PLUMAS BANCORP
Form 10-Q
May 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED March 31, 2014

¨ **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 x 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 x No ¨

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 6, 2014.
4,789,639 shares

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 50,214	$ 49,917
Investment securities available for sale	88,830	90,343
Loans, less allowance for loan losses of $5,715 at March 31, 2014 and $5,517 at December 31, 2013	340,931	334,374
Premises and equipment, net	12,260	12,519
Bank owned life insurance	11,591	11,504
Real estate and vehicles acquired through foreclosure	5,767	6,459
Accrued interest receivable and other assets	10,092	10,609
Total assets	$ 519,685	$ 515,725
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	$ 158,949	$ 162,816
Interest bearing	296,235	286,623
Total deposits	455,184	449,439
Repurchase agreements	6,064	9,109
Note payable	3,000	3,000
Subordinated debenture	7,334	7,295
Accrued interest payable and other liabilities	5,927	5,979
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	487,819	485,132
Commitments and contingencies (Note 6)		
Shareholders equity:		
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,789,639 shares at March 31, 2014 and 4,787,739 at December 31, 2013	6,264	6,249
Retained earnings	26,449	25,507
Accumulated other comprehensive loss	(847)	(1,163)
Total shareholders equity	31,866	30,593

Total liabilities and shareholders equity	$ 519,685	$ 515,725

See notes to unaudited condensed consolidated financial statements.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2014	**2013**
Interest Income:		
Interest and fees on loans	$ 4,608	$ 4,316
Interest on investment securities	374	256
Other	30	22
Total interest income	5,012	4,594
Interest Expense:		
Interest on deposits	133	155
Interest on note payable	32	
Interest on subordinated debt	188	
Interest on junior subordinated deferrable interest debentures	74	83
Other	2	27
Total interest expense	429	265
Net interest income before provision for loan losses	4,583	4,329
Provision for Loan Losses	150	700
Net interest income after provision for loan losses	4,433	3,629
Non-Interest Income:		
Service charges	994	876
Gain on sale of loans	332	521
Other	362	303
Total non-interest income	1,688	1,700
Non-Interest Expenses:		
Salaries and employee benefits	2,369	2,219
Occupancy and equipment	779	757
Other	1,413	1,399
Total non-interest expenses	4,561	4,375
Income before provision for income taxes	1,560	954
Provision for Income Taxes	618	338
Net income	$ 942	$ 616

Preferred Stock Dividends and Discount Accretion				(171)
Net income available to common shareholders	$	942	$	445
Basic earnings per common share	$	0.20	$	0.09
Diluted earnings per common share	$	0.19	$	0.09

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, 2014	2013
Net income	$ 942	$ 616
Other comprehensive income (loss):		
Change in net unrealized gain(loss)	538	(287)
Less: Reclassification adjustments for net gains included in net income		
Net unrealized holding gain (loss)	538	(287)
Income tax effect	(222)	119
Total other comprehensive income (loss)	316	(168)
Total comprehensive income	$ 1,258	$ 448

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,	
	2014	**2013**
Cash Flows from Operating Activities:		
Net income	$ 942	$ 616
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	700
Change in deferred loan origination costs/fees, net	(185)	(208)
Depreciation and amortization	325	342
Stock-based compensation expense	9	9
Amortization of investment security premiums	118	114
Gain on sale of OREO and other vehicles	(70)	(26)
Gain on sale of loans held for sale	(332)	(521)
Loans originated for sale	(2,965)	(4,577)
Proceeds from loan sales	5,318	7,672
Provision from change in OREO valuation	135	114
Earnings on bank-owned life insurance	(87)	(91)
Decrease in accrued interest receivable and other assets	360	538
Decrease in accrued interest payable and other liabilities	(52)	(972)
Net cash provided by operating activities	3,666	3,710
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	13,045	6,000
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	2,049	2,242
Purchases of available-for-sale securities	(13,159)	(8,122)
Net increase in loans	(8,519)	(1,711)
Proceeds from sale of OREO	431	243
Proceeds from sale of other vehicles	93	51
Purchase of premises and equipment	(15)	(20)
Net cash used in investing activities	(6,075)	(1,317)

Continued on next page.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Three Months Ended March 31, 2014	2013
Cash Flows from Financing Activities:		
Net increase in demand, interest bearing and savings deposits	$ 7,137	$ 3,804
Net decrease in time deposits	(1,392)	(3,134)
Net (decrease) increase in securities sold under agreements to repurchase	(3,045)	24
Proceeds from exercise of stock options	6	
Net cash provided by financing activities	2,706	694
Increase in cash and cash equivalents	297	3,087
Cash and Cash Equivalents at Beginning of Year	49,917	44,675
Cash and Cash Equivalents at End of Period	$ 50,214	$ 47,762
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$ 384	$ 1,146
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$ 158	$ 364

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

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.

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. Effective February 8, 2012, the Bank entered into an informal agreement with the FDIC and DFI which, among other things, requested 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, 2012 this ratio was 32% and the Bank s Tier 1 Leverage Capital Ratio was 10.4%. The FDIC and DFI terminated the informal agreement effective January 24, 2013. Effective July 1, 2013, the California Department of Corporations and the DFI merged to form the Department of Business Oversight (DBO).

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 agreed to take certain actions that were 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 required 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. On April 19, 2013 the Company received notice that the FRB Agreement had been terminated.

3. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2014 and the results of its operations and its cash flows for the three-month periods ended March 31, 2014 and 2013. Our condensed consolidated balance sheet at December 31, 2013 is derived from audited financial statements. Certain reclassifications have been made to prior period s balances to conform to classifications used in 2014.

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 2013 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month period ended March 31, 2014 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.

4. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at March 31, 2014 and December 31, 2013 consisted of the following, in thousands:

Available-for-Sale	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 16,080	$ 19	$ (69)	$ 16,030
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	71,257	67	(1,486)	69,838
Obligations of states and political subdivisions	2,935	31	(4)	2,962
	$ 90,272	$ 117	$ (1,559)	$ 88,830

Net unrealized loss on available-for-sale investment securities totaling $1,442,000 were recorded, net of $595,000 in tax benefits, as accumulated other comprehensive income within shareholders equity at March 31, 2014. No securities were sold during the three months ended March 31, 2014.

Available-for-Sale	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 27,132	$ 40	$ (75)	$ 27,097
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	63,807	22	(1,954)	61,875
Obligations of states and political subdivisions	1,384	4	(17)	1,371
	$ 92,323	$ 66	$ (2,046)	$ 90,343

Net unrealized loss on available-for-sale investment securities totaling $1,980,000 were recorded, net of $817,000 in tax benefits, as accumulated other comprehensive income within shareholders equity at December 31, 2013. No securities were sold during the year ended December 31, 2013.

There were no transfers of available-for-sale investment securities during the three months and year ended March 31, 2014 and twelve months ended December 31, 2013. There were no securities classified as held-to-maturity at March 31, 2014 or December 31, 2013.

Investment securities with unrealized losses at March 31, 2014 and December 31, 2013 are summarized and classified according to the duration of the loss period as follows, in thousands:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
Debt securities:						
U.S. Government-sponsored agencies	$ 7,953	$ 69			$ 7,953	$ 69
U.S. Government agencies collateralized by mortgage obligations-residential	52,159	1,205	$ 5,880	$ 281	58,039	1,486
Obligations of states and political subdivisions	1,166	4			1,166	4
	$ 61,278	$ 1,278	$ 5,880	$ 281	$ 67,158	$ 1,559
December 31, 2013						
Debt securities:						
U.S. Government-sponsored agencies	$ 5,930	$ 75			$ 5,930	$ 75
U.S. Government agencies collateralized by mortgage obligations-residential	53,603	1,700	$ 4,317	$ 254	57,920	1,954
Obligations of states and political subdivisions	928	17			928	17
	$ 60,461	$ 1,792	$ 4,317	$ 254	$ 64,778	$ 2,046

At March 31, 2014, the Company held 84 securities of which 60 were in a loss position. Of the securities in a loss position, all but 6 were in a loss position for less than twelve months. Of the 60 securities 8 are U.S. Government-sponsored agencies 47 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 5 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, 2014, 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, 2014 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at March 31, 2014 by contractual maturity are shown below, in thousands.

