PLUMAS BANCORP
Form 10-Q
May 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2018

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ___________

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California	**75-2987096**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
35 S. Lindan Avenue, Quincy, California	**95971**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code **(530) 283-7305**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule12b-2 of the Exchange Act:

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 27, 2018. 5,107,076 shares.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ *64,690*	$ *87,537*
Investment securities available for sale	*148,180*	*137,466*
Loans, less allowance for loan losses of $6,622 at March 31, 2018 and $6,669 at December 31, 2017	*485,171*	*482,248*
Real estate acquired through foreclosure	*1,081*	*1,344*
Premises and equipment, net	*11,175*	*11,346*
Bank owned life insurance	*12,611*	*12,866*
Accrued interest receivable and other assets	*13,868*	*12,620*
Total assets	$ *736,776*	$ *745,427*
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ *267,636*	$ *282,239*
Interest bearing	*385,155*	*380,418*
Total deposits	*652,791*	*662,657*
Repurchase agreements	*8,675*	*10,074*
Accrued interest payable and other liabilities	*7,709*	*6,686*
Junior subordinated deferrable interest debentures	*10,310*	*10,310*
Total liabilities	*679,485*	*689,727*
Commitments and contingencies (Note 5)		
Shareholders' equity:		
	6,544	*6,415*

Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 5,082,676 shares at March 31, 2018 and 5,064,972 at December 31, 2017		
Retained earnings	*53,135*	*49,855*
Accumulated other comprehensive loss, net	*(2,388*)	*(570*)
Total shareholders' equity	*57,291*	*55,700*
Total liabilities and shareholders' equity	$ *736,776*	$ *745,427*

See notes to unaudited condensed consolidated financial statements.

1

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2018	**2017**
Interest Income:		
Interest and fees on loans	$*6,777*	$*6,108*
Interest on investment securities	*856*	*561*
Other	*185*	*96*
Total interest income	*7,818*	*6,765*
Interest Expense:		
Interest on deposits	*151*	*139*
Interest on note payable	-	*24*
Interest on junior subordinated deferrable interest debentures	*112*	*94*
Other	*2*	*1*
Total interest expense	*265*	*258*
Net interest income before provision for loan losses	*7,553*	*6,507*
Provision for Loan Losses	*200*	*200*
Net interest income after provision for loan losses	*7,353*	*6,307*
Non-Interest Income:		
Service charges	*640*	*599*
Interchange revenue	*491*	*456*
Gain on sale of loans	*666*	*528*
Gain on equity securities with no readily determinable fair value	*209*	-
Loss on sale of investments	*(8*)	*(17*)
Other	*533*	*481*
Total non-interest income	*2,531*	*2,047*
Non-Interest Expenses:		
Salaries and employee benefits	*3,113*	*2,927*
Occupancy and equipment	*702*	*769*
Other	*1,634*	*1,387*
Total non-interest expenses	*5,449*	*5,083*
Income before provision for income taxes	*4,435*	*3,271*
Provision for Income Taxes	*1,155*	*1,207*
Net income	$*3,280*	$*2,064*
Basic earnings per common share	$*0.65*	$*0.42*

Diluted earnings per common share	$*0.63*	$*0.40*

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2018	**2017**
Net income	$*3,280*	$*2,064*
Other comprehensive income:		
Change in net unrealized gain/loss	*(2,589*)	*503*
Reclassification adjustments for net losses included in net income	*8*	*17*
Net unrealized holding (loss) gain	*(2,581*)	*520*
Related tax effect:		
Change in net unrealized gain/loss	*765*	*(207*)
Reclassification of net losses included in net income	*(2*)	*(7*)
Income tax effect	*763*	*(214*)
Other comprehensive (loss) income	*(1,818*)	*306*
Total comprehensive income	$*1,462*	$*2,370*

