchase or acquire any shares of Common Stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement.





**Table of Contents**

**Securities Authorized for Issuance under Equity Compensation Plans.** The following table sets forth securities authorized for issuance under equity compensation plans as of December 31, 2011.

Plan Category	September 30,	September 30,	September 30,
	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	482,780	\$ 8.74	0
Equity compensation plans not approved by security holders	None	Not Applicable	None
<b>Total</b>	<b>482,780</b>	<b>\$ 8.74</b>	<b>0</b>

For additional information related to the above plans see Note 13 of the Company's Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10K.

**Issuer Purchases of Equity Securities.** There were no purchases of Plumas Bancorp common stock by the Company during 2011.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table presents a summary of selected financial data and should be read in conjunction with the Company's consolidated financial statements and notes thereto included under Item 8 Financial Statements and Supplementary Data.

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
	At or for the year ended December 31, (dollars in thousands except per share information)				
<b>Statement of Operations</b>					
Interest income	\$ 18,668	\$ 20,680	\$ 22,836	\$ 25,440	\$ 30,284
Interest expense	1,848	3,147	3,655	5,364	8,536
Net interest income	16,820	17,533	19,181	20,076	21,748
Provision for loan losses	3,500	5,500	14,500	4,600	800
Noninterest income	7,162	8,468	5,664	5,091	5,448
Noninterest expense	19,246	19,141	26,266	20,475	19,671
Provision for (benefit from) income taxes	295	389	(6,775)	(212)	2,502
Net income (loss)	\$ 941	\$ 971	\$ (9,146)	\$ 304	\$ 4,223
Preferred Stock dividends and discount accretion	684	684	628		
Net income (loss) available to common shareholders	\$ 257	\$ 287	\$ (9,774)	\$ 304	\$ 4,223
<b>Balance sheet (end of period)</b>					
Total assets	\$ 455,349	\$ 484,480	\$ 528,117	\$ 457,175	\$ 453,115
Total loans	\$ 293,865	\$ 314,200	\$ 332,678	\$ 366,017	\$ 352,949
Allowance for loan losses	\$ 6,908	\$ 7,324	\$ 9,568	\$ 7,224	\$ 4,211
Total deposits	\$ 391,140	\$ 424,887	\$ 433,255	\$ 371,493	\$ 391,940
Total shareholders' equity	\$ 39,634	\$ 37,988	\$ 38,231	\$ 35,437	\$ 37,139
<b>Balance sheet (period average)</b>					
Total assets	\$ 467,354	\$ 500,082	\$ 490,000	\$ 447,720	\$ 464,974
Total loans	\$ 302,841	\$ 323,906	\$ 354,482	\$ 355,416	\$ 353,384
Total deposits	\$ 407,982	\$ 430,777	\$ 403,896	\$ 382,279	\$ 403,772
Total shareholders' equity	\$ 39,244	\$ 38,941	\$ 43,839	\$ 37,343	\$ 37,041
<b>Capital ratios</b>					
Leverage ratio	9.8%	8.9%	7.9%	9.8%	10.0%
Tier 1 risk-based capital	13.7%	12.7%	10.4%	11.0%	11.6%
Total risk-based capital	15.0%	13.9%	11.6%	12.2%	12.7%
<b>Asset quality ratios</b>					
Nonperforming loans/total loans	5.73%	8.07%	4.30%	7.31%	0.75%
Nonperforming assets/total assets	5.60%	7.07%	4.84%	6.78%	0.70%
Allowance for loan losses/total loans	2.35%	2.33%	2.88%	1.97%	1.19%
Net loan charge-offs	\$ 3,916	\$ 7,744	\$ 12,156	\$ 1,587	\$ 506
<b>Performance ratios</b>					
Return (loss) on average assets	0.20%	0.19%	(1.87)%	0.07%	0.91%
Return (loss) on average common equity	0.9%	1.1%	(29.5)%	0.8%	11.4%
Return (loss) on average equity	2.4%	2.5%	(20.9)%	0.8%	11.4%
Net interest margin	4.08%	4.24%	4.52%	4.99%	5.18%
Loans to deposits	75.1%	73.9%	76.8%	98.5%	90.1%
Efficiency ratio	80.3%	73.6%	105.7%	81.4%	72.3%
<b>Per share information</b>					
Basic earnings (loss)	\$ 0.05	\$ 0.06	\$ (2.05)	\$ 0.06	\$ 0.85

Edgar Filing: PLUMAS BANCORP - Form 10-K

Diluted earnings (loss)	\$	0.05	\$	0.06	\$	(2.05)	\$	0.06	\$	0.84
Common cash dividends	\$	0.00	\$	0.00	\$	0.00	\$	0.24	\$	0.30
Dividend payout ratio		%		%		%		400%		35.3%
Book value per common share	\$	5.83	\$	5.51	\$	5.58	\$	7.42	\$	7.63
Common shares outstanding at period end		4,776,339		4,776,339		4,776,339		4,775,339		4,869,130

---

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

We are a bank holding company for Plumas Bank, a California state-chartered commercial bank. We derive our income primarily from interest received on real estate related, commercial and consumer loans and, to a lesser extent, interest on investment securities, fees received in connection with servicing deposit and loan customers and fees from the sale of loans. Our major operating expenses are the interest we pay on deposits and borrowings and general operating expenses. We rely on locally-generated deposits to provide us with funds for making loans.

We are subject to competition from other financial institutions and our operating results, like those of other financial institutions operating in California, are significantly influenced by economic conditions in California, including the strength of the real estate market. In addition, both the fiscal and regulatory policies of the federal and state government and regulatory authorities that govern financial institutions and market interest rates also impact the Bank's financial condition, results of operations and cash flows.

**Critical Accounting Policies**

Our accounting policies are integral to understanding the financial results reported. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and internal control procedures that are intended to ensure valuation methods are applied in an environment that is designed and operating effectively and applied consistently from period to period. The following is a brief description of our current accounting policies involving significant management valuation judgments.

**Allowance for Loan Losses.** The allowance for loan losses is an estimate of credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are collectively evaluated for impairment.

We evaluate our allowance for loan losses quarterly. We believe that the allowance for loan losses is a critical accounting estimate because it is based upon management's assessment of various factors affecting the collectibility of the loans, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans.

We cannot provide you with any assurance that economic difficulties or other circumstances which would adversely affect our borrowers and their ability to repay outstanding loans will not occur which would be reflected in increased losses in our loan portfolio, which could result in actual losses that exceed reserves previously established.

**Other Real Estate Owned.** Other real estate owned (OREO) represents properties acquired through foreclosure or physical possession. OREO is initially recorded at fair value less costs to sell when acquired. Write-downs to fair value at the time of transfer to OREO is charged to allowance for loan losses. Subsequent to foreclosure, we periodically evaluate the value of OREO held for sale and record a valuation allowance for any subsequent declines in fair value less selling costs. Subsequent declines in value are charged to operations. Fair value is based on our assessment of information available to us at the end of a reporting period and depends upon a number of factors, including our historical experience, economic conditions, and issues specific to individual properties. Our evaluation of these factors involves subjective estimates and judgments that may change.

**Income Taxes.** The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

---

**Table of Contents**

Deferred income taxes reflect the estimated future tax effects of temporary differences between the reported amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. We use an estimate of future earnings to support our position that the benefit of our deferred tax assets will be realized. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The following discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity and capital. It pertains to the Company's financial condition, changes in financial condition and results of operations as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011. The discussion should be read in conjunction with the Company's audited consolidated financial statements and notes thereto and the other financial information appearing elsewhere herein.

**Overview**

The Company recorded net income of \$941 thousand for the year ended December 31, 2011, a slight decrease from net income of \$971 thousand during the year ended December 31, 2010 but up \$10.1 million over 2009's net loss of \$9.1 million. Excluding a \$1.4 million gain (\$0.8 million net of tax) in 2010 on sale of the Bank's merchant card portfolio, net income would have increased by \$0.8 million over 2010.

Net interest income declined by \$713 thousand from \$17.5 million during 2010 to \$16.8 million for the year ended December 31, 2011. This decrease in net interest income was mostly related to a \$21 million decline in average loan balances. During the year ended December 31, 2011 non-interest income decreased by \$1.3 million to \$7.2 million, from \$8.5 million during the year ended December 31, 2010. This decrease was related to a \$1.4 million gain on the sale of our merchant processing portfolio in 2010. Additionally, gain on sale of investment securities declined by \$494 thousand from \$1.2 million in 2010 to \$0.7 million for the year ended December 31, 2011. Partially offsetting these declines in non-interest income was an \$884 thousand increase in gain on sale of government guaranteed loans from \$1.1 million in 2010 to \$1.9 million in 2011. Non-interest expense increased by \$105 thousand from \$19.1 million during the year ended December 31, 2010 to \$19.2 million during the current twelve month period. While we have achieved savings in many categories of non-interest expense these were offset in the current year by an increase of \$649 thousand in loss on sale of OREO.

The most significant expense reduction was a \$2.0 million decrease in our provision for loan losses from \$5.5 million for the year ended December 31, 2010 to \$3.5 million during 2011. The \$3.5 million provision recorded for the year ended December 31, 2011 primarily relates to net charge-offs during the twelve month period. We have experienced a \$3.8 million decrease in net charge-offs during the comparison years. Net charge-offs declined from \$7.7 million during 2010 to \$3.9 million during the year ended December 31, 2011. Net charge-offs as percentage of average loans decreased significantly from 2.39% during the twelve months ended December 31, 2010 to 1.29% during the current year.

The provision for income taxes declined from \$389 thousand in 2010 to \$295 thousand during the year ended December 31, 2011.

Net income allocable to common shareholders decreased slightly from \$287 thousand during the year ended December 31, 2010 to \$257 thousand during 2011. Income allocable to common shareholders is calculated by subtracting dividends and discount amortized on preferred stock from net income.

**Table of Contents**

Total assets at December 31, 2011 decreased \$29.1 million, or 6% to \$455 million. Decreases include \$5.1 million in investment securities, \$19.7 million in net loans, \$1.6 million in cash and due from banks and \$2.7 million in all other assets. Net loans decreased by 6% from \$307 million at December 31, 2010 to \$287 million at December 31, 2011. This decline in net loans was mostly related to normal pay downs and prepayments, loan charge-offs, real estate acquired through foreclosure and our continued efforts to reduce the level of construction and land development loan balances. At December 31, 2011 investment securities totaled \$57.9 million compared to \$63.0 million at December 31, 2010. Investment securities are composed of debt securities issued by agencies sponsored by the U.S. Government.

Total deposits were \$391 million as of December 31, 2011, a decrease of \$33.7 million, or 8%, from the December 31, 2010 balance of \$425 million. The decline in deposits was primarily related to maturities from a higher rate promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. Core deposit growth was strong with increases in non-interest bearing deposits of \$14.1 million and savings deposits of \$10.8 million. Non-interest bearing deposits as a percentage of total deposits increased from 26.3% at December 31, 2010 to 32.2% at December 31, 2011.

Shareholders' equity as of December 31, 2011 increased by \$1.6 million to \$39.6 million up from \$38.0 million as of December 31, 2010. This increase was mostly related to earnings during the period, the reversal of \$524 thousand in accrued preferred stock dividends and an increase of \$210 thousand in accumulated other comprehensive income/loss from a loss of \$52 thousand at December 31, 2010 to accumulated other comprehensive income of \$158 thousand at December 31, 2011.

The return on average assets was 0.20% for 2011, up from 0.19% for 2010. The return on average common equity was 0.9% for 2011, down from 1.1% for 2010.

**Table of Contents****Results of Operations****Net Interest Income**

The following table presents, for the years indicated, the distribution of consolidated average assets, liabilities and shareholders' equity. Average balances are based on average daily balances. It also presents the amounts of interest income from interest-earning assets and the resultant yields expressed in both dollars and yield percentages, as well as the amounts of interest expense on interest-bearing liabilities and the resultant cost expressed in both dollars and rate percentages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
				Year ended December 31,					
	Average	2011	Rates	Average	2010	Rates	Average	2009	Rates
	balance	interest	earned/	balance	interest	earned/	balance	interest	earned/
		income/	paid		income/	paid		income/	paid
		expense			expense			expense	
	(dollars in thousands)								
<b>Assets</b>									
Interest bearing deposits	\$ 49,628	\$ 124	0.25%	\$ 19,808	\$ 48	0.24%	\$ 6,298	\$ 15	0.24%
Federal funds sold							12		
Investment securities <sup>(1)</sup>	59,439	1,144	1.92	69,357	1,772	2.55	64,047	2,163	3.38
Total loans <sup>(2)(3)</sup>	302,841	17,400	5.75	323,906	18,860	5.82	354,482	20,658	5.83
Total earning assets	411,908	18,668	4.53%	413,071	20,680	5.01%	424,839	22,836	5.38%
Cash and due from banks	13,204			38,945			27,372		
Other assets	42,242			48,066			37,789		
Total assets	\$ 467,354			\$ 500,082			\$ 490,000		
<b>Liabilities and shareholders' equity</b>									
Interest bearing demand deposits	\$ 93,925	187	0.20%	\$ 101,519	382	0.38%	\$ 98,394	671	0.68%
Money market deposits	40,050	115	0.29	42,514	221	0.52	41,844	346	0.83
Savings deposits	58,996	106	0.18	51,011	86	0.17	50,286	90	0.18
Time deposits	96,961	1,061	1.09	124,810	2,007	1.61	105,313	2,062	1.96
Short-term borrowings				986	5	0.51	24,292	80	0.33
Long-term borrowings				9,973	130	1.30	1,589	27	1.70
Junior subordinated debentures	10,310	326	3.16	10,310	312	3.03	10,310	371	3.60
Other	3,188	53	1.66	123	4	3.25	212	8	3.77
Total interest bearing liabilities	303,430	1,848	0.61%	341,246	3,147	0.92%	332,240	3,655	1.10%
Noninterest bearing demand deposits	118,050			110,923			108,059		
Other liabilities	6,630			8,972			5,862		
Shareholders' equity	39,244			38,941			43,839		
Total liabilities and shareholders' equity	\$ 467,354			\$ 500,082			\$ 490,000		
<b>Net interest income</b>		\$ 16,820			\$ 17,533			\$ 19,181	
<b>Net interest spread <sup>(4)</sup></b>			3.92%			4.09%			4.28%
<b>Net interest margin <sup>(5)</sup></b>			4.08%			4.24%			4.52%



- (1) Interest income is reflected on an actual basis and is not computed on a tax-equivalent basis.
- (2) Average nonaccrual loan balances of \$20.2 million for 2011, \$18.8 million for 2010 and \$25.1 million for 2009 are included in average loan balances for computational purposes.
- (3) Loan origination fees and costs are included in interest income as adjustments of the loan yields over the life of the loan using the interest method. Loan interest income includes net loan fees (costs) of \$49,000, \$(20,000) and \$(214,000) for 2011, 2010 and 2009, respectively.
- (4) Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
- (5) Net interest margin is computed by dividing net interest income by total average earning assets.

**Table of Contents**

The following table sets forth changes in interest income and interest expense, for the years indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

	2011 compared to 2010				2010 compared to 2009			
	Increase (decrease) due to change in:				Increase (decrease) due to change in:			
	Average Volume <sup>(1)</sup>	Average Rate <sup>(2)</sup>	Mix <sup>(3)</sup>	Total	Average Volume <sup>(1)</sup>	Average Rate <sup>(2)</sup>	Mix <sup>(3)</sup>	Total
	(dollars in thousands)							
<b>Interest-earning assets:</b>								
Interest bearing deposits	\$ 72	\$ 2	\$ 2	\$ 76	\$ 32	\$	\$ 1	\$ 33
Investment securities	(253)	(437)	62	(628)	179	(527)	(43)	(391)
Loans	(1,226)	(250)	16	(1,460)	(1,782)	(18)	2	(1,798)
<b>Total interest income</b>	<b>(1,407)</b>	<b>(685)</b>	<b>80</b>	<b>(2,012)</b>	<b>(1,571)</b>	<b>(545)</b>	<b>(40)</b>	<b>(2,156)</b>
<b>Interest-bearing liabilities:</b>								
Interest bearing demand deposits	(28)	(180)	13	(195)	21	(301)	(9)	(289)
Money market deposits	(13)	(99)	6	(106)	5	(128)	(2)	(125)
Savings deposits	13	6	1	20	1	(5)		(4)
Time deposits	(448)	(641)	143	(946)	382	(369)	(68)	(55)
Short-term borrowings	(5)	(5)	5	(5)	(77)	43	(41)	(75)
Long-term borrowings	(130)	(130)	130	(130)	142	(6)	(33)	103
Junior subordinated debentures		14		14		(59)		(59)
Other borrowings	100	(2)	(49)	49	(3)	(1)		(4)
<b>Total interest expense</b>	<b>(511)</b>	<b>(1,037)</b>	<b>249</b>	<b>(1,299)</b>	<b>471</b>	<b>(826)</b>	<b>(153)</b>	<b>(508)</b>
<b>Net interest income</b>	<b>\$ (896)</b>	<b>\$ 352</b>	<b>\$ (169)</b>	<b>\$ (713)</b>	<b>\$ (2,042)</b>	<b>\$ 281</b>	<b>\$ 113</b>	<b>\$ (1,648)</b>

(1) The volume change in net interest income represents the change in average balance multiplied by the previous year's rate.

(2) The rate change in net interest income represents the change in rate multiplied by the previous year's average balance.

(3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

**2011 compared to 2010.** Net interest income is the difference between interest income and interest expense. Net interest income, on a nontax-equivalent basis, was \$16.8 million for the year ended December 31, 2011, a decline of \$0.7 million, or 4.1%, from \$17.5 million for 2010.

The overall change in net interest income was primarily a result of a decrease of \$1.5 million in loan interest income and a decline of \$628 thousand in interest income on investment securities. The decline in interest on loans was mostly related to a decline in average loans outstanding. Interest on investments securities declined related to a decrease in both yield and average balance. Partially offsetting these decreases in interest income was a decline in rates paid on the Company's deposits and a decline in the average balance of time deposits, interest bearing demand deposits and long-term borrowings.

Interest income decreased \$2.0 million, or 9.7%, to \$18.7 million for the year ended December 31, 2011. Interest and fees on loans decreased by \$1.5 million from \$18.9 million for the year ended December 31, 2010 to \$17.4 million for 2011. The average loan balances were \$302.8 million for 2011, down \$21.1 million from the \$323.9 million for 2010. This decline in loans was mostly related to normal pay downs and prepayments, loan charge-offs, real estate acquired through foreclosure and our on-going efforts to reduce the level of construction and land development loan balances. The average yields on loans were 5.75% for 2011 down from the 5.82% for 2010.

## Edgar Filing: PLUMAS BANCORP - Form 10-K

Interest on investment securities decreased by \$628 thousand resulting from a decrease in yield of 63 basis points and a decline in average investment securities of \$9.9 million. The decline in yield is primarily related to the replacement of matured and sold investment securities with new investments with market yields below those which they replaced.