	Amortized Cost	Estimated Fair Value
Within one year	$ 4,082	$ 4,092
After one year through five years	11,998	11,939
After five years through ten years	2,678	2,705

After ten years	257	256
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	71,257	69,838
	$ 90,272	$ 88,830

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 $48,787,000 and $54,373,000 and estimated fair values totaling $48,039,000 and $53,493,000 March 31, 2014 and December 31, 2013, respectively, were pledged to secure deposits and repurchase agreements.

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	March 31, 2014	December 31, 2013
Commercial	$ 28,118	$ 32,612
Agricultural	28,802	30,647
Real estate residential	30,090	31,322
Real estate commercial	162,979	155,942
Real estate construction and land development	20,294	17,793
Equity lines of credit	37,041	35,800
Auto	33,779	30,305
Other	4,080	4,130
	345,183	338,551
Deferred loan costs, net	1,463	1,340
Allowance for loan losses	(5,715)	(5,517)
	$ 340,931	$ 334,374

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

	March 31, 2014	December 31, 2013
Balance, beginning of year	$ 5,517	$ 5,686
Provision charged to operations	150	1,400
Losses charged to allowance	(195)	(1,915)
Recoveries	243	346
Balance, end of year	$ 5,715	$ 5,517

The recorded investment in impaired loans totaled $11,259,000 and $9,815,000 at March 31, 2014 and December 31, 2013, respectively. The Company had specific allowances for loan losses of $1,306,000 on impaired loans of $4,085,000 at March 31, 2014 as compared to specific allowances for loan losses of $629,000 on impaired loans of $2,322,000 at December 31, 2013. The balance of impaired loans in which no specific reserves were required totaled $7,174,000 and $7,493,000 at March 31, 2014 and December 31, 2013, respectively. The average recorded investment in impaired loans for the three months ended March 31, 2014 and March 31, 2013 was $8,713,000 and $17,440,000, respectively. The Company recognized $95,000 and $103,000 in interest income on a cash basis for impaired loans during the three months ended March 31, 2014 and 2013, 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 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, 2014 and December 31, 2013 was $7,418,000 and $7,616,000, respectively. The Company has allocated $500,000 and $284,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2014 and December 31, 2013, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at March 31, 2014 and December 31, 2013.

During the three month period ended March 31, 2014 and March 31, 2013, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan was for periods ranging from 1 month to 10 years and those with decreases in rates ranged from 0% to 1.5%.

There were no troubled debt restructurings that occurred during the three months ending March 31, 2014.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ending March 31, 2013, dollars in thousands:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
Troubled Debt Restructurings:			
Auto	1	$ 8	$ 7
Total	1	$ 8	$ 7

The troubled debt restructurings described above resulted in no allowance for loan losses or charge-offs during the three months ending March 31, 2013.

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, 2014.

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 three months ended March 31, 2013, dollars in thousands.

	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
Real estate construction and land development	1	$ 1,150
Total	1	$ 1,150

The troubled debt restructurings described above increased the allowance for loan losses by $154,000 and resulted in no charge-offs during the three months ending March 31, 2013.

The terms of certain other loans were modified during the three months ending March 31, 2014 and year ending December 31, 2013 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of March 31, 2014 and December 31, 2013 of $6 million and $14 million, respectively.

These loans which were modified during the three months ended March 31, 2014 and year ended December 31, 2013 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment ranging from 30 days to 3 months that was considered to be insignificant or the borrower was not considered to be experiencing financial difficulties.

At March 31, 2014 and December 31, 2013, nonaccrual loans totaled $8,555,000 and $5,519,000, respectively. Interest foregone on nonaccrual loans totaled $101,000 and $180,000 for the three months ended March 31, 2014 and 2013, respectively. Loans past due 90 days or more and on accrual status totaled $6,000 and $17,000 at March 31, 2014 and December 31, 2013, respectively.

Salaries and employee benefits totaling $341,000 and $294,000 have been deferred as loan origination costs during the three months ended March 31, 2014 and 2013, respectively.

The Company assigns a risk rating to all loans, with the exception of automobile and other 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 following table shows the loan portfolio allocated by management s internal risk ratings at the dates indicated, in thousands:

March 31, 2014	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	$ 26,918	$ 28,363	$ 28,631	$ 152,387	$ 18,572	$ 35,766	$ 290,637
Watch	953	379	330	4,494		153	6,309
Substandard	247	60	1,129	6,098	1,722	1,122	10,378
Doubtful							
Total	$ 28,118	$ 28,802	$ 30,090	$ 162,979	$ 20,294	$ 37,041	$ 307,324

December 31, 2013	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	$ 30,477	$ 30,213	$ 30,007	$ 147,605	$ 17,733	$ 34,742	$ 290,777
Watch	1,420	345	346	3,484		157	5,752
Substandard	665	89	969	4,853	60	890	7,526
Doubtful	50					11	61
Total	$ 32,612	$ 30,647	$ 31,322	$ 155,942	$ 17,793	$ 35,800	$ 304,116

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity March 31, 2014			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2013		
	Auto	Other	Total	Auto	Other	Total
Grade:						
Performing	$ 33,703	$ 4,071	$ 37,774	$ 30,228	$ 4,113	$ 34,341
Non-performing	76	9	85	77	17	94
Total	$ 33,779	$ 4,080	$ 37,859	$ 30,305	$ 4,130	$ 34,435

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 3/31/14:									
Allowance for Loan Losses									
Beginning balance	$ 785	$ 164	$ 638	$ 1,774	$ 944	$ 613	$ 449	$ 150	$ 5,517
Charge-offs	(86)					(11)	(71)	(27)	(195)
Recoveries	13		19	1	162	12	12	24	243
Provision	(170)	13	(53)	187	60	97	39	(23)	150
Ending balance	$ 542	$ 177	$ 604	$ 1,962	$ 1,166	$ 711	$ 429	$ 124	$ 5,715
Three months ended 3/31/13:									
Allowance for Loan Losses									
Beginning balance	$ 855	$ 159	$ 894	$ 1,656	$ 950	$ 736	$ 289	$ 147	$ 5,686
Charge-offs	(153)		(221)	(132)	(55)		(22)	(63)	(646)
Recoveries	9			2			17	9	37
Provision	75	6	(19)	(108)	705	(28)	6	63	700
Ending balance	$ 786	$ 165	$ 654	$ 1,418	$ 1,600	$ 708	$ 290	$ 156	$ 5,777
March 31, 2014:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ 29	$	$ 253	$ 522	$ 231	$ 257	$ 11	$ 3	$ 1,306
Ending balance: collectively evaluated for impairment	$ 513	$ 177	$ 351	$ 1,440	$ 935	$ 454	$ 418	$ 121	$ 4,409
Loans									
Ending balance	$ 28,118	$ 28,802	$ 30,090	$ 162,979	$ 20,294	$ 37,041	$ 33,779	$ 4,080	$ 345,183
Ending balance: individually evaluated for impairment	$ 1,092	$ 267	$ 2,669	$ 4,364	$ 1,731	$ 1,057	$ 76	$ 3	$ 11,259
Ending balance: collectively evaluated for impairment	$ 27,026	$ 28,535	$ 27,421	$ 158,615	$ 18,563	$ 35,984	$ 33,703	$ 4,077	$ 333,924

December 31, 2013:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ 79	$	$ 200	$ 232	$ 13	$ 105	$	$	$ 629
Ending balance: collectively evaluated for impairment	$ 706	$ 164	$ 438	$ 1,542	$ 931	$ 508	$ 449	$ 150	$ 4,888
Loans									
Ending balance	$ 32,612	$ 30,647	$ 31,322	$ 155,942	$ 17,793	$ 35,800	$ 30,305	$ 4,130	$ 338,551
Ending balance: individually evaluated for impairment	$ 1,324	$ 267	$ 2,475	$ 3,074	$ 1,737	$ 861	$ 77	$	$ 9,815
Ending balance: collectively evaluated for impairment	$ 31,288	$ 30,380	$ 28,847	$ 152,868	$ 16,056	$ 34,939	$ 30,228	$ 4,130	$ 328,736

The following table shows an aging analysis of the loan portfolio by the time past due, in thousands:

