PLUMAS BANCORP
Form 10-Q
May 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

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

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

Yes No

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

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

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

See notes to unaudited condensed consolidated financial statements.

1

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

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

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

See notes to unaudited condensed consolidated financial statements.

2

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

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

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

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

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

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

Supplemental Disclosure of Cash Flow Information:

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

See notes to unaudited condensed consolidated financial statements.

5

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. THE BUSINESS OF PLUMAS BANCORP

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

The Bank operates *eleven* branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. In *December, 2015* the Bank opened a branch in Reno, Nevada; its *first* branch outside of California. The Bank's administrative headquarters is in Quincy, California. In addition, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California, and commercial/agricultural lending offices in Chico, California and Klamath Falls, Oregon. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

statements.

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

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

Reclassifications

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

Segment Information

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

Revenue from Contracts with Customers

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

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

Income Taxes

On *December 22, 2017,* the Tax Cuts and Jobs Act (the "TCJ Act") was enacted into law. The TCJ Act provides for significant changes to the U.S. Internal Revenue Code of *1986,* as amended (the "Code"), that impact corporate taxation requirements, such as the reduction of the top federal tax rate for corporations from *35%* to *21%* and changes or limitations to certain tax deductions. As a result of the TCJ Act, we re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally *21%.* However, we are still analyzing certain aspects of the TCJ Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded

in *2017* related to the re-measurement of our deferred tax asset was *$1.4* million, and *no* further adjustments were made during the *three* months ended *March 31, 2018.*

Recently Adopted Accounting Pronouncements

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

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

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

Pending Accounting Pronouncements

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

In *June 2016,* the FASB issued ASU *No. 2016-13,* Measurement of Credit Losses on Financial Instruments. ASU *No. 2016-13* significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (*1*) financial assets subject to credit losses and measured at amortized cost, and (*2*) certain off-balance sheet credit exposures. This includes, but is *not* limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does *not* apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU *No. 2016-13* also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU *No. 2016-13* is effective for interim and annual reporting

periods beginning after *December 15, 2019;* early adoption is permitted for interim and annual reporting periods beginning after *December 15, 2018.* Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the *first* reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its implementation efforts by establishing an implementation team chaired by the Company's Chief Lending Officer and composed of members of the Company's credit administration and accounting departments. The Company's preliminary evaluation indicates the provisions of ASU *No. 2016-13* are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

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

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

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

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

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

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

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

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

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

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

At *March 31, 2018,* the Company held *187* securities of which *152* were in a loss position. Of the securities in a loss position, *116* were in a loss position for less than *twelve* months. Of the *187* securities *83* are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and *104* were obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. As of *March 31, 2018,* management does *not* have the intent to sell these securities nor does it believe it is more likely than *not* that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does *not* believe the securities that are in an unrealized loss position as of *March 31, 2018* are other than temporarily impaired.

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

	Amortized Cost	Estimated Fair

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

Expected maturities will differ from contractual maturities because the issuers of the securities *may* have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

Outstanding loans are summarized below, in thousands:

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

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

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

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

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

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions *may* be granted in various forms to include *one* or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

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

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

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

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

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

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

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

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

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

Substandard – A substandard loan is *not* adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are *not* corrected.