Interest income on other interest-earning assets, which totaled \$124 thousand in 2011 and \$48 thousand in 2010, relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by \$1.2 million, or 46%, to \$1.5 million for the twelve months ended December 31, 2011, down from \$2.7 million in 2011. This decrease primarily relates to decreases in the average balance and rate paid on time deposits and a decline in the rate paid on demand deposit (NOW) and money market accounts.

---

**Table of Contents**

Interest on time deposits declined by \$946 thousand. Average time deposits declined by \$27.8 million from \$124.8 million during 2010 to \$97.0 million for the year ended December 31, 2011. The decrease in time deposits is mostly related to a promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. These promotional time deposits have now fully matured. The average rate paid on these promotional deposits during 2011 was 2%. The average rate paid on time deposits decreased from 1.61% during 2010 to 1.09% during the current twelve month period. This decrease primarily relates to a decline in market rates paid in the Company's service area and the maturity of the higher rate promotional deposits.

Interest expense on NOW accounts declined by \$195 thousand. Rates paid on NOW accounts declined by 18 basis points from 0.38% during 2010 to 0.20% during 2011, as we significantly lowered the rate paid on local public agencies NOW accounts. Although we lost deposits by lowering this rate; we continue to focus on the profitability of the public sweep accounts rather than growing public sweep balances.

Interest expense on money market accounts decreased by \$106 thousand related primarily to a decrease in rate paid on these accounts of 23 basis points from 0.52% during 2010 to 0.29% during 2011. This was primarily related to a significant drop in the rates paid on our money market sweep product. We no longer offer the money market sweep account having replaced it with a product that utilizes repurchase agreements during the third quarter of 2011.

Interest on FHLB long term borrowings decreased by \$130 thousand as there were no outstanding long term borrowings during 2011. Interest expense on junior subordinated debentures, which increased by \$14 thousand from 2010, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate.

Interest on other borrowings in 2011 primarily relates to interest paid on repurchase agreements.

Net interest margin is net interest income expressed as a percentage of average interest-earning assets. As a result of the changes noted above, the net interest margin for 2011 decreased 16 basis points to 4.08%, from 4.24% for 2010.

**2010 compared to 2009.** Net interest income, on a nontax-equivalent basis, was \$17.5 million for the year ended December 31, 2010, a decline of \$1.6 million, or 8.6%, from \$19.2 million for 2009.

The overall change in net interest income was primarily a result of a decrease of \$1.8 million in loan interest income, due to a decline in average loans outstanding. Additionally, interest on investments securities declined by \$391 thousand, related to a decrease in yield. Partially offsetting these decreases in interest income was a decline in rates paid on the Company's deposits and borrowings.

Interest income decreased \$2.2 million, or 9.4%, to \$20.7 million for the year ended December 31, 2010. Interest and fees on loans decreased by \$1.8 million from \$20.7 million for the year ended December 31, 2009 to \$18.9 million for 2010. The average loan balances were \$323.9 million for 2010, down \$30.6 million from the \$354.5 million for 2009. The decline in loan balances is consistent with the decrease in economic activity in the Company's service area and the Company's successful effort to reduce its exposure to real estate construction and land development loans. The average yields on loans were 5.82% for 2010 as compared to the 5.83% for 2009.

Interest on investment securities decreased by \$391 thousand, as a decrease in yield of 83 basis points was partially offset by an increase in average investment securities of \$5.3 million. The decline in yield is primarily related to the replacement of matured and sold investment securities with new investments with market yields below those which they replaced.

Deposit rates in the Bank's service area continued to decline in 2010 resulting in a decline in interest expense on deposits of \$473 thousand for the year ended December 31, 2010, from \$3.2 million for 2009 to \$2.7 million for the year ended December 31, 2010. All deposit products experienced rate declines in 2010.

Interest expense on NOW accounts decreased by \$289 thousand related to a decrease in the average rate paid on these accounts. Rates paid on NOW accounts declined by 30 basis points from 0.68% during 2009 to 0.38% during 2010 as we significantly lowered the rate paid on local public agencies NOW accounts. Although we lost some deposits by lowering this rate; we currently are more focused on the profitability of the public sweep accounts rather than the amount of deposits we can generate from this source.

## **Table of Contents**

Interest expense on money market accounts decreased by \$125 thousand related to a decrease in rate paid on these accounts of 31 basis points from 0.83% during the year ended December 31, 2009 to 0.52% during 2010. This was primarily related to a significantly drop in the rates paid on our money market sweep product.

Interest on time deposits declined by \$55 thousand as an increase in average balance was offset by a decline in rate paid. For the year ended December 31, 2010 compared to 2009, the Company's average time deposits increased by \$19.5 million from \$105.3 million for 2009 to \$124.8 million for the year ended December 31, 2010. The increase in time deposits is related to a promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. The average rate paid on time deposits decreased from 1.96% during 2009 to 1.61% during 2010. This decrease primarily relates to a decline in market rates in the Company's service area.

Interest on borrowings increased by \$28 thousand related to an increase in the rate paid on borrowings as we chose to extend the term of our borrowings; however, this was partially offset by a \$59 thousand decline in interest paid on junior subordinated debentures.

Interest expense on FHLB long-term borrowings increased by \$103 thousand to \$130 thousand for the year ended December 31, 2010. We chose to prepay these borrowings during July 2010 as we had significant excess liquidity and no longer projected a need for these long-term borrowings. We incurred a \$226 thousand prepayment penalty on these advances which we anticipate will be more than offset by future savings in interest expense. Interest on short-term borrowings decreased by \$75 thousand to \$5 thousand related to a decline in average balance of \$23.3 million from \$24.3 million during 2009 to \$986 thousand during 2010.

Interest expense on junior subordinated debentures, which fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate, decreased by \$59 thousand during 2010 as a result of a decrease in the LIBOR rate.

Net interest margin is net interest income expressed as a percentage of average interest-earning assets. As a result of the changes noted above, the net interest margin for 2010 decreased 28 basis points to 4.24%, from 4.52% for 2009.

## **Provision for Loan Losses**

During the year ended December 31, 2011 we recorded a provision for loan losses of \$3.5 million down \$2.0 million from the \$5.5 million provision recorded during 2010. See "Analysis of Asset Quality and Allowance for Loan Losses" for further discussion of loan quality trends and the provision for loan losses.

The allowance for loan losses is maintained at a level that management believes will be appropriate to absorb inherent losses on existing loans based on an evaluation of the collectibility of the loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay their loan. The allowance for loan losses is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Based on information currently available, management believes that the allowance for loan losses is appropriate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

**Table of Contents****Non-Interest Income**

The following table sets forth the components of non-interest income for the years ended December 31, 2011, 2010 and 2009.

	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009	September 30, Change during Year 2011	September 30, 2010
	(dollars in thousands)				
Service charges on deposit accounts	\$ 3,477	\$ 3,642	\$ 3,796	\$ (165)	\$ (154)
Gain on sale of loans, net	1,939	1,055	593	884	462
Gain on sale of investments	666	1,160	10	(494)	1,150
Earnings on bank owned life insurance policies	352	351	346	1	5
Loan servicing fees	219	195	139	24	56
Customer service fees	141	135	121	6	14
Safe deposit box and night depository income	66	66	68		(2)
Merchant processing	15	141	282	(126)	(141)
Sale of merchant processing portfolio		1,435		(1,435)	1,435
Other income	287	288	309	(1)	(21)
<b>Total non-interest income</b>	<b>\$ 7,162</b>	<b>\$ 8,468</b>	<b>\$ 5,664</b>	<b>\$ (1,306)</b>	<b>\$ 2,804</b>

**2011 compared to 2010.** During the year ended December 31, 2011 non-interest income decreased by \$1.3 million to \$7.2 million, from \$8.5 million during the year ended December 31, 2010. This decrease was related to the sale of our merchant processing portfolio in 2010. During June 2010 we entered into an alliance with a world-wide merchant processing leader. In conjunction with this alliance we sold our merchant processing business, recording a one-time gain of \$1.4 million. Related to this sale we experienced a decrease in merchant processing income of \$126 thousand during the comparison periods. Service charges on deposit accounts declined by \$165 thousand primarily related to a decline in overdraft fees as new regulations placed additional restrictions on the Bank in charging overdraft fees on ATM and Point of Sale transactions. Gain on sale of investments declined by \$494 thousand. During the year ended December 31, 2011 we sold twenty-seven investment securities classified as available-for-sale for \$29.4 million recognizing a \$0.7 million gain on sale. During the 2010 period we sold sixty-five investment securities classified as available-for sale for \$40.9 million and recorded a \$1.2 million gain on sale. We chose to sell some of the securities in our investment portfolio in order to lock in gains; this had the additional benefit of partially offsetting some nonrecurring expense items such as losses on sale of OREO.

Partially offsetting these declines in income was a \$884 thousand increase in gain on sale of government guaranteed loans. Gains on sale in 2011 were particularly strong related to two factors. First, during the first quarter of 2011 the SBA eliminated the recourse provision related to loan sales allowing us to record both gains on sales from loans sold during the fourth quarter of 2010 and the first quarter of 2011. In addition, many loans sold in 2011 were 90% guaranteed related to a temporary increase in guarantee percentage enacted on February 17, 2009 as part of the Recovery Act. Currently loans made through the SBA 7(a) program carry a 75% to 85% guarantee. The production and sale of government guaranteed loans has become an important component of the Company's core business. We expect government guaranteed lending activity to remain strong in 2012; however, we anticipate a reduction in gains on sale during 2012.

Loan servicing fees increased by \$24 thousand to \$219 thousand for the year ended December 31, 2011. Loan servicing fees are primarily related to fees earned for servicing the sold portion of SBA loans and the increase in this category is consistent with the increase in sold SBA loans.

**2010 compared to 2009.** During the year ended December 31, 2010 non-interest income increased by \$2.8 million to \$8.6 million, from \$5.8 million during 2009. This increase was primarily related to three items, the largest of which was a \$1.4 million gain on the sale of our merchant processing portfolio. Additionally we sold securities having a book value of \$39.7 million, recording a gain on sale of \$1.2 million. We chose to sell substantially our entire municipal securities portfolio as part of our overall asset/liability management strategy and related to the favorable market price for these securities. In addition, we sold \$28.9 million in U.S. government agency securities to lock in significant gains that were available on these securities. Finally, we recorded a gain on sale of government guaranteed loans of \$1.1 million representing the sale of \$13.6 million in loans. Additional SBA government guaranteed loans totaling \$4.3 million were sold during the fourth quarter; however, the gain on

## Edgar Filing: PLUMAS BANCORP - Form 10-K

sale generated was not recorded until the 90-day premium recourse period on SBA loan sales had expired. During the first quarter of 2011, the Company recognized a gain on sale of approximately \$338 thousand related to loans sold during the fourth quarter of 2010; however, this gain was partially offset by commission expense of approximately \$106 thousand.

**Table of Contents**

Loan servicing fees increased by \$56 thousand to \$195 thousand for the year ended December 31, 2010. Loan servicing fees are primarily related to fees earned for servicing the sold portion of SBA loans and the increase in this category is consistent with the increase in sold SBA loans.

Service charges on deposit accounts declined by \$154 thousand primarily related to a decline in overdraft fees as new regulations placed additional restrictions on the Bank in charging overdraft fees on ATM and Point of Sale transactions. Merchant processing fees declined by \$141 thousand related to the sale of our merchant processing portfolio in June, 2010.

**Non-Interest Expense**

The following table sets forth the components of other non-interest expense for the years ended December 31, 2011, 2010 and 2009.

	September 30, Years Ended December 31,			September 30, Change during Year	
	2011	2010	2009	2011	2010
	(dollars in thousands)				
Salaries and employee benefits	\$ 9,195	\$ 9,732	\$ 11,054	\$ (537)	\$ (1,322)
Occupancy and equipment	3,088	3,096	3,759	(8)	(663)
Outside service fees	1,270	1,212	990	58	222
FDIC insurance	1,099	1,009	1,125	90	(116)
Professional fees	730	587	789	143	(202)
Loss (gain) on sale of OREO	606	(43)	158	649	(201)
Provision for OREO losses	579	356	4,800	223	(4,444)
OREO costs	422	573	370	(151)	203
Telephone and data communications	331	338	392	(7)	(54)
Business development	262	250	333	12	(83)
Loan collection costs	261	261	399		(138)
Advertising and promotion	236	252	327	(16)	(75)
Director compensation and retirement	229	233	293	(4)	(60)
Armored car and courier	225	239	281	(14)	(42)
Postage	190	207	207	(17)	
Core deposit intangible	173	173	173		
Stationery and supplies	140	145	183	(5)	(38)
Insurance	42	125	54	(83)	71
Other operating expense	168	396	579	(228)	(183)
Total non-interest expense	\$ 19,246	\$ 19,141	\$ 26,266	\$ 105	\$ (7,125)

**2011 compared to 2010.** While we have achieved savings in many categories of non-interest expense these were offset in the current year by an increase of \$649 thousand in loss on sale of OREO. Non-interest expense increased by \$105 thousand from \$19.1 million during the year ended December 31, 2010 to \$19.2 million during the current twelve month period.



---

**Table of Contents**

OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Loss on sale of OREO totaled \$606 thousand primarily related to the sale of one property. During June, 2011 the Bank sold its largest OREO holding which represented \$4.3 million, or 48% of the total balance in OREO at January 1, 2011. The Bank incurred a \$617 thousand loss on sale; however, management believes the loss was prudent given the significant affect this transaction had in decreasing nonperforming assets.

Outside service fees increased by \$58 thousand which mostly relates to our on-line banking and bill payment platform. FDIC insurance costs increased related to an increase in the rate the FDIC charges Plumas Bank. Professional fees increased by \$143 thousand the largest portion of which was related to an increase in consulting cost of \$97 thousand. During the second half of 2011 we contracted with an outside party to provide assistance in the management of our nonperforming assets. Total costs incurred related to this consultant were \$42 thousand. In addition we incurred \$21 thousand in costs related to an outside management study required by the Consent Order.

The largest reduction in expense was a decrease of \$537 thousand in salaries and employee benefits. Salary expense, excluding commissions, declined by \$667 thousand mostly related to a reduction in staffing, during the second quarter of 2010, which affected most functional areas with the exception of government guaranteed lending and problem assets. On a full-time equivalent basis, we employed 142 persons at December 31, 2011 down from 146 at December 31, 2010 and 163 at December 31, 2009. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by \$318 thousand resulting from the increase in government guaranteed loan gains.

The provision for OREO losses increased by \$223 thousand related to one land development property that, based on a recent appraisal, declined in value by \$417 thousand. This property is currently valued at approximately \$1 million. OREO carrying costs declined by \$151 thousand from \$573 thousand during 2010 to \$422 thousand during 2011. These savings were primarily related to property taxes on OREO properties and refunds on prior year tax payments related to some of our OREO properties being reassessed.

Insurance expense declined by \$83 thousand primarily related to the forfeiture of retirement split dollar life insurance benefits by one of our executive officers who chose to terminate his employment during 2011 prior to age sixty-five.

Other non-interest expense declined by \$228 thousand related to a \$226 thousand prepayment penalty incurred upon the prepayment of our long-term Federal Home Loan Bank borrowings during July, 2010.

**2010 compared to 2009.** During the second quarter of 2010 we performed an extensive analysis of our personnel requirements throughout the organization and based on this analysis we were able to reduce our head count by approximately 10% which resulted in significant savings in salary and benefits during the second half of 2010. During the year ended December 31, 2010, total non-interest expense decreased by \$7.1 million, or 27%, to \$19.2 million, down from \$26.3 million for the comparable period in 2009. This decrease in non-interest expense was primarily the result of savings in salaries and employee benefits, occupancy and equipment costs, professional fees, provision for OREO losses and a reduction in losses on the sale of OREO. These items and other reductions were partially offset by increases in outside service fees, OREO carrying expenses and insurance expense.

Salaries and employee benefits decreased by \$1.3 million primarily related to four items. Salary expense, excluding commissions, declined by \$796 thousand related to a reduction in staffing in all areas with the exception of government guaranteed lending and problem assets. While the Company reduced personnel in most functional areas, we increased staffing in our problem asset department to effectively manage our increased level of nonperforming assets. Additionally, staffing in our government guaranteed lending department was increased to support opportunities for loan growth in this area. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by \$152 thousand resulting from the increase in government guaranteed loan sales. Stock compensation expense decreased by \$199 thousand. During the first quarter of 2010 we recorded an adjustment to the estimated forfeiture rate associated with option expense. Finally, we eliminated discretionary bonuses in 2010 resulting in a decrease in bonus expense of \$269 thousand and during the second quarter of 2010 we discontinued the Company matching contributions to our 401k plan saving \$172 thousand during 2010.

---

**Table of Contents**

The decline in occupancy and equipment expense primarily relates to the savings realized from the purchase of our Redding branch. On March 31, 2010 we purchased the building housing our Redding branch at a cost of \$1.0 million. Previously we had leased this building. Under the terms of the lease agreement we were provided free rent for a period of time; however, in accordance with accounting principals we recognized monthly rent expense equal to the total payments required under the lease dividend by the term of the lease in months. At the time of the purchase we reversed this accrual recognizing a \$184 thousand reduction in occupancy costs. In addition to the one-time savings from the reversal of accrued rent we benefit from reduced operating costs on this building as the owner rather than a renter. Occupancy costs also benefited from a milder winter resulting in reduced utility and snow removal costs. Equipment costs benefited from a \$153 thousand reduction in depreciation expense.

Professional fees were abnormally high during 2009 related to consulting costs associated with our computer network and telephone system. The decrease in profession fees includes a \$157 thousand reduction in consulting costs.

Losses on the sale of OREO totaled \$158 thousand during 2009; however, during 2010 we recorded \$43 thousand net gains on sale of OREO. During 2009 we experienced a significant decline in the value of many of our OREO properties requiring a \$4.8 million loss provision; however, this decline in value slowed significantly in 2010. During 2010 our provision for OREO losses declined by \$4.4 million to \$356 thousand.

Other reductions in expense include savings in FDIC insurance, telephone, loan collection costs, business development, advertising, director expense, courier expense, director expenses, supplies costs and other. In total these costs were down \$789 thousand for 2010.

Outside service fees increased by \$222 thousand related to the outsourcing of daily management of our computer network operations and the installation of a new internet banking platform. Consistent with the increase in average OREO (See Analysis of Asset Quality and Allowance for Loan Losses ) OREO carrying expenses increased by \$203 thousand.

Insurance expense was abnormally low in 2009. During the first quarter of 2009 our Chief Information and Technology officer retired from the Company. Because his retirement took place prior to the age of sixty-five he forfeited his benefits under his company provided split dollar life insurance plan. To reflect this forfeiture we recorded a one-time reduction in insurance expense totaling \$83 thousand.