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2018	2017
Cash Flows from Operating Activities:		
Net income	$3,280	$2,064
Adjustments to reconcile net income to net cash provided by (used in) provided by operating activities:		
Provision for loan losses	200	200
Change in deferred loan origination costs/fees, net	(315)	(134)
Depreciation and amortization	245	271
Stock-based compensation expense	47	43
Loss on sale of investments	8	17
Amortization of investment security premiums	169	144
Gain on equity securities with no readily determinable fair value	(209)	-
Gain on sale of OREO and other vehicles	(34)	(5)
Gain on sale of loans held for sale	(666)	(528)
Loans originated for sale	(12,612)	(11,202)
Proceeds from loan sales	11,939	9,198
Provision from change in OREO valuation	-	9
Earnings on bank-owned life insurance	(83)	(82)
(Increase) decrease in accrued interest receivable and other assets	(99)	1,453
Increase (decrease) in accrued interest payable and other liabilities	1,023	(1,473)
Net cash provided by (used in) operating activities	2,893	(25)
Cash Flows from Investing Activities:		
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	3,159	3,096
Purchases of available-for-sale securities	(20,788)	(16,291)
Proceeds from sale of available-for-sale securities	4,157	4,221
Net increase in loans	(1,896)	(6,405)
Proceeds from Bank owned life insurance	338	-
Proceeds from sale of OREO	412	75
Proceeds from sale of other vehicles	112	66
Purchase of premises and equipment	(51)	(118)
Net cash used in investing activities	(14,557)	(15,356)

Continued on next page.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Three Months Ended March 31, 2018			2017		
Cash Flows from Financing Activities:						
Net (decrease) increase in demand, interest bearing and savings deposits	$	*(6,263*	)	$	*8,531*	
Net decrease in time deposits		*(3,603*	)		*(1,591*	)
Principal payment on note payable		-			*(125*	)
Net decrease in securities sold under agreements to repurchase		*(1,399*	)		*(2,249*	)
Proceeds from exercise of stock options		*82*			*123*	
Net cash (used in) provided by financing activities		*(11,183*	)		*4,689*	
Decrease in cash and cash equivalents		*(22,847*	)		*(10,692*	)
Cash and Cash Equivalents at Beginning of Year		*87,537*			*62,646*	
Cash and Cash Equivalents at End of Period	$	*64,690*		$	*51,954*	

Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:				
Interest expense	$	*264*	$	*256*
Income taxes	$	-	$	-
Non-Cash Investing Activities:				
Real estate and vehicles acquired through foreclosure	$	*220*	$	*50*

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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. In *December, 2015* the Bank opened a branch in Reno, Nevada; its *first* branch outside of California. The Bank’s administrative headquarters is in Quincy, California. In addition, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California, and commercial/agricultural lending offices in Chico, California and Klamath Falls, Oregon. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are *not* consolidated into the Company’s consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company’s financial position at *March 31, 2018* and the results of its operations and its cash flows for the *three*-month periods ended *March 31, 2018* and *2017.* Our condensed consolidated balance sheet at *December 31, 2017* is derived from audited financial statements.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting on Form *10*-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted. The Company believes that the disclosures are adequate to make the information *not* misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's *2017* Annual Report to Shareholders on Form *10*-K. The results of operations for the *three*-month period ended *March 31, 2018 may not* necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

Management has determined that because all of the commercial 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* single customer accounts for more than *10%* of the revenues of the Company or the Bank.

Reclassifications

Certain reclassifications have been made to prior years’ balances to conform to the classifications used in *2017.* These reclassifications had *no* impact on the Company’s consolidated financial position, results of operations or net change in cash and cash equivalents.

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.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic *606,* "Revenue from Contracts with Customers" ("Topic *606"*). Under Topic *606,* the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has *not* been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

Most of our revenue-generating transactions are *not* subject to ASC *606,* including revenue generated from financial instruments, such as our loans and investment securities. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Condensed Consolidated Statements of Income was *not* necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic *606* that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Income Taxes

On *December 22, 2017,* the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law. The TCJ Act provides for significant changes to the U.S. Internal Revenue Code of *1986,* as amended (the "Code"), that impact corporate taxation requirements, such as the reduction of the top federal tax rate for corporations from *35%* to *21%* and changes or limitations to certain tax deductions. As a result of the TCJ Act, we re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally *21%.* However, we are still analyzing certain aspects of the TCJ Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded in *2017* related to the re-measurement of our deferred tax asset was *$1.4* million, and *no* further adjustments were made during the *three* months ended *March 31, 2018.*

Recently Adopted Accounting Pronouncements

In *February 2018,* the FASB issued ASU *2018-02,* Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). ASU *2018-02* allows entities to elect to reclassify stranded tax effects on items within AOCI, resulting from the new tax bill signed into law on *December 22, 2017,* to retained earnings. The Company elected to early adopt this new standard in *2017* and recorded a reclassification from AOCI to retained earnings in the amount of *$94,000.*

In *May 2014,* the FASB issued ASU *No. 2014-09* Revenue from Contracts with Customers ("ASU *No. 2014-09"*), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on *January 1, 2018.* Adoption of ASU *2014-09* did *not* have a material impact on the Company's consolidated financial statements and related disclosures as the Company's primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are *not* within the scope of ASU *2014-09.* The Company's revenue recognition pattern for revenue streams within the scope of ASU *2014-09,* including but *not* limited to service charges on deposit accounts and gains/losses on the sale of loans, did *not* change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company elected to use the modified retrospective transition method which requires application of ASU *2014-09* to uncompleted contracts at the date of adoption however, periods prior to the date of adoption will *not* be retrospectively revised as the impact of the ASU on uncompleted contracts at the date of adoption was *not* material.