March 31, 2014	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial:						
Commercial	$ 28	$	$ 1,066	$ 1,094	$ 27,024	$ 28,118
Agricultural					28,802	28,802
Real estate construction			1,587	1,587	18,707	20,294
Real estate	109		3,656	3,765	159,214	162,979
Residential:						
Real estate	158		1,110	1,268	28,822	30,090
Equity LOC	97		1,057	1,154	35,887	37,041
Consumer:						
Auto	389		76	465	33,314	33,779
Other	116	6	3	125	3,955	4,080
Total	$ 897	$ 6	$ 8,555	$ 9,458	$ 335,725	$ 345,183

December 31, 2013	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial:						
Commercial	$ 129	$	$ 1,295	$ 1,424	$ 31,188	$ 32,612
Agricultural					30,647	30,647
Real estate construction	25		18	43	17,750	17,793
Real estate	304		2,369	2,673	153,269	155,942
Residential:						
Real estate	695		899	1,594	29,728	31,322
Equity LOC	72		861	933	34,867	35,800
Consumer:						
Auto	244		77	321	29,984	30,305
Other	63	17		80	4,050	4,130
Total	$ 1,532	$ 17	$ 5,519	$ 7,068	$ 331,483	$ 338,551

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

As of March 31, 2014:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,042	$ 1,289		$ 1,357	$ 1
Agricultural	267	267		267	5
Real estate construction	1,041	1,041		188	3
Real estate commercial	2,287	2,725		2,298	13
Real estate residential	2,083	2,115		2,095	21
Equity Lines of Credit	389	389		392	2
Auto	65	65		36	2
Other					
With an allowance recorded:					
Commercial	$ 50	$ 50	$ 29	$ 18	$ 1
Agricultural					
Real estate construction	690	690	231	25	1
Real estate commercial	2,077	2,077	522	919	35
Real estate residential	586	592	253	586	2
Equity Lines of Credit	668	668	257	521	9
Auto	11	11	11	11	
Other	3	3	3		
Total:					
Commercial	$ 1,092	$ 1,339	$ 29	$ 1,375	$ 2
Agricultural	267	267		267	5
Real estate construction	1,731	1,731	231	213	4
Real estate commercial	4,364	4,802	522	3,217	48
Real estate residential	2,669	2,707	253	2,681	23
Equity Lines of Credit	1,057	1,057	257	913	11
Auto	76	76	11	47	2
Other	3	3	3		
Total	$ 11,259	$ 11,982	$ 1,306	$ 8,713	$ 95

As of December 31, 2013:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,224	$ 1,493		$ 1,239	$ 3
Agricultural	267	267		267	20
Real estate construction	1,325	1,325		1,384	79
Real estate commercial	2,237	2,675		2,489	53
Real estate residential	2,024	2,035		2,057	89
Equity Lines of Credit	339	339		294	9
Auto	77	77		20	3
Other					

With an allowance recorded:					
Commercial	$ 100	$ 100	$ 79	$ 58	$
Agricultural					
Real estate construction	412	412	13	417	25
Real estate commercial	837	837	232	994	
Real estate residential	451	451	200	452	10
Equity Lines of Credit	522	522	105	511	7
Auto					
Other					
Total:					
Commercial	$ 1,324	$ 1,593	$ 79	$ 1,297	$ 3
Agricultural	267	267		267	20
Real estate construction	1,737	1,737	13	1,801	104
Real estate commercial	3,074	3,512	232	3,483	53
Real estate residential	2,475	2,486	200	2,509	99
Equity Lines of Credit	861	861	105	805	16
Auto	77	77		20	3
Other					
Total	$ 9,815	$ 10,533	$ 629	$ 10,182	$ 298

6. COMMITMENTS AND CONTINGENCIES

The Company is 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 result of operations of the Company taken as a whole.

In the normal course of business, there are various outstanding commitments to extend credit, which are not reflected in the financial statements, including loan commitments of $90,933,000 and $84,229,000 and stand-by letters of credit of $60,000 and $60,000 at March 31, 2014 and December 31, 2013, respectively.

Of the loan commitments outstanding at March 31, 2014, $10,191,000 are real estate construction loan commitments that are expected to fund within the next twelve months. The remaining commitments primarily relate to revolving lines of credit or other commercial loans, and many of these are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The deferred liability related to the Company s stand-by letters of credit was not significant at March 31, 2014 or December 31, 2013.

7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing income 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.

	For the Three Months Ended March 31,	
(In thousands, except per share data)	2014	2013
Net Income:		
Net income	$ 942	$ 616
Dividends and discount accretion on preferred shares		(171)
Net income available to common shareholders	$ 942	$ 445
Earnings Per Share:		
Basic earnings per share	$ 0.20	$ 0.09
Diluted earnings per share	$ 0.19	$ 0.09
Weighted Average Number of Shares Outstanding:		
Basic shares	4,788	4,776
Diluted shares	4,929	4,831

Shares of common stock issuable under stock options and warrants 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. Stock options and warrants not included in the computation of diluted earnings per share, due to shares not being in-the-money and having an antidilutive effect, were approximately 161,000 and 439,000 for the three month periods ended March 31, 2014 and 2013, respectively.

8. STOCK-BASED COMPENSATION

Stock Options

In 2001, the Company established a Stock Option Plan for which 350,859 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of March 31, 2014.

In May 2013, the Company established the 2013 Stock Option Plan for which 500,000 shares of common stock are reserved and available for future grants to employees and directors. 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, with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months, in options of the Optionee that are fully vested and exercisable or in any combination of the foregoing. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. No grants have been made under the 2013 plan. A summary of the activity within the 2001 Stock Option Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value
Options outstanding at January 1, 2014	365,059	$ 8.53		
Options cancelled	(12,300)	13.65		
Options exercised	(1,900)	2.95		
Options outstanding at March 31, 2014	350,859	$ 8.38	3.2	$ 620,319
Options exercisable at March 31, 2014	301,666	$ 9.27	3.0	$ 459,435
Expected to vest after March 31, 2014	31,363	$ 2.95	5.0	$ 102,556

As of March 31, 2014, there was $39,000 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 1 year.

The total fair value of options vested during the three months ended March 31, 2014 and 2013 was $49,000 and $52,000, respectively. The total intrinsic value of options at time of exercise was $6,000 for the three months ended March 31, 2014.

Cash received from option exercise for the three months ended March 31, 2014 was $6,000. There was no tax benefit realized for the tax deduction from options exercised in 2014.

9. 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.

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 income statement. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the three months ended March 31, 2014.

10. FAIR VALUE MEASUREMENT

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.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at March 31, 2014 and December 31, 2013 are as follows, in thousands:

		Fair Value Measurements at March 31, 2014 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 50,214	$ 50,214			$ 50,214
Investment securities	88,830		$ 88,830		88,830
Loans, net	340,931			$ 342,757	342,757
FHLB stock	2,226				N/A
Accrued interest receivable	1,499		224	1,275	1,499
Financial liabilities:					
Deposits	455,184	393,894	61,331		455,225
Repurchase agreements	6,064		6,064		6,064
Note payable	3,000			3,000	3,000
Subordinated debenture	7,334			7,120	7,120
Junior subordinated deferrable interest debentures	10,310			6,997	6,997
Accrued interest payable	104	6	65	33	104

		Fair Value Measurements at December 31, 2013 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 49,917	$ 49,917			$ 49,917
Investment securities	90,343		$ 90,343		90,343
Loans, net	334,374			$ 337,392	337,392
FHLB stock	2,226				N/A
Accrued interest receivable	1,691		260	1,431	1,691
Financial liabilities:					
Deposits	449,439	386,757	62,743		449,500
Repurchase agreements	9,109		9,109		9,109
Note payable	3,000			3,000	3,000
Subordinated debenture	7,295			7,121	7,121
Junior subordinated deferrable interest debentures	10,310			7,193	7,193
Accrued interest payable	98	6	58	34	98

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:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment securities: Fair values for securities available for sale are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2).

Loans: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

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 disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition, equal to the carrying amount at the reporting date resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Repurchase agreements: The fair value of securities sold under repurchase agreements is estimated based on bid quotations received from brokers using observable inputs and are included as Level 2.

Note payable: The fair value of the Company s Note Payable is estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Subordinated debentures: The fair values of the Company s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Junior subordinated deferrable interest debentures: The fair values of the Company s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued interest and payable: The carrying amounts of accrued interest approximate fair value and are considered to be linked in classification to the asset or liability for which they relate.