**Provision for Income Taxes.** The Company recorded an income tax provision of \$295 thousand, or 23.9% of pre-tax income for the year ended December 31, 2011. During 2010 the Company recorded an income tax provision of \$389 thousand, or 28.6% of pre-tax income for the year ended December 31, 2010. The percentages for 2011 and 2010 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance, municipal loan interest, and in the state of California enterprise zone interest decrease taxable income.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

## Table of Contents

As part of its analysis, the Company considered the following positive evidence:

The Company's 2009 net loss was largely attributable to losses on its Construction and Land Development portfolio that represented approximately 80% of net charge-offs during the year ended December 31, 2009. This portfolio has decreased from \$74 million at December 31, 2008 to \$17 million at December 31 2011.

The Company's 2009 net loss was also attributable to significant write-downs on foreclosed construction and land development real estate properties which represented the majority of its provision for losses on other real estate during 2009. During 2010 other real estate write-downs decreased by \$4.4 million from \$4.8 million during the year ended December 31, 2009 to \$356 thousand during 2010. Write-downs on construction and land development real estate owned during 2011 totaled \$440 thousand.

The Company has a long history of earnings and profitability.

The Company was profitable in 2011 and 2010 and is projecting future taxable and book income will be generated by operations.

The size of loans in the Company's pipeline of potential problem loans has significantly decreased.

The Company does not have a history of net operating losses carry forwards or tax credits expiring unused.

As part of its analysis, the Company also considered the following negative evidence:

The Company recorded a large net loss in 2009 and is in a cumulative loss position for the current and preceding two years. Based upon the analysis of available evidence, management has determined that it is more likely than not that all deferred income tax assets as of December 31, 2011 and 2010 will be fully realized and therefore no valuation allowance was recorded.

## Financial Condition

**Loan Portfolio.** The Company continues to manage the mix of its loan portfolio consistent with its identity as a community bank serving the financing needs of all sectors of the area it serves. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized commercial businesses. These commercial loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment.

The Company's largest lending categories are commercial real estate loans, residential real estate loans, and agricultural loans. These categories accounted for approximately 40.6%, 13.3% and 13.2%, respectively of the Company's total loan portfolio at December 31, 2011, and approximately 37.9%, 13.8% and 12.2%, respectively of the Company's total loan portfolio at December 31, 2010. Construction and land development loans continue to decline and represented 5.8% and 9.9% of the loan portfolio as of December 31, 2011 and December 31, 2010, respectively. The construction and land development portfolio component has been identified by Management as a higher-risk loan category. The quality of the construction and land development category is highly dependent on property values both in terms of the likelihood of repayment once the property is transacted by the current owner as well as the level of collateral the Company has securing the loan in the event of default. Loans in this category are characterized by the speculative nature of commercial and residential development properties and can include property in various stages of development from raw land to finished lots. The decline in these loans as a percentage of the Company's loan portfolio reflects management's continued efforts, which began in 2009, to reduce its exposure to construction and land development loans due to the severe valuation decrease in the real estate market.

## Edgar Filing: PLUMAS BANCORP - Form 10-K

The Company's real estate related loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 81% and 80% of the total loan portfolio at December 31, 2011 and December 31, 2010, respectively. Moreover, the business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, Sierra and in Washoe County in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

**Table of Contents**

The rates of interest charged on variable rate loans are set at specific increments in relation to the Company's lending rate or other indexes such as the published prime interest rate or U.S. Treasury rates and vary with changes in these indexes. At December 31, 2011 and December 31, 2010, approximately 73% and 66%, respectively, of the Company's loan portfolio was comprised of variable rate loans. While real estate mortgage, commercial and consumer lending remain the foundation of the Company's historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types. In addition, the Company remains committed to the agricultural industry in Northeastern California and will continue to pursue high quality agricultural loans. Agricultural loans include both commercial and commercial real estate loans. The Company's agricultural loan balances totaled \$39 million at December 31, 2011 and \$38 million at December 31, 2010.

The following table sets forth the amounts of loans outstanding by category as of the dates indicated.

	September 30, 2011	September 30, 2010	September 30, At December 31, 2009 (dollars in thousands)	September 30, 2008	September 30, 2007
Real estate mortgage	\$ 158,431	\$ 162,513	\$ 161,397	\$ 151,943	\$ 128,357
Real estate construction and land development	17,063	31,199	38,061	73,820	76,478
Commercial	30,235	33,433	37,056	42,528	39,584
Consumer (1)	49,268	48,586	54,442	61,706	72,768
Agriculture (2)	38,868	38,469	41,722	36,020	35,762
Total loans	293,865	314,200	332,678	366,017	352,949
Less:					
Deferred costs	(475)	(275)	(298)	(279)	(564)
Allowance for loan losses	6,908	7,324	9,568	7,224	4,211
Net loans	\$ 287,432	\$ 307,151	\$ 323,408	\$ 359,072	\$ 349,302

(1) Includes equity lines of credit

(2) Includes agriculture real estate

The following table sets forth the maturity of gross loan categories as of December 31, 2011. Also provided with respect to such loans are the amounts due after one year, classified according to sensitivity to changes in interest rates:

	September 30, Within One Year	September 30, After One Through Five Years	September 30, After Five Years	September 30, Total
	(dollars in thousands)			
Real estate mortgage	\$ 10,357	\$ 39,933	\$ 108,141	\$ 158,431
Real estate construction and land development	6,811	7,237	3,015	17,063
Commercial	9,744	16,005	4,486	30,235
Consumer	5,644	12,044	31,580	49,268
Agriculture	13,758	10,018	15,092	38,868
Total	\$ 46,314	\$ 85,237	\$ 162,314	\$ 293,865

Loans maturing after one year with:

## Edgar Filing: PLUMAS BANCORP - Form 10-K

Fixed interest rates	\$	26,275	\$	42,419	\$	68,694
Variable interest rates		58,962		119,899		178,861
Total	\$	85,237	\$	162,318	\$	247,555

**Analysis of Asset Quality and Allowance for Loan Losses.** The Company attempts to minimize credit risk through its underwriting and credit review policies. The Company's credit review process includes internally prepared credit reviews as well as contracting with an outside firm to conduct periodic credit reviews. The Company's management and lending officers evaluate the loss exposure of classified and impaired loans on a quarterly basis, or more frequently as loan conditions change. The Management Asset Resolution Committee (MARC) reviews the asset quality of criticized loans on a monthly basis and reports the findings to the full Board of Directors. The Board's Loan Committee reviews the asset quality of new loans on a monthly basis and reports the findings to the full Board of Directors. In management's opinion, this loan review system helps facilitate the early identification of potential criticized loans.

## **Table of Contents**

The Company has implemented MARC to develop an action plan to significantly reduce nonperforming loans. It consists of members of executive management and credit administration management, and the activities are governed by a formal written charter. The MARC meets at least monthly and reports to the Board of Directors.

More specifically, a formal plan to effect repayment and/or disposition of every significant nonperforming loan relationship is developed and documented for review and on-going oversight by the MARC. Some of the strategies used include but are not limited to: 1) obtaining additional collateral, 2) obtaining additional investor cash infusion, 3) sale of the promissory note to an outside party, 4) proceeding with foreclosure on the underlying collateral, 5) legal action against borrower/guarantors to encourage settlement of debt and/or collect any deficiency balance owed. Each step includes a benchmark timeline to track progress.

MARC also provides guidance for the maintenance and timely disposition of OREO properties; including developing financing and marketing programs to incent individuals to purchase OREO.

The allowance for loan losses is established through charges to earnings in the form of the provision for loan losses. Loan losses are charged to and recoveries are credited to the allowance for loan losses. The allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in loans. The adequacy of the allowance for loan losses is based upon management's continuing assessment of various factors affecting the collectibility of loans; including current economic conditions, maturity of the portfolio, size of the portfolio, industry concentrations, borrower credit history, collateral, the existing allowance for loan losses, independent credit reviews, current charges and recoveries to the allowance for loan losses and the overall quality of the portfolio as determined by management, regulatory agencies, and independent credit review consultants retained by the Company. There is no precise method of predicting specific losses or amounts which may ultimately be charged off on particular segments of the loan portfolio. The collectibility of a loan is subjective to some degree, but must relate to the borrower's financial condition, cash flow, quality of the borrower's management expertise, collateral and guarantees, and state of the local economy.

The federal financial regulatory agencies in December 2006 issued a new interagency policy statement on the allowance for loan and lease losses along with supplemental frequently asked questions. When determining the adequacy of the allowance for loan losses, the Company follows these guidelines. The policy statement revises and replaces a 1993 policy statement on the allowance for loan and lease losses. The agencies issued the revised policy statement in view of today's uncertain economic environment and the presence of concentrations in untested loan products in the loan portfolios of insured depository institutions. The policy statement was also revised to conform with accounting principles generally accepted in the United States of America ( GAAP ) and post-1993 supervisory guidance. The policy statement reiterates that each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the allowance for loan and lease losses and the provision for loan and lease losses and states that each institution should ensure controls are in place to consistently determine the allowance for loan and lease losses in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

The policy statement also restates that insured depository institutions must maintain an allowance for loan and lease losses at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio, and that estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. The policy statement states that prudent, conservative, but not excessive, loan loss allowances that represent management's best estimate from within an acceptable range of estimated losses are appropriate. In addition, the Company incorporates the Securities and Exchange Commission Staff Accounting Bulletin No. 102, which represents the SEC staff's view related to methodologies and supporting documentation for the Allowance for Loan and Lease Losses that should be observed by all public companies in complying with the federal securities laws and the Commission's interpretations.

---

**Table of Contents**

The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements, which include but are not limited to:

specific allocation determined in accordance with ASC Topic 310 – Receivables, based on probable losses on specific loans.

general reserves determined in accordance with guidance in ASC Topic 450 – Contingencies, based on historical loan loss experience adjusted for other qualitative risk factors both internal and external to the Company.

Specific allocations are established based on management's periodic evaluation of loss exposure inherent in classified, impaired, and other loans in which management believes that the collection of principal and interest under the original contractual terms of the loan agreement are in question. For purposes of this analysis, loans are grouped by internal risk classifications which are watch, substandard, doubtful, and loss. Watch loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends, which if not corrected, could jeopardize repayment of the loan and result in further downgrade. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as doubtful has critical weaknesses that make full collection of the obligation improbable. Classified loans, as defined by the Company, include loans categorized as substandard and doubtful. Loans classified as loss are immediately charged off.

Loans are consistently monitored against risk rating criteria. As loans are identified that may warrant a classification change, they are discussed with the Company's credit administration officers and appropriate risk grades are assigned. There are several times in the life of a loan that this occurs:

loan origination

loan renewal

loan servicing actions (change in terms, collateral release, etc.)

annual financial review

delinquency monitoring and follow-up

loan review process

audit process

If weaknesses (or improvements) are noted, a change in risk rating, if warranted by credit administration, will be made. Loans classified Watch or below in an amount of \$100,000 or more will be individually evaluated for impairment in accordance with the Bank's policy for determining and measuring impairment.

Formula allocations are calculated by applying loss factors to outstanding loans with similar characteristics. Loss factors are based on the Company's historical loss experience as adjusted for changes in the business cycle and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Effective for the third quarter of 2010, the Company modified its method of estimating the allowance for loan losses for loans collectively evaluated for impairment. This modification incorporated historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter to identified pools of loans. This modification did not have a material affect on the Company's allowance for loans losses or provision for loan losses. No modifications to



## Edgar Filing: PLUMAS BANCORP - Form 10-K

the allowance for loan losses methodology were made in 2011.

The discretionary allocation is based upon management's evaluation of various loan segment conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

**Table of Contents**

The following table provides certain information for the years indicated with respect to the Company's allowance for loan losses as well as charge-off and recovery activity.

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
	For the Year Ended December 31, (dollars in thousands)				
Balance at beginning of period	\$ 7,324	\$ 9,568	\$ 7,224	\$ 4,211	\$ 3,917
Charge-offs:					
Commercial and agricultural	539	1,219	663	477	83
Real estate mortgage	483	3,105	1,145	95	
Real estate construction	2,603	3,617	10,133	522	46
Consumer	622	408	559	689	657
Total charge-offs	4,247	8,349	12,500	1,783	786
Recoveries:					
Commercial and agricultural	199	26	18	11	53
Real estate mortgage	18	396	8	14	
Real estate construction	5	65	90		
Consumer	109	118	228	171	227
Total recoveries	331	605	344	196	280
Net charge-offs	3,916	7,744	12,156	1,587	506
Provision for loan losses	3,500	5,500	14,500	4,600	800
Balance at end of period	\$ 6,908	\$ 7,324	\$ 9,568	\$ 7,224	\$ 4,211
Net charge-offs during the period to average loans	1.29%	2.39%	3.43%	0.45%	0.14%
Allowance for loan losses to total loans	2.35%	2.33%	2.88%	1.97%	1.19%

During the year ended December 31, 2011 we recorded a provision for loan losses of \$3.5 million down \$2.0 million from the \$5.5 million provision recorded during the year ended December 31, 2010. Net charge-offs totaled \$3.9 million during the year ended December 31, 2011 and \$7.7 million during 2010. Net charge-offs as a percentage of average loans decreased from 2.39% during 2010 to 1.29% during the year ended December 31, 2011.

The following table provides a breakdown of the allowance for loan losses:

	September 30, Balance at End of Period 2011	September 30, Percent of Loans in Each Category to Total Loans 2011	September 30, Balance at End of Period 2010	September 30, Percent of Loans in Each Category to Total Loans 2010
Commercial and agricultural	1,355	23.5%	944	22.9%
Real estate mortgage	2,623	53.9%	2,451	51.7%
Real estate construction	2,006	5.8%	3,011	9.9%
Consumer (includes equity LOC)	924	16.8%	918	15.5%

## Edgar Filing: PLUMAS BANCORP - Form 10-K

Total	6,908	100.0%	7,324	100.0%
-------	-------	--------	-------	--------

The allowance for loan losses totaled \$6.9 million at December 31, 2011 and \$7.3 million at December 31, 2010. Specific reserves related to impaired loans increased from \$1.9 million at December 31, 2010 to \$2.1 million at December 31, 2011. At least quarterly the Company evaluates each specific reserve and if it determines that the loss represented by the specific reserve is uncollectable it reverses the specific reserve and takes a partial charge-off in its place. General reserves decreased by \$579 thousand to \$4.8 million at December 31, 2011. The allowance for loan losses as a percentage of total loans increased slightly from 2.33% at December 31, 2010 to 2.35% at December 31, 2011. The percentage of general reserves to unimpaired loans decreased from 1.90% at December 31, 2010 to 1.80% at December 31, 2011 primarily related to a decrease in charge-offs during the eight quarters ending December 31, 2011 as compared to the eight quarters ended December 31, 2010 which resulted in a lower loss rate applied to unimpaired loans.

**Table of Contents**

The Company places loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 90 days. When a loan is placed on nonaccrual status the Company's general policy is to reverse and charge against current income previously accrued but unpaid interest. Interest income on such loans is subsequently recognized only to the extent that cash is received and future collection of principal is deemed by management to be probable. Where the collectibility of the principal or interest on a loan is considered to be doubtful by management, it is placed on nonaccrual status prior to becoming 90 days delinquent.

Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The amount of impaired loans is not directly comparable to the amount of nonperforming loans disclosed later in this section. The primary difference between impaired loans and nonperforming loans is that impaired loan recognition considers not only loans 90 days or more past due, restructured loans and nonaccrual loans but also may include identified problem loans other than delinquent loans where it is considered probable that we will not collect all amounts due to us (including both principal and interest) in accordance with the contractual terms of the loan agreement.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Loans restructured and in compliance with modified terms totaled \$8.4 million, \$2.0 million and \$3.4 million at December 31, 2011, 2010 and 2009, respectively. There were no troubled debt restructurings at December 31, 2008, or 2007. For additional information related to restructured loans see Note 6 of the Company's Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10K.

The following table sets forth the amount of the Company's nonperforming assets as of the dates indicated.

	September 30, 2011	September 30, 2010	September 30, At December 31, 2009 (dollars in thousands)	September 30, 2008	September 30, 2007
Nonaccrual loans	\$ 16,757	\$ 25,313	\$ 14,263	\$ 26,444	\$ 2,618
Loans past due 90 days or more and still accruing	72	45	28	297	14
<b>Total nonperforming loans</b>	<b>16,829</b>	<b>25,358</b>	<b>14,291</b>	<b>26,741</b>	<b>2,632</b>
Other real estate owned	8,623	8,867	11,204	4,148	402
Other vehicles owned	57	17	65	129	135
<b>Total nonperforming assets</b>	<b>\$ 25,509</b>	<b>\$ 34,242</b>	<b>\$ 25,560</b>	<b>\$ 31,018</b>	<b>\$ 3,169</b>
Interest income forgone on nonaccrual loans	\$ 510	\$ 1,021	\$ 568	\$ 576	\$ 161
Interest income recorded on a cash basis on nonaccrual loans	\$ 285	\$ 608	\$ 369	\$ 74	\$ 118
Nonperforming loans to total loans	5.73%	8.07%	4.30%	7.31%	0.75%
Nonperforming assets to total assets	5.60%	7.07%	4.84%	6.78%	0.70%

Nonperforming loans at December 31, 2011 were \$16.8 million, a decrease of \$8.5 million from the \$25.3 million balance at December 31, 2010. The decline of \$8.5 million includes \$5.7 million in loans transferred to OREO, a \$4.4 million loan that was returned to performing status and charge-offs and principal repayments on nonperforming loans partially offset by \$9.1 million in additional loans placed on nonperforming status during the period. Specific reserves on nonaccrual loans totaled \$1.3 million at December 31, 2011 and \$1.8 million at December 31, 2010, respectively. Performing loans past due thirty to eighty-nine days increased from \$2.9 million at December 31, 2010 to \$5.1 million at December 31, 2011.



**Table of Contents**

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans decreased by \$9.4 million from \$38.6 million at December 31, 2010 to \$29.2 million at December 31, 2011. Loans classified as watch decreased as well from \$14.2 million at December 31, 2010 to \$10.7 million at December 31, 2011. At December 31, 2011, \$13.9 million of performing loans were classified as substandard. Further deterioration in the credit quality of individual performing substandard loans or other adverse circumstances could result in the need to place these loans on nonperforming status.

At December 31, 2011 and December 31, 2010, the Company's recorded investment in impaired loans totaled \$24.4 million and \$28.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled \$2.1 million and \$1.9 million at December 31, 2011 and December 31, 2010, respectively. Additionally, \$940 thousand has been charged off against the impaired loans at December 31, 2011 and \$2.8 million at December 31, 2010.

It is the policy of management to make additions to the allowance for loan losses so that it remains appropriate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at December 31, 2011 is appropriate. However, the determination of the amount of the allowance is judgmental and subject to economic conditions which cannot be predicted with certainty. Accordingly, the Company cannot predict whether charge-offs of loans in excess of the allowance may occur in future periods.

OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. Repossessed assets and OREO are carried at fair market value, less selling costs. OREO holdings represented forty-four properties totaling \$8.6 million at December 31, 2011 and thirty-one properties totaling \$8.9 million at December 31, 2010. During June, 2011 the Bank sold its largest OREO holding which represented \$4.3 million, or 48% of the total balance in OREO at January 1, 2011. The Bank incurred a \$617 thousand loss on sale; however, management believes the loss was prudent given the significant affect this transaction had in decreasing nonperforming assets. Nonperforming assets as a percentage of total assets were 5.60% at December 31, 2011 and 7.07% at December 31, 2010.