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

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

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

March 31, 2018

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

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

December 31, 2017

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

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

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

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

13

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
<u>Three months ended March 31, 2018:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	$ *725*	$ *623*	$ *231*	$ *2,729*	$ *783*	$ *533*	$ *946*	$ *99*	$ *6,669*
Charge-offs	*(265*)	*-*	*-*	*-*	*-*	*-*	*(165*)	*(19*)	*(449*)
Recoveries	*7*	*-*	*91*	*17*	*2*	*1*	*82*	*2*	*202*
Provision	*305*	*(129*)	*(110*)	*13*	*6*	*(24*)	*114*	*25*	*200*
Ending balance	$ *772*	$ *494*	$ *212*	$ *2,759*	$ *791*	$ *510*	$ *977*	$ *107*	$ *6,622*
<u>Three months ended March 31, 2017:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	$ *655*	$ *466*	$ *280*	$ *2,740*	$ *927*	$ *575*	$ *815*	$ *91*	$ *6,549*
Charge-offs	*-*	*-*	*-*	*-*	*-*	*-*	*(50*)	*(5*)	*(55*)
Recoveries	*8*	*-*	*1*	*2*	*-*	*-*	*34*	*4*	*49*
Provision	*125*	*7*	*(13*)	*177*	*(89*)	*(14*)	*7*	*-*	*200*
Ending balance	$ *788*	$ *473*	$ *268*	$ *2,919*	$ *838*	$ *561*	$ *806*	$ *90*	$ *6,743*
<u>March 31, 2018:</u>									
<u>Allowance for Loan Losses</u>									
Ending balance: individually evaluated for impairment	$ *2*	$ *-*	$ *47*	$ *-*	$ *29*	$ *-*	$ *-*	$ *-*	$ *78*
Ending balance: collectively evaluated for impairment	$ *770*	$ *494*	$ *165*	$ *2,759*	$ *762*	$ *510*	$ *977*	$ *107*	$ *6,544*
<u>Loans</u>									
	$ *41,899*	$ *55,861*	$ *15,609*	$ *243,781*	$ *26,465*	$ *39,534*	$ *62,155*	$ *4,038*	$ *489,342*

Ending balance									
Ending balance: individually evaluated for impairment	$ *14*	$ *254*	$ *813*	$ *282*	$ *220*	$ *53*	$ *345*	$ -	$ *1,981*
Ending balance: collectively evaluated for impairment	$ *41,885*	$ *55,607*	$ *14,796*	$ *243,499*	$ *26,245*	$ *39,481*	$ *61,810*	$ *4,038*	$ *487,361*
<u>December 31, 2017:</u>									
<u>Allowance for Loan Losses</u>									
Ending balance: individually evaluated for impairment	$ *2*	$ -	*48*	$ -	$ *32*	$ -	$ -	$ -	$ *82*
Ending balance: collectively evaluated for impairment	$ *723*	$ *623*	$ *183*	$ *2,729*	$ *751*	$ *533*	$ *946*	$ *99*	$ *6,587*
<u>Loans</u>									
Ending balance	$ *39,620*	$ *58,908*	$ *16,624*	$ *240,257*	$ *25,181*	$ *41,798*	$ *60,438*	$ *3,808*	$ *486,634*
Ending balance: individually evaluated for impairment	$ *14*	$ *253*	$ *934*	$ *287*	$ *224*	$ *162*	$ *377*	$ *19*	$ *2,270*
Ending balance: collectively evaluated for impairment	$ *39,606*	$ *58,655*	$ *15,690*	$ *239,970*	$ *24,957*	$ *41,636*	$ *60,061*	$ *3,789*	$ *484,364*

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

March 31, 2018	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial	$1,030	$ -	$ -	$ 1,030	$40,869	$41,899
Agricultural	-	77	-	77	55,784	55,861
Real estate – residential	129	-	163	292	15,317	15,609
Real estate – commercial	1,266	-	282	1,548	242,233	243,781
Real estate - construction & land	-	-	98	98	26,367	26,465
Equity Lines of Credit	440	-	53	493	39,041	39,534
Auto	1,083	-	345	1,428	60,727	62,155
Other	37	-	-	37	4,001	4,038
Total	$3,985	$ 77	$ 941	$ 5,003	$484,339	$489,342

December 31, 2017	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial	$1,869	$ -	$ -	$ 1,869	$37,751	$39,620
Agricultural	-	1,796	-	1,796	57,112	58,908
Real estate – residential	130	-	281	411	16,213	16,624
Real estate - commercial	-	-	287	287	239,970	240,257
Real estate - construction & land	38	-	100	138	25,043	25,181
Equity Lines of Credit	345	-	162	507	41,291	41,798
Auto	1,047	-	377	1,424	59,014	60,438
Other	20	-	19	39	3,769	3,808
Total	$3,449	$ 1,796	$ 1,226	$ 6,471	$480,163	$486,634

