

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017
or
 Transaction report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 000-49883

PLUMAS BANCORP

(Exact name of Registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

75-2987096
(IRS Employer Identification No.)

35 S. Lindan Avenue, Quincy, CA
(Address of principal executive offices)

95971
(Zip Code)

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

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

<u>Title of Each Class:</u>	<u>Name of Each Exchange on which Registered:</u>
Common Stock, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicated by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Rule 12b-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 if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2017 the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$96.4 million, based on the closing price reported to the Registrant on June 30, 2017 of \$21.30 per share.

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

The number of shares of Common Stock of the registrant outstanding as of March 8, 2018 was 5,073,675.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2018 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

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PART I

Forward-Looking Information

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

- *Local, regional, national and international economic conditions and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, but not limited to, the allowance for loan losses.*
- *The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board.*
- *The ability of the Plumas Bank to declare and pay dividends to the Company.*
- *Changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions (including the implementation of the Basel III standards), the failure to maintain capital above the level required to be well-capitalized under the regulatory capital adequacy guidelines, the availability of capital from private or government sources, or the failure to raise additional capital as needed.*
- *The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.*
- *The costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, increases in FDIC insurance premiums, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquiries.*
- *Changes in the interest rate environment and volatility of rate sensitive assets and liabilities.*
- *Declines in the health of the economy, nationally or regionally, which could reduce the demand for loans, reduce the ability of borrowers to repay loans and/or reduce the value of real estate collateral securing most of the Company’s loans.*
- *Credit quality deterioration, which could cause an increase in the provision for loan and lease losses.*
- *Devaluation of fixed income securities.*
- *Asset/liability matching risks and liquidity risks.*
- *Loss of key personnel.*
- *Operational interruptions including data processing systems failure and fraud.*
- *Our success at managing the risks involved in the foregoing items.*

Plumas Bancorp undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements.

ITEM 1. BUSINESS

References herein to the “Company,” “we,” “us” and “our” refer to Plumas Bancorp and its consolidated subsidiary, unless the context indicates otherwise. References to the “Bank” refer to Company’s wholly-owned subsidiary, Plumas Bank. References to “Management” refer to the members of the Company’s management and references to the “Board of Directors” or the “Board” refer to the Company’s Board of Directors.

General

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

The Company’s principal source of income is dividends from the Bank, but the Company may explore supplemental sources of income in the future. The cash outlays of the Company, including (but not limited to) the payment of dividends to shareholders, if and when declared by the Board of Directors, costs of repurchasing Company common stock and the cost of servicing debt, will generally be paid from dividends paid to the Company by the Bank.

At December 31, 2017, the Company had consolidated assets of \$745.4 million, deposits of \$662.7 million, other liabilities of \$27.0 million and shareholders’ equity of \$55.7 million. The Company’s other liabilities include \$10.3 million in junior subordinated deferrable interest debentures and \$10.1 million in repurchase agreements. These items are described in detail later in this Form 10-K.

Our operations are conducted at 35 South Lindan Avenue, Quincy, California. Our annual, quarterly and other reports, required under the Securities Exchange Act of 1934 and filed with the Securities and Exchange Commission, (the “SEC”) are posted and are available at no cost on the Company’s website, www.plumasbank.com, as soon as reasonably practicable after the Company files such documents with the SEC. These reports are also available through the SEC’s website at www.sec.gov.

The Bank. The Bank is a California state-chartered bank that was incorporated in July 1980 and opened for business in December 1980. The Bank is not a member of the Federal Reserve System. The Bank’s Administrative Office is located at 35 South Lindan Avenue, Quincy, California. At December 31, 2017 the Bank had approximately \$745 million in assets, \$482 million in net loans and \$663 million in deposits (including deposits of \$0.4 million from the Company). It is currently the largest independent bank headquartered in Plumas County. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to maximum insurable amounts.

The Bank’s primary service area covers the Northeastern portion of California, with Lake Tahoe to the south and the Oregon border to the north. The Bank, through its twelve branch network, serves Washoe County in Nevada and the seven contiguous California counties of Plumas, Nevada, Sierra, Placer, Lassen, Modoc and Shasta. The branches are located in the California communities of Quincy, Portola, Greenville, Truckee, Fall River Mills, Alturas, Susanville, Chester, Tahoe City, Kings Beach and Redding; in addition, during December, 2015 the Bank opened a branch in Reno, Nevada. The Bank maintains sixteen automated teller machines (“ATMs”) tied in with major statewide and national networks. In addition to its branch network, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California and commercial/agricultural lending offices located in Chico, California and Klamath Falls, Oregon. The Bank’s primary business is servicing the banking needs of these communities. Its marketing strategy stresses its local ownership and commitment to serve the banking needs of individuals living and working in the Bank’s primary service areas.

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

The Bank’s government-guaranteed lending center headquartered in Auburn, California provides Small Business Administration (SBA) and USDA Rural Development loans to qualified borrowers throughout Northern California, and

Northern Nevada. During 2007 the Bank was granted nationwide Preferred Lender status with the U.S. Small Business Administration and we expect government-guaranteed lending to continue to be an important part of our overall lending operation. During 2017 proceeds from the sale of government-guaranteed loans totaled \$36.6 million and we generated a gain on sale of \$2.0 million. During 2016 proceeds from the sale of government-guaranteed loans totaled \$30.7 million and we generated a gain on sale of \$1.8 million.

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

As of December 31, 2017, the principal areas to which we have directed our lending activities, and the percentage of our total loan portfolio comprised by each, were as follows: (i) commercial real estate – 49.4%; (ii) commercial and industrial loans – 8.1%; (iii) consumer loans (including residential equity lines of credit and automobile loans) – 21.8%; (iv) agricultural loans (including agricultural real estate loans) – 12.1%; (v) residential real estate – 3.4%; and (vi) construction and land development – 5.2% .

In addition to the lending activities noted above, we offer a wide range of deposit products for the retail and commercial banking markets including checking, interest-bearing and premium interest-bearing checking, business sweep, public funds sweep, savings, time deposit and retirement accounts, as well as remote deposit, telephone and mobile banking, including mobile deposit, and internet banking with bill-pay options. Interest bearing deposits include high yield sweep accounts designed for our commercial customers and for public entities such as municipalities. As of December 31, 2017, the Bank had 31,582 deposit accounts with balances totaling approximately \$663 million, compared to 30,591 deposit accounts with balances totaling approximately \$583 million at December 31, 2016. We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, mobile and internet banking and remote deposit operations, all provided with a high level of customer service.

Most of our deposits are attracted from individuals, business-related sources and smaller municipal entities. This mix of deposit customers resulted in a relatively modest average deposit balance of approximately \$21 thousand at December 31, 2017. However, it makes us less vulnerable to adverse effects from the loss of depositors who may be seeking higher yields in other markets or who may otherwise draw down balances for cash needs.

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

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

The Bank has devoted a substantial amount of time and capital to the improvement of existing Bank services. We added mobile banking services during the first quarter of 2010. During 2015 we enhanced our mobile banking services and began offering mobile deposit services. During the first quarter of 2012 we replaced our ATMs with new state of the art machines that are ADA compliant and capable of accepting check and cash deposits without a deposit envelope. During 2015 we enhanced our mobile banking services and began offering mobile deposit services and in 2018 we began offering the ability for our customers to send money to others from their mobile devices through a linked debit card ("P2P" transfers).

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

We hold no patents or licenses (other than licenses required by appropriate bank regulatory agencies or local governments), franchises, or concessions. Our business has a modest seasonal component due to the heavy agricultural and tourism orientation of some of the communities we serve. We are not dependent on a single customer or group of related customers for a material portion of our deposits. The Company's management has established loan concentration guidelines as a percentage of capital and evaluates loan concentration levels within a single industry or group of related industries on quarterly basis, or more frequently as loan conditions change. There has been no material effect upon our capital expenditures, earnings, or competitive position as a result of federal, state, or local environmental regulation.