On *January 5, 2016,* the FASB issued Accounting Standards Update *2016-01,* Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years. The Company adopted ASU *No. 2016-01* on *January 1, 2018* and recorded a *$209,000* gain related to adjusting the carrying value of equity securities without a readily determinable fair market to *$662,000* in accordance with this standard. Additionally, we refined the calculation used to determine the disclosed fair value of our loans held for investment as part of adopting this standard. The refined calculation did *not* have a significant impact on our fair value disclosures.

Pending Accounting Pronouncements

On *February 25, 2016,* the FASB issued ASU *2016-02,* Leases. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases *not* considered short-term leases, which is generally defined as a lease term of less than *12* months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. ASU *2016-02* is effective for interim and annual periods beginning after *December 15, 2018.* The Company has several lease agreements, including *two* branch locations, which are currently considered operating leases, and therefore, *not* recognized on the Company's consolidated statements of condition. The Company expects the new guidance will require some of these lease agreements to now be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. The Company has performed a preliminary evaluation of the provisions of ASU *No. 2016-02.* Based on this evaluation, the Company has determined that ASU *No. 2016-02* is *not* expected to have a material impact on the Company's Consolidated Financial Statements. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Balance Sheet.

In *June 2016,* the FASB issued ASU *No. 2016-13,* Measurement of Credit Losses on Financial Instruments. ASU *No. 2016-13* significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (*1*) financial assets subject to credit losses and measured at amortized cost, and (*2*) certain off-balance sheet credit exposures. This includes, but is *not* limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does *not* apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU *No. 2016-13* also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU *No. 2016-13* is effective for interim and annual reporting periods beginning after *December 15, 2019;* early adoption is permitted for interim and annual reporting periods beginning after *December 15, 2018.* Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the *first* reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its implementation efforts by establishing an implementation team chaired by the Company's Chief Lending Officer and composed of members of the Company's credit administration and accounting departments. The Company's preliminary evaluation indicates the provisions of ASU *No. 2016-13* are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

On *March 30, 2017,* the FASB issued ASU *2017-08,* Receivables – Non-Refundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities. This ASU amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The amendments do *not* require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU *2017-08* is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2018.* Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the *first* reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has performed a preliminary evaluation of the provisions of ASU *No. 2017-08.* Based on this evaluation, the Company has determined that ASU *No. 2017-08* is *not* expected to have a material impact on the Company's Consolidated Financial Statements.

3. **INVESTMENT SECURITIES AVAILABLE FOR SALE**

The amortized cost and estimated fair value of investment securities at *March 31, 2018* and *December 31, 2017* consisted of the following, in thousands:

Available-for-Sale	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	$*119,337*	$ *32*	$ *(2,899*)	$*116,470*
Obligations of states and political subdivisions	*32,233*	*92*	*(615*)	*31,710*
	$*151,570*	$ *124*	$ *(3,514*)	$*148,180*

Net unrealized loss on available-for-sale investment securities totaling *$3,390,000* were recorded, net of *$1,002,000* in tax benefits, as accumulated other comprehensive income within shareholders' equity at *March 31, 2018.* During the *three* months ended *March 31, 2018* the Company sold *eighteen* available-for-sale investment securities for total proceeds of *$4,157,000* recording a *$8,000* loss on sale. The Company realized a gain on sale from *eight* of these securities totaling *$4,000* and a loss on sale on *ten* securities of *$12,000.*

Available-for-Sale	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	$*104,935*	$ *26*	$ *(1,173*)	$*103,788*
Obligations of states and political subdivisions	*33,340*	*482*	*(144*)	*33,678*
	$*138,275*	$ *508*	$ *(1,317*)	$*137,466*

Unrealized loss on available-for-sale investment securities totaling *$809,000* were recorded, net of *$239,000* in tax benefits, as accumulated other comprehensive loss within shareholders' equity at *December 31, 2017.* During the *three* months ended *March 31, 2017* the Company sold *seven* available-for-sale investment securities for total proceeds of *$4,221,000* recording a *$17,000* loss on sale. The Company realized a gain on sale from *four* of these securities totaling *$4,000* and a loss on sale on *three* securities of *$21,000.*