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

As of March 31, 2018:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -		$ -	$ -
Agricultural	*254*	*254*		*254*	*5*
Real estate – residential	*578*	*589*		*581*	*9*
Real estate – commercial	*282*	*282*		*285*	-
Real estate – construction & land	-	-		-	-
Equity Lines of Credit	*53*	*53*		*56*	-
Auto	*345*	*345*		*354*	-
Other	-	-		-	-
With an allowance recorded:					
Commercial	$ *14*	$ *14*	$ *2*	$ *14*	$ -
Agricultural	-	-	-	-	-
Real estate – residential	*235*	*235*	*47*	*236*	*2*
Real estate – commercial	-	-	-	-	-
Real estate – construction & land	*220*	*220*	*29*	*222*	*2*
Equity Lines of Credit	-	-	-	-	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	$ *14*	$ *14*	$ *2*	$ *14*	$ -
Agricultural	*254*	*254*	-	*254*	*5*
Real estate – residential	*813*	*824*	*47*	*817*	*11*
Real estate – commercial	*282*	*282*	-	*285*	-
Real estate – construction & land	*220*	*220*	*29*	*222*	*2*
Equity Lines of Credit	*53*	*53*	-	*56*	-
Auto	*345*	*345*	-	*354*	-
Other	-	-	-	-	-
Total	$ *1,981*	$ *1,992*	$ *78*	$ *2,002*	$ *18*

As of December 31, 2017:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -		$ -	$ -
Agricultural	*253*	*253*		*255*	*19*
Real estate – residential	*697*	*708*		*548*	*38*
Real estate – commercial	*287*	*287*		*184*	-
Real estate – construction & land	-	-		-	-
Equity Lines of Credit	*162*	*162*		*180*	-
Auto	*377*	*377*		*144*	-
Other	*19*	*19*		*1*	-
With an allowance recorded:					
Commercial	$ *14*	$ *14*	$ *2*	$ *15*	$ *1*
Agricultural	-	-	-	-	-
Real estate – residential	*237*	*237*	*48*	*203*	*7*
Real estate – commercial	-	-	-	-	-
Real estate – construction & land	*224*	*224*	*32*	*230*	*8*
Equity Lines of Credit	-	-	-	-	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	$ *14*	$ *14*	$ *2*	$ *15*	$ *1*
Agricultural	*253*	*253*	-	*255*	*19*
Real estate – residential	*934*	*945*	*48*	*751*	*45*
Real estate – commercial	*287*	*287*	-	*184*	-
Real estate – construction & land	*224*	*224*	*32*	*230*	*8*
Equity Lines of Credit	*162*	*162*	-	*180*	-
Auto	*377*	*377*	-	*144*	-
Other	*19*	*19*	-	*1*	-
Total	$ *2,270*	$ *2,281*	$ *82*	$ *1,760*	$ *73*

5. 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 *$108.8* million and *$107.4* million and stand-by letters of credit of *$477* thousand and *$477* thousand at *March 31, 2018* and *December 31, 2017,* respectively.

Of the loan commitments outstanding at *March 31, 2018, $16.1* million 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, 2018* or *December 31, 2017.*

6. 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.

(In thousands, except per share data)	**For the Three Months Ended March 31,** 2018	2017
Net Income:		
Net income	$*3,280*	$*2,064*
Earnings Per Share:		
Basic earnings per share	$*0.65*	$*0.42*
Diluted earnings per share	$*0.63*	$*0.40*
Weighted Average Number of Shares Outstanding:		
Basic shares	*5,071*	*4,911*
Diluted shares	*5,208*	*5,164*

7. STOCK-BASED COMPENSATION

Stock Options

In *2001,* the Company established a Stock Option Plan for which *39,793* shares of common stock remain reserved for issuance to employees and directors and *no* shares are available for future grants as of *March 31, 2018.*

As of *March 31, 2018,* all remaining shares in this plan have vested and *no* compensation cost remains unrecognized.