The following table provides a summary of the change in the OREO balance for the years ended December 31, 2011 and 2010:

	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2010
	(in thousands)	
Beginning Balance	\$ 8,867	\$ 11,204
Additions	5,825	1,438
Dispositions	(5,490)	(3,419)
Write-downs	(579)	(356)
Ending Balance	\$ 8,623	\$ 8,867

**Investment Portfolio and Federal Funds Sold.** Total investment securities decreased by \$5.1 million from \$63.0 million at December 31, 2010 to \$57.9 million as of December 31, 2011. While investment securities decreased from December 31, 2010 levels, we anticipate adding to investment securities during the next three months. The investment portfolio at December 31, 2011 was invested entirely in U.S. Government-sponsored agencies, at December 31, 2010 the investment portfolio consisted of 2% U.S. Treasuries and 98% U.S. Government-sponsored agencies. There were no Federal funds sold at December 31, 2011 or 2010; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling \$47.8 million at December 31, 2011 and \$52.3 million at December 31, 2010, respectively. These balances currently earn 25 basis points.

The Company classifies its investment securities as available-for-sale or held-to-maturity. Currently all securities are classified as available-for-sale. Securities classified as available-for-sale may be sold to implement the Company's asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors.

**Table of Contents**

The following tables summarize the values of the Company's investment securities held on the dates indicated:

Available-for-sale (fair value)	September 30, 2011	September 30, December 31, 2010 (dollars in thousands)	September 30, 2009
U.S. Treasuries	\$	\$ 1,032	\$ 1,052
U.S. Government-sponsored agencies	32,777	40,430	55,889
U.S. Government-sponsored agency residential mortgage-backed securities	25,140	21,273	19,287
Municipal obligations		282	11,722
<b>Total</b>	<b>\$ 57,917</b>	<b>\$ 63,017</b>	<b>\$ 87,950</b>

At December 31, 2009 the Company transferred all of its municipal securities from held-to-maturity to available-for-sale as it was determined that management no longer had the intent to hold these investments to maturity.

The following table summarizes the maturities of the Company's securities at their carrying value and their weighted average tax equivalent yields at December 31, 2011.

(dollars in thousands) Available-for-sale (Fair Value)	0000 After One Through Five Years Amount	0000 Yield	0000 After Five Through Ten Years Amount	0000 Yield	0000 After Ten Years Amount	0000 Yield	0000 Total Amount	0000 Yield
U.S. Government-sponsored agencies	\$ 32,777	1.08%					% \$ 32,777	1.08%
U.S. Government-sponsored agency residential mortgage-backed securities	554	3.84%	\$ 6,395	1.74%	\$ 18,191	2.59%	25,140	2.40%
<b>Total</b>	<b>\$ 33,331</b>	<b>1.12%</b>	<b>\$ 6,395</b>	<b>1.74%</b>	<b>\$ 18,191</b>	<b>2.59%</b>	<b>\$ 57,917</b>	<b>1.65%</b>

**Deposits.** Total deposits were \$391.1 million as of December 31, 2011, a decrease of \$33.8 million, or 8%, from the December 31, 2010 balance of \$424.9 million. The decline in deposits was mostly related to maturities from a higher rate promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. Core deposit growth was strong with increases in non-interest bearing deposits of \$14.1 million and an increase in savings accounts of \$10.8 million.

The Company continues to manage the mix of its deposits consistent with its identity as a community bank serving the financial needs of its customers. The deposit mix changed slightly from December 31, 2010 as time deposits decreased and we had an increase in non-interest bearing demand deposits and savings accounts. Non-interest bearing demand deposits were 32% of total deposits at December 31, 2011 and 26% of total deposits at December 31, 2010. Interest bearing transaction accounts were 21% of total deposits at December 31, 2011 and 24% of total deposits at December 31, 2010. Money market and savings deposits totaled 26% of total deposits at December 31, 2011 and 22% at December 31, 2010. Time deposits were 21% of total deposits at December 31, 2011 and 28% of total deposits at December 31, 2010.

Deposits represent the Bank's primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. In order to assist in meeting any funding demands, the Company maintains a secured borrowing arrangement with the Federal Home Loan Bank of San Francisco. Included in time deposits at December 31, 2010 were \$2.0 million in CDARS reciprocal time deposits which, under regulatory guidelines, are classified as brokered deposits. There were no brokered deposits at December 31, 2011.





**Table of Contents**

The Company's time deposits of \$100,000 or more had the following schedule of maturities at December 31, 2011:

(dollars in thousands)	September 30, Amount
Remaining Maturity:	
Three months or less	\$ 7,566
Over three months to six months	5,519
Over six months to 12 months	11,093
Over 12 months	7,446
 Total	 \$ 31,624

Time deposits of \$100,000 or more are generally from the Company's local business and individual customer base. The potential impact on the Company's liquidity from the withdrawal of these deposits is discussed at the Company's asset and liability management committee meetings, and is considered to be minimal.

**Short-term Borrowing Arrangements.**

The Company is a member of the FHLB and can borrow up to \$86,388,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$178,987,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2011, the Company held \$2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the Company can borrow up to \$43,466,000. There were no borrowings outstanding as of December 31, 2011. To borrow the \$86,388,000 in available credit the Company would need to purchase \$2,017,000 in additional FHLB stock.

**Repurchase Agreements.**

Recently Plumas Bank introduced a new product for its larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at December 31, 2011 was \$8.3 million. Interest paid on this product is similar to that which can be earned on the Bank's premium money market account; however, these are not deposits and are not FDIC insured.

**Capital Resources**

Shareholders' equity as of December 31, 2011 totaled \$39.6 million up from \$38.0 million as of December 31, 2010.

On January 30, 2009, under the Capital Purchase Program, the Company sold (i) 11,949 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Preferred Shares) and (ii) a ten-year warrant to purchase up to 237,712 shares of the Company's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$7.54 per share, for an aggregate purchase price of \$11,949,000 in cash. Ten million of the twelve million in proceeds from the sale of the Series A Preferred Stock was injected into Plumas Bank providing additional capital for the bank to support growth in loans and investment securities and strengthen its capital ratios. The remainder provided funds for holding company activities and general corporate purposes.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company's stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the Board). The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. No common cash dividends were paid in 2009, 2010 or 2011 and none are anticipated to be paid in 2012.

The Company is subject to various restrictions on the payment of dividends.

At the request of the FRB, Plumas Bancorp deferred its regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities and suspended quarterly cash dividend payments on its Series A Preferred Stock. Therefore, Plumas Bancorp is currently in arrears with the dividend payments on the Series A Preferred Stock and interest payments on the

## Edgar Filing: PLUMAS BANCORP - Form 10-K

junior subordinated debentures as permitted by the related documentation. As of December 31, 2011 the amount of the arrearage on the dividend payments of the Series A Preferred Stock is \$1,046 thousand representing seven quarterly payments and the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities is \$569 thousand also representing seven quarterly payments.

**Table of Contents****Capital Standards.**

The Company uses a variety of measures to evaluate its capital adequacy, with risk-based capital ratios calculated separately for the Company and the Bank. Management reviews these capital measurements on a monthly basis and takes appropriate action to ensure that they are within established internal and external guidelines. The FDIC has promulgated risk-based capital guidelines for all state non-member banks such as the Bank. These guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. There are two categories of capital under the guidelines: Tier 1 capital includes common stockholders' equity, and qualifying trust-preferred securities (including notes payable to unconsolidated special purpose entities that issue trust-preferred securities), less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available-for-sale investment securities carried at fair market value; Tier 2 capital can include qualifying subordinated debt and the allowance for loan losses, subject to certain limitations. The Series A Preferred Stock qualifies as Tier 1 capital for the Company.

As noted previously, the Company's junior subordinated debentures represent borrowings from its unconsolidated subsidiaries that have issued an aggregate \$10 million in trust-preferred securities. These trust-preferred securities currently qualify for inclusion as Tier 1 capital for regulatory purposes as they do not exceed 25% of total Tier 1 capital, but are classified as long-term debt in accordance with GAAP. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities (and/or related subordinated debentures) in the Tier I capital of bank holding companies.

The following tables present the capital ratios for the Company and the Bank compared to the standards for bank holding companies and the regulatory minimum requirements for depository institutions as of December 31, 2011 and 2010 (amounts in thousands except percentage amounts).

	September 30, December 31, 2011	September 30, Ratio	September 30, December 31, 2010	September 30, Ratio
	Amount		Amount	
<b>Tier 1 Leverage Ratio</b>				
<b>Plumas Bancorp and Subsidiary</b>	\$ 45,024	9.8%	\$ 42,994	8.9%
Minimum regulatory requirement	18,313	4.0%	19,361	4.0%
<b>Plumas Bank</b>	<b>45,073</b>	<b>9.8%</b>	<b>43,262</b>	<b>8.9%</b>
Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation	22,882	5.0%	24,190	5.0%
Minimum regulatory requirement	18,305	4.0%	19,352	4.0%
<b>Tier 1 Risk-Based Capital Ratio</b>				
<b>Plumas Bancorp and Subsidiary</b>	<b>45,024</b>	<b>13.7%</b>	<b>42,994</b>	<b>12.7%</b>
Minimum regulatory requirement	13,149	4.0%	13,570	4.0%
<b>Plumas Bank</b>	<b>45,073</b>	<b>13.7%</b>	<b>43,262</b>	<b>12.8%</b>
Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation	19,710	6.0%	20,342	6.0%
Minimum regulatory requirement	13,140	4.0%	13,561	4.0%
<b>Total Risk-Based Capital Ratio</b>				
<b>Plumas Bancorp and Subsidiary</b>	<b>49,169</b>	<b>15.0%</b>	<b>47,274</b>	<b>13.9%</b>
Minimum regulatory requirement	26,298	8.0%	27,140	8.0%
<b>Plumas Bank</b>	<b>49,215</b>	<b>15.0%</b>	<b>47,539</b>	<b>14.0%</b>
Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation	32,850	10.0%	33,903	10.0%
Minimum regulatory requirement	26,280	8.0%	27,123	8.0%

---

## **Table of Contents**

Management believes that the Company and the Bank currently meet their entire capital adequacy requirements including a minimum 9% Tier 1 Leverage Ratio required under the Bank's informal agreement with the FDIC and DFI.

The current and projected capital positions of the Company and the Bank and the impact of capital plans and long-term strategies are reviewed regularly by management. The Company policy is to maintain the Bank's ratios above the prescribed well-capitalized leverage, Tier 1 risk-based and total risk-based capital ratios of 5%, 6% and 10%, respectively, at all times.

## **Off-Balance Sheet Arrangements**

**Loan Commitments.** In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of December 31, 2011, the Company had \$79.2 million in unfunded loan commitments and \$50 thousand in letters of credit. This compares to \$71.6 million in unfunded loan commitments and \$164 thousand in letters of credit at December 31, 2010. Of the \$79.2 million in unfunded loan commitments, \$35.1 million and \$44.1 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2011, \$36.1 million were secured by real estate, of which \$8.8 million was secured by commercial real estate and \$27.3 million was secured by residential real estate in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines. Since some of the commitments are expected to expire without being drawn upon the total commitment amounts do not necessarily represent future cash requirements.

**Operating Leases.** The Company leases one depository branch, one lending office and one loan administration office and two non branch automated teller machine locations. Total rental expenses under all operating leases, including premises, totaled \$150,000 and \$20,000, during the years ended December 31, 2011 and 2010, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2012 and the last such lease expiring during 2015.

The reduced level of rental expense during 2010 resulted from the purchase of our Redding branch building on March 31, 2010. Previously we had leased this building. Under the terms of the lease agreement we were provided free rent for a period of time; however, in accordance with applicable accounting standards we recognized monthly rent expense equal to the total payments required under the lease dividend by the term of the lease in months. At the time of the purchase we reversed this accrual recognizing a \$184 thousand reduction in rental expense.

## **Liquidity**

The Company manages its liquidity to provide the ability to generate funds to support asset growth, meet deposit withdrawals (both anticipated and unanticipated), fund customers' borrowing needs, satisfy maturity of short-term borrowings and maintain reserve requirements. The Company's liquidity needs are managed using assets or liabilities, or both. On the asset side, in addition to cash and due from banks, the Company maintains an investment portfolio which includes unpledged U.S. Government-sponsored agency securities that are classified as available-for-sale. On the liability side, liquidity needs are managed by charging competitive offering rates on deposit products and the use of established lines of credit.

The Company is a member of the FHLB and can borrow up to \$86,388,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$178,987,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2011, the Company held \$2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the Company can borrow up to \$43,466,000. There were no borrowings outstanding as of December 31, 2011. To borrow the \$86,388,000 in available credit the Company would need to purchase \$2,017,000 in additional FHLB stock.

**Table of Contents**

Customer deposits are the Company's primary source of funds. Total deposits were \$391.1 million as of December 31, 2011, a decrease of \$33.8 million, or 8%, from the December 31, 2010 balance of \$424.9 million. Deposits are held in various forms with varying maturities. The Company's securities portfolio, Federal funds sold, Federal Home Loan Bank advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as cash held at the FRB, Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company's available sources of funds, including borrowings, will provide adequate liquidity for its operations in the foreseeable future.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company we are not required to provide the information required by this item.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements of Plumas Bancorp and subsidiary, and report of the independent registered public accounting firm are included in the Annual Report of Plumas Bancorp to its shareholders for the years ended December 31, 2011, 2010 and 2009.

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Balance Sheet as of December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statement of Operations for the years ended December 31, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009</u>	F-6
<u>Consolidated Statement of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-11

---

**Table of Contents**

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Plumas Bancorp and subsidiary (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Management, including the undersigned Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of December 31, 2011. In conducting its assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2011, our internal control over financial reporting was effective based on those criteria.

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

/s/ Andrew J. Ryback  
Andrew J. Ryback  
President and Chief Executive Officer

/s/ Richard L. Belstock  
Richard L. Belstock  
Senior Vice President and Chief Financial Officer  
Dated March 23, 2012

**Table of Contents**

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 can be found in Plumas Bancorp's Definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is by this reference incorporated herein.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 can be found in Plumas Bancorp's Definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is by this reference incorporated herein.

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

The information required by Item 12 can be found in Plumas Bancorp's Definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is by this reference incorporated herein.

---

**Table of Contents**

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

The information required by Item 13 can be found in Plumas Bancorp's Definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is by this reference incorporated herein.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 can be found in Plumas Bancorp's Definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is by this reference incorporated herein.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) Exhibits**

The following documents are included or incorporated by reference in this Annual Report on Form 10K.

- 3.1 Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 3.2 Bylaws of Registrant as amended on March 16, 2011 included as exhibit 3.2 to the Registrant's Form 10-K for December 31, 2010, which is incorporated by this reference herein.
- 3.3 Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 3.4 Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 4 Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 4.1 Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, is included as exhibit 4.1 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.
- 10.1 Executive Salary Continuation Agreement of Andrew J. Ryback dated December 17, 2008, is included as exhibit 10.1 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.2 Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.
- 10.8 Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant's 10-Q for March 31, 2007, which is incorporated by this reference herein.
- 10.18 Amended and Restated Director Retirement Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.18 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.



**Table of Contents**

- 10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.21 Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.22 Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.24 Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.25 Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.27 Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.28 Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.33 Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.34 Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.35 Letter Agreement, dated January 30, 2009 by and between Plumas Bancorp, Inc. and the United States Department of the Treasury and Securities Purchase Agreement - Standard Terms attached thereto, is included as exhibit 10.1 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.
- 10.36 Form of Senior Executive Officer letter agreement, is included as exhibit 10.2 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.
- 10.37 Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.40 2001 Stock Option Plan as amended is included as exhibit 99.1 of the Form S-8 filed July 23, 2002, File No. 333-96957, which is incorporated by this reference herein.
- 10.41 Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.42 Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.43 Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
- 10.46 1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.

**Table of Contents**

10.47	Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.48	Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.49	Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant's 10-Q for September 30, 2006, which is incorporated by this reference herein.
10.50	Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
10.51	First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
10.64	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Alvin Blickenstaff adopted on September 19, 2007, is included as Exhibit 10.64 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.65	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Arthur C. Grohs adopted on September 19, 2007, is included as Exhibit 10.65 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.66	Director Retirement Agreement of Robert McClintock
10.67	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Terrance J. Reeson adopted on September 19, 2007, is included as Exhibit 10.67 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.69	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.70	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein.
10.71	Consent Order issued by the FDIC and CDFI to Plumas Bank on March 18, 2011, is included as Exhibit 10.1 of the Registrant's 8-K filed on March 21, 2011, which is incorporated by this reference herein.
10.72	Stipulation and Consent to the Issuance of Consent Order among Plumas Bank and the FDIC entered into on March 16, 2011, is included as Exhibit 10.2 of the Registrant's 8-K filed on March 21, 2011, which is incorporated by this reference herein.
10.73	Written Agreement with Federal Reserve Bank of San Francisco effective July 28, 2011, is included as Exhibit 10.1 of the Registrant's 8-K filed on July 29, 2011, which is incorporated by this reference herein.
11	Computation of per share earnings appears in the attached 10-K under Item 8 Financial Statements Plumas Bancorp and Subsidiary Notes to Consolidated Financial Statements as Footnote 13 Shareholders' Equity.
21.01	Plumas Bank - California.
21.02	Plumas Statutory Trust I - Connecticut.

**Table of Contents**

21.03	Plumas Statutory Trust II Connecticut.
23.01	Independent Registered Public Accountant s Consent for audit of year ended December 31, 2011 dated March 23, 2012
23.02	Independent Registered Public Accountant s Consent for audit of years ended December 31, 2010 and December 31, 2009 dated March 23, 2012
31.1	Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated March 23, 2012
31.2	Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated March 23, 2012
32.1	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 23, 2012.
32.2	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 23, 2012.
99.1	Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 dated March 23, 2012.
99.2	Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 dated March 23, 2012.