There were *no* transfers of available-for-sale investment securities during the *three* months ended *March 31, 2018* and *twelve* months ended *December 31, 2017.* There were *no* securities classified as held-to-maturity at *March 31, 2018* or *December 31, 2017.*

Investment securities with unrealized losses at *March 31, 2018* and *December 31, 2017* are summarized and classified according to the duration of the loss period as follows, in thousands:

March 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S.Government-sponsored agencies collateralized by mortgage obligations-residential	$*72,580*	$ *1,632*	$*29,541*	$ *1,267*	$*102,121*	$ *2,899*
Obligations of states and political subdivisions	*20,184*	*376*	*3,276*	*239*	*23,460*	*615*
	$*92,764*	$ *2,008*	$*32,817*	$ *1,506*	$*125,581*	$ *3,514*

December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S.Government-sponsored agencies collateralized by mortgage obligations-residential	$*60,070*	$ *441*	$*31,213*	$ *732*	$*91,283*	$ *1,173*
Obligations of states and political subdivisions	*2,621*	*31*	*3,403*	*113*	*6,024*	*144*
	$*62,691*	$ *472*	$*34,616*	$ *845*	$*97,307*	$ *1,317*

At *March 31, 2018,* the Company held *187* securities of which *152* were in a loss position. Of the securities in a loss position, *116* were in a loss position for less than *twelve* months. Of the *187* securities *83* are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and *104* were obligations of states and political subdivisions. 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 *March 31, 2018,* 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 *March 31, 2018* are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at *March 31, 2018* by contractual maturity are shown below, in thousands.

	Amortized Cost	Estimated Fair

		Value
Within one year	$ -	$ -
After one year through five years	*2,937*	*2,938*
After five years through ten years	*16,910*	*16,682*
After ten years	*12,386*	*12,090*
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	*119,337*	*116,470*
	$ *151,570*	$ *148,180*

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.

Investment securities with amortized costs totaling *$78,613,000* and *$82,059,000* and estimated fair values totaling *$76,216,000* and *$81,006,000* at *March 31, 2018* and *December 31, 2017,* respectively, were pledged to secure deposits and repurchase agreements.

10

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	March 31, 2018	December 31, 2017
Commercial	$*41,899*	$*39,620*
Agricultural	*55,861*	*58,908*
Real estate – residential	*15,609*	*16,624*
Real estate – commercial	*243,781*	*240,257*
Real estate – construction and land development	*26,465*	*25,181*
Equity lines of credit	*39,534*	*41,798*
Auto	*62,155*	*60,438*
Other	*4,038*	*3,808*
Total loans	*489,342*	*486,634*
Deferred loan costs, net	*2,451*	*2,283*
Allowance for loan losses	*(6,622*)	*(6,669*)
Total net loans	$*485,171*	$*482,248*

Changes in the allowance for loan losses, in thousands, were as follows:

	March 31, 2018	December 31, 2017
Balance, beginning of year	$*6,669*	$ *6,549*
Provision charged to operations	*200*	*600*
Losses charged to allowance	*(449*)	*(879*)
Recoveries	*202*	*399*
Balance, end of year	$*6,622*	$ *6,669*

The recorded investment in impaired loans totaled *$1,981,000* and *$2,270,000* at *March 31, 2018* and *December 31, 2017,* respectively. The Company had specific allowances for loan losses of *$78,000* on impaired loans of *$469,000* at *March 31, 2018* as compared to specific allowances for loan losses of *$82,000* on impaired loans of *$475,000* at *December 31, 2017.* The balance of impaired loans in which *no* specific reserves were required totaled *$1,512,000* and *$1,795,000* at *March 31, 2018* and *December 31, 2017,* respectively. The average recorded investment in impaired loans for the *three* months ended *March 31, 2018* and *March 31, 2017* was *$2,002,000* and *$5,405,000,* respectively.

The Company recognized *$18,000* and *$43,000* in interest income for impaired loans during the *three* months ended *March 31, 2018* and *2017,* respectively. *No* interest was recognized on nonaccrual loans accounted for on a cash basis during the *three* months ended *March 31, 2018* and *2017.*

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 to include *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.

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.