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, 2018	*46,293*	$ *2.95*		
Options exercised	*(6,500*)	*2.95*		
Options outstanding at March 31, 2018	*39,793*	$ *2.95*	*1.0*	$*873,000*
Options exercisable at March 31, 2018	*39,793*	$ *2.95*	*1.0*	$*873,000*

In *May 2013,* the Company established the *2013* Stock Option Plan for which *453,800* shares of common stock are reserved and *230,400* shares are available for future grants as of *March 31, 2018.* 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.

During the *three* months ended *March 31, 2018* the Company granted options to purchase *76,000* shares of common stock. The fair value of each option was estimated on the date of grant using the following assumptions. *No* options were granted during the *three* months ended *March 31, 2017.* The fair value of each option was estimated on the date of grant using the following assumptions.

	2018
Expected life of stock options (in years)	*5.1*
Risk free interest rate	*2.38%*
Volatility	*30.4%*
Dividend yields	*1.39%*
Weighted-average fair value of options granted during the three months ended March 31, 2018	$*6.54*

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

A summary of the activity within the *2013* Plan follows:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term in Years**	**Intrinsic Value**
Options outstanding at January 1, 2018	*160,600*	$ *7.72*		
Options granted	*76,000*	*24.40*		
Options cancelled	*(800*)	*24.40*		
Options exercised	*(12,400*)	*7.50*		
Options outstanding at March 31, 2018	*223,400*	$ *13.35*	*6.1*	$ *2,580,000*
Options exercisable at March 31, 2018	*79,200*	$ *7.54*	*5.0*	$ *1,375,000*
Expected to vest after March 31, 2018	*128,492*	$ *16.54*	*6.7*	$ *1,074,000*

As of *March 31, 2018,* there was *$641,000* of total unrecognized compensation cost related to non-vested, share-based compensation. That cost is expected to be recognized over a weighted average period of *3.1* years.

The total fair value of options vested during the *three* months ended *March 31, 2018* and *2017* was *$84,000* and *$90,000,* respectively. The total intrinsic value of options at time of exercise was *$351,000* and *$424,000* for the *three* months ended *March 31, 2018* and *2017,* respectively.

Compensation cost related to stock options recognized in operating results under the plans was *$47,000* and *$43,000* for the *three* months ended *March 31, 2018* and *2017,* respectively. The associated income tax benefit recognized was *$5,000* for the *three* months ended *March 31, 2018* and *March 31, 2017.*

Cash received from option exercises under the plans for the *three* months ended *March 31, 2018* and *2017* were *$82,000* and *$123,000,* respectively. The tax benefit realized for the tax deductions from option exercise totaled *$65,000* and *$45,000* for the *three* months ended *March 31, 2018* and *2017,* respectively.

8. 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, 2018.*

9. 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.

The methods of determining the fair value of assets and liabilities presented in this note as of *March 31, 2018* are consistent with Note *3* of the Company's *2017* Form *10*-K except for the valuation of loans held for investment. We

refined the calculation used to determine the disclosed fair value of our loans held for investment as part of adopting ASU *2016-01.* The refined calculation did *not* have a significant impact on our fair value disclosures.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at *March 31, 2018* follows, in thousands:

		Fair Value Measurements at March 31, 2018 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$*64,690*	$*64,690*			$*64,690*
Investment securities	*148,180*		$*148,180*		*148,180*
Loans, net	*485,171*			$*486,517*	*486,517*
FHLB stock	*2,685*				*N/A*
Accrued interest receivable	*2,460*	*34*	*501*	*1,925*	*2,460*
Financial liabilities:					
Deposits	*652,791*	*610,354*	*42,455*		*652,809*
Repurchase agreements	*8,675*		*8,675*		*8,675*
Junior subordinated deferrable interest debentures	*10,310*			*8,065*	*8,065*
Accrued interest payable	*65*	*10*	*38*	*17*	*65*

The carrying amounts and estimated fair values of financial instruments, at *December 31, 2017* follows, in thousands:

		Fair Value Measurements at December 31, 2017 Using:			
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$*87,537*	$*87,537*			$*87,537*
Investment securities	*137,466*		$*137,466*		*137,466*
Loans, net	*482,248*			$*484,269*	*484,269*
FHLB stock	*2,685*				*N/A*
Accrued interest receivable	*2,582*	*31*	*522*	*2,029*	*2,582*
Financial liabilities:					
Deposits	*662,657*	*616,617*	*46,061*		*662,678*
Repurchase agreements	*10,074*		*10,074*		*10,074*
Junior subordinated deferrable interest debentures	*10,310*			*7,829*	*7,829*
Accrued interest payable	*64*	*10*	*39*	*15*	*64*

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.