**Table of Contents**

**SIGNATURES**

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

**PLUMAS BANCORP**

(Registrant)

Date: March 23, 2012

/s/ ANDREW J. RYBACK  
Andrew J. Ryback  
President and Chief Executive Officer

/s/ RICHARD L. BELSTOCK  
Richard L. Belstock  
Senior Vice President and Chief Financial Officer

**Table of Contents**

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

/s/ DANIEL E. WEST Daniel E. West, <i>Director and Chairman of the Board</i>	Dated: March 23, 2012
/s/ TERRANCE J. REESON Terrance J. Reeson, <i>Director and Vice Chairman of the Board</i>	Dated: March 23, 2012
/s/ ALVIN G. BLICKENSTAFF Alvin G. Blickenstaff, <i>Director</i>	Dated: March 23, 2012
/s/ W. E. ELLIOTT William E. Elliott, <i>Director</i>	Dated: March 23, 2012
/s/ GERALD W. FLETCHER Gerald W. Fletcher, <i>Director</i>	Dated: March 23, 2012
/s/ JOHN FLOURNOY John Flournoy, <i>Director</i>	Dated: March 23, 2012
/s/ ARTHUR C. GROHS Arthur C. Grohs, <i>Director</i>	Dated: March 23, 2012
/s/ ROBERT J. MCCLINTOCK Robert J. McClintock, <i>Director</i>	Dated: March 23, 2012

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Plumas Bancorp and Subsidiary

Quincy, California

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and subsidiary (the Company ) as of December 31, 2011, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Sacramento, California

March 23, 2012

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Plumas Bancorp and Subsidiary

Quincy, California

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and subsidiary (the Company) as of December 31, 2010 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the two year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plumas Bancorp and subsidiary as of December 31, 2010, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

Sacramento, California

March 23, 2011

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****CONSOLIDATED BALANCE SHEET****December 31, 2011 and 2010**

	September 30, 2011	September 30, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 63,076,000	\$ 64,628,000
Investment securities	57,917,000	63,017,000
Loans, less allowance for loan losses of \$6,908,000 in 2011 and \$7,324,000 in 2010	287,432,000	307,151,000
Premises and equipment, net	13,457,000	14,431,000
Bank owned life insurance	10,815,000	10,463,000
Other real estate and vehicles acquired through foreclosure	8,680,000	8,884,000
Accrued interest receivable and other assets	13,972,000	15,906,000
<b>Total assets</b>	<b>\$ 455,349,000</b>	<b>\$ 484,480,000</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 125,931,000	\$ 111,802,000
Interest bearing	265,209,000	313,085,000
<b>Total deposits</b>	<b>391,140,000</b>	<b>424,887,000</b>
Repurchase agreements	8,279,000	
Accrued interest payable and other liabilities	5,986,000	11,295,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
<b>Total liabilities</b>	<b>415,715,000</b>	<b>446,492,000</b>
Commitments and contingencies (Note 12)		
Shareholders equity:		
Serial preferred stock no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at December 31, 2011 and 2010; aggregate liquidation value of \$13,069,000 at December 31, 2011	11,769,000	11,682,000
Common stock no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at December 31, 2011 and 2010	5,998,000	6,027,000
Retained earnings	21,709,000	20,331,000
Accumulated other comprehensive income (loss)	158,000	(52,000)
<b>Total shareholders equity</b>	<b>39,634,000</b>	<b>37,988,000</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 455,349,000</b>	<b>\$ 484,480,000</b>

The accompanying notes are an integral



**part of these consolidated financial statements.**

F - 3

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENT OF OPERATIONS****For the Years Ended December 31, 2011, 2010 and 2009**

	September 30, 2011	September 30, 2010	September 30, 2009
<b>Interest income:</b>			
Interest and fees on loans	\$ 17,400,000	\$ 18,860,000	\$ 20,658,000
<b>Interest on investment securities:</b>			
Taxable	1,138,000	1,649,000	1,708,000
Exempt from Federal income taxes	6,000	123,000	455,000
Other	124,000	48,000	15,000
<b>Total interest income</b>	<b>18,668,000</b>	<b>20,680,000</b>	<b>22,836,000</b>
<b>Interest expense:</b>			
Interest on deposits	1,469,000	2,696,000	3,169,000
Interest on borrowings		135,000	80,000
Interest on junior subordinated deferrable interest debentures	326,000	312,000	371,000
Other	53,000	4,000	35,000
<b>Total interest expense</b>	<b>1,848,000</b>	<b>3,147,000</b>	<b>3,655,000</b>
<b>Net interest income before provision for loan losses</b>	<b>16,820,000</b>	<b>17,533,000</b>	<b>19,181,000</b>
<b>Provision for loan losses</b>	<b>3,500,000</b>	<b>5,500,000</b>	<b>14,500,000</b>
<b>Net interest income after provision for loan losses</b>	<b>13,320,000</b>	<b>12,033,000</b>	<b>4,681,000</b>
<b>Non-interest income:</b>			
Service charges	3,477,000	3,642,000	3,796,000
Gain on sale of investments	666,000	1,160,000	10,000
Gain on sale of loans	1,939,000	1,055,000	593,000
Earnings on bank owned life insurance policies	352,000	351,000	346,000
Sale of merchant processing portfolio		1,435,000	
Other	728,000	825,000	919,000
<b>Total non-interest income</b>	<b>7,162,000</b>	<b>8,468,000</b>	<b>5,664,000</b>

(Continued)

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

(Continued)

**For the Years Ended December 31, 2011, 2010 and 2009**

**CONSOLIDATED STATEMENT OF OPERATIONS**

	September 30, 2011	September 30, 2010	September 30, 2009
<b>Non-interest expenses:</b>			
Salaries and employee benefits	\$ 9,195,000	\$ 9,732,000	\$ 11,054,000
Occupancy and equipment	3,088,000	3,096,000	3,759,000
Provision for losses on other real estate	579,000	356,000	4,800,000
Other	6,384,000	5,957,000	6,653,000
Total non-interest expenses	19,246,000	19,141,000	26,266,000
Income (loss) before income taxes	1,236,000	1,360,000	(15,921,000)
Provision (benefit) for income taxes	295,000	389,000	(6,775,000)
Net income (loss)	941,000	971,000	(9,146,000)
Preferred stock dividends accrued and discount accretion	(684,000)	(684,000)	(628,000)
Net income (loss) available to common shareholders	\$ 257,000	\$ 287,000	\$ (9,774,000)
Basic earnings (loss) per common share	\$ 0.05	\$ 0.06	\$ (2.05)
Diluted earnings (loss) per common share	\$ 0.05	\$ 0.06	\$ (2.05)
Common dividends per share	\$	\$	\$

**The accompanying notes are an integral  
part of these consolidated financial statements.**

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****For the Years Ended December 31, 2011, 2010 and 2009**

	00000	00000	00000	00000	00000	00000	00000	00000
	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total	Total
	Shares	Amount	Shares	Amount	Earnings	Income (Net of Taxes)	Shareholders Equity	Comprehensive Income (loss)
Balance, January 1, 2009			4,775,339	\$ 5,302,000	\$ 29,818,000	\$ 317,000	\$ 35,437,000	
Comprehensive loss:								
Net loss					(9,146,000)		(9,146,000)	\$ (9,146,000)
Other comprehensive income, net of tax:								
Unrealized gains on securities transferred from held-to-maturity to available-for-sale						197,000	197,000	197,000
Net change in unrealized gains on available-for-sale investment securities						108,000	108,000	108,000
Total comprehensive loss								\$ (8,841,000)
Preferred stock issued	11,949	\$ 11,516,000					11,516,000	
Stock warrants issued				407,000			407,000	
Preferred stock dividends & accretion		79,000			(628,000)		(549,000)	
Stock options exercised and related tax benefit			1,000	5,000			5,000	
Stock-based compensation expense				256,000			256,000	
Balance, December 31, 2009	11,949	11,595,000	4,776,339	5,970,000	20,044,000	622,000	38,231,000	
Comprehensive Income:								
Net Income					971,000		971,000	\$ 971,000
Other comprehensive loss, net of tax:								
Net change in unrealized gains on available-for-sale investment securities						(674,000)	(674,000)	(674,000)
Total comprehensive income								\$ 297,000

Edgar Filing: PLUMAS BANCORP - Form 10-K

Preferred stock dividends & accretion		87,000			(684,000)		(597,000)
Stock-based compensation expense			57,000				57,000
Balance, December 31, 2010	11,949	\$ 11,682,000	4,776,339	\$ 6,027,000	\$ 20,331,000	\$ (52,000)	\$ 37,988,000

(Continued)

F - 6

Table of Contents

## PLUMAS BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	0000	0000	0000	0000	0000	0000	0000	0000
	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive Income (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount	Earnings			
Balance, December 31, 2010	11,949	\$ 11,682,000	4,776,339	\$ 6,027,000	\$ 20,331,000	\$ (52,000)	\$ 37,988,000	
Comprehensive Income:								
Net Income					941,000		941,000	\$ 941,000
Other comprehensive income, net of tax:								
Net change in unrealized gains on available-for-sale investment securities						210,000	210,000	210,000
Total comprehensive income								\$ 1,151,000
Reverse accrued dividends on preferred stock					524,000		524,000	
Preferred stock accretion		87,000			(87,000)			
Stock-based compensation expense				(29,000)			(29,000)	
Balance, December 31, 2011	11,949	\$ 11,769,000	4,776,339	\$ 5,998,000	\$ 21,709,000	\$ 158,000	\$ 39,634,000	

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENT OF CASH FLOWS****For the Years Ended December 31, 2011, 2010 and 2009**

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from operating activities:			
Net income (loss)	\$ 941,000	\$ 971,000	\$ (9,146,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	3,500,000	5,500,000	14,500,000
Change in deferred loan origination costs/fees, net	(441,000)	(79,000)	(19,000)
Stock-based compensation expense	(29,000)	57,000	256,000
Depreciation and amortization	1,409,000	1,693,000	1,929,000
Amortization of investment security premiums	410,000	514,000	283,000
Accretion of investment security discounts	(32,000)	(55,000)	(53,000)
Gain on sale of investments	(666,000)	(1,160,000)	(10,000)
Gain on sale of loans held for sale	(1,939,000)	(1,055,000)	(593,000)
Loans originated for sale	(18,550,000)	(21,286,000)	(12,598,000)
Proceeds from loan sales	23,368,000	14,873,000	11,393,000
Provision for losses on other real estate	579,000	356,000	4,800,000
Proceeds from secured borrowing		4,284,000	
Net (gain) loss on sale of premises and equipment	(3,000)	4,000	(6,000)
Net loss (gain) on sale of other real estate and vehicles owned	611,000	(58,000)	198,000
Earnings on bank owned life insurance policies	(352,000)	(351,000)	(346,000)
Provision (benefit) for deferred income taxes	259,000	385,000	(3,852,000)
Decrease (increase) in accrued interest receivable and other assets	1,575,000	5,325,000	(7,021,000)
(Decrease) increase in accrued interest payable and other liabilities	(554,000)	197,000	355,000
Net cash provided by operating activities	10,086,000	10,115,000	70,000

(Continued)

Table of Contents

## PLUMAS BANCORP AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

## CONSOLIDATED STATEMENT OF CASH FLOWS

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from investing activities:			
Proceeds from matured and called available-for-sale investment securities	\$ 29,182,000	\$ 31,895,000	\$ 8,000,000
Proceeds from matured and called held-to-maturity investment securities			1,836,000
Proceeds from sale of held-to-maturity securities			943,000
Proceeds from sale of available-for-sale securities	29,404,000	40,902,000	86,000
Purchases of available-for-sale investment securities	(59,247,000)	(57,238,000)	(65,876,000)
Purchases of held-to-maturity investment securities			(1,586,000)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	6,406,000	8,927,000	7,320,000
Net decrease in loans	3,386,000	16,623,000	8,683,000
Proceeds from sale of vehicles	33,000	177,000	270,000
Proceeds from sale of other real estate	4,937,000	3,462,000	1,992,000
Purchases of premises and equipment	(271,000)	(1,210,000)	(253,000)
Net cash provided by (used in) investing activities	13,830,000	43,538,000	(38,585,000)
Cash flows from financing activities:			
Net increase (decrease) in demand, interest-bearing and savings deposits	3,534,000	(3,353,000)	37,383,000
Net (decrease) increase in time deposits	(37,281,000)	(5,015,000)	24,379,000
Net increase in securities sold under agreements to repurchase	8,279,000		
Net decrease in short-term borrowings		(20,000,000)	(14,000,000)
Proceeds from long-term debt			20,000,000
Repayment of long-term debt		(20,000,000)	
Issuance of preferred stock, net of discount			11,516,000
Payment of cash dividend on preferred stock		(150,000)	(473,000)
Issuance of common stock warrant			407,000
Proceeds from exercise of stock options			5,000
Net cash (used in) provided by financing activities	(25,468,000)	(48,518,000)	79,217,000
(Decrease) increase in cash and cash equivalents	(1,552,000)	5,135,000	40,702,000
Cash and cash equivalents at beginning of year	64,628,000	59,493,000	18,791,000
Cash and cash equivalents at end of year	\$ 63,076,000	\$ 64,628,000	\$ 59,493,000

(Continued)





Table of Contents

**PLUMAS BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Continued)

**For the Years Ended December 31, 2011, 2010 and 2009**

CONSOLIDATED STATEMENT OF CASH FLOWS

	September 30, 2011	September 30, 2010	September 30, 2009
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 1,688,000	\$ 3,000,000	\$ 3,666,000
Income taxes	\$ 2,000	\$	\$ 65,000
Non-cash investing activities:			
Real estate acquired through foreclosure	\$ 5,710,000	\$ 1,391,000	\$ 14,053,000
Vehicles acquired through repossession	\$ 79,000	\$ 112,000	\$ 245,000
Investment securities transferred from held-to-maturity to available-for-sale	\$	\$	\$ 11,722,000

**The accompanying notes are an integral**

**part of these consolidated financial statements.**

F - 10

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. THE BUSINESS OF PLUMAS BANCORP**

During 2002, Plumas Bancorp (the Company) was incorporated as a bank holding company for the purpose of acquiring Plumas Bank (the Bank) in a one bank holding company reorganization. This corporate structure gives the Company and the Bank greater flexibility in terms of operation expansion and diversification. The Company formed Plumas Statutory Trust I (Trust I) for the sole purpose of issuing trust preferred securities on September 26, 2002. The Company formed Plumas Statutory Trust II (Trust II) for the sole purpose of issuing trust preferred securities on September 28, 2005.

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. The Bank's administrative headquarters is in Quincy, California. In addition, the Bank operates a loan administrative office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which, in part, permanently raised the current standard maximum deposit insurance amount to \$250,000. Amendments related to the enactment of the Dodd-Frank Act provide full deposit insurance coverage for noninterest bearing deposit transaction accounts beginning December 31, 2010 for a two year period.

**2. REGULATORY MATTERS**

On February 15, 2012, the Bank received notice from the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI) that the Consent Order with the FDIC and the DFI which was effective on March 16, 2011 had been terminated. While the Bank is no longer subject to an Order, the Bank has entered into an informal agreement with the FDIC and DFI which, among other things, requests that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At December 31, 2011 this ratio was 68%.

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the FRB Agreement). Under the terms of the FRB Agreement, Plumas Bancorp has agreed to take certain actions that are designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement requires prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. In addition, the FRB Agreement requires Plumas Bancorp to submit, within 60 days of the FRB Agreement, a written statement of Plumas Bancorp's planned sources and uses of cash for debt service, operating expense and other purposes (Cash Flow Statement) for the remainder of 2011 and annually thereafter. The Company submitted the Cash Flow Statements within the required time frames.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, Plumas Bank. All significant intercompany balances and transactions have been eliminated.

Plumas Statutory Trust I and Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. The Company's investment in Trust I of \$283,000 and Trust II of \$154,000 are included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated deferrable interest debentures issued and guaranteed by the Company and held by Trust I and Trust II are reflected as debt on the consolidated balance sheet.

The accounting and reporting policies of Plumas Bancorp and subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

**Reclassifications**

Certain reclassifications have been made to prior years' balances to conform to the classifications used in 2011.

**Segment Information**

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

**Use of Estimates**

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, loan servicing rights, deferred tax assets, and fair values of financial instruments are particularly subject to change.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. As of December 31, 2011 all cash held with other federally insured institutions was fully insured by the FDIC. Net cash flows are reported for customer loans and deposit transactions and repurchase agreements.

**Investment Securities**

Investments are classified into one of the following categories:

Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances.

During 2009, management determined they no longer had the positive intent to hold their held-to-maturity securities and transferred their held-to-maturity securities to available-

for-sale (see note 5). This transfer increased the Company's flexibility in managing its investment portfolio allowing the investments to be sold in implementing its asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. All transfers between categories are accounted for at fair value. There were no transfers between categories during 2011 or 2010.

As of December 31, 2011 and 2010 the Company did not have any investment securities classified as trading and gains or losses on the sale of securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums accounted for by the level yield method with no pre-payment anticipated.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost,

the entire impairment loss is recognized as a charge to earnings.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investment in Federal Home Loan Bank Stock**

As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2011 and 2010, FHLB stock totaled \$2,043,000 and \$2,188,000, respectively. On the consolidated balance sheet, FHLB stock is included in accrued interest receivable and other assets.

**Loans Held for Sale, Loan Sales and Servicing**

Included in the loan portfolio are loans which are 75% to 85% guaranteed by the Small Business Administration (SBA), US Department of Agriculture Rural Business Cooperative Service (RBS) and Farm Services Agency (FSA). The guaranteed portion of these loans may be sold to a third party, with the Bank retaining the unguaranteed portion. The Company can receive a premium in excess of the adjusted carrying value of the loan at the time of sale.

At December 31, 2010, we recorded the proceeds from the sale of the guaranteed portions of SBA loans that were subject to a premium refund obligation, which totaled \$4,284,000, were recorded as a secured borrowing and such secured borrowings were included in other liabilities on the balance sheet. Once the premium refund obligation elapsed the transaction was recorded as a sale with the guaranteed portions of loans and the secured borrowing removed from the balance sheet and the resulting gain on sale recorded. Included in commercial loans at December 31, 2010 is \$4,284,000 in guaranteed portions of SBA loans sold subject to a 90-day premium refund obligation. In February 2011, the SBA eliminated the refund obligation period and the Company is no longer required to defer gain recognition.

As of December 31, 2011 and 2010 the Company had \$3,091,000 and \$5,208,000, respectively in government guaranteed loans held for sale. Loans held for sale are recorded at the lower of cost or fair value and therefore may be reported at fair value on a non-recurring basis. The fair values for loans held for sale are based on either observable transactions of similar instruments or formally committed loan sale prices.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Loans Held for Sale, Loan Sales and Servicing (continued)**

Government guaranteed loans with unpaid balances of \$47,708,000 and \$33,686,000 were being serviced for others at December 31, 2011 and 2010, respectively. The Company also services loans previously sold to the Federal National Mortgage Association (FNMA) totaling \$1,932,000 and \$2,185,000 as of December 31, 2011 and 2010, respectively.

The Company accounts for the transfer and servicing of financial assets based on the fair value of financial and servicing assets it controls and liabilities it has assumed, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at fair value and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with non-interest income on the statement of operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

The Company's investment in the loan is allocated between the retained portion of the loan, the servicing asset, the interest-only (IO) strip, and the sold portion of the loan based on their fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale.

The carrying value of the retained portion of the loan is discounted based on the estimated value of a comparable non-guaranteed loan. The servicing asset is recognized and amortized over the estimated life of the related loan. Assets (accounted for as IO strips) are recorded at the fair value of the difference between note rates and rates paid to purchasers (the interest spread) and contractual servicing fees, if applicable. IO strips are carried at fair value with gains or losses recorded as a component of shareholders' equity, similar to available-for-sale investment securities. Significant future prepayments of these loans will result in the recognition of additional amortization of related servicing assets and an adjustment to the carrying value of related IO strips.