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

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

Recent Expansion Activities. On July 31, 2015 the Bank completed its acquisition of the Redding, California, branch of Rabobank N.A. The transaction included the acquisition of approximately \$10 million in deposits. The branch, located at 1335 Hilltop Dr. in Redding, now operates as a branch of the Bank. Following the acquisition, the Bank consolidated its preexisting branch Redding branch on Civic Center Drive branch into this location. The Civic Center Drive facility was sold to an unrelated third party in December, 2015.

In December, 2015 the Bank opened a full-service branch located at 5050 Meadowood Mall Circle, Reno, Nevada. This is the Bank's first branch location outside of California.

Dividends. It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends, subject to the approval of the Board of Directors. On October 20, 2016 the Company announced that its Board of Directors approved the reinstatement of a semi-annual cash dividend. The dividend in the amount of \$0.10 per share was paid on November 21, 2016 to shareholders of record at the close of business day on November 7, 2016. On April 19, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on May 15, 2017 to shareholders of record at the close of business day on May 1, 2017. On October 18, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on November 15, 2017 to shareholders of record at the close of business day on November 1, 2017.

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than \$500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than \$15 billion in total assets, such as the Company.

Neither Trust I nor Trust II are consolidated into the Company's consolidated financial statements and, accordingly, both entities are accounted for under the equity method and the junior subordinated debentures are reflected as debt on the consolidated balance sheet.

Promissory Note. The Company had a \$2.4 million Term Loan outstanding at December 31, 2016 with an unrelated commercial bank. On April 20, 2017 we paid off the remaining balance on the Term Loan. The Company has the ability to borrow \$5.0 million from this same bank under a line of credit agreement. There were no outstanding borrowings on the line of credit at December 31, 2016 or December 31, 2017. See "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Financial Condition – Note Payable and Term Loan" for detail information related to these borrowing agreements.

Business Concentrations. No individual or single group of related customer accounts is considered material in relation to the Bank's assets or deposits, or in relation to our overall business. However, at December 31, 2017 approximately 72% of the Bank's total loan portfolio consisted of real estate-secured loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate. Moreover, our business activities are currently focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta and Sierra and Washoe County in Nevada. Consequently, our results of operations and financial condition are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in these areas of California and Nevada exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires, drought and floods in these regions in California and Nevada.

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

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

Currently, within towns in which the Bank has a branch there are 107 banking branch offices of competing institutions (excluding credit unions, but including savings banks), including 70 branches of 10 banks having assets in excess of \$10 billion. As of June 30, 2017, the FDIC estimated the Bank's market share of insured deposits within the communities it serves to be as follows: Greenville and Portola 100%, Quincy 87%, Chester 66%, Alturas 59%, Fall River Mills 34%, Kings Beach 33%, Susanville 30%, Truckee 17%, Tahoe City 13%, Redding 1% and Reno less than 1%.

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

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

Employees. At December 31, 2017, the Company and its subsidiary employed 161 persons. On a full-time equivalent basis, we employed 142 persons. None of the Company's employees are represented by a labor union, and management considers its relations with employees to be good.

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

Supervision and Regulation

General. As financial institution, we are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. Any change in applicable laws or regulations may have a material effect on our business and prospects. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation may have in the future.

Holding Company Regulation. We are a registered bank holding company under the Bank Holding Company Act of 1956, as amended, and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the "FRB"). We are required to file reports with the FRB and the FRB periodically examines the Company. A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank. FRB regulations require the Company to meet or exceed certain capital requirements and regulate provisions of certain bank holding company debt. The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Company and any of its subsidiaries are subject to supervision and examination by, and may be required to file reports with, the California Department of Business Oversight ("DBO").

Federal and State Bank Regulation. As a California-chartered commercial bank with deposits insured by the FDIC, the Bank is subject to the supervision and regulation of the DBO and the FDIC, as well as certain of the regulations of the FRB and the Consumer Financial Protection Bureau ("CFPB"). The DBO and the FDIC regularly examine the Bank and may prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices or violations of law.

Securities Regulation. The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. As a listed company on NASDAQ, we are subject to NASDAQ rules for listed companies.

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

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital

consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks, sometimes called "Basel III". The phase-in period for the final rules began in 2015, with certain of the rules' requirements phased in over a multi-year schedule. Under the final rules minimum requirements increased for both the quantity and quality of capital held by the Company and the Bank. The new capital rules include a new minimum "common equity Tier 1" ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements was January 1, 2015. In addition, the new capital rules include a capital conservation buffer of 2.5% above each of these levels (to be phased in over three years which beginning at 0.625% on January 1, 2016 and increasing by that amount on each subsequent January 1, until reaching 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to pay dividends, repurchase stock or pay discretionary bonuses. When fully phased in and including the capital conservation buffer of 2.5%, the new capital rules would result in the following minimum ratios for the Bank to be considered well capitalized: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The new capital rules also implement strict eligibility criteria for regulatory capital instruments.

Under the new capital rules, the minimum capital ratios (including the applicable increment of the capital conservation buffer) as of January 1, 2017 were as follows: a common equity Tier 1 capital ratio of 5.75%; a Tier 1 capital ratio of 7.25%; a total capital risk-based capital ratio of 9.25% and a minimum leverage ratio of 4.0%. As of January 1, 2018, the required minimum ratios for common equity Tier 1 capital, Tier 1 capital and total risk-based capital will increase by the capital conservation buffer increment of 0.625%, to 6.375%, 7.875% and 9.875% respectively.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC and/or the DBO to ensure the maintenance of required capital levels. Federal law requires, among other things, that federal bank regulators take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. For this purpose, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company and any other company deemed to control the bank must guarantee the performance of that plan. Under current regulations, a depository institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. At December 31, 2017, the Bank met the criteria for being considered "well capitalized."

The FRB has adopted final amendments to the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) (the "Policy Statement") that, among other things, raised from \$500 million to \$1 billion the asset threshold to qualify for the Policy Statement. The Company qualifies for treatment under the Policy Statement and is not currently subject to consolidated capital rules at the bank holding company level.

For additional information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Standards."

Dividends. The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law permits a California corporation such as the Company to make a distribution to its shareholders if its retained earnings equal at least the amount of the proposed distribution or if after giving effect to the distribution, the value of the corporation's assets exceed the amount of its liabilities plus the amount of shareholders preferences, if any, and certain other conditions are met.

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings support the organization's expected future needs and financial condition. Further, it is the FRB's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

In addition the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the trust preferred securities issued by the Company's business trust subsidiaries.

The Bank is a legal entity that is separate and distinct from its holding company. The Company is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the DBO, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2017, the maximum amount available for dividend distribution under this restriction was approximately \$11.3 million.

Loans-to-One Borrower. Under California law, the Bank's ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2017, the Bank's limit on aggregate secured loans-to-one-borrower was \$17.9 million and unsecured loans-to-one borrower was \$10.7 million. The Bank has established internal loan limits that are lower than the legal lending limits for a California bank.

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

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

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

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

Federal Deposit Insurance. In addition to supervising and regulating state chartered non-member banks, the FDIC insures the Bank's deposits, up to prescribed statutory limits, through the Deposit Insurance Fund (the "DIF"), currently \$250,000 per depositor per institution. The DIF is funded primarily by FDIC assessments paid by each DIF member institution. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The Bank's FDIC insurance expense totaled \$255 thousand for 2016.

Additionally, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the DIF. The Bank's FICO assessments totaled \$30 thousand for 2016. These assessments will continue until the FICO bonds mature in 2017 through 2019.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. Under California law, the termination of the Bank's deposit insurance would result in a termination of the Bank's charter.