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 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, 2018* and *December 31, 2017,* 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, 2018* are summarized below, in thousands:

	Total Fair Value	Fair Value Measurements at March 31, 2018 Using 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 collateralized by mortgage obligations- residential	$ *116,470*	$ -	$ *116,470*	$ -
Obligations of states and political subdivisions	*31,710*		*31,710*	
	$ *148,180*	$ -	$ *148,180*	$ -

22

Assets and liabilities measured at fair value on a recurring basis at *December 31, 2017* are summarized below, in thousands:

	Total Fair Value	Fair Value Measurements at December 31, 2017 Using 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 collateralized by mortgage obligations- residential	$ *103,788*	$ -	$ *103,788*	$ -
Obligations of states and political subdivisions	*33,678*		*33,678*	
	$ *137,466*	$ -	$ *137,466*	$ -

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 *2018* or *2017.* 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, 2018* are summarized below, in thousands:

	Total Fair Value	Fair Value Measurements at March 31, 2018 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains Three Months Ended March 31, 2018
Assets:					
Impaired loans:					
Construction and land	$82	$	$	$ 82	$ 3
Total impaired loans	82	-	-	82	3
Other real estate:					
Real estate – residential	114			114	-
Real estate – commercial	285			285	-
Construction and land	592			592	-
Equity lines of credit	90			90	-
Total other real estate	1,081	-	-	1,081	-
	$1,163	$-	$ -	$ 1,163	$ 3

23

Assets and liabilities measured at fair value on a non-recurring basis at *December 31, 2017* are summarized below, in thousands:

	Total Fair Value	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses Three Months Ended March 31, 2017
Assets:					
Impaired loans:					
Construction and land	$ *80*	$	$	$ *80*	$ -
Total impaired loans	*80*	-	-	*80*	-
Other real estate:					
Real estate – residential	-			-	
Real estate – commercial	*285*			*285*	*(9*)
Construction and land	*969*			*969*	
Equity lines of credit	*90*			*90*	-
Total other real estate	*1,344*	-	-	*1,344*	*(9*)
	$ *1,424*	$ -	$ -	$ *1,424*	$ *(9*)

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

The following methods were used to estimate fair value.

Collateral-Dependent Impaired Loans: The Bank does *not* record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through

charge-offs or specific reserve allowances, that are based on fair value estimates of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent *third* parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level *3*). Net gains (losses) of *$3,000* and $(*9,000*) represent impairment charges recognized during the years ended *March 31, 2018* and *2017,* respectively, related to the above impaired loans.

Other Real Estate: Nonrecurring adjustments to certain real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair values are generally based on *third* party appraisals of the property which are commonly adjusted by management to reflect current conditions and selling costs (Level *3*).

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, 2018* and *December 31, 2017 (*dollars in thousands):

Description	Fair Value 3/31/2018	Fair Value 12/31/2017	Valuation Technique	Significant Unobservable Input	Range (Weighted Average) 3/31/2018	Range (Weighted Average) 12/31/2017
Impaired Loans:						
Construction and land	$ 82	$ 80	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	8% (8%)	8% (8%)
Other Real Estate:						
RE – Residential	$ 114	$ -	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% (10%)	N/A
RE – Commercial	$ 285	$ 285	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	17% - 31% (22%)	17%- 31% (22%)
Construction and land	$ 592	$ 969	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% (10%)	10% (10%)
Equity Lines of Credit	$ 90	$ 90	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% (10%)	10% (10%)

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", "commit", "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.

I