---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Loans**

Loans that management has the intent and ability to hold for foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Loans, if any, that are transferred from loans held for sale are carried at the lower of principal balance or market value at the date of transfer, adjusted for accretion of discounts. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment unless well secured and in the process of collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

Loan origination fees, commitment fees, direct loan origination costs and purchased premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretible yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

The Company may not carry over or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2011 and 2010, there were no such loans being accounted for under this policy.

**Allowance for Loan Losses**

The allowance for loan losses is an estimate of credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired but collectively evaluated for impairment.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Loan Losses (continued)**

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, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses over the past eight quarters by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole. Effective for the third quarter of 2010, the Company modified its method of estimating the allowance for loan losses for loans collectively evaluated for impairment. This modification incorporated historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter to identified pools of loans. This modification did not have a material affect on the Company's allowance for loans losses or provision for loan losses. No modifications to the allowance for loan losses methodology were made in 2011.

The Company maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial and industrial, agricultural, real estate construction (including land and development loans), commercial real estate mortgage, residential mortgage, home equity loans, installment loans, automobile loans and other loans primarily consisting of credit card receivables. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Company's overall allowance, and is included as a component of loans on the consolidated balance sheet.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Loan Losses** (continued)

The Company assigns a risk rating to all loans and periodically, but not less than annually, performs detailed reviews of all such loans over \$100,000 to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into five major categories, defined as follows:

**Pass** A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

**Watch** A Watch loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

**Substandard** A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or

collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

**Doubtful** Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

**Loss** Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses associated with loans collectively evaluated for impairment also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) historical losses and (2) other qualitative factors, including inherent credit risk. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Loan Losses** (continued)

**Commercial** Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

**Agricultural** Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of Company and borrowers: commodity prices and weather conditions.

**Real estate Residential and Home Equity Lines of Credit** The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

**Real estate Commercial** Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

**Real estate Construction and Land Development** Construction and land development loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

**Installment** An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

**Other** Other loans primarily consist of automobile and credit card loans and are similar in nature to installment loans.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Allowance for Loan Losses** (continued)

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors and management review the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FDIC and DFI, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for these commitments totaled \$141,000 at December 31, 2011 and 2010, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

**Other Real Estate**

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations, which was \$8,623,000 (\$11,668,000 less a valuation allowance of \$3,045,000) at December 31, 2011 and \$8,867,000 (\$13,056,000 less a valuation allowance of \$4,188,000) at December 31, 2010. Proceeds from sales of other real estate owned totaled \$4,937,000, \$3,462,000 and \$1,992,000 for the years ended December 31, 2011, 2010 and 2009, respectively. For the year ended December 31, 2011 the Company recorded a loss on sale of other real estate owned of \$606,000. This compares to a gain on sale of \$43,000 during 2010 and a loss on sale of \$158,000 during 2009. Other real estate owned is initially recorded at fair value less cost to sell when acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair value of the property less costs to sell is charged against the allowance for loan losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from permanent impairment are recorded in other income or expenses as incurred.

The following table provides a summary of the change in the OREO balance for the years ended December 31, 2011 and 2010:

	September 30, Year Ended December 31, 2011	September 30, Year Ended December 31, 2010
Beginning balance	\$ 8,867,000	\$ 11,204,000
Additions	5,825,000	1,438,000
Dispositions	(5,490,000)	(3,419,000)
Write-downs	(579,000)	(356,000)
Ending balance	\$ 8,623,000	\$ 8,867,000

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Intangible Assets**

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. The Company evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances in 2011 or 2010.

**Premises and Equipment**

Premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be twenty to thirty years. The useful lives of furniture, fixtures and equipment are estimated to be two to ten years. Leasehold improvements are amortized over the life of the asset or the life of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

**Bank Owned Life Insurance**

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

**Income Taxes**

The Company files its income taxes on a consolidated basis with its subsidiary. Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting for Uncertainty in Income Taxes**

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial

statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of operations. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2011 and 2010.

**Earnings (Loss) Per Share**

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing income (loss) available to common stockholders (net income or (loss) less preferred dividends) by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted EPS.

**Comprehensive Income:**

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

**Dividend Restrictions**

Banking regulations require maintaining certain capital levels and may limit the dividend paid by the bank to the holding company or by the holding company to shareholders. In addition, the Bank and the Bancorp cannot currently pay dividends without the prior approval of their primary regulators.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Stock-Based Compensation**

Compensation expense related to the Company's Stock Option Plan, net of related tax (expense)/benefit, recorded in 2011, 2010 and 2009 totaled \$(38,000), \$53,000 and \$237,000 or \$(0.01), \$0.01 and \$0.05 per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

The Company determines the fair value of options on the date of grant using a Black-Scholes-Merton option pricing model that uses assumptions based on expected option life, expected stock volatility and the risk-free interest rate. The expected volatility assumptions used by the Company are based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock options it grants to employees. The risk-free rate is based on the U.S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of the grant. The Company also makes assumptions regarding estimated forfeitures that will impact the total compensation expenses recognized under the Plans.

The fair value of each option is estimated on the date of grant using the following assumptions.

	<b>September 30, 2011</b>
Expected life of stock options	5.3 years
Risk free interest rate	2.26%
Volatility	46.1%
Dividend yields	3.05%
Weighted-average fair value of options granted during the year	\$ 0.99

No options were granted during the years ended December 31, 2010 and 2009.

**Adoption of New Accounting Standards**

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods ending after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The effect of adopting this standard did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.



**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Adoption of New Accounting Standards (continued)**

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on the consolidated financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment will change the presentation of the components of comprehensive income for the Company, as this presentation will no longer be included as part of the consolidated statement of shareholders' equity.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS****Fair Value of Financial Instruments**

The estimated fair values of the Company's financial instruments are as follows:

	September 30, December 31, 2011 Carrying Amount	September 30, December 31, 2011 Fair Value	September 30, December 31, 2010 Carrying Amount	September 30, December 31, 2010 Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 63,076,000	\$ 63,076,000	\$ 64,628,000	\$ 64,628,000
Investment securities	57,917,000	57,917,000	63,017,000	63,017,000
Loans, net	287,432,000	290,710,000	307,151,000	304,045,000
FHLB stock	2,043,000	N/A	2,188,000	N/A
Accrued interest receivable	1,638,000	1,638,000	1,784,000	1,784,000
<b>Financial liabilities:</b>				
Deposits	\$ 391,140,000	\$ 391,410,000	\$ 424,887,000	\$ 425,009,000
Repurchase agreements	8,279,000	8,279,000		
Junior subordinated deferrable interest debentures	10,310,000	3,079,000	10,310,000	2,992,000
Accrued interest payable	783,000	783,000	623,000	623,000

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at December 31, 2011 and December 31, 2010:

**Cash and cash equivalents:** For cash and cash equivalents, the carrying amount is estimated to be fair value.

**Investment securities:** For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

**Loans:** For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values of loans held for sale, if any, are estimated using quoted market prices for similar loans. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The fair value of loans is adjusted for the allowance for loan losses. The carrying value of accrued interest receivable approximates its fair value.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

The fair value of impaired loans is based on either the estimated fair value of underlying collateral or estimated cash flows, discounted at the loan's effective rate. Assumptions regarding credit risk and cash flows are determined using available market information and specific borrower information.

FHLB stock: It was not practicable to determine the fair value of the FHLB stock due to restrictions placed on its transferability.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Repurchase agreements:

The carrying amount of securities sold under repurchase agreements is estimated based on bid quotations received from brokers.

Junior subordinated deferrable interest debentures: The fair value of junior subordinated deferrable interest debentures was determined based on the current market value for like kind instruments of a similar maturity and structure.

Commitments to extend credit and letters of credit: The fair value of commitments are estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are primarily for variable rate loans and letters of credit.

For these commitments, there is no significant difference between the committed amounts and their fair values and therefore, these items are not included in the table above.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

The Company measures fair value under the fair value hierarchy described below.

Level 1: Quoted prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices (unadjusted) for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Model based techniques that use one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Table of Contents

## PLUMAS BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

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

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	September 30, Total Fair Value	September 30, Fair Value Measurements at December 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
U.S. Government-sponsored agencies	\$ 32,777,000		\$ 32,777,000	
U.S. Government-sponsored agencies collateralized by mortgage obligations	25,140,000		25,140,000	
	\$ 57,917,000	\$	\$ 57,917,000	\$

	September 30, Total Fair Value	September 30, Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
U.S. Treasury securities	\$ 1,032,000		\$ 1,032,000	
U.S. Government-sponsored agencies	40,430,000		40,430,000	
U.S. Government-sponsored agencies collateralized by mortgage obligations	21,273,000		21,273,000	
Obligations of states and political subdivisions	282,000		282,000	

Edgar Filing: PLUMAS BANCORP - Form 10-K

\$ 63,017,000 \$ \$ 63,017,000 \$

F-28

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

The fair value of securities available-for-sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. There were no changes in the valuation techniques used during 2011 or 2010. There were no transfers between levels during the year ended December 31, 2011 or December 31, 2010. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2011 are summarized below:

	September 30, Total Fair Value	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Unobservable Inputs (Level 3)	September 30, Total Gains (Losses)
<b>Assets:</b>					
<b>Impaired loans:</b>					
Commercial	\$ 2,942,000			\$ 2,942,000	\$ (315,000)
Agricultural	245,000			245,000	(250,000)
Real estate residential	2,558,000			2,558,000	(297,000)
Real estate commercial	3,701,000			3,701,000	(52,000)
Real estate construction and land development	4,070,000			4,070,000	(402,000)
Equity lines of credit	49,000			49,000	(100,000)
Installment					(1,000)
Other					
<b>Total impaired loans</b>	<b>13,565,000</b>			<b>13,565,000</b>	<b>(1,417,000)</b>
<b>Other real estate:</b>					
Real estate residential	644,000			644,000	(85,000)
Real estate commercial	5,021,000			5,021,000	(54,000)
Real estate construction and land development	2,958,000			2,958,000	(440,000)
<b>Total other real estate</b>	<b>8,623,000</b>			<b>8,623,000</b>	<b>(579,000)</b>
	<b>\$22,188,000</b>	<b>\$</b>	<b>\$</b>	<b>\$ 22,188,000</b>	<b>\$ (1,996,000)</b>

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 are summarized below:

	September 30, Total Fair Value	September 30, Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)	September 30, Significant Unobservable Inputs (Level 3)	September 30, Total Gains (Losses)
<b>Assets:</b>					
<b>Impaired loans:</b>					
Commercial	\$ 914,000			\$ 914,000	\$ (259,000)
Agricultural	243,000			243,000	(117,000)
Real estate residential	1,505,000			1,505,000	(213,000)
Real estate commercial	2,009,000			2,009,000	(201,000)
Real estate construction and land development	8,850,000			8,850,000	(559,000)
Equity lines of credit					(10,000)
Installment					(8,000)
Other					11,000
<b>Total impaired loans</b>	<b>13,521,000</b>			<b>13,521,000</b>	<b>(1,356,000)</b>
<b>Other real estate:</b>					
Real estate residential	525,000			525,000	(14,000)
Real estate commercial	2,348,000			2,348,000	(141,000)
Real estate construction and land development	5,994,000			5,994,000	(80,000)
<b>Total other real estate</b>	<b>8,867,000</b>			<b>8,867,000</b>	<b>(235,000)</b>
	<b>\$ 22,388,000</b>	<b>\$</b>	<b>\$</b>	<b>\$ 22,388,000</b>	<b>\$ (1,591,000)</b>

The Company has no liabilities which are reported at fair value.

The following methods were used to estimate the fair value of each class of assets above.

**Impaired Loans:** The fair value of impaired loans with specific allocations of the allowance for loan losses or loans that have been subject to partial charge-offs are generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Total losses of \$1,417,000 and \$1,356,000 represent



Edgar Filing: PLUMAS BANCORP - Form 10-K

impairment charges recognized during the years ended December 31, 2011 and December 31, 2010, respectively related to the above impaired loans.

F - 30

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**4. FAIR VALUE MEASUREMENTS (Continued)**

**Other Real Estate:** Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

**5. INVESTMENT SECURITIES**

The amortized cost and estimated fair value of investment securities at December 31, 2011 and 2010 consisted of the following:

	September 30,	September 30,	September 30,	September 30,
		2011		
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value
<b>Available-for-Sale</b>				
Debt securities:				
U.S. Government-sponsored agencies	\$ 32,708,000	\$ 92,000	\$ (23,000)	\$ 32,777,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	24,941,000	251,000	(52,000)	25,140,000
	\$ 57,649,000	\$ 343,000	\$ (75,000)	\$ 57,917,000

Net unrealized gains on available-for-sale investment securities totaling \$268,000 were recorded, net of \$110,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2011. During the year ended December 31, 2011 the Company sold twenty-seven available-for-sale securities for \$29,404,000, recording a \$666,000 gain on sale. No securities were sold at a loss.

	September 30,	September 30,	September 30,	September 30,
		2010		
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair
		Gains	Losses	Value
Debt securities:				
U.S. Treasury securities	\$ 1,025,000	\$ 7,000		\$ 1,032,000
U.S. Government-sponsored agencies	40,662,000	58,000	\$ (290,000)	40,430,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	21,110,000	270,000	(107,000)	21,273,000
Obligations of states and political subdivisions	308,000		(26,000)	282,000
	\$ 63,105,000	\$ 335,000	\$ (423,000)	\$ 63,017,000

## Edgar Filing: PLUMAS BANCORP - Form 10-K

Net unrealized losses on available-for-sale investment securities totaling \$88,000 were recorded, net of \$36,000 in tax benefit, as accumulated other comprehensive loss within shareholders' equity at December 31, 2010. During the year ended December 31, 2010 the Company sold sixty-five available-for-sale securities for \$40,902,000, recording a \$1,160,000 gain on sale. During 2009 we sold one available-for-sale investment security for \$86,000, recording a \$1,000 gain on sale.

F - 31

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**5. INVESTMENT SECURITIES (Continued)****Held-to-Maturity**

There were no securities classified as held-to-maturity at December 31, 2011 or December 31, 2010. Related to a significant deterioration in creditworthiness, during 2009 we sold five held-to maturity securities for \$943,000, recording a \$9,000 gain on sale. At December 31, 2009 the Company transferred all of its obligations of states and political subdivisions from held-to-maturity to available-for-sale as it was determined that management no longer had the intent to hold these investments to maturity. At the time of the transfer these securities had an amortized cost of \$11,387,000 and a fair value of \$11,722,000. There were no sales or transfers of held-to-maturity investment securities during the years ended December 31, 2011 or 2010.

Investment securities with unrealized losses at December 31, 2011 and 2010 are summarized and classified according to the duration of the loss period as follows:

	September 30, Less than 12 Months Fair Value	September 30, Unrealized Losses
<b>December 31, 2011</b>		
Debt securities:		
U.S. Government-sponsored agencies	\$ 11,044,000	\$ 23,000
U.S. Government- sponsored agencies collateralized by mortgage obligations	9,144,000	52,000
	\$ 20,188,000	\$ 75,000
	September 30, Less than 12 Months Fair Value	September 30, Unrealized Losses
<b>December 31, 2010</b>		
Debt securities:		
U.S. Government-sponsored agencies	\$ 14,763,000	\$ 290,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	13,205,000	107,000
Obligations of states and political subdivisions	282,000	26,000
	\$ 28,250,000	\$ 423,000

There were no securities in a loss position for more than one year as of December 31, 2011 and 2010.



**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**5. INVESTMENT SECURITIES (Continued)**

At December 31, 2011, the Company held 47 securities of which 12 were in a loss position. Of the securities in a loss position, all were in a loss position for less than twelve months. Of the 12 securities 7 are U.S. government-sponsored agencies and 5 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. As of December 31, 2011, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of December 31, 2011 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, Amortized Cost	September 30, Estimated Fair Value
After one year through five years	\$ 32,708,000	32,777,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	24,941,000	25,140,000
	\$ 57,649,000	\$ 57,917,000

Investment securities with amortized costs totaling \$44,878,000 and \$36,828,000 and estimated fair values totaling \$45,149,000 and \$36,814,000 at December 31, 2011 and 2010, respectively, were pledged to secure deposits and repurchase agreements.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES**

Outstanding loans are summarized below:

	September 30, December 31, 2011	September 30, 2010
Commercial	\$ 30,235,000	\$ 33,433,000
Agricultural	38,868,000	38,469,000
Real estate residential	39,019,000	43,291,000
Real estate commercial	119,412,000	119,222,000
Real estate construction and land development	17,063,000	31,199,000
Equity lines of credit	37,581,000	36,946,000
Installment	2,515,000	2,879,000
Other	9,172,000	8,761,000
	293,865,000	314,200,000
Deferred loan costs, net	475,000	275,000
Allowance for loan losses	(6,908,000)	(7,324,000)
	\$ 287,432,000	\$ 307,151,000

Changes in the allowance for loan losses were as follows:

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009
Balance, beginning of year	\$ 7,324,000	\$ 9,568,000	\$ 7,224,000
Provision charged to operations	3,500,000	5,500,000	14,500,000
Losses charged to allowance	(4,247,000)	(8,349,000)	(12,500,000)
Recoveries	331,000	605,000	344,000
Balance, end of year	\$ 6,908,000	\$ 7,324,000	\$ 9,568,000

The recorded investment in impaired loans totaled \$24,402,000 and \$28,755,000 at December 31, 2011 and 2010, respectively. The Company had specific allowances for loan losses of \$2,066,000 on impaired loans of \$14,130,000 at December 31, 2011 as compared to specific allowances for loan losses of \$1,903,000 on impaired loans of \$11,292,000 at December 31, 2010. The balance of impaired loans in which no specific reserves were required totaled \$10,272,000 and \$17,463,000 at December 31, 2011 and 2010, respectively. The average recorded investment in impaired loans for the years ended December 31, 2011, 2010 and 2009 was \$25,536,000, \$20,833,000 and \$25,092,000,

## Edgar Filing: PLUMAS BANCORP - Form 10-K

respectively. The Company recognized \$666,000, \$608,000 and \$369,000 in interest income on a cash basis for impaired loans during the years ended December 31, 2011, 2010 and 2009, respectively.

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date.



**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The Company has allocated \$1,164,000 and \$271,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2011 and December 31, 2010. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at December 31, 2011 and December 31, 2010.

During the year ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 2 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ending December 31, 2011:

	September 30, Number of Loans	September 30, Pre-Modification Outstanding Recorded Investment	September 30, Post-Modification Recorded Investment
Troubled Debt Restructurings:			
Commercial	2	\$ 129,000	\$ 129,000
Agricultural	4	996,000	996,000
Real Estate:			
Construction and land development	5	4,977,000	4,977,000
Equity LOC	1	787,000	787,000
Other	19	179,000	179,000
Total	31	\$ 7,068,000	\$ 7,068,000

The troubled debt restructurings described above increased the allowance for loan losses by \$132,000 during the year ending December 31, 2011. The troubled debt restructurings described above did not result in charge offs during the year ending December 31, 2011.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2011

	September 30, Number of Loans	September 30, Recorded Investment
Troubled Debt Restructurings:		
Agricultural		
Real Estate:	3	\$ 630,000
Construction and land development	2	139,000
Equity LOC	1	787,000
Total	6	\$ 1,556,000

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by \$81,000 and resulted in charge offs of \$51,000 during the year ending December 31, 2011.