Interstate Branching. The Dodd-Frank Act authorized national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks may now enter new markets more freely.

Consumer Protection Laws and Regulations. The banking regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Company is subject to many federal and state consumer protection and privacy statutes and regulations, including but not limited to the following:

- The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.
- The Truth in Lending Act ("TILA") is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things. As a result of the Dodd-Frank Act, Regulation Z promulgated under the TILA includes new limits on loan originator compensation for all closed-end mortgages. These changes include, prohibiting certain payments to a mortgage broker or loan officer based on the transaction's terms or conditions, prohibiting dual compensation, and prohibiting a mortgage broker or loan officer from "steering" consumers to transactions not in their interest, to increase mortgage broker or loan officer compensation.
- The Fair Housing Act ("FH Act") regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

- The Home Mortgage Disclosure Act (“HMDA”), in response to public concern over credit shortages in certain urban neighborhoods, requires public disclosure of information that shows whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a “fair lending” aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.
- The Right to Financial Privacy Act imposes a new requirement for financial institutions to provide new privacy protections to consumers. Financial institutions must provide disclosures to consumers of its privacy policy, and state the rights of consumers to direct their financial institution not to share their nonpublic personal information with third parties.
- The Real Estate Settlement Procedures Act (“RESPA”) requires lenders to provide noncommercial borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

Penalties for noncompliance or violations under the above laws may include fines, reimbursement and other penalties. Due to heightened regulatory expectations related to compliance generally, the Company may incur additional compliance costs.

The Dodd-Frank Act created the CFPB as a new, independent federal agency. The CFPB has broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions, including the Bank, are generally subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes.

Anti-Money Laundering Laws. A series of banking laws and regulations beginning with the bank Secrecy Act in 1970 requires banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Under the US PATRIOT Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships, requirements regarding the Customer Identification Program, as well as enhanced due diligence and “know your customer” standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities.

Privacy and Data Security. The Gramm-Leach Bliley Act (“GLBA”) of 1999 imposes requirements on financial institutions with respect to consumer privacy. The GLBA generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. The GLBA also directs federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying consumers in the event of a security breach. The Bank is required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal of information that is no longer needed. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Potential Enforcement Actions; Supervisory Agreements. Under federal law, the Bank and its institution-affiliated parties may be the subject of potential enforcement actions by the FDIC for unsafe and unsound practices in conducting their businesses, or for violations of any law, rule or regulation or provision, any consent order with any agency, any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance of deposits, the imposition of civil money penalties, the payment of restitution and removal and prohibition orders against institution-affiliated parties. The DBO also has authority to bring similar enforcement actions against the Bank. The FRB has the authority to bring similar enforcement actions against the Company.

Legislation and Proposed Changes. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Typically, the intent of this type of legislation is to strengthen the banking industry, even if it may on occasion prove to be a burden on management’s plans. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on us.

Effects of Government Monetary Policy. Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the FRB. The FRB implements national monetary policy for such purposes as curbing inflation and combating recession, through its open market operations in U.S. Government securities, control of the discount rate applicable to borrowings from the FRB, and establishment of reserve requirements against certain deposits. These activities influence growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The Company's profitability, like most financial institutions, is primarily dependent on interest rate spreads. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended to customers and securities held in the investment portfolio, will comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the FRB and the impact which future changes in domestic and foreign economic conditions might have on us cannot be predicted. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

Recent Accounting Pronouncements

See Note 2 – “Summary of Significant Accounting Policies – Adoption of New Accounting Standards” of the Company's Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K for information related to recent accounting pronouncements.

ITEM 1A. RISK FACTORS

A deterioration of national or local economic conditions could reduce the Company's profitability.

The Company's lending operations and its customers are primarily located in the eastern region of Northern California. A significant downturn in the national economy or the local economy due to agricultural commodity prices, real estate prices, public policy decisions, natural disaster, drought or other factors could result in a decline in the local economy in general, which could in turn negatively impact the Company.

The majority of the Company's assets are loans, which if not repaid would result in losses to the Bank.

The Bank, like other lenders, is subject to credit risk, which is the risk of losing principal or interest due to borrowers' failure to repay loans in accordance with their terms. Underwriting and documentation controls cannot mitigate all credit risk. A downturn in the economy or the real estate market in the Company's market areas or a rapid increase in interest rates could have a negative effect on collateral values and borrowers' ability to repay. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual status, thereby reducing interest income. Further, under these circumstances, an additional provision for loan and lease losses or unfunded commitments may be required. See Management's Discussion and Analysis of Financial Condition and Results of Operations – “Analysis of Asset Quality and Allowance for Loan Losses”.

If the Company's allowance for loan losses is not sufficient to absorb actual loan losses, the Company's profitability could be reduced.

The risk of loan losses is inherent in the lending business. The Company maintains an allowance for loan losses based upon the Company's actual losses over a relevant time period and management's assessment of all relevant qualitative factors that may cause future loss experience to differ from its historical loss experience. Although the Company maintains a rigorous process for determining the allowance for loan losses, it can give no assurance that it will be sufficient to cover future loan losses. If the allowance for loan losses is not adequate to absorb future losses, or if bank regulatory agencies require the Company to increase its allowance for loan losses, earnings could be significantly and adversely impacted.

A deterioration in the real estate market could have a material adverse effect on the Company's business, financial condition and results of operations.

As of December 31, 2017, approximately 72% of the Company's total loan portfolio is secured by real estate, the majority of which is commercial real estate. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan losses, which could have a material adverse effect on the Company's business, financial condition and results of operations and prospects.

Fluctuations in interest rates could reduce profitability.

The Company's earnings depend largely upon net interest income, which is the difference between the total interest income earned on interest earning assets (primarily loans and investment securities) and the total interest expense incurred on interest bearing liabilities (primarily deposits and borrowed funds). The interest earned on assets and paid on liabilities are affected principally by direct competition, and general economic conditions at the state and national level and other factors beyond the Company's control such as actions of the FRB, the general supply of money in the economy, legislative tax policies, governmental budgetary matters, and other state and federal economic policies. Although the Company maintains a rigorous process for managing the impact of possible interest rate fluctuations on earnings, the Company can provide no assurance that its management efforts will prevent earnings from being significantly and adversely impacted by changes in interest rates.

The Company could be required to raise additional capital in the future, but that capital may not be available when it is needed or may not be available on terms that are favorable to the Company.

Federal and state bank regulatory authorities require the Company and the Bank to maintain adequate levels of capital to support their operations. The Company's ability to raise additional capital if and as needed depends on conditions in the capital markets, which are outside the Company's control, and on the Company's financial performance. Accordingly, the Company may not be able to raise additional capital, if needed, on terms that are acceptable to the Company. If the Company is unable to raise additional capital when needed, it could be required to curtail its growth strategy or reduce the levels of assets owned. In addition, although the Company and the Bank are currently well-capitalized under applicable regulatory frameworks, bank regulators are authorized and sometimes required to impose a wide range of requirements, conditions, and restrictions on banks and bank holding companies that fail to maintain adequate capital levels.

Drought conditions in California could have an adverse impact on the Company's business.

In recent years, California has experienced a severe drought. However, during 2016 and the first quarter of 2017 much of California has experienced significant rain. A significant portion of the Company's borrowers are involved in or are dependent on the agricultural industry in California, which requires water. As of December 31, 2017, approximately 12% of the Company's loans were categorized as agricultural loans. As a result of the drought, there have been governmental proposals concerning the distribution or rationing of water. If the amount of water available to agriculture becomes scarcer due to drought or rationing, growers may not be able to continue to produce agricultural products profitably, which could force some out of business. Although many of the Company's customers are not directly involved in agriculture, they could be impacted by difficulties in the agricultural industry because many jobs and businesses in the Company's market areas are related to the production of agricultural products. Therefore, the drought could adversely impact the Company's loan portfolio, business, financial condition and results of operations.