The carrying value of troubled debt restructurings at *March 31, 2018* and *December 31, 2017* was *$1,109,000* and *$1,111,000,* respectively. The Company has allocated *$61,000* and *$63,000* of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of *March 31, 2018* and *December 31, 2017.* The Company has *not* committed to lend additional amounts on loans classified as troubled debt restructurings at *March 31, 2018* and *December 31, 2017.*

There were *no* troubled debt restructurings that occurred during the *three* months ending *March 31, 2018* or *March 31, 2017.*

There were *no* troubled debt restructurings for which there was a payment default within *twelve* months following the modification during the *three* months ended *March 31, 2018* and *2017,* respectively.

At *March 31, 2018* and *December 31, 2017,* nonaccrual loans totaled *$941,000* and *$1,226,000,* respectively. Interest foregone on nonaccrual loans totaled *$15,000* and *$51,000* for the *three* months ended *March 31, 2018* and *2017,* respectively. At *March 31, 2018* there was *one* loan totaling *$0.1* million that was *90* days past due and still accruing interest. At *December 31, 2017* were *three* loans to *one* customer totaling *$1.8* million that were *90* days past due and still accruing interest. These loans were well secured and in process of collection at *March 31, 2018* and *December 31, 2017.*

Salaries and employee benefits totaling *$498,000* and *$395,000* have been deferred as loan origination costs during the *three* months ended *March 31, 2018* and *2017,* respectively.

The Company assigns a risk rating to all loans and periodically, but *not* less than annually, performs detailed reviews of all criticized and classified 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 *three* major categories, defined as follows:

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses my result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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.

Loans *not* meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

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

March 31, 2018 — **Commercial Credit Exposure**
Credit Risk Profile by Internally Assigned Grade

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$*41,363*	$ *55,530*	$ *15,323*	$ *240,025*	$ *26,367*	$*39,481*	$*418,089*
Special Mention	*263*	*254*	*123*	*3,474*	-	-	*4,114*
Substandard	*273*	*77*	*163*	*282*	*98*	*53*	*946*
Doubtful	-	-	-	-	-	-	-
Total	$*41,899*	$ *55,861*	$ *15,609*	$ *243,781*	$ *26,465*	$*39,534*	$*423,149*

December 31, 2017 — **Commercial Credit Exposure**
Credit Risk Profile by Internally Assigned Grade

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$*38,851*	$ *56,859*	$ *16,218*	$ *239,944*	$ *25,081*	$*41,636*	$*418,589*
Special Mention	*238*	*253*	*125*	*26*	-	-	*642*
Substandard	*531*	*1,796*	*281*	*287*	*100*	*162*	*3,157*
Doubtful	-	-	-	-	-	-	-
Total	$*39,620*	$ *58,908*	$ *16,624*	$ *240,257*	$ *25,181*	$*41,798*	$*422,388*

Consumer Credit Exposure Credit Risk Profile Based on Payment Activity March 31, 2018			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2017		
Auto	Other	Total	Auto	Other	Total

Grade:						
Performing	$61,810	$4,038	$65,848	$60,060	$3,788	$63,848
Non-performing	345	-	345	378	20	398
Total	$62,155	$4,038	$66,193	$60,438	$3,808	$64,246

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

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Auto	Other	Total
Three months ended March 31, 2018:									
Allowance for Loan Losses									
Beginning balance	$ *725*	$ *623*	$ *231*	$ *2,729*	$ *783*	$ *533*	$ *946*	$ *99*	$ *6,669*
Charge-offs	*(265*)	-	-	-	-	-	*(165*)	*(19*)	*(449*)
Recoveries	*7*	-	*91*	*17*	*2*	*1*	*82*	*2*	*202*
Provision	*305*	*(129*)	*(110*)	*13*	*6*	*(24*)	*114*	*25*	*200*
Ending balance	$ *772*	$ *494*	$ *212*	$ *2,759*	$ *791*	$ *510*	$ *977*	$ *107*	$ *6,622*
Three months ended March 31, 2017:									
Allowance for Loan Losses									
Beginning balance	$ *655*	$ *466*	$ *280*	$ *2,740*	$ *927*	$ *575*	$ *815*	$ *91*	$ *6,549*
Charge-offs	-	-	-	-	-	-	*(50*)	*(5*)	*(55*)
Recoveries	*8*	-	*1*	*2*	-	-	*34*	*4*	*49*
Provision	*125*	*7*	*(13*)	*177*	*(89*)	*(14*)	*7*	-	*200*
Ending balance	$ *788*	$ *473*	$ *268*	$ *2,919*	$ *838*	$ *561*	$ *806*	$ *90*	$ *6,743*
March 31, 2018:									
Allowance for Loan Losses									