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 and are not significant and, therefore, not presented. Commitments to extend credit are primarily for variable rate loans and letters of credit.

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. Those estimates that are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision are included in Level 3. Changes in assumptions could significantly affect the fair values presented.

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 March 31, 2014 and December 31, 2013, 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 at March 31, 2014 and December 31, 2013 are summarized below, in thousands:

		Fair Value Measurements at March 31, 2014 Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government-sponsored agencies	$ 16,030		$ 16,030	
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	69,838		69,838	
Obligations of states and political subdivisions	2,962		2,962	
	$ 88,830	$	$ 88,830	$

		Fair Value Measurements at December 31, 2013 Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government-sponsored agencies	$ 27,097		$ 27,097	
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	61,875		61,875	
Obligations of states and political subdivisions	1,371		1,371	
	$ 90,343	$ -	$ 90,343	$

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 or matrix pricing. There were no changes in the valuation techniques used during 2014 or 2013. Transfers between hierarchy measurement levels are recognized by the Company as of the beginning of the reporting period. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2014 are summarized below, in thousands:

		Fair Value Measurements at March 31, 2014 Using			Three Months Ended March 31, 2014
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	$ 762	$	$	$ 762	$
Agricultural					
Real estate residential	183			183	(60)
Real estate commercial	2,319			2,319	(290)
Real estate construction and land development	65			65	(215)
Equity lines of credit	354			354	(136)
Auto					(3)
Other					(11)
Total impaired loans	3,683			3,683	(715)
Other real estate:					
Real estate residential	358			358	11
Real estate commercial	1,085			1,085	(20)
Real estate construction and land development	4,053			4,053	(126)
Equity lines of credit	234			234	
Total other real estate	5,730			5,730	(135)
	$ 9,413	$	$	$ 9,413	$ (850)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2013 are summarized below, in thousands:

	Fair Value Measurements at December 31, 2013 Using				Three Months Ended March 31, 2013
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	$ 767	$	$	$ 767	$ (22)
Agricultural					1
Real estate residential	28			28	40
Real estate commercial	1,377			1,377	8
Real estate construction and land development					(653)
Equity lines of credit	360			360	(13)
Auto					
Other					(24)
Total impaired loans	2,532			2,532	(663)
Other real estate:					
Real estate residential	873			873	
Real estate commercial	983			983	(9)
Real estate construction and land development	4,289			4,289	(105)
Equity lines of credit	254			254	
Total other real estate	6,399			6,399	(114)
	$ 8,931	$	$	$ 8,931	$ (777)

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

The following methods were used to estimate fair value.

Impaired Loans: The fair value of collateral dependent 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 $715,000 and $663,000 represent impairment charges recognized during the three months ended March 31, 2014 and

2013, respectively, related to the above impaired loans.

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.

Appraisals for both collateral-dependent impaired loans and other real estate are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Loan Administration Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, the Company compares the actual selling price of similar collateral that has been liquidated to the most recent appraised value for unsold properties to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2014 and December 31, 2013 (dollars in thousands):

Description	Fair Value 3/31/14	Fair Value 12/31/2013	Valuation Technique	Significant Unobservable Input	Range (Weighted Average) 3/31/2014	Range (Weighted Average) 12/31/2013
Impaired Loans:						
Commercial	$ 762	$ 767	Sales Comparison	Adjustment for differences between comparable sales	0%(0%)	0%(0%)
Agricultural	$	$	Sales Comparison	Adjustment for differences between comparable sales	N/A	N/A
RE Residential	$ 183	$ 28	Sales Comparison	Adjustment for differences between comparable sales	0% - 8%(7%)	8%(8%)
RE Commercial	$ 2,319	$ 1,377	Sales Comparison	Adjustment for differences between comparable sales	8% - 12%(9%)	10% - 12%(11%)
Land and Construction	$ 65	$	Sales Comparison	Adjustment for differences between comparable sales	8%(8%)	N/A
Equity Lines of Credit	$ 354	$ 360	Sales Comparison	Adjustment for differences between comparable sales	6% - 8%(7%)	8%(8%)
Other Real Estate:						
RE Residential	$ 358	$ 873	Sales Comparison	Adjustment for differences between comparable sales	10%(10%)	10%(10%)
Land and Construction	$ 4,053	$ 4,289	Sales Comparison	Adjustment for differences between comparable sales	10%(10%)	10%(10%)
RE Commercial	$ 1,085	$ 983	Sales Comparison	Adjustment for differences between comparable sales	10%(10%)	10%(10%)
Equity Lines of Credit	$ 234	$ 254	Sales Comparison	Adjustment for differences between comparable sales	10%(10%)	10%(10%)

11. Adoption of New Accounting Standards

In July 2013, the FASB issued ASU 2013-11, Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The FASB issued ASU 2013-11 to eliminate the diversity in the presentation of unrecognized tax benefits in those instances. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company has determined the provisions for ASU 2013-11 did not have a material impact on the financial statements.

PART I FINANCIAL INFORMATION

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain matters discussed in this Quarterly Report are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among others, (1) significant increases in competitive pressures in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, maybe less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in regulatory environment; (5) loss of key personnel; (6) fluctuations in the real estate market; (7) changes in business conditions and inflation; (8) operational risks including data processing systems failures or fraud; and (9) changes in securities markets. Therefore, the information set forth herein should be carefully considered when evaluating the business prospects of Plumas Bancorp (the Company).

When the Company uses in this Quarterly Report the words anticipate , estimate , expect , project , intend , comm believe and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Quarterly Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and stockholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company s ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

INTRODUCTION

The following discussion and analysis sets forth certain statistical information relating to the Company as of March 31, 2014 and December 31, 2013 and for the three month periods ended March 31, 2014 and 2013. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto included in Plumas Bancorp s Annual Report filed on Form 10-K for the year ended December 31, 2013.

Plumas Bancorp trades on The NASDAQ Capital Market under the ticker symbol PLBC .

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes to the Company s critical accounting policies from those disclosed in the Company s 2013 Annual Report to Shareholders on Form 10-K.

This discussion should be read in conjunction with our unaudited condensed consolidated financial statements, including the notes thereto, appearing elsewhere in this report.

OVERVIEW

Earnings increased by $326 thousand from $616 thousand during the first quarter of 2013 to $942 thousand during the current quarter. Earnings benefited from an increase of $254 thousand in net interest income and a decline of $550 thousand in the provision for loan losses. Partially offsetting these positive variances were a $12 thousand decline in non-interest income, a $186 thousand increase in non-interest expense and an increase in income tax expense of $280 thousand. The decrease in loan loss provision includes the effect of a $657 thousand decline in net loan charge-offs from $609 thousand during the three months ended March 31, 2013 to net recoveries of $48 thousand during the current three month period.

Net income allocable to common shareholders increased by $497 thousand from $445 thousand during the first quarter of 2013 to $942 thousand during the current quarter. Diluted earnings per share increased to $0.19 during the three months ended March 31, 2014 compared to $0.09 during the first quarter of 2013. Income allocable to common shareholders is calculated by subtracting, during the 2013 quarter, preferred stock dividends and accretion of the discount on preferred stock from net income. There was no preferred stock outstanding during 2014.

Total assets at March 31, 2014 were $520 million, an increase of $4 million from December 31, 2013. This increase included an increase in cash and cash equivalents of $297 thousand and an increase in net loans of $6.6 million partially offset by a decline of $1.5 million in investment securities and $1.4 in all other assets. Net loan balances increased from $334 million at December 31, 2013 to $341 million at March 31, 2014. Investment securities declined from $90.3 million at December 31, 2013 to $88.8 million at March 31, 2014.

Deposits totaled $455.2 million at March 31, 2014, an increase of $5.7 million from December 31, 2013. Interest bearing transaction accounts (NOW) accounts increased by $0.7 million while savings and money market accounts increased by $10.3 million. Non-interest bearing demand deposits decreased by $3.9 million and time deposits declined by $1.4 million. Shareholders equity increased by $1.3 million from $30.6 million at December 31, 2013 to $31.9 million at March 31, 2014.