The Company faces substantial competition from larger banks and other financial institutions.

The Company faces substantial competition for deposits and loans. Competition for deposits primarily comes from other commercial banks, savings institutions, thrift and loan associations, money market and mutual funds and other investment alternatives. Competition for loans comes from other commercial banks, savings institutions, credit unions, mortgage banking firms, thrift and loan associations and other financial intermediaries. Larger competitors, by virtue of their larger capital resources, have substantially greater lending limits and marketing resources than the Company. In addition, they have greater resources and may be able to offer longer maturities or lower rates. The Company's competitors may also provide certain services for their customers, including trust and international banking that the Company is only able to offer indirectly through correspondent relationships. Ultimately, competition can reduce the Company's profitability, as well as make it more difficult to increase the size of its loan portfolio and deposit base.

There are risks associated with the Company's growth strategy.

During the past two years, the Company completed the purchase and assumption of a branch office in Redding, California, opened a branch office in Reno, Nevada and established loan production offices in Phoenix, Arizona; Seattle, Washington and Klamath Falls, Oregon. The Company may engage in additional acquisition activity and open additional offices in the future to expand the Company's markets or further its growth strategy. There is no assurance that future acquisitions or offices will be successful. Further, growth may strain the Company's administrative, managerial, financial and operational resources and increase demands on its systems and controls. If the Company pursues its growth strategy too aggressively, fails to attract qualified personnel, control costs or maintain asset quality, or if factors beyond management's control divert attention away from its business operations, the Company's pursuit of its growth strategy could have a material adverse impact on its existing business.

The Company relies on key executives and personnel and the loss of any of them could have a material adverse impact on the Company's prospects.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out the Company's strategies is often lengthy. The Company's success depends to a significant degree upon its ability to attract and retain qualified management, loan origination, finance, administrative, marketing, compliance and technical personnel and upon the continued contributions of its management and personnel. In particular, the Company's success has been and continues to be highly dependent upon the abilities of key executives and certain other employees.

Security breaches and technological disruptions could damage the Company's reputation and profitability. The Company's business is highly reliant on third party vendors and its ability to manage the operational risks associated with outsourcing those services.

The Company's electronic banking activities expose it to possible liability and loss of reputation should an unauthorized party gain access to confidential customer information. Despite its considerable efforts and investment to provide the security and authentication necessary to effect secure transmission of data, the Company cannot fully guarantee that these precautions will protect its systems from future compromises or breaches of its security measures. Although the Company has developed systems and processes that are designed to recognize and assist in preventing security breaches (and periodically test its security), failure to protect against or mitigate breaches of security could adversely affect its ability to offer and grow its online services, constitute a breach of privacy or other laws, result in costly litigation and loss of customer relationships, negatively impact the Bank's reputation, and could have an adverse effect on its business, results of operations and financial condition. The Company may also incur substantial increases in costs in an effort to minimize or mitigate cyber security risks and to respond to cyber incidents.

The potential for operational risk exposure exists throughout the Company's business. Integral to the Company's performance is the continued efficacy of the Company's technology and information systems, operational infrastructure and relationships with third parties and its colleagues in its day-to-day and ongoing operations. Failure by any or all of these resources subjects us to risks that may vary in size, scale and scope. This includes, but is not limited to, operational or systems failures, disruption of client operations and activities, ineffectiveness or exposure due to interruption in third party support as expected, as well as, the loss of key colleagues or failure on the part of key colleagues to perform properly.

Additionally, the Company outsources a large portion of its data processing to third parties which may encounter technological or other difficulties that may significantly affect the Company's ability to process and account for customer transactions. These vendors provide services that support its operations, including the storage and processing of sensitive consumer and business customer data, as well as its sales efforts. A cyber security breach of a vendor's system may result in theft of the Company's data or disruption of business processes. In most cases, the Company will remain primarily liable to its customers for losses arising from a breach of a vendor's data security system. The Company relies on its outsourced service providers to implement and maintain prudent cyber security controls. The loss of these vendor relationships could disrupt the services the Company provides to its customers and cause us to incur significant expense in connection with replacing these services.

The Company may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

The Company is subject to significant federal and state regulation and supervision. In the past, the Company's business has been increasingly affected by these regulations, and this trend is likely to continue into the future. Many of these laws are subject to interpretation and changing regulatory approaches to supervision and enforcement. The Company maintains systems and procedures designed to ensure that it complies with applicable laws and regulations, but there can be no assurance that these will be effective. The Company may incur fines, penalties and other negative consequences from regulatory violations. The Company may also suffer other negative consequences resulting from findings of noncompliance with laws and regulations, that may also damage its reputation, and this in turn might materially affect its business and results of operations. Further, some legal/regulatory frameworks provide for the imposition of fines, restitution or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there were in place at the time systems and procedures designed to ensure compliance.

The Company's disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports it files under the Exchange Act is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. The Company believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, cannot provide absolute assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in its control system, misstatements due to error or fraud may occur and not be detected, which could result in a material weakness in its internal controls over financial reporting and the restatement of previously filed financial statements.

The price of the Company's common stock may be volatile or may decline.

The trading price of the Company's common stock may fluctuate as a result of a number of factors, many of which are outside its control. Among the factors that could affect the Company's stock price are:

- actual or anticipated quarterly fluctuations in the Company's operating results and financial condition;
- research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- actions by the Company or its competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock prices and operating results of its competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us;
- domestic and international economic factors unrelated to its performance.

Significant decline in the Company's stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation.

The trading volume of the Company's common stock is limited.

Although the Company's common stock is traded on the Nasdaq Stock Market, trading volume to date has been relatively modest. The limited trading market for the Company's common stock may lead to exaggerated fluctuations in market prices and possible market inefficiencies compared to more actively traded securities. It may also make it more difficult for investors to sell the Company's common stock at desired prices, especially for holders seeking to dispose of a large number of shares of stock.

The Company depends primarily on the operations of the Bank to repay its indebtedness and fund its operations. The Company's ability to pay any dividends or repurchase any of its shares in the future will also depend on the success of the Bank's operations.

The Company is a separate and distinct legal entity from its subsidiary, the Bank, and it receives substantially all of its revenue from dividends paid by the Bank. There are legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, the Company. The Company's inability to receive dividends from the Bank could adversely affect its business, financial condition, results of operations and prospects.

Disruptions in market conditions may adversely impact the fair value of available-for-sale investment securities.

Generally Accepted Accounting Principles ("GAAP") require the Company to carry its available-for-sale investment securities at fair value on its balance sheet. Unrealized gains or losses on these securities, reflecting the difference between the fair market value and the amortized cost, net of its tax effect, are reported as a component of shareholders' equity. In certain instances GAAP requires recognition through earnings of declines in the fair value of securities that are deemed to be other than temporarily impaired. Changes in the fair value of these securities may result from a number of circumstances that are beyond the Company's control, such as changes in interest rates, the financial condition of government sponsored enterprises or insurers of municipal bonds, changes in demand for these securities as a result of economic conditions, or reduced market liquidity. There can be no assurance that the declines in market value will not result in other than temporary impairments of these assets, which would lead to loss recognition that could have a material adverse effect on the Company's net income and capital levels.

Damage to the Company's reputation could significantly harm the Company's business and prospects.

The Company's reputation is an important asset. The Company's relationship with many of its customers is predicated upon its reputation as a high quality provider of financial services that adheres to the highest standards of ethics, service quality and regulatory compliance. The Company's ability to attract and retain customers, investors and employees depends upon external perceptions. Damage to its reputation among existing and potential customers, investors and employees could cause significant harm to the Company's business and prospects and may arise from numerous sources, including litigation or regulatory actions, failing to deliver minimum standards of service and quality, lending practices, inadequate protection of customer information, sales and marketing efforts, compliance failures, unethical behavior and the misconduct of employees. Adverse developments in the banking industry may also, by association, negatively impact the Company's reputation or result in greater regulatory or legislative scrutiny or litigation against us. The Company has policies and procedures in place that seek to protect its reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding the Company's business, employees, or customers, with or without merit, may result in the loss of customers, investors, and employees, costly litigation, a decline in revenues and increased governmental regulation.