The terms of certain other loans were modified during the year ending December 31, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011 of \$13.5 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy.

Certain loans which were modified during the period ending December 31, 2011 and did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 30 days to 2 months.

At December 31, 2011 and 2010, nonaccrual loans totaled \$16,757,000 and \$25,313,000, respectively. Interest foregone on nonaccrual loans totaled \$510,000, \$1,021,000 and \$568,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Loans past due 90 days or more and on accrual status were \$72,000 and \$45,000 at December 31, 2011 and 2010, respectively.

Salaries and employee benefits totaling \$706,000, \$638,000 and \$708,000 have been deferred as loan origination costs during the years ended December 31, 2011, 2010 and 2009, respectively.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table shows the loan portfolio allocated by management's internal risk ratings at the dates indicated, in thousands:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Commercial Credit Exposure						
	Credit Risk Profile by Internally Assigned Grade						
December 31, 2011	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	\$ 26,077	\$ 34,882	\$ 34,049	\$ 101,395	\$ 11,383	\$ 34,296	\$ 242,082
Watch	1,562	1,595	629	5,575	50	1,300	10,711
Substandard	2,433	2,391	4,327	12,442	5,630	1,974	29,197
Doubtful	163		14			11	188
Total	\$ 30,235	\$ 38,868	\$ 39,019	\$ 119,412	\$ 17,063	\$ 37,581	\$ 282,178

	Commercial Credit Exposure						
	Credit Risk Profile by Internally Assigned Grade						
December 31, 2010	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	\$ 28,923	\$ 34,081	\$ 39,194	\$ 96,527	\$ 15,987	\$ 34,787	\$ 249,499
Watch	904	646	1,738	8,192	2,165	585	14,230
Substandard	3,606	3,742	2,295	14,503	12,982	1,502	38,630
Doubtful			64		65	72	201
Total	\$ 33,433	\$ 38,469	\$ 43,291	\$ 119,222	\$ 31,199	\$ 36,946	\$ 302,560

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Consumer Credit Exposure			Consumer Credit Exposure		
	Credit Risk Profile Based on Payment Activity			Credit Risk Profile Based on Payment Activity		
	December 31, 2011			December 31, 2010		
Grade:	Installment	Other	Total	Installment	Other	Total
Performing	\$ 2,465	\$ 9,024	\$ 11,489	\$ 2,830	\$ 8,643	\$ 11,473
Non-performing	50	148	198	49	118	167
Total	\$ 2,515	\$ 9,172	\$ 11,687	\$ 2,879	\$ 8,761	\$ 11,640



**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The following tables show the allocation of the allowance for loan losses by impairment methodology at the dates indicated, in thousands:

	September 30, 12/31/11:	September 30, Commercial	September 30, Agricultural	September 30, Real Estate- Residential	September 30, Real Estate- Commercial	September 30, Real Estate- Construction	September 30, Equity LOC	September 30, Installment	September 30, Other	September 30, T							
<b>for Loan</b>																	
Balance	\$	760	\$	184	\$	632	\$	1,819	\$	3,011	\$	652	\$	66	\$	200	\$
Provisions		(446)		(93)		(147)		(336)		(2,603)		(311)		(174)		(137)	
Reversals		93		106		1		17		5		2		13		94	
		618		133		212		425		1,593		292		212		15	
Balance	\$	1,025	\$	330	\$	698	\$	1,925	\$	2,006	\$	635	\$	117	\$	172	\$

	September 30, 12/31/11:	September 30, Commercial	September 30, Agricultural	September 30, Real Estate- Residential	September 30, Real Estate- Commercial	September 30, Real Estate- Construction	September 30, Equity LOC	September 30, Installment	September 30, Other	September 30, T							
<b>31.</b>																	
<b>for Loan</b>																	
Balance:																	
Provision	\$	310	\$	250	\$	355	\$	148	\$	901	\$	101	\$	1	\$		\$
Balance:																	
Provision	\$	715	\$	80	\$	343	\$	1,777	\$	1,105	\$	534	\$	116	\$	172	\$
Balance	\$	30,235	\$	38,868	\$	39,019	\$	119,412	\$	17,063	\$	37,581	\$	2,515	\$	9,172	\$
Balance:																	
Provision	\$	4,946	\$	1,268	\$	4,257	\$	5,557	\$	6,754	\$	1,494	\$	50	\$	76	\$
Balance	\$	25,289	\$	37,600	\$	34,762	\$	113,855	\$	10,309	\$	36,087	\$	2,465	\$	9,096	\$

31.

for Loan

ance	\$	760	\$	184	\$	632	\$	1,819	\$	3,011	\$	652	\$	66	\$	200	\$
ance:																	
y or t	\$	22	\$		\$	121	\$	201	\$	1,479	\$	72	\$	8	\$		\$
ance:																	
y or t	\$	738	\$	184	\$	511	\$	1,618	\$	1,532	\$	580	\$	58	\$	200	\$
ance	\$	33,433	\$	38,469	\$	43,291	\$	119,222	\$	31,199	\$	36,946	\$	2,879	\$	8,761	\$
ance:																	
y or t	\$	2,706	\$	868	\$	3,870	\$	8,204	\$	11,501	\$	1,382	\$	106	\$	118	\$
ance:																	
y or t	\$	30,727	\$	37,601	\$	39,421	\$	111,018	\$	19,698	\$	35,564	\$	2,773	\$	8,643	\$

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The following table shows an aging analysis of the loan portfolio by the time past due at the dates indicated (amounts in thousands):

December 31, 2011	September 30, 30-89 Days Past Due	September 30, 90 Days and Still Accruing	September 30, Nonaccrual	September 30, Total Past Due	September 30, Current	September 30, Total
<b>Commercial:</b>						
Commercial	\$ 456	\$	\$ 4,819	\$ 5,275	\$ 24,960	\$ 30,235
Agricultural			999	999	37,869	38,868
Real estate construction	1,113		634	1,747	15,316	17,063
Real estate	1,939		5,557	7,496	111,916	119,412
<b>Residential:</b>						
Real estate	461		3,141	3,602	35,417	39,019
Equity LOC	775		1,481	2,256	35,325	37,581
<b>Consumer:</b>						
Installment	31		50	81	2,434	2,515
Other	351	72	76	499	8,673	9,172
<b>Total</b>	<b>\$ 5,126</b>	<b>\$ 72</b>	<b>\$ 16,757</b>	<b>\$ 21,955</b>	<b>\$ 271,910</b>	<b>\$ 293,865</b>

December 31, 2010	September 30, 30-89 Days Past Due	September 30, 90 Days and Still Accruing	September 30, Nonaccrual	September 30, Total Past Due	September 30, Current	September 30, Total
<b>Commercial:</b>						
Commercial	\$ 352	\$	\$ 2,706	\$ 3,058	\$ 30,375	\$ 33,433
Agricultural	272		868	1,140	37,329	38,469
Real estate construction	136		9,797	9,933	21,266	31,199
Real estate	802		8,204	9,006	110,216	119,222
<b>Residential:</b>						
Real estate	400		2,189	2,589	40,702	43,291
Equity LOC	494		1,382	1,876	35,070	36,946
<b>Consumer:</b>						
Installment	56		49	105	2,774	2,879
Other	348	45	118	511	8,250	8,761
<b>Total</b>	<b>\$ 2,860</b>	<b>\$ 45</b>	<b>\$ 25,313</b>	<b>\$ 28,218</b>	<b>\$ 285,982</b>	<b>\$ 314,200</b>





**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)**

The following tables show information related to impaired loans at the dates indicated, in thousands:

	September 30, Recorded Investment	September 30, Unpaid Principal Balance	September 30, Related Allowance	September 30, Average Recorded Investment	September 30, Interest Income Recognized
<b>As of December 31, 2011:</b>					
With no related allowance recorded:					
Commercial	\$ 2,506	\$ 2,882		\$ 2,458	\$ 56
Agricultural	923	1,153		931	62
Real estate construction	1,955	2,210		6,911	117
Real estate commercial	1,707	1,707		4,751	70
Real estate residential	1,711	1,739		2,069	106
Equity Lines of Credit	1,345	1,345		1,285	22
Installment	49	49		91	2
Other	76	76		102	10
With an allowance recorded:					
Commercial	\$ 2,440	\$ 2,440	\$ 310	1,349	25
Agricultural	345	345	250	345	
Real estate construction	4,799	4,850	901	2,521	186
Real estate commercial	3,850	3,850	148	1,664	
Real estate residential	2,546	2,546	355	1,005	9
Equity Lines of Credit	149	149	101	53	1
Installment	1	1	1	1	
Other					
<b>Total:</b>					
Commercial	\$ 4,946	\$ 5,322	\$ 310	\$ 3,807	\$ 81
Agricultural	1,268	1,498	250	1,276	62
Real estate construction	6,754	7,060	901	9,432	303
Real estate commercial	5,557	5,557	148	6,415	70
Real estate residential	4,257	4,285	355	3,074	115
Equity Lines of Credit	1,494	1,494	101	1,338	23
Installment	50	50	1	92	2
Other	76	76		102	10
<b>Total</b>	<b>\$ 24,402</b>	<b>\$ 25,342</b>	<b>\$ 2,066</b>	<b>\$ 25,536</b>	<b>\$ 666</b>
<b>As of December 31, 2010:</b>					
With no related allowance recorded:					

Edgar Filing: PLUMAS BANCORP - Form 10-K

Commercial	\$	2,680	\$	3,018	\$	1,892	7
Agricultural		868		1,109		1,454	102
Real estate construction		4,151		5,169		3,586	61
Real estate commercial		5,994		5,994		6,964	257
Real estate residential		2,244		2,245		660	83
Equity Lines of Credit		1,310		1,310		556	
Installment		98		98		44	2
Other		118		118		140	11
With an allowance recorded:							
Commercial		26		26	\$	22	4
Agricultural						32	
Real estate construction	\$	7,350	\$	8,770		1,479	39
Real estate commercial		2,210		2,210		201	4
Real estate residential		1,626		1,743		121	38
Equity Lines of Credit		72		72		72	9
Installment		8		8		8	
Other							
Total:							
Commercial	\$	2,706	\$	3,044	\$	22	11
Agricultural		868		1,109		1,454	102
Real estate construction		11,501		13,939		1,479	100
Real estate commercial		8,204		8,204		201	261
Real estate residential		3,870		3,988		121	121
Equity Lines of Credit		1,382		1,382		72	565
Installment		106		106		8	2
Other		118		118		140	11
Total	\$	28,755	\$	31,890	\$	1,903	608

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**7. PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following:

	September 30, December 31, 2011	September 30, 2010
Land	\$ 2,628,000	\$ 2,628,000
Premises	15,412,000	15,394,000
Furniture, equipment and leasehold improvements	9,874,000	9,810,000
	27,914,000	27,832,000
Less accumulated depreciation and amortization	(14,457,000)	(13,401,000)
	\$ 13,457,000	\$ 14,431,000

Depreciation and amortization included in occupancy and equipment expense totaled \$1,233,000, \$1,521,000 and \$1,756,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

**8. DEPOSITS**

Interest-bearing deposits consisted of the following:

	September 30, December 31, 2011	September 30, 2010
Interest-bearing demand deposits	\$ 82,025,000	\$ 100,000,000
Money market	38,840,000	42,279,000
Savings	63,969,000	53,150,000
Time, \$100,000 or more	31,624,000	52,104,000
Other time	48,751,000	65,552,000
	\$ 265,209,000	\$ 313,085,000

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**8. DEPOSITS (Continued)**

At December 31, 2011, the scheduled maturities of time deposits were as follows:

Year Ending December 31,	September 30,
2012	\$ 64,986,000
2013	9,565,000
2014	2,886,000
2015	2,136,000
2016	802,000
	\$ 80,375,000

At December 31, 2011, the contractual maturities of time deposits with a denomination of \$100,000 and over were as follows: \$7,566,000 in 3 months or less, \$5,519,000 over 3 months through 6 months, \$11,093,000 over 6 months through 12 months, and \$7,446,000 over 12 months.

Deposit overdrafts reclassified as loan balances were \$331,000 and \$314,000 at December 31, 2011 and 2010, respectively.

**9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase are secured by U.S. Government agency securities with a carrying amount of \$8,279,000 at year-end 2011. There were no securities sold under agreements to repurchase during 2010 or 2009.

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase during 2011 is summarized as follows:

	September 30,
Average daily balance during the year	\$ 3,124,000
Average interest rate during the year	0.42%
Maximum month-end balance during the year	\$ 8,300,000
Weighted average interest rate at year-end	0.41%

**10. BORROWING ARRANGEMENTS**

The Company is a member of the FHLB and can borrow up to \$86,388,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$178,987,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2011, the Company held \$2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the

## Edgar Filing: PLUMAS BANCORP - Form 10-K

Company can borrow up to \$43,466,000. To borrow the \$86,388,000 in available credit the Company would need to purchase \$2,017,000 in additional FHLB stock. There were no outstanding borrowings under this agreement at December 31, 2011 and 2010.

F - 42

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**11 JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES**

Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of \$283,000 and \$154,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to twenty-five percent of the Company's Tier 1 capital, as defined, on a pro forma basis. At December 31, 2011, all of the trust preferred securities that have been issued qualify as Tier 1 capital.

During 2002, Plumas Statutory Trust I issued 6,000 Floating Rate Capital Trust Pass-Through Securities ( Trust Preferred Securities ), with a liquidation value of \$1,000 per security, for gross proceeds of \$6,000,000. During 2005, Plumas Statutory Trust II issued 4,000 Trust Preferred Securities with a liquidation value of \$1,000 per security, for gross proceeds of \$4,000,000. The entire proceeds were invested by Trust I in the amount of \$6,186,000 and Trust II in the amount of \$4,124,000 in Floating Rate Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures ) issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of Trusts I and II.

Trust I's Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 3.97% (based on 3-month LIBOR plus 3.40%), with repricing and payments due quarterly. Trust II's Subordinated Debentures mature on September 28, 2035, bear a current interest rate of 2.03% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any quarterly anniversary date on or after the 5-year anniversary date of the issuance. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 26, 2032 for Trust I and September 28, 2035 for Trust II.

Holder of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security. The interest rate of the Trust Preferred Securities issued by Trust I adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 3.40%. The Trust Preferred Securities issued by Trust II adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 1.48%. Both Trusts I and II have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities. Since the second quarter of 2010, the Company has deferred regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities and has given notice of deferral each quarterly payment period.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)**

While the Company has accrued for this obligation, it is currently deferring the interest payments on the junior subordinated debentures as permitted by the agreements. As of December 31, 2011 and 2010, the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities was \$569,000 and \$243,000, respectively.

Interest expense recognized by the Company for the years ended December 31, 2011, 2010 and 2009 related to the subordinated debentures was \$326,000, \$312,000 and \$371,000, respectively.

**12. COMMITMENTS AND CONTINGENCIES****Leases**

The Company has commitments for leasing premises under the terms of noncancelable operating leases expiring from 2012 to 2015. Future minimum lease payments are as follows:

Year Ending	September 30,
December 31,	
2012	\$ 147,000
2013	75,000
2014	51,000
2015	51,000
	\$ 324,000

Rental expense included in occupancy and equipment expense totaled \$150,000, \$20,000 and \$317,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

**Financial Instruments With Off-Balance-Sheet Risk**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and letters of credit as it does for loans included on the consolidated balance sheet.

The following financial instruments represent off-balance-sheet credit risk:

Edgar Filing: PLUMAS BANCORP - Form 10-K

	September 30, December 31, 2011	September 30, 2010
Commitments to extend credit	\$ 79,164,000	\$ 71,605,000
Letters of credit	\$ 50,000	\$ 164,000

F - 44



---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**12. COMMITMENTS AND CONTINGENCIES (Continued)**

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, crops, inventory, equipment, income-producing commercial properties, farm land and residential properties.

Letters of credit are conditional commitments issued by the Company 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 loans to customers. The fair value of the liability related to these letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2011 and 2010. The Company recognizes these fees as revenues over the term of the commitment or when the commitment is used.

At December 31, 2011, consumer loan commitments represent approximately 21% of total commitments and are generally unsecured. Commercial and agricultural loan commitments represent approximately 33% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments, including consumer home equity lines of credit, represent the remaining 46% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company's commitments have variable interest rates.

**Concentrations of Credit Risk**

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to customers throughout Plumas, Nevada, Placer, Lassen, Sierra, Shasta and Modoc counties in California and Washoe county in Northern Nevada.

Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. A continued substantial decline in the economy in general, or a continued decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the collectibility of these loans. However, personal and business income represents the primary source of repayment for a majority of these loans.

**Contingencies**

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

---

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHAREHOLDERS EQUITY**

**Dividend Restrictions**

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the DFI, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2011, the Bank was restricted, without prior approval from the DFI, from paying cash dividends to the Company. In addition the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trusts (see Note 11 for additional information related to the Trust Preferred Securities).

As described below, dividends on common stock are also limited related to the Company's participation in the Capital Purchase Program. Additionally, Plumas Bancorp is required by the Federal Reserve Bank of San Francisco (FRB) to obtain the FRB's prior written consent before paying any dividends on its common stock or its Series A Preferred Stock, or making any payments on its trust preferred securities.

**Preferred Stock**

On January 30, 2009 the Company entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Company issued and sold (i) 11,949 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 237,712 shares of the Company's common stock, no par value (the "Common Stock"), for an aggregate purchase price of \$11,949,000 in cash.

The Warrant has a 10-year term and is exercisable, with an exercise price, subject to antidilution adjustments, equal to \$7.54 per share of the Common Stock. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHAREHOLDERS EQUITY (Continued)**

The Company allocated the proceeds received on January 30, 2009 between the Series A Preferred Stock and the Warrant based on the estimated relative fair value of each. The fair value of the Warrant was estimated based on a Black-Scholes-Merton model and totaled \$320,000. The discount recorded on the Series A Preferred Stock was based on a discount rate of 12% and will be amortized by the level-yield method over 5 years. Discount accretion for the years ended December 31, 2011, 2010, and 2009 totaled \$87,000, \$87,000 and \$79,000, respectively.

The Series A Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Company may redeem the Series A Preferred Stock at its liquidation preference (\$1,000 per share) plus accrued and unpaid dividends under the American Recovery and Reinvestment Act of 2009, subject to the Treasury's consultation with the Company's appropriate federal regulator.

With respect to dividends on the Company's common stock, Treasury's consent shall be required for any increase in common dividends per share until the third anniversary of the date of its investment unless prior to such third anniversary the Series A Preferred Stock is redeemed in whole or the Treasury has transferred all of the Senior Preferred Series A Preferred Stock to third parties. Furthermore, with respect to dividends on certain other series of preferred stock, restrictions from Treasury may apply. The Company does not have any outstanding preferred stock other than the Series A Preferred Stock discussed above.