The annualized return on average assets was 0.74% for the three months ended March 31, 2014 up from 0.53% for the three months ended March 31, 2013. The annualized return on average common equity increased from 5.9% during the first quarter of 2013 to 12.0% during the current quarter.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2014

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, was $4.6 million for the three months ended March 31, 2014, an increase of $254 thousand, or 6%, from $4.3 million for the same period in 2013. The increase in net interest income includes an increase of $418 thousand in interest income and a decline of $22 thousand in interest expense on deposits. These items were partially offsetting by an increase in interest expense on other interest-bearing liabilities of $186 thousand. Mostly related to the increase in interest expense on other interest-bearing liabilities, net interest margin for the three months ended March 31, 2014 decreased 16 basis points, or 4%, to 3.99%, down from 4.15% for the same period in 2013.

Interest income increased by $418 thousand, or 9%, to $5.0 million for the three months ended March 31, 2014, up from $4.6 million during the same period in 2013. Interest and fees on loans increased $292 thousand to $4.6 million for the three months ended March 31, 2014 as compared to $4.3 million during the first quarter of 2013. The Company s average loan balances were $337 million for the three months ended March 31, 2014, up $24.9 million, or 8%, from $312 million for the same period in 2013. The Company is focused on growing loan balances through a balanced and diversified approach.

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The following table compares loan balances by type at March 31, 2014 and 2013.

(dollars in thousands)	Balance at End of Period **03/31/14**	Percent of Loans in Each Category **03/31/14**	Balance at End of Period **03/31/13**	Percent of Loans in Each Category **03/31/13**
Commercial	$ 28,118	8.2%	$ 28,777	9.2%
Agricultural	28,802	8.3%	32,864	10.5%
Real estate residential	30,090	8.7%	32,679	10.4%
Real estate commercial	162,979	47.2%	138,775	44.3%
Real estate construction	20,294	5.9%	16,811	5.4%
Equity Lines of Credit	37,041	10.7%	37,204	11.9%
Auto	33,779	9.8%	22,288	7.1%
Other	4,080	1.2%	3,762	1.2%
Total Gross Loans	$ 345,183	100%	$ 313,160	100%

The average yield on loans was 5.55% during the first quarter of 2014 down from 5.61% for same quarter in 2013. We attribute much of the decrease in yield to price competition in our service area.

Interest on investment securities increased by $118 thousand as a result of an increase in yield of 38 basis points from 1.29% during the first quarter of 2013 to 1.67% during the three months ended March 31, 2014 and an increase in average balance from $80.4 million in 2013 to $90.8 million in 2014. The increase in yield incudes an increase in government sponsored agency residential mortgage backed securities as a percentage of total securities and an increase in market yields.

Interest expense on deposits decreased by $22 thousand, or 14%, to $133 thousand for the three months ended March 31, 2014, down from $155 thousand during the 2013 quarter. This decrease mostly relates to decreases in the average balance and rate paid on time deposits.

Interest on time deposits declined by $21 thousand. Average time deposits declined by $7.3 million from $68.9 million during the three months ended March 31, 2013 to $61.6 million during the current quarter. We attribute much of the reduction in time deposit to the unusually low interest rate environment as we have seen a movement out of time into more liquid deposit types. The average rate paid on time deposits decreased from 0.46% during the three months ended March 31, 2013 to 0.38% during the current quarter. This decrease primarily relates to a decline in market rates paid in the Company s service area and the maturity of higher rate deposits.

Interest expense on NOW accounts declined by $4 thousand. Rates paid on NOW accounts declined by 2 basis points from 0.11% during the quarter ended March 31, 2013 to 0.09% during the three months ended March 31, 2014 related to a decline in market rates.

Interest expense on money market accounts decreased by $2 thousand related to a decrease in rate paid on these accounts of 3 basis points from 0.17% during the 2013 quarter to 0.14% during the current quarter. Interest expense on savings accounts increased by $5 thousand related to an increase in average balance from $74.9 million during the three months ended March 31, 2013 to $99.5 million during the current quarter.

Interest expense on other interest-bearing liabilities increased by $186 thousand from $110 thousand during the three months ending March 31, 2013 to $296 thousand during the quarter ending March 31, 2014. This increase was related to $188 thousand in interest expense on a $7.5 million subordinated debenture which was issued to help fund the repurchase of preferred stock during 2013. The subordinated debt bears an interest rate of 7.5% per annum, has a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant (the Lender Warrant) to purchase up to 300,000 shares of the Bancorp s common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. The effective yield on the debenture was 10.4% which was in excess of the 7.5% rate due to amortization of a $75 thousand commitment fee and a discount recorded on issuance of $318 thousand.

On October 24, 2013 the Bancorp issued a $3 million promissory note dated October 24, 2013 payable to an unrelated commercial bank. The note bears interest at the U.S. Prime Rate plus three-quarters percent per annum (currently 4%), has a term of 18 months and is secured by 100 shares of Plumas Bank stock representing the Company s 100% ownership interest in Plumas Bank. Proceeds from this note were used to help fund the redemption of the remaining preferred shares. Interest expense on this note for 2014 totaled $32 thousand.

Interest expense on junior subordinated debentures, which decreased by $9 thousand from 2013, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate. In addition, as a result of deferring our interest payments under the debentures during much of the first quarter of 2013 we were required to pay interest on the deferred interest payments. This had the effect of increasing interest expense and effective yield on the debentures. The deferred interest on the debentures was repaid in March of 2013.

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

	For the Three Months Ended March 31, 2014			**For the Three Months Ended March 31, 2013**		
	Average Balance (in thousands)	**Interest (in thousands)**	**Yield/ Rate**	**Average Balance (in thousands)**	**Interest (in thousands)**	**Yield/ Rate**
Interest-earning assets:						
Loans (1) (2) (3)	$ 336,878	$ 4,608	5.55%	$ 311,957	$ 4,316	5.61%
Investment securities (1)	90,777	374	1.67%	80,378	256	1.29%
Interest-bearing deposits	37,979	30	0.32%	30,264	22	0.29%
Total interest-earning assets	465,634	5,012	4.37%	422,599	4,594	4.41%
Cash and due from banks	14,938			13,862		
Other assets	36,593			37,237		
Total assets	$ 517,165			$ 473,698		
Interest-bearing liabilities:						
NOW deposits	$ 83,306	19	0.09%	$ 83,247	23	0.11%
Money market deposits	48,022	17	0.14%	45,334	19	0.17%
Savings deposits	99,543	39	0.16%	74,919	34	0.18%
Time deposits	61,629	58	0.38%	68,913	79	0.46%
Total deposits	292,500	133	0.18%	272,413	155	0.23%
Note payable	3,000	32	4.33%			%
Subordinated debentures	7,311	188	10.43%			%
Junior subordinated debentures	10,310	74	2.91%	10,310	83	3.26%
Other interest-bearing liabilities	8,008	2	0.10%	8,264	27	1.33%
Total interest-bearing liabilities	321,129	429	0.54%	290,987	265	0.37%

Non-interest bearing deposits	158,217			133,952		
Other liabilities	6,063			6,365		
Shareholders equity	31,756			42,394		
Total liabilities & equity	$ 517,165			$ 473,698		
Cost of funding interest-earning assets (4)			0.38%			0.26%
Net interest income and margin (5)		$ 4,583	3.99%		$ 4,329	4.15%

(1) Not computed on a tax-equivalent basis.
(2) Average nonaccrual loan balances of $6.2 million for 2014 and $13.6 million for 2013 are included in average loan balances for computational purposes.
(3) Net costs included in loan interest income for the three-month periods ended March 31, 2014 and 2013 were $133,000 and $55,000, respectively.
(4) Total annualized interest expense divided by the average balance of total earning assets.
(5) Annualized net interest income divided by the average balance of total earning assets.

The following table sets forth changes in interest income and interest expense for the three-month periods 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:

	2014 over 2013 change in net interest income for the three months ended March 31 (in thousands)			
	Volume (1)	Rate (2)	Mix (3)	Total
Interest-earning assets:				
Loans	$ 345	$ (49)	$ (4)	$ 292
Investment securities	33	75	10	118
Interest bearing deposits	6	2		8
Total interest income	384	28	6	418
Interest-bearing liabilities:				
NOW deposits		(4)		(4)
Money market deposits	1	(3)		(2)
Savings deposits	11	(5)	(1)	5
Time deposits	(8)	(14)	1	(21)
Note Payable			32	32
Subordinated debentures			188	188
Junior subordinated debentures		(9)		(9)
Other	(1)	(25)	1	(25)
Total interest expense	3	(60)	221	164
Net interest income	$ 381	$ 88	$ (215)	$ 254

(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.