The markets in which the Company operates are subject to the risk of earthquakes and other natural disasters.

Most of the Company's offices are located in California. Also, most of the real and personal properties securing the Company's loans are located in California. California is prone to earthquakes, brush fires, flooding and other natural disasters. In addition to possibly sustaining damage to its own properties, if there is a major earthquake, brush fires, flood or other natural disaster, the Company faces the risk that many of the Company's borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations. Therefore, a major earthquake, brush fire, flood or other natural disaster in California could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company is exposed to risk of environmental liabilities with respect to real properties that it may acquire.

If the Company's borrowers are unable to meet their loan repayment obligations, it will initiate foreclosure proceedings with respect to and may take actions to acquire title to the personal and real property that collateralized their loans. As an owner of such properties, the Company could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even though it did not engage in the activities that led to such contamination. In addition, if the Company were the owner or former owner of a contaminated site, it could be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If the Company were to become subject to significant environmental liabilities or costs, its business, financial condition, results of operations and prospects could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Of the Company's twelve depository branches, ten are owned and two are leased. The Company also leases three lending offices and owns four administrative facilities.

Owned Properties

35 South Lindan Avenue Quincy, California (1)	32 Central Avenue Quincy, California (1)	80 W. Main St. Quincy, California (1)
424 N. Mill Creek Quincy, California (1)	336 West Main Street Quincy, California	120 North Pine Street Portola, California
43163 Highway 299E Fall River Mills, California	121 Crescent Street Greenville, California	255 Main Street Chester, California
510 North Main Street Alturas, California	3000 Riverside Drive Susanville, California	8475 North Lake Boulevard Kings Beach, California
11638 Donner Pass Road Truckee, California	5050 Meadowood Mall Circle Reno, Nevada	

Leased Properties

243 North Lake Boulevard Tahoe City, California	1335 Hilltop Drive Redding, California	470 Nevada St., Suite 108 Auburn, California (2)
100 Amber Grove Dr., Suite 105 Chico, CA (3)	107 S. 7 th St. (3) Klamath Falls, OR	

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

(2) SBA lending office.

(3) Commercial lending office.

Total rental expenses under all leases totaled \$308,000, \$276,000 and \$233,000, in 2017, 2016 and 2015 respectively. The expiration dates of the leases vary, with the first such lease expiring during 2018 and the last such lease expiring during 2021.

Future minimum lease payments are as follows:

Year Ending December 31,	
2018	\$ 308,000
2019	289,000
2020	202,000
2021	91,000
2022	-
	<u>\$ 890,000</u>

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCK- HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is quoted on the NASDAQ Capital Market under the ticker symbol "PLBC". As of December 31, 2017, there were 5,064,972 shares of the Company's common stock outstanding held by approximately 1,500 shareholders of record as of the same date. The following table shows the high and low sales prices for the common stock, for each quarter as reported by Yahoo Finance.

Quarter	Common Dividends per share		High	Low
4 th Quarter 2017	\$	0.14	\$ 23.35	\$ 20.35
3 rd Quarter 2017		-	\$ 21.75	\$ 19.10
2 nd Quarter 2017		0.14	\$ 22.00	\$ 17.50
1 st Quarter 2017		-	\$ 19.50	\$ 15.85
4 th Quarter 2016	\$	0.10	\$ 19.23	\$ 10.00
3 rd Quarter 2016		-	\$ 10.39	\$ 8.75
2 nd Quarter 2016		-	\$ 9.75	\$ 8.60
1 st Quarter 2016		-	\$ 9.46	\$ 8.20

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 will periodically, but on no regular schedule and in accordance with regulatory restrictions, if any, reviews the appropriateness of a cash dividend payment. On October 20, 2016 the Company announced that its Board of Directors approved the reinstatement of a semi-annual cash dividend. The dividend in the amount of \$0.10 per share was paid on November 21, 2016 to shareholders of record at the close of business day on November 7, 2016. On April 19, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on May 15, 2017 to shareholders of record at the close of business day on May 1, 2017. On October 18, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on November 15, 2017 to shareholders of record at the close of business day on November 1, 2017.

The Company is subject to various restrictions on the payment of dividends. See Note 12 "Shareholders' Equity – Dividend Restrictions" of the Company's Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K.

Securities Authorized for Issuance under Equity Compensation Plans. The following table sets forth securities authorized for issuance under equity compensation plans as of December 31, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	206,893	\$ 6.65	305,600
Equity compensation plans not approved by security holders	None	Not Applicable	None
Total	206,893	\$ 6.65	305,600

For additional information related to the above plans see Note 12 of the Company's Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K.

Issuer Purchases of Equity Securities. There were no purchases of Plumas Bancorp common stock by the Company during 2017 or 2016.

ITEM 6. SELECTED FINANCIAL DATA

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

	At or for the year ended December 31,				
	2017	2016	2015	2014	2013
	<i>(dollars in thousands except per share information)</i>				
<u>Statement of Income</u>					
Interest income	\$ 28,953	\$ 25,100	\$ 22,615	\$ 21,147	\$ 19,460
Interest expense	1,017	1,023	1,204	1,693	1,534
Net interest income	27,936	24,077	21,411	19,454	17,926
Provision for loan losses	600	800	1,100	1,100	1,400
Noninterest income	8,280	7,652	7,715	7,315	6,642
Noninterest expense	20,111	18,696	18,491	17,845	17,570
Provision for income taxes	7,316	4,759	3,717	3,086	2,167
Net income	<u>\$ 8,189</u>	<u>\$ 7,474</u>	<u>\$ 5,818</u>	<u>\$ 4,738</u>	<u>\$ 3,431</u>
Discount on redemption of Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ 565
Preferred Stock dividends and discount accretion	-	-	-	-	347
Net income available to common shareholders	<u>\$ 8,189</u>	<u>\$ 7,474</u>	<u>\$ 5,818</u>	<u>\$ 4,738</u>	<u>\$ 3,649</u>
<u>Balance sheet (end of period)</u>					
Total assets	\$ 745,427	\$ 657,975	\$ 599,286	\$ 538,862	\$ 515,725
Total loans	\$ 486,634	\$ 461,123	\$ 400,971	\$ 370,390	\$ 338,551
Allowance for loan losses	\$ 6,669	\$ 6,549	\$ 6,078	\$ 5,451	\$ 5,517
Total deposits	\$ 662,657	\$ 582,353	\$ 527,276	\$ 467,891	\$ 449,439
Total shareholders' equity	\$ 55,700	\$ 47,994	\$ 42,496	\$ 36,497	\$ 30,593
<u>Balance sheet (period average)</u>					
Total assets	\$ 695,320	\$ 622,229	\$ 571,990	\$ 531,528	\$ 497,711
Total loans	\$ 471,747	\$ 428,380	\$ 386,070	\$ 353,389	\$ 321,210
Total deposits	\$ 617,211	\$ 549,416	\$ 503,343	\$ 464,067	\$ 432,284
Total shareholders' equity	\$ 53,251	\$ 46,488	\$ 39,844	\$ 33,810	\$ 36,032
<u>Asset quality ratios</u>					
Nonperforming loans/total loans	0.62%	0.59%	1.13%	1.79%	1.64%
Nonperforming assets/total assets	0.59%	0.53%	1.06%	1.90%	2.33%
Allowance for loan losses/total loans	1.37%	1.42%	1.52%	1.47%	1.63%
Net loan charge-offs	\$ 480	\$ 329	\$ 473	\$ 1,166	\$ 1,569
<u>Performance ratios</u>					
Return on average assets	1.18%	1.20%	1.02%	0.89%	0.69%
Return on average equity	15.4%	16.1%	14.6%	14.0%	9.5%
Net interest margin	4.35%	4.21%	4.10%	4.05%	4.03%
Loans to deposits	73.4%	79.2%	76.0%	79.2%	75.3%
Efficiency ratio	55.5%	58.9%	63.5%	66.7%	71.5%
<u>Per share information</u>					
Basic earnings	\$ 1.64	\$ 1.54	\$ 1.21	\$ 0.99	\$ 0.76
Diluted earnings	\$ 1.58	\$ 1.47	\$ 1.15	\$ 0.95	\$ 0.75
Common cash dividends	\$ 0.28	\$ 0.10	\$ 0.00	\$ 0.00	\$ 0.00
Book value per common share	\$ 11.00	\$ 9.80	\$ 8.79	\$ 7.61	\$ 6.39
Common shares outstanding at period end	5,064,972	4,896,875	4,835,432	4,799,139	4,787,739
<u>Capital ratios – Plumas Bank</u>					
Leverage ratio	8.8%	9.2%	9.4%	9.8%	9.7%
Tier 1 risk-based capital	12.0%	12.1%	12.7%	13.2%	13.2%
Total risk-based capital	13.2%	13.3%	14.0%	14.4%	14.5%