During the second quarter of 2010, Plumas Bancorp, as required by the FRB, suspended the declaration and payment of future quarterly cash dividends on its Series A Preferred Stock. Plumas Bancorp is in arrears in the amount of \$1,046,000 and \$449,000 with the dividend payments on the Series A Preferred Stock as of December 31, 2011 and 2010, respectively.

**Earnings Per Share**

Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted earnings per share.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHAREHOLDERS EQUITY (Continued)**

(In thousands, except per share data)	September 30, 2011	September 30, 2010	September 30, 2009
Net Income (loss):			
Net income (loss)	\$ 941	\$ 971	\$ (9,146)
Dividends on preferred shares	(684)	(684)	(628)
Net income (loss) available to common shareholders	\$ 257	\$ 287	\$ (9,774)
Earnings (loss) Per Share:			
Basic earnings (loss) per share	\$ 0.05	\$ 0.06	\$ (2.05)
Diluted earnings (loss) per share	\$ 0.05	\$ 0.06	\$ (2.05)
Weighted Average Number of Shares Outstanding:			
Basic shares	4,776	4,776	4,776
Diluted shares	4,776	4,776	4,776

Shares of common stock issuable under stock options for which the exercise prices were greater than the average market prices were not included in the computation of diluted earnings per share due to their antidilutive effect. When a net loss occurs, no difference in earnings per share is calculated because the conversion of potential common stock is anti-dilutive. Stock options not included in the computation of diluted earnings per share, due to shares not being in-the-money and having an antidilutive effect, were 483,000 and 312,000 for the years ended December 31, 2011 and 2010, respectively.

F - 48

Table of Contents

## PLUMAS BANCORP AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 13. SHAREHOLDERS EQUITY (Continued)

Stock Options

In 2001, the Company established a Stock Option Plan for which 482,780 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of December 31, 2011. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The Plan does not provide for the settlement of awards in cash and new shares are issued upon option exercise. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a three to five year period. A summary of the activity within the Plan follows:

	September 30, Shares	September 30, Weighted Average Exercise Price	September 30, Weighted Average Remaining Contractual Term	September 30, Intrinsic Value
Options outstanding at January 1, 2009	466,956	\$ 13.38		
Options exercised	(1,000)	5.43		
Options cancelled	(61,990)	12.38		
Options outstanding at December 31, 2009	403,966	\$ 13.56		
Options cancelled	(91,936)	14.05		
Options outstanding at December 31, 2010	312,030	\$ 13.41		
Options granted	248,000	2.95		
Options cancelled	(77,250)	9.05		
Options outstanding at December 31, 2011	482,780	\$ 8.74	4.9	\$
Options exercisable at December 31, 2011	243,512	\$ 13.89	2.8	\$
Expected to vest after December 31, 2011	196,944	\$ 3.49	7.0	\$

As of December 31, 2011, there was \$126,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.1 years.

The total fair value of options vested was \$153,000 for the year ended December 31, 2011.

The total intrinsic value of options at time of exercise was \$1,000 for the year ended December 31, 2009. Cash received from options exercised for the year ended December 31, 2009 was \$5,000. There was no tax benefit realized from options exercised in 2009.



**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHAREHOLDERS EQUITY (Continued)**

**Regulatory Capital**

The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these 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 consolidated financial statements.

Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involved quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. These quantitative measures are established by regulation and require that minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets be maintained. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page and cannot be subject to a written agreement, order or capital directive issued by the FDIC. In addition, under the Consent Order that was in place until February 15, 2012 the Bank was subject to a minimum 10% Tier 1 leverage ratio and a minimum 13% total risk-based capital ratio at December 31, 2011. Currently under an informal agreement with the FDIC and DFI the Bank has agreed to maintain its Tier 1 leverage ratio at or above 9%.

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**13. SHAREHOLDERS EQUITY (Continued)****Regulatory Capital (continued)**

	September 30, 2011 Amount	September 30, December 31, 2010 Ratio	September 30, 2010 Amount	September 30, Ratio
<b>Leverage Ratio</b>				
Plumas Bancorp and Subsidiary	\$ 45,024,000	9.8%	\$ 42,994,000	8.9%
Minimum regulatory requirement	\$ 18,313,000	4.0%	\$ 19,361,000	4.0%
Plumas Bank	\$ 45,073,000	9.8%	\$ 43,262,000	8.9%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	\$ 22,882,000	5.0%	\$ 24,190,000	5.0%
Minimum regulatory requirement	\$ 18,305,000	4.0%	\$ 19,352,000	4.0%
<b>Tier 1 Risk-Based Capital Ratio</b>				
Plumas Bancorp and Subsidiary	\$ 45,024,000	13.7%	\$ 42,994,000	12.7%
Minimum regulatory requirement	\$ 13,149,000	4.0%	\$ 13,570,000	4.0%
Plumas Bank	\$ 45,073,000	13.7%	\$ 43,262,000	12.8%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	\$ 19,710,000	6.0%	\$ 20,342,000	6.0%
Minimum regulatory requirement	\$ 13,140,000	4.0%	\$ 13,561,000	4.0%
<b>Total Risk-Based Capital Ratio</b>				
Plumas Bancorp and Subsidiary	\$ 49,169,000	15.0%	\$ 47,274,000	13.9%
Minimum regulatory requirement	\$ 26,298,000	8.0%	\$ 27,140,000	8.0%
Plumas Bank	\$ 49,215,000	15.0%	\$ 47,539,000	14.0%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	\$ 32,850,000	10.0%	\$ 33,903,000	10.0%
Minimum regulatory requirement	\$ 26,280,000	8.0%	\$ 27,123,000	8.0%

F - 51



**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**14. OTHER EXPENSES**

Other expenses consisted of the following:

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009
Outside service fees	\$ 1,270,000	\$ 1,212,000	\$ 990,000
FDIC Insurance	1,099,000	1,009,000	1,125,000
Professional fees	730,000	587,000	789,000
Loss (gain) on sale of other real estate	606,000	(43,000)	158,000
OREO expenses	422,000	573,000	370,000
Telephone and data communications	331,000	338,000	392,000
Business development	262,000	250,000	333,000
Loan collection expenses	261,000	261,000	399,000
Advertising and promotion	236,000	252,000	327,000
Director compensation and retirement	229,000	233,000	293,000
Armored car and courier	225,000	239,000	281,000
Postage	190,000	207,000	207,000
Core deposit intangible amortization	173,000	173,000	173,000
Stationery and supplies	140,000	145,000	183,000
Insurance	42,000	125,000	54,000
Other operating expenses	168,000	396,000	579,000
	\$ 6,384,000	\$ 5,957,000	\$ 6,653,000

**15. INCOME TAXES**

The provision for (benefit from) income taxes for the years ended December 31, 2011, 2010 and 2009 consisted of the following:

2011	September 30, Federal	September 30, State	September 30, Total
Current	\$ 34,000	\$ 2,000	\$ 36,000
Deferred	228,000	31,000	259,000
Provision for income taxes	\$ 262,000	\$ 33,000	\$ 295,000
2010	Federal	State	Total
Current		\$ 4,000	\$ 4,000

Edgar Filing: PLUMAS BANCORP - Form 10-K

Deferred	\$	277,000	108,000	385,000
Benefit from income taxes	\$	277,000	\$ 112,000	\$ 389,000

F - 52

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**15. INCOME TAXES (Continued)**

2009	September 30, Federal	September 30, State	September 30, Total
Current	\$ (2,803,000)	\$ (120,000)	\$ (2,923,000)
Deferred	(2,122,000)	(1,730,000)	(3,852,000)
Benefit from provision for Income taxes	\$ (4,925,000)	\$ (1,850,000)	\$ (6,775,000)

Deferred tax assets (liabilities) consisted of the following:

	September 30, December 31, 2011	September 30, December 31, 2010
Deferred tax assets:		
Allowance for loan losses	\$ 1,183,000	\$ 1,490,000
Net operating loss carryovers	2,867,000	2,418,000
Deferred compensation	1,661,000	1,614,000
Core deposit premium	245,000	255,000
OREO valuation allowance	1,253,000	1,723,000
Other	607,000	521,000
Total deferred tax assets	7,816,000	8,021,000
Deferred tax liabilities:		
Prepaid costs	(167,000)	(104,000)
Deferred loan costs	(779,000)	(739,000)
Unrealized gain on available-for-sale investment securities	(110,000)	
Other	(162,000)	(174,000)
Total deferred tax liabilities	(1,218,000)	(1,017,000)
Net deferred tax assets	\$ 6,598,000	\$ 7,004,000

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and

## Edgar Filing: PLUMAS BANCORP - Form 10-K

estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

F - 53

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**15. INCOME TAXES (Continued)**

As part of its analysis, the Company considered the following positive evidence:

The Company's 2009 net loss was largely attributable to losses on its Construction and Land Development portfolio that represented approximately 80% of net charge-offs during the year ended December 31, 2009. This portfolio has decreased from \$74 million at December 31, 2008 to \$17 million at December 31 2011.

The Company's 2009 net loss was also attributable to significant write-downs on foreclosed construction and land development real estate properties which represented the majority of its provision for losses on other real estate during 2009. During 2010 other real estate write-downs decreased by \$4.4 million from \$4.8 million during the year ended December 31, 2009 to \$356 thousand during 2010. Write-downs on construction and land development real estate owned during 2011 totaled \$440 thousand.

The Company has a long history of earnings and profitability.

The Company was profitable in 2011 and 2010 and is projecting future taxable and book income will be generated by operations.

The size of loans in the Company's pipeline of potential problem loans has significantly decreased.

The Company does not have a history of net operating losses carry forwards or tax credits expiring unused.

As part of its analysis, the Company also considered the following negative evidence:

The Company recorded a large net loss in 2009 and is in a cumulative loss position for the current and preceding two years. Based upon the analysis of available evidence, management has determined that it is more likely than not that all deferred income tax assets as of December 31, 2011 and 2010 will be fully realized and therefore no valuation allowance was recorded.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate to operating income before income taxes. The significant items comprising these differences consisted of the following:

September 30, 2011	September 30, 2010	September 30, 2009
-----------------------	-----------------------	-----------------------

Edgar Filing: PLUMAS BANCORP - Form 10-K

Federal income tax, at statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	4.4%	5.5%	7.0%
Interest on obligations of states and political subdivisions	(2.7)%	(4.4)%	1.3%
Net increase in cash surrender value of bank owned life insurance	(9.7)%	(8.8)%	0.8%
Other	(2.1)%	2.3%	(0.5)%
Effective tax rate	23.9%	28.6%	42.6%

F - 54

**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**15. INCOME TAXES (Continued)**

At year end 2011, the Company had federal operating loss carry-forwards of approximately \$5,431,000 which expire at various dates from 2029 to 2031. In addition, at year end 2011, the Company had state operating loss carry-forwards of approximately \$14,262,000 which expire at various dates from 2029 to 2031. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized.

The Company and its subsidiary file income tax returns in the U.S. federal and California jurisdictions. The Company conducts all of its business activities in the states of California and Nevada. There are currently no pending U.S. federal, state, and local income tax or non-U.S. income tax examinations by tax authorities.

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2008, and by state and local taxing authorities for years ended before December 31, 2007.

The unrecognized tax benefits and changes therein and the interest and penalties accrued by the Company as of or during the years ended December 31, 2011 and 2010 were not significant. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

**16. RELATED PARTY TRANSACTIONS**

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2011:

	<b>September 30,</b>
Balance, January 1, 2011	\$ 1,015,000
Disbursements	12,000
Amounts repaid	(432,000)
Balance, December 31, 2011	\$ 595,000
Undisbursed commitments to related parties, December 31, 2011	\$ 657,000

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**17. EMPLOYEE BENEFIT PLANS**

**Profit Sharing Plan**

The Plumas Bank Profit Sharing Plan commenced April 1, 1988 and is available to employees meeting certain service requirements. Under the Plan, employees are able to defer a selected percentage of their annual compensation. Included under the Plan's investment options is the option to invest in Company stock. The Company's contribution consists of the following:

For the year ended December 31, 2009 and the three months ended March 31, 2010 a contribution which matches the participant's contribution, up to a maximum

of 3% of the employee's compensation. No contribution was made for the year ended December 31, 2011 or the nine months ended December 31, 2010.

An additional discretionary contribution. No discretionary contribution was made for the years ended December 31, 2011, 2010 and 2009.

During the years ended December 31, 2011, 2010 and 2009, the Company's contribution totaled \$0, \$41,000 and \$213,000, respectively.

**Salary Continuation and Retirement Agreements**

Salary continuation and retirement agreements are in place for three key executives and seven members of the Board of Directors. Under these agreements, the directors and executives will receive monthly payments for twelve to fifteen years, respectively, after retirement. The estimated present value of these future benefits is accrued over the period from the effective dates of the agreements until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2011, 2010 and 2009 totaled \$385,000, \$342,000 and \$330,000, respectively. Accrued compensation payable under these plans totaled \$3,784,000 and \$3,613,000 at December 31, 2011 and 2010, respectively.

In connection with these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling \$10,815,000 and \$10,463,000 at December 31, 2011 and 2010, respectively. Income earned on these policies, net of expenses, totaled \$352,000, \$351,000 and \$346,000 for the years ended December 31, 2011, 2010 and 2009, respectively.



**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**18. COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) is reported in addition to net income for all periods presented. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income (loss) and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders' equity.

At December 31, 2011, 2010 and 2009, the Company held securities classified as available-for-sale which had unrealized gains as follows:

	September 30, Before Tax	September 30, Tax Benefit (Expense)	September 30, After Tax
<u>For the Year Ended December 31, 2011</u>			
Total other comprehensive income:			
Unrealized holding gains	\$ 1,023,000	\$ (422,000)	\$ 601,000
Reclassification adjustment for gains included in net income	(666,000)	275,000	(391,000)
Total other comprehensive income	\$ 357,000	\$ (147,000)	\$ 210,000

	September 30, Before Tax	September 30, Tax Benefit (Expense)	September 30, After Tax
<u>For the Year Ended December 31, 2010</u>			
Total other comprehensive loss:			
Unrealized holding gains	\$ 12,000	\$ (5,000)	\$ 7,000
Reclassification adjustment for gains included in net income	(1,160,000)	479,000	(681,000)
Total other comprehensive loss	\$ (1,148,000)	\$ 474,000	\$ (674,000)

For the Year Ended December 31, 2009

Total other comprehensive income:

Unrealized gains on securities transferred from held-to-maturity to available for-sale	\$ 335,000	\$ (138,000)	\$ 197,000
Unrealized holding gains	184,000	(75,000)	109,000
Reclassification adjustment for gains included in net loss	(10,000)		(10,000)
Total other comprehensive income	\$ 509,000	\$ (213,000)	\$ 296,000



**Table of Contents****PLUMAS BANCORP AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**19. INTANGIBLE ASSETS**

During 2003, the Company acquired certain assets and liabilities of five branches from another bank. Upon acquisition, premises and equipment were valued at fair value and a core deposit premium was recorded as an intangible asset. This core deposit premium is amortized using the straight-line method over ten years. Annually, the intangible asset is analyzed for impairment.

At December 31, 2011, 2010 and 2009, no impairment of the intangible asset has been recognized in the consolidated financial statements. Amortization expense totaled \$173,000 for each of the years ended December 31, 2011, 2010 and 2009.

The gross carrying amount of intangible assets and accumulated amortization was:

	September 30, December 31, 2011	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2010
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	\$ 1,709,000	\$ 1,407,000	\$ 1,709,000	\$ 1,234,000

The estimated remaining intangible amortization is as follows:

Year Ending	September 30,
<b>December 31,</b>	
2012	\$ 173,000
2013	129,000
	\$ 302,000

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS**  
**CONDENSED BALANCE SHEET**

**December 31, 2011 and 2010**

	September 30, 2011	September 30, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 660,000	\$ 626,000
Investment in bank subsidiary	48,822,000	47,399,000
Other assets	1,086,000	1,071,000
<b>Total assets</b>	<b>\$ 50,568,000</b>	<b>\$ 49,096,000</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Other liabilities	\$ 624,000	\$ 798,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
<b>Total liabilities</b>	<b>10,934,000</b>	<b>11,108,000</b>
Shareholders' equity:		
Preferred stock	11,769,000	11,682,000
Common stock	5,998,000	6,027,000
Retained earnings	21,709,000	20,331,000
Accumulated other comprehensive income (loss)	158,000	(52,000)
<b>Total shareholders' equity</b>	<b>39,634,000</b>	<b>37,988,000</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 50,568,000</b>	<b>\$ 49,096,000</b>

**CONDENSED STATEMENT OF OPERATIONS**

**For the Years Ended December 31, 2011, 2010 and 2009**

September 30,      September 30,      September 30,

Edgar Filing: PLUMAS BANCORP - Form 10-K

	2011	2010	2009
<b>Income:</b>			
Earnings from investment in Plumas Statutory Trusts I and II	10,000	9,000	11,000
<b>Expenses:</b>			
Interest on junior subordinated deferrable interest debentures	326,000	312,000	371,000
Other expenses	199,000	242,000	808,000
Total expenses	525,000	554,000	1,179,000
Loss before equity in undistributed income of subsidiary	(515,000)	(545,000)	(1,168,000)
Equity in undistributed income (loss) of subsidiary	1,244,000	1,292,000	(8,452,000)
Income (loss) before income taxes	729,000	747,000	(9,620,000)
Income tax benefit	212,000	224,000	474,000
Net income (loss)	\$ 941,000	\$ 971,000	\$ (9,146,000)

F - 59

**Table of Contents**

**PLUMAS BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)**

**CONDENSED STATEMENT OF CASH FLOWS**

**For the Years Ended December 31, 2011, 2010 and 2009**

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from operating activities:			
Net income (loss)	\$ 941,000	\$ 971,000	\$ (9,146,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Undistributed (income) loss of subsidiary	(1,244,000)	(1,292,000)	8,452,000
Stock-based compensation expense	2,000	10,000	47,000
(Increase) decrease in other assets	(15,000)	(619,000)	124,000
Increase in other liabilities	350,000	(4,000)	115,000
Net cash provided by (used in) operating activities	34,000	(934,000)	(408,000)
Cash flows from investing activities:			
Investment in bank subsidiary		(2,000,000)	(8,000,000)
Net cash used in investing activities		(2,000,000)	(8,000,000)
Cash flows from financing activities:			
Payment of cash dividends on preferred stock		(150,000)	(473,000)
Issuance of preferred stock, net of discount			11,517,000
Issuance of common stock warrant			407,000
Proceeds from the exercise of stock options			5,000
Net cash (used in) provided by financing activities		(150,000)	11,456,000
Increase (decrease) in cash and cash equivalents	34,000	(3,084,000)	3,048,000
Cash and cash equivalents at beginning of year	626,000	3,710,000	662,000
Cash and cash equivalents at end of year	\$ 660,000	\$ 626,000	\$ 3,710,000