Provision for loan losses. During the three months ended March 31, 2014 we recorded a provision for loan losses of $150 thousand, down $550 thousand from the $700 thousand provision recorded during the first quarter of 2013. The $700 thousand provision recorded for the three months ended March 31, 2013 was primarily related to a reserve for one land development loan relationship. 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 probable incurred 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 not less than quarterly 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 probable incurred losses in the loan 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.

Non-interest income. During the three months ended March 31, 2014 non-interest income totaled $1.7 million a decline of $12 thousand from the three months ended March 31, 2013. The largest component of this decrease was a decline of $189 thousand in gains on the sale of government guaranteed loans. During the current quarter, proceeds from SBA loan sales totaled $5.3 million resulting in a gain on sale of $332 thousand. This compares to proceeds of $7.7 million and gain on sale of $521 thousand during the first quarter of 2013. Loans originated for sale were $3.0 million and $4.6 million during the three months ended March 31, 2014 and 2013, respectively. The largest increase in non-interest income was $118 thousand in service charge income which we attribute to growth in the Company s demand deposit accounts, an increase in debit card interchange income and a restructuring of our service charge fee structure beginning in August of 2013. An increase of $63 thousand in other non-interest income includes increases in loan servicing income on previously sold SBA loans and an increase in dividends received on our Federal Home Loan Bank (FHLB) stock.

The following table describes the components of non-interest income for the three-month periods ended March 31, 2014 and 2013, dollars in thousands:

	For the Three Months Ended March 31		Dollar	Percentage
	2014	2013	Change	Change
Service charges on deposit accounts	$ 994	$ 876	$ 118	13.5%
Gain on sale of loans, net	332	521	(189)	-36.3%
Earnings on life insurance policies	87	91	(4)	-4.4%
Other	275	212	63	29.7%
Total non-interest income	$ 1,688	$ 1,700	$ (12)	-0.7%

Non-interest expense. During the three months ended March 31, 2014, total non-interest expense increased by $186 thousand, or 4%, to $4.6 million, up from $4.4 million for the comparable period in 2013. While the Company continued to experience declines in several categories of non-interest expense, these were offset by increases in other items the largest of which were $150 thousand in salary and benefit expense, $84 thousand in outside service fees and $89 thousand in OREO costs. The largest declines in non-interest expense were $72 thousand in professional fees, $44 thousand in deposit premium amortization and a $33 thousand increase in gain on sale of OREO.

Salaries and employee benefits increased by $150 thousand primarily related to an increase in bonus expense of $150 thousand. The Bank s bonus plan for 2014 provides for a bonus pool of 60% of the amount that pretax income exceeds budgeted pretax income with a cap of $600 thousand. There was no bonus plan in place during the first quarter of 2013. Salary expense increased by $37 thousand as a decline in one employee was offset by merit and promotional increases during 2013. The increase in salary expense was offset by an increase of $47 thousand in deferred loan origination costs. We attribute this increase in deferred loan origination costs to an increase in lending activity.

Of the $84 thousand increase in outside service fees, $53 thousand was related to the outsourcing of our item processing beginning in June of 2013. This cost as been offset by savings in salary and benefit expense and software expense.

OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. The increase in OREO costs during 2014 includes an increase of $48 thousand in legal expense as we are actively pursuing additional recoveries on selected OREO properties through legal channels. In addition OREO expense during 2014 includes costs to fix up several properties in an effort to increase their marketability. These expenditures contributed to the increase in gain on sale of OREO properties of $33 thousand from $22 thousand in 2013 to $55 thousand during the current quarter.

Professional fees benefited from reductions in legal expense related to loan collection activities, corporate legal expense mostly related the repurchase of the preferred stock in 2013 and audit expense related to a change in audit firms beginning in 2014. The deposit premium intangible asset was fully amortized at the end of September, 2013 resulting in a savings of $44 thousand during the comparison quarters.

The following table describes the components of non-interest expense for the three-month periods ended March 31, 2014 and 2013, dollars in thousands:

	For the Three Months Ended March 31		Dollar	Percentage
	2014	2013	Change	Change
Salaries and employee benefits	$ 2,369	$ 2,219	$ 150	6.8%
Occupancy and equipment	779	757	22	2.9%
Outside service fees	494	410	84	20.5%
OREO costs	137	48	89	185.4%
Provision for OREO losses	135	114	21	18.4%
Professional fees	125	197	(72)	-36.5%
FDIC insurance	110	133	(23)	-17.3%
Telephone and data communication	82	68	14	20.6%
Director compensation and expenses	69	55	14	25.5%
Business development	64	63	1	1.6%
Advertising and shareholder relations	61	61		%
Armored car and courier	54	55	(1)	-1.8%
Loan collection expenses	35	51	(16)	-31.4%
Stationery and supplies	32	28	4	14.3%
Insurance	30	27	3	11.1%
Postage	11	13	(2)	-15.4%
Deposit premium amortization		44	(44)	-100%
Gain on sale of OREO	(55)	(22)	(33)	150%
Other	29	54	(25)	-46.3%
Total non-interest expense	$ 4,561	$ 4,375	$ 186	4.3%

Provision for income taxes. The Company recorded an income tax provision of $618 thousand, or 39.6% of pre-tax income for the three months ended March 31, 2014. This compares to an income tax provision of $338 thousand or 35.4% of pre-tax income during the first three months of 2013. The percentages for 2014 and 2013 differ from statutory rates as tax exempt items of income such as earnings on Bank owned life insurance and municipal loan and securities 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. 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 March 31, 2014 and December 31, 2013 will be fully realized and therefore no valuation allowance was recorded. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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FINANCIAL CONDITION

Loan Portfolio. Net loans increased by $6.5 million, an annualized rate of 8%, from $334.4 million at December 31, 2013 to $340.9 million at March 31, 2014. The increase in loan balances during the three month period ended March 31, 2014 mostly relates to growth in the Company s automobile and commercial real estate loan portfolios. 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.

As shown in the following table the Company s largest lending categories are commercial real estate loans, equity lines of credit, and automobile loans.

(dollars in thousands)	Balance at End of Period **3/31/14**	Percent of Loans in Each Category **3/31/14**	Balance at End of Period **12/31/13**	Percent of Loans in Each Category **12/31/13**
Commercial	$ 28,118	8.2%	$ 32,612	9.6%
Agricultural	28,802	8.3%	30,647	9.0%
Real estate residential	30,090	8.7%	31,322	9.3%
Real estate commercial	162,979	47.2%	155,942	46.1%
Real estate construction	20,294	5.9%	17,793	5.3%
Equity Lines of Credit	37,041	10.7%	35,800	10.6%
Auto	33,779	9.8%	30,305	8.9%
Other	4,080	1.2%	4,130	1.2%
Total Gross Loans	$ 345,183	100%	$ 338,551	100%

Construction and land development loans represented 5.9% and 5.3% of the loan portfolio as of March 31, 2014 and December 31, 2013, 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 from over 21% at December 31, 2007 to less than 6% during the last two years reflects management s efforts, which began in 2009, to reduce its exposure to construction and land development loans.

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 78% of the total loan portfolio at March 31, 2014. 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.

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 March 31, 2014 and December 31, 2013, approximately 73% of the Company s loan portfolio was comprised of variable rate loans. At March 31, 2014 and December 31, 2013, 43% and 40%, respectively of the variable loans were at their respective floor rate. 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 $29 million at March 31, 2014 and $31 million at December 31, 2013.

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 and past due 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.

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, and 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 the loan portfolio. The adequacy of the allowance for loan losses is based upon management s continuing assessment of various factors affecting the collectability 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 collectability 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.

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 collectability of the portfolio as of the evaluation date. Historical loss data from the beginning of the latest business cycle are incorporated in the loss factors.

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.