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

General

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

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

Critical Accounting Policies

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

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

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

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

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

The following discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity and capital. It pertains to the Company's financial condition, changes in financial condition and results of operations as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017. The discussion should be read in conjunction with the Company's audited consolidated financial statements and notes thereto and the other financial information appearing elsewhere herein.

Overview

The Company recorded net income of \$8.2 million for the year ended December 31, 2017, an increase of \$715 thousand or 10% over net income of \$7.5 million during the year ended December 31, 2016. Pretax income increased by \$3.3 million, or 27%, to \$15.5 million in 2017 from \$12.2 million during the year ended December 31, 2016.

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.

The reduction in the corporate tax rate under the TCJ Act required a one-time revaluation of certain tax-related assets to reflect their value at the lower corporate tax rate of 21%. As such, the Company has recorded a reduction in the value of these assets of \$1.4 million, which relates to the Company's net deferred tax assets. Solely based on this reduction in certain tax assets, the Company recorded an additional provision for income taxes of \$1.4 million, or \$0.27 per diluted share, in its income statement for the fourth quarter of 2017.

Net interest income increased by \$3.8 million to \$27.9 million during 2017 from \$24.1 million for the year ended December 31, 2016. This increase in net interest income resulted from an increase in interest income of \$3.8 million and a decrease in interest expense of \$6 thousand. Interest on loans increased by \$2.9 million, interest on investment securities increased by \$581 thousand and interest on other interest earning assets increased by \$400 thousand. The provision for loan losses was \$600 thousand during 2017 down \$200 thousand from \$800 thousand during 2016.

During the year ended December 31, 2017 non-interest income totaled \$8.3 million an increase of \$628 thousand from the \$7.7 million earned during 2016. Non-interest expense increased by \$1.4 million to \$20.1 million during the twelve months ended December 31, 2017. The largest component of the increase in non-interest expense was an increase in salary and benefit expense of \$1.1 million.

The provision for income taxes increased by \$2.5 million from \$4.8 million in 2016 to \$7.3 million during the year ended December 31, 2017.

Total assets at December 31, 2017 were \$745 million, an increase of \$87.5 million from \$658 million at December 31, 2016. This increase included increases of \$24.9 million in cash and due from banks, \$35.9 million in investment securities, \$25.7 million in net loans (\$25.5 million in gross loans), \$0.3 million in bank owned life insurance, \$0.6 million in OREO and \$0.5 million in other assets exclusive of OREO. These items were partially offset by a decrease of \$0.4 million in premises and equipment.

Gross loan balances increased by \$25.5 million, or 5.5%, from \$461 million at December 31, 2016 to \$487 million at December 31, 2017. The increase in loan balances includes \$14.1 million in commercial real estate loans, \$7.8 million in agricultural loans, \$3.3 million in construction and land development loans and \$6.9 million in automobile loans. These increases were partially offset by declines in other loan categories the largest of which was a decrease of \$4.7 million in residential real estate loans.

Total deposits increased by \$80.3 million, or 14%, from \$582.4 million at December 31, 2016 to \$662.7 million at December 31, 2017. At December 31, 2017, 43% of the Company's deposits were in the form of non-interest bearing demand deposits. Core deposit growth remained strong in 2017 as evidenced by increases of \$45.5 million in demand deposits, \$27.0 million in savings accounts, \$3.5 million in money market accounts and \$7.9 million in interest bearing transaction accounts. Time deposits declined by \$3.6 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 has no brokered deposits.

Total shareholders' equity increased by \$7.7 million from \$48.0 million at December 31, 2016 to \$55.7 million at December 31, 2017. The \$7.7 million includes earnings during the twelve month period totaling \$8.2 million, a decrease in

the net unrealized loss on investment securities of \$0.4 million; stock option activity totaling \$0.4 million and a \$0.1 million reclassification from accumulated other comprehensive loss to retained earnings. These items were partially offset by the payment of two \$0.14 semi-annual cash dividends totaling \$1.4 million.

The return on average assets was 1.18% for 2017, down from 1.20% for 2016. The return on average equity was 15.4% for 2017, down from 16.1% for 2016.

Results of Operations

Net Interest Income

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

	Year ended December 31,								
	2017			2016			2015		
	Average balance	Interest income/expense	Rates earned/paid	Average balance	Interest income/expense	Rates earned/paid	Average balance	Interest income/expense	Rates earned/paid
<i>(dollars in thousands)</i>									
Assets									
Interest bearing deposits	\$ 56,524	\$ 674	1.19%	\$ 43,843	\$ 274	0.62%	\$ 44,302	\$ 174	0.39%
Investment securities ⁽¹⁾	114,477	2,479	2.17	99,689	1,898	1.90	91,309	1,694	1.86
Total loans ⁽²⁾⁽³⁾	471,747	25,800	5.47	428,380	22,928	5.35	386,070	20,747	5.37
Total earning assets	642,748	28,953	4.50%	571,912	25,100	4.39%	521,681	22,615	4.34%
Cash and due from banks	19,531			17,494			17,332		
Other assets	33,041			32,823			32,977		
Total assets	<u>\$ 695,320</u>			<u>\$ 622,229</u>			<u>\$ 571,990</u>		
Liabilities and shareholders' equity									
Interest bearing demand deposits	\$ 96,945	89	0.09%	\$ 92,481	85	0.09%	\$ 88,220	80	0.09%
Money market deposits	58,594	84	0.14	54,559	78	0.14	47,149	66	0.14
Savings deposits	159,707	264	0.17	133,304	217	0.16	119,071	191	0.16
Time deposits	47,360	145	0.31	50,788	157	0.31	54,418	181	0.33
Note payable	700	28	4.00	3,289	133	4.04	3,858	155	4.02
Subordinated debentures	-	-	-	-	-	-	2,150	219	10.19
Junior subordinated debentures	10,310	401	3.89	10,310	348	3.38	10,310	306	2.97
Other	7,421	6	0.08	6,423	5	0.08	6,529	6	0.09
Total interest bearing liabilities	381,037	1,017	0.27%	351,154	1,023	0.29%	331,705	1,204	0.36%
Noninterest bearing demand deposits	254,605			218,284			194,485		
Other liabilities	6,427			6,303			5,956		
Shareholders' equity	53,251			46,488			39,844		
Total liabilities and shareholders' equity	<u>\$ 695,320</u>			<u>\$ 622,229</u>			<u>\$ 571,990</u>		
Net interest income		<u>\$ 27,936</u>			<u>\$ 24,077</u>			<u>\$ 21,411</u>	
Net interest spread⁽⁴⁾			4.23%			4.10%			3.98%
Net interest margin⁽⁵⁾			4.35%			4.21%			4.10%

(1) Interest income is reflected on an actual basis and is not computed on a tax-equivalent basis.

(2) Average nonaccrual loan balances of \$3.2 million for 2017, \$3.8 million for 2016 and \$5.6 million for 2015 are included in average loan balances for computational purposes.

(3) Loan origination fees and costs are included in interest income as adjustments of the loan yields over the life of the loan using the interest method. Loan interest income includes net loan costs of \$501,000, \$678,000 and \$696,000 for 2017, 2016 and 2015, respectively.

(4) Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(5) Net interest margin is computed by dividing net interest income by total average earning assets.

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

	2017 compared to 2016 Increase (decrease) due to change in:				2016 compared to 2015 Increase (decrease) due to change in:			
	Average Volume ⁽¹⁾	Average Rate ⁽²⁾	Mix ⁽³⁾	Total	Average Volume ⁽¹⁾	Average Rate ⁽²⁾	Mix ⁽³⁾	Total
	<i>(dollars in thousands)</i>							
Interest-earning assets:								
Interest bearing deposits	\$ 79	\$ 249	\$ 72	\$ 400	\$ (2)	\$ 103	\$ (1)	\$ 100
Investment securities	282	261	38	581	156	44	4	204
Loans	2,321	500	51	2,872	2,274	(84)	(9)	2,181
Total interest income	2,682	1,010	161	3,853	2,428	63	(6)	2,485
Interest-bearing liabilities:								
Interest bearing demand deposits	4	-	-	4	4	1	-	5
Money market deposits	6	-	-	6	11	1	-	12
Savings deposits	43	3	1	47	23	3	-	26
Time deposits	(11)	(1)	-	(12)	(12)	(13)	1	(24)
Note payable	(105)	(1)	1	(105)	(23)	1	-	(22)
Subordinated debentures	-	-	-	-	(219)	-	-	(219)
Junior subordinated debentures	-	53	-	53	-	42	-	42
Other borrowings	1	-	-	1	-	(1)	-	(1)
Total interest expense	(62)	54	2	(6)	(216)	34	1	(181)
Net interest income	\$ 2,744	\$ 956	\$ 159	\$ 3,859	\$ 2,644	\$ 29	\$ (7)	\$ 2,666

- (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.

2017 compared to 2016. Net interest income is the difference between interest income and interest expense. Net interest income, on a nontax-equivalent basis, was \$27.9 million for the year ended December 31, 2017, up \$3.8 million, or 16%, from \$24.1 million for 2016. The \$3.8 million included an increase of \$3.8 million, or 15.4%, in interest income, from \$25.1 million during 2016 to \$28.9 million during the current year and a decrease of \$6 thousand in interest expense.

Interest and fees on loans increased by \$2.9 million, interest on investment securities increased by \$581 thousand and interest on deposits increased by \$400 thousand. These increases include both an increase in average balance and an increase in average yield.

Interest and fees on loans was \$25.8 million during 2017. The average loan balances were \$471.7 million for 2017, up \$43.3 million from the \$428.4 million during 2016. The following table compares loan balances by type at December 31, 2017 and 2016.

(dollars in thousands)	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
	12/31/17	12/31/17	12/31/16	12/31/16
Commercial	\$ 39,620	8.1%	\$ 41,293	9.0%
Agricultural	58,908	12.1%	51,103	11.1%
Real estate – residential	16,624	3.4%	21,283	4.6%
Real estate – commercial	240,257	49.4%	226,136	49.0%
Real estate – construction & land development	25,181	5.2%	21,904	4.7%
Equity Lines of Credit	41,798	8.6%	42,338	9.2%
Auto	60,438	12.4%	53,553	11.6%
Other	3,808	0.8%	3,513	0.8%
Total Gross Loans	\$ 486,634	100%	\$ 461,123	100%

The average yield on loans was 5.47% for 2017 up 12 basis points from 5.35% for 2016. We attribute much of the increase in yield to an increase in the average prime rate of 59 basis points mostly offset to by price competition in our service area. At December 31, 2017 approximately 30% of the Company's loan portfolio was comprised of loans tied to the prime rate or an equivalent rate.

Interest on investment securities increased by \$581 thousand as a result of an increase in yield of 27 basis points from 1.90% during 2016 to 2.17% during 2017 and an increase in average balance from \$99.7 million in 2016 to \$114.5 million in 2017. During the current period yield benefited from market conditions and the maturity, sales and payments on lower earning securities. Interest income on interest bearing deposits, which totaled \$674 thousand in 2017 and \$274 thousand in 2016, primarily relates to interest on cash balances held at the Federal Reserve. The \$400 thousand increase in interest on interest bearing deposits was related to an increase in yield of 57 basis points from 62 basis points in 2016 to 119 basis points in 2017; consistent with the increase in the average fed funds rate during these periods. In addition, average interest earning deposits increased by \$12.7 million from \$43.8 million during 2016 to \$56.5 million in 2017.

Interest expense on deposits increased by \$45 thousand to \$582 thousand for the twelve months ended December 31, 2017, up from \$537 thousand in 2016. Interest expense on NOW accounts increased by \$4 thousand. Rates paid on NOW accounts averaged 0.09% during 2017 and 2016. Average balances increased by \$4.4 million to \$96.9 million during 2017 from \$92.5 million during 2016. Interest expense on money market accounts increased by \$6 thousand to \$84 thousand during the year ended December 31, 2017. Rates paid on money market accounts averaged 0.14% during 2017 and 2016. Average balances increased by \$4.0 million from \$54.6 million in 2016 to \$58.6 million during the year ended December 31, 2017. Interest expense on savings accounts increased by \$47 thousand as we continued to experience strong growth in this category of deposits. Average savings deposits increased by \$26.4 million from \$133.3 million during 2016 to \$159.7 million during 2017. The average rate paid on savings accounts increased slightly from 16 basis points during 2016 to 17 basis points in 2017.

Interest expense on time deposits declined by \$12 thousand from \$157 thousand during 2016 to \$145 thousand during 2017. Average time deposits declined by \$3.4 million from \$50.8 million during 2016 to \$47.4 million during the year ended December 31, 2017. We attribute much of this decline to migration into other types of deposits given the low rates and lack of liquidity associated with time deposits. The average rate paid on time deposits was 0.31% during both 2016 and 2017.

Interest expense on other interest-bearing liabilities decreased by \$51 thousand from \$486 thousand during the year ended December 31, 2016 to \$435 thousand during the current twelve month period. Interest expense on the Company's note payable decreased by \$105 thousand to \$28 thousand during the twelve months ended December 31, 2017. This decrease was related to a decrease in average borrowings on this note from \$3.3 million during the 2016 to \$700 thousand during 2017. The note payable was paid off in April of 2017. Interest expense on junior subordinated debentures, which increased by \$53 thousand to \$401 thousand, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate.

Net interest margin is net interest income expressed as a percentage of average interest-earning assets. As a result of the changes noted above, the net interest margin for 2017 increased to 4.35%, from 4.21% during 2016.

2016 compared to 2015. Net interest income, on a nontax-equivalent basis, was \$24.1 million for the year ended December 31, 2016, up \$2.7 million, or 12.5%, from \$21.4 million for 2015. The \$2.7 million included an increase of \$2.5 million, or 11.0% in interest income, from \$22.6 million during 2015 to \$25.1 million during the current year and a decrease of \$181 thousand in interest expense.