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

	For the Three Months Ended March 31,		For the Year Ended December 31		
	2014	**2013**	**2013**	**2012**	**2011**
			(dollars in thousands)		
Balance at beginning of period	$ 5,517	$ 5,686	$ 5,686	$ 6,908	$ 7,324
Charge-offs:					
Commercial and agricultural	86	153	401	1,159	539
Real estate mortgage		353	419	616	483
Real estate construction		55	735	1,524	2,603
Consumer (includes equity LOC & Auto)	109	85	360	602	622
Total charge-offs	195	646	1,915	3,901	4,247
Recoveries:					
Commercial and agricultural	13	9	140	66	199
Real estate mortgage	20	2	109	8	18
Real estate construction	162			81	5
Consumer (includes equity LOC & Auto)	48	26	97	174	109
Total recoveries	243	37	346	329	331
Net recoveries (charge-offs)	48	(609)	(1,569)	(3,572)	(3,916)
Provision for loan losses	150	700	1,400	2,350	3,500
Balance at end of period	$ 5,715	$ 5,777	$ 5,517	$ 5,686	$ 6,908
Net (recoveries) charge-offs during the period to average loans (annualized for the three month periods)	(0.06)%	0.79%	0.49%	1.18%	1.29%
Allowance for loan losses to total loans	1.66%	1.84%	1.63%	1.80%	2.35%

During the three months ended March 31, 2014 we recorded a provision for loan losses of $150 thousand down $550 thousand from the $700 thousand provision recorded during the quarter ended March 31, 2013. Net recoveries totaled $48 thousand a decline of $657 thousand from net charge-offs of $609 thousand during the three months ended March 31, 2013.

The following table provides a breakdown of the allowance for loan losses at March 31, 2014 and December 31, 2013:

	Balance at End of Period	Percent of Loans in Each Category to Total Loans	Balance at End of Period	Percent of Loans in Each Category to Total Loans

(dollars in thousands)	2014	2014	2013	2013
Commercial and agricultural	$ 719	16.5%	$ 949	18.6%
Real estate mortgage	2,566	55.9%	2,412	55.4%
Real estate construction	1,166	5.9%	944	5.3%
Consumer (includes equity LOC & Auto)	1,264	21.7%	1,212	20.7%
Total	$ 5,715	100.0%	$ 5,517	100.0%

The allowance for loan losses totaled $5.7 million at March 31, 2014 and $5.5 million at December 31, 2013. Specific reserves related to impaired loans increased from $629 thousand at December 31, 2013 to $1.3 million at March 31, 2014. At least quarterly the Company evaluates each specific reserve and if it determines that the loss represented by the specific reserve is uncollectable it records a charge-off for the uncollectable portion. General reserves decreased by $479 thousand to $4.4 million at March 31, 2014. The allowance for loan losses as a percentage of total loans increased slightly from 1.63% at December 31, 2013 to 1.66% at March 31, 2014. The percentage of general reserves to unimpaired loans decreased from 1.49% at December 31, 2013 to 1.32% primarily related to reductions in historical net charge-offs and an increase in specific reserves.

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 collectability 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 $7.4 million, $7.6 million, $9.3 million, $8.4 million and $2.0 million at March 31, 2014 and December 31, 2013, 2012, 2011 and 2010, respectively. For additional information related to restructured loans see Note 5 of the Company s Condensed Consolidated Financial Statements in this quarterly report on form 10Q.

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

	At March 31,		**At December 31,**		
	2014	**2013**	**2012**	**2011**	**2010**
			(dollars in thousands)		
Nonaccrual loans	$ 8,555	$ 5,519	$ 13,683	$ 16,757	$ 25,313
Loans past due 90 days or more and still accruing	6	17	15	72	45
Total nonperforming loans	8,561	5,536	13,698	16,829	25,358
Other real estate owned	5,730	6,399	5,295	8,623	8,867
Other vehicles owned	37	60	41	57	17
Total nonperforming assets	$ 14,328	$ 11,995	$ 19,034	$ 25,509	$ 34,242
Interest income forgone on nonaccrual loans	$ 101	$ 280	$ 646	$ 510	$ 1,021
Interest income recorded on a cash basis on nonaccrual loans	$ 11	$ 22	$ 192	$ 285	$ 608
Nonperforming loans to total Loans	2.48%	1.64%	4.35%	5.73%	8.07%

Nonperforming assets to total					
Assets	2.76%	2.33%	3.98%	5.60%	7.07%

Nonperforming loans at March 31, 2014 were $8.6 million, an increase of $3.1 million from the $5.5 million balance at December 31, 2013. Loans placed on nonperforming status during the quarter totaled $3.1 million with an average balance of $106 thousand. The largest loan placed on nonaccrual had a principal balance of $0.9 million. Specific reserves on nonaccrual loans totaled $1.3 million at March 31, 2014 and $578 thousand at December 31, 2013, respectively. Included in the $1.3 million in specific reserves on nonaccrual loans was $625 thousand related to loans placed on nonaccrual during 2014. Performing loans past due thirty to eighty-nine days decreased from $1.5 million at December 31, 2013 to $0.9 million at March 31, 2014.

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 increased by $2.9 million from $7.5 million at December 31, 2013 to $10.4 million at March 31, 2014. Loans classified as watch increased from $5.8 million at December 31, 2013 to $6.3 million at March 31, 2014. At March 31, 2014, $3.0 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 March 31, 2014 and December 31, 2013, the Company s recorded investment in impaired loans totaled $11.3 million and $9.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled $1.3 million and $629 thousand at March 31, 2014 and December 31, 2013, respectively. Additionally, $0.7 million has been charged off against the impaired loans at March 31, 2014 and December 31 2013.

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 March 31, 2014 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 acquired 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. OREO holdings represented twenty-one properties totaling $5.7 million at March 31, 2014 and twenty-six properties totaling $6.4 million at December 31, 2013. The largest property in OREO at March 31, 2014 is a land development property with an OREO value of $2.2 million representing 39% of the total OREO balance. Nonperforming assets as a percentage of total assets were 2.76% at March 31, 2014 and 2.33% at December 31, 2013.

The following table provides a summary of the change in the number and balance of OREO properties for the three months ended March 31, 2014 and 2013, dollars in thousands:

	Three Months Ended March 31,			
	#	**2014**	**#**	**2013**
Beginning Balance	26	$ 6,399	40	$ 5,295
Additions	1	102	4	333
Dispositions	(6)	(636)	(5)	(221)
Provision from change in OREO valuation		(135)		(114)
Ending Balance	21	$ 5,730	39	$ 5,293

Investment Portfolio and Federal Funds Sold. Total investment securities decreased by $1.5 million from $90.3 million as of December 31, 2013 to $88.8 million as of March 31, 2014. The investment portfolio at March 31, 2014 consisted of $85.8 million in securities of U.S. Government-sponsored agencies and twelve municipal securities totaling $3.0 million. Included in the $90.3 million at December 31, 2013 were $89.0 million in securities of U.S. Government-sponsored agencies and six municipal securities totaling $1.3 million.

There were no Federal funds sold at March 31, 2014 and December 31, 2013; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling $29.1 million at March 31, 2014 and December 31, 2013. 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.

Deposits. During 2013 and continuing into 2014 we have experienced strong core deposit growth and have benefited from the closing of two branches of a large national bank in our service area. Total deposits increased by $5.7 million from $449 million at December 31, 2013 to $455 million at March 31, 2014. The increase in deposits included $723 thousand in interest-bearing transaction accounts (NOW) and $10.3 million in savings and money market accounts. Demand deposits declined by $3.9 million which we attribute primarily to seasonality. Time deposits declined by $1.4 million, much of which we attribute to migration into other types of deposits given the low rates and lack of liquidity associated with time deposits.

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 following table shows the distribution of deposits by type at March 31, 2014 and December 31, 2013.

(dollars in thousands)	Balance at End of Period **3/31/14**	Percent of Deposits in Each Category **3/31/14**	Balance at End of Period **12/31/13**	Percent of Deposits in Each Category **12/31/13**
Non-interest bearing	$ 158,949	34.9%	$ 162,816	36.2%
NOW	83,410	18.3%	82,687	18.4%
Money Market	48,815	10.7%	47,331	10.5%
Savings	102,719	22.6%	93,922	20.9%
Time	61,291	13.5%	62,683	14.0%
Total Deposits	$ 455,184	100%	$ 449,439	100%

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. There were no brokered deposits at March 31, 2014 or December 31, 2013.

Short-term Borrowing Arrangements. The Company is a member of the FHLB and can borrow up to $111,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $193,000,000. The Company is required to hold FHLB stock as a condition of membership. At March 31, 2014 and December 31, 2013, the Company held $2,226,000 of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at March 31, 2014, the Company can borrow up to $47,400,000. To borrow the $111,000,000 in available credit the Company would need to purchase $2,972,000 in additional FHLB stock. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of $11 million and $10 million. There were no outstanding borrowings under the FHLB or the correspondent bank borrowing lines at March 31, 2014 or December 31, 2013.

Note Payable. On October 24, 2013 the Bancorp issued a $3 million promissory note (the Note) payable to an unrelated commercial bank. The note bears interest at the U.S. Prime Rate plus three-quarters percent per annum, 4.00% at March 31, 2014 and December 31, 2013, has a term of 18 months and is secured by 100 shares of Plumas Bank stock representing the Company s 100% ownership interest in Plumas Bank. Interest expense related to this note for the three months ended March 31, 2014 totaled $32,000. Under the Note the Bank is required to maintain specified levels of capital and to meet or exceed certain capital and asset quality ratios. The Bank was in compliance with all such requirements at March 31, 2014.

Repurchase Agreements. In 2011 Plumas Bank introduced a product for their larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at March 31, 2014 was $6.1 million a decline of $3.0 million from the December 31, 2013 balance of $9.1 million. Interest paid on this product is similar to that which is paid on the Bank s premium money market account; however, these are not deposits

and are not FDIC insured.

Subordinated Debentures. On April 15, 2013 the Bancorp issued $7.5 million in subordinated debentures (subordinated debt). The subordinated debt was issued to an unrelated third-party (Lender) pursuant to a subordinated debenture purchase agreement, subordinated debenture note, and stock purchase warrant. The subordinated debt agreement provides that in the event of default with respect to the subordinated debt, the Bancorp will be subject to certain restrictions on the payment of dividends and distributions to shareholders, repurchase or redemption of the Bancorp s securities and payment on certain debts or guarantees. The subordinated debenture agreement also provides that in the event of default, Lender will have the right to appoint a director to the Bancorp s board of directors and/or the Plumas Bank board in certain limited circumstances.

The interest only payments on the subordinated debt are based on an interest rate of 7.5% per annum. Principal repayment is required at the conclusion of an 8 year term with no prepayment allowed during the first two years. Issuance of the subordinated debt was made in conjunction with an eight-year warrant (the Lender Warrant) to purchase up to 300,000 shares of the Bancorp s common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. Under current capital guidelines the subordinated debt qualifies as Tier 2 capital. Interest expense related to the subordinated debt for the three months ended March 31, 2014 was $188 thousand.

Junior Subordinated Deferrable Interest Debentures. Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of $299,000 and $159,000, 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 March 31, 2014, 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 3.65% (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 1.72% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. 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.

Interest expense recognized by the Company for the three months ended March 31, 2014 and 2013 related to the junior subordinated debentures was $74,000 and $83,000, respectively.

Capital Resources

Related to total comprehensive income of $1.3 million shareholders equity increased from $30.6 million at December 31, 2013 to $31.9 million at March 31, 2014.

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 during the last five years.

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

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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 table presents the Company s and the Bank s capital ratios as of March 31, 2014 and December 31, 2013 (amounts in thousands except percentage amounts).

	March 31, 2014		December 31, 2013	
	Amount	**Ratio**	**Amount**	**Ratio**
Tier 1 Leverage Ratio				
Plumas Bancorp and Subsidiary	**$ 42,713**	**8.2%**	**$ 40,909**	**7.8%**
Minimum regulatory requirement	20,740	4.0%	20,856	4.0%
Plumas Bank	**51,919**	**10.0%**	**50,748**	**9.7%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	25,870	5.0%	26,026	5.0%
Minimum regulatory requirement	20,696	4.0%	20,821	4.0%
Tier 1 Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**42,713**	**10.9%**	**40,909**	**10.7%**
Minimum regulatory requirement	15,711	4.0%	15,332	4.0%
Plumas Bank	**51,919**	**13.3%**	**50,748**	**13.2%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	23,494	6.0%	22,986	6.0%
Minimum regulatory requirement	15,663	4.0%	15,324	4.0%
Total Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**54,969**	**14.0%**	**53,006**	**13.8%**
Minimum regulatory requirement	31,421	8.0%	30,664	8.0%
Plumas Bank	**56,826**	**14.5%**	**55,547**	**14.5%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	39,157	10.0%	38,310	10.0%
Minimum regulatory requirement	31,325	8.0%	30,648	8.0%

Management believes that the Company and the Bank currently meet all their capital adequacy requirements.

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.

New Capital Rules.

On July 2, 2013, the FRB approved the final rules implementing the Basel Committee on Banking Supervision s capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC s rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule. Management believes that as of March 31, 2014, the Bank s capital levels would remain well-capitalized under the new rules.

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 March 31, 2014, the Company had $90.9 million in unfunded loan commitments and $60 thousand in letters of credit. This compares to $84.2 million in unfunded loan commitments and $60 thousand in letters of credit at December 31, 2013. Of the $90.9 million in unfunded loan commitments, $49.7 million and $41.2 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at March 31, 2014, $42.4 million were secured by real estate, of which $16.1 million was secured by commercial real estate and $26.3 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 and overdraft protection 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 totaled $71,000 and $48,000 during three months ended March 31, 2014 and 2013, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2015 and the last such lease expiring during 2016.

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 $111,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $193,000,000. See Short-term Borrowing Arrangements for additional information on our FHLB borrowing capacity. The Company also has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of $11 million and $10 million.

Customer deposits are the Company s primary source of funds. Total deposits increased by $5.7 million from $449 million at December 31, 2013 to $455 million at March 31, 2014. 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 3. 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 4. CONTROLS AND PROCEDURES

The Company s Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company s disclosure controls and procedures as of the end of the Company s fiscal quarter ended March 31, 2014 (as defined in Exchange Act Rule 13a 15(e), have concluded that the Company s disclosure controls and procedures are adequate and effective for purposes of Rule 13a 15(e) in timely alerting them to material information relating to the Company required to be included in the Company s filings with the SEC under the Securities Exchange Act of 1934.

There were no changes in internal control over financial reporting during the fiscal quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company and/or its subsidiaries 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 1A RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION
None.

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ITEM 6. EXHIBITS

The following documents are included or incorporated by reference in this Quarterly Report on Form 10Q:

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.
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.
10.3	Subordinated Debenture dated April 15, 2013, is included as Exhibit 10.3 to the Registrant s 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
10.4	Stock Purchase Warrant dated April 15, 2013, is included as Exhibit 10.4 to the Registrant s 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
10.5	Subordinated Debenture Purchase Agreement dated April 15, 2013, is included as Exhibit 10.5 to the Registrant s 10-Q filed on November 7, 2013, which is incorporated by this reference herein.
10.6	Promissory Note Dated October 24, 2013, is included as Exhibit 10.6 to the Registrant s 10-Q filed on May 10, 2013, 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.
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.

10.37 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.

10.41 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.

10.47 2013 Stock Option Plan is included as exhibit 99.1 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.

10.48 Specimen Form of Incentive Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.2 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.

10.49 Specimen Form of Nonqualified Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.3 of the Form S-8 filed September 12, 2013, 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, is included as Exhibit 10.66 to the Registrant s 10-K filed on March 23, 2012, which is incorporated by this reference herein.

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.

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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.
11	Computation of per share earnings appears in the attached 10-Q under Plumas Bancorp and Subsidiary Notes to Condensed Consolidated Financial Statements as Footnote 7 Earnings Per Share.
31.1*	Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated May 7, 2014.
31.2*	Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated May 7, 2014.
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 May 7, 2014.
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 May 7, 2014.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Schema.
101.CAL*	XBRL Taxonomy Calculation Linkbase.
101.DEF*	XBRL Taxonomy Definition Linkbase.
101.LAB*	XBRL Taxonomy Label Linkbase.
101.PRE*	XBRL Taxonomy Presentation Linkbase.

* Filed herewith

SIGNATURES

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

PLUMAS BANCORP

(Registrant)

Date: May 7, 2014

/s/ Richard L. Belstock
Richard L. Belstock

Chief Financial Officer

/s/ Andrew J. Ryback
Andrew J. Ryback

President and Chief Executive Officer