Interest and fees on loans increased by \$2.2 million, interest on investment securities increased by \$204 thousand and interest on deposits increased by \$100 thousand. The increase in interest and fees on loans was related to an increase in average loan balances partially offset by a decline in yield. Interest on investments securities benefited from both an increase in yield and an increase in average balance.

Interest and fees on loans was \$22.9 million during 2016. The average loan balances were \$428.4 million for 2016, up \$42.3 million from the \$386.1 million for 2015. The average yield on loans was 5.35% for 2016 down slightly from 5.37% for 2015. We attribute much of the decrease in yield to price competition in our service area for commercial real estate loans mostly offset by the 25 basis point increase in the prime rate on December 17, 2015.

Interest on investment securities increased by \$204 thousand as a result of an increase in yield of 4 basis points from 1.86% during 2015 to 1.90% during 2016 and an increase in average balance from \$91.3 million in 2015 to \$99.7 million in 2016. Interest income on interest bearing deposits, which totaled \$274 thousand in 2016 and \$174 thousand in 2015, primarily

relates to interest on cash balances held at the Federal Reserve. The \$100 thousand increase in interest on interest bearing deposits was related to an increase in yield of 23 basis points from 39 basis points in 2015 to 62 basis points in 2016 and is consistent with the increase in the average fed funds rate during these periods.

Interest expense on deposits increased by \$19 thousand to \$537 thousand for the twelve months ended December 31, 2016, up from \$518 thousand in 2015. Interest expense on time deposits declined by \$24 thousand from \$181 thousand during 2015 to \$157 thousand during 2016. Average time deposits declined by \$3.6 million from \$54.4 million during 2015 to \$50.8 million during the year ended December 31, 2016. We attribute much of this decline to migration into other types of deposits given the low rates and lack of liquidity associated with time deposits. The average rate paid on time deposits decreased from 0.33% during 2015 to 0.31% during the current twelve month period. This decrease primarily relates to the maturity of higher rate time deposits.

Interest expense on NOW accounts increased by \$5 thousand. Rates paid on NOW accounts averaged 0.09% during 2016 and 2015. Average balances increased by \$4.3 million from 2015 to \$92.5 million. Interest expense on money market accounts increased by \$12 thousand to \$78 thousand during the year ended December 31, 2016. Rates paid on money market accounts averaged 0.14% during 2016 and 2015. Average balances increased by \$7.4 million from \$47.2 million in 2015 to \$54.6 million. Interest expense on savings accounts increased by \$26 thousand as we continued to experience strong growth in this category of deposits. Average savings deposits increased by \$14.2 million from \$119.1 million during 2015 to \$133.3 million during 2016. The average rate paid on savings accounts during these same periods was 16 basis points.

Interest expense on other interest-bearing liabilities decreased by \$200 thousand from \$686 thousand during the year ended December 31, 2015 to \$486 thousand during the current twelve month period. On April 15, 2013, to help fund the repurchase of preferred stock during 2013, the Company issued a \$7.5 million subordinated debenture. On April 16, 2015 we paid off the subordinated debenture resulting in a reduction in interest expense related to this debt of \$219 thousand.

Interest expense on the Company's note payable decreased by \$22 thousand to \$133 thousand during the twelve months ended December 31, 2016. This decrease was related to a decrease in average borrowings on this note from \$3.9 million during the 2015 period to \$3.3 million during the year ended December 31, 2016. The average rate paid on the note payable was 4.04% during 2016 and 4.02% during the twelve months ended December 31, 2015.

Interest expense on junior subordinated debentures, which increased by \$42 thousand to \$348 thousand, fluctuates with changes in the 3-month LIBOR. Interest on other borrowings, which mostly relates to repurchase agreements, totaled \$5 thousand in 2016 and \$6 thousand in 2015.

As a result of the changes noted above, the net interest margin for 2016 increased to 4.21%, from 4.10% during 2015.

Provision for Loan Losses

During the year ended December 31, 2017 we recorded a provision for loan losses of \$600 thousand down \$200 thousand from \$800 thousand during the year ended December 31, 2016. See "Analysis of Asset Quality and Allowance for Loan Losses" for further discussion of loan quality trends and the provision for loan losses.

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

These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Based on information currently available, management believes that the allowance for loan losses is appropriate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

Non-Interest Income

The following table sets forth the components of non-interest income for the years ended December 31, 2017, 2016 and 2015.

	Years Ended December 31,			Change during Year	
	2017	2016	2015	2017	2016
	<i>(dollars in thousands)</i>				
Service charges on deposit accounts	\$ 4,454	\$ 4,031	\$ 3,954	\$ 423	\$ 77
Gain on sale of loans, net	2,039	1,770	1,942	269	(172)
Loan servicing fees	731	642	562	89	80
Earnings on bank owned life insurance policies	338	341	342	(3)	(1)
(Loss) gain on sale of investments	(158)	(32)	21	(126)	(53)
Other income	876	900	894	(24)	6
Total non-interest income	\$ 8,280	\$ 7,652	\$ 7,715	\$ 628	\$ (63)

2017 compared to 2016. During the year ended December 31, 2017, non-interest income totaled \$8.3 million, an increase of \$628 thousand from the twelve months ended December 31, 2016. The largest components of this increase were increases of \$423 thousand in service charge income, \$269 thousand gain on sale of loans and \$89 thousand in loan servicing income. The increase in service charge income includes significant increases in interchange income on debit card transactions, an increase in overdraft income and an increase in service charges on deposit accounts. Interchange income benefited from an increase in the size of the Bank as well as an increase in marketing efforts directed to this product, while overdraft income and service charges on deposit accounts benefited both from an increase in the size of the Bank as well as an increase in rates charged for various services beginning in October of 2016. Gains on sale of loans mostly relate to sales of SBA 7(a) loans. Gains on sale of loans increased from \$1.8 million during 2016 to \$2.0 million during the twelve months ended December 31, 2017. Proceeds from SBA loan sales totaled \$36.6 million during 2017 and \$30.7 million during the twelve months ended December 31, 2016. Loans originated for sale totaled \$31.3 million during the twelve months ended December 31, 2017 and \$30.4 million during 2016. Loan servicing income, which increased by \$89 thousand, represents servicing income received on the guaranteed portion of SBA loans sold into the secondary market. At December 31, 2017 we were servicing \$113 million in guaranteed portions of loans, an increase of \$16 million from \$97 million at December 31, 2016. The largest decrease in non-interest income was a \$126 increase in loss on sale of investment securities from \$32 thousand in 2016 to \$158 thousand in 2017.

2016 compared to 2015. During the twelve months ended December 31, 2016 and 2015 non-interest income totaled \$7.7 million. Increases in service charge income of \$77 thousand and loan servicing fees of \$80 thousand were offset by a \$172 thousand decline in gain on sale of loans and an \$53 thousand decline in gain on sale of investments. The increase in service charge income mostly relates to an increase in interchange fees on debit card transactions. The increase in loan servicing fees was consistent with the growth in our servicing portfolio of government guaranteed loans. At December 31, 2016 we were servicing \$97 million in guaranteed portions of loans an increase of \$10 million from over \$86 million at December 31, 2015. During 2016, we sold \$27.8 million in guaranteed portions of SBA loans, resulting in a gain on sale of \$1.8 million. During 2015 we sold \$26.5 million in guaranteed portions of SBA loans recording a gain of sale \$1.9 million. We attribute the decline in gain on sale of SBA loans to a decline in the average of the rate paid on loans sold as well as a reduction in SBA loan sale premiums related to market conditions. During the twelve months ended December 31, 2016 we sold fourteen investment securities recording a net loss of \$32 thousand. During 2015 we sold fifteen available-for-sale investment securities recording a \$21,000 net gain on sale.

Non-Interest Expense

The following table sets forth the components of other non-interest expense for the years ended December 31, 2017, 2016 and 2015.

	Years Ended December 31,			Change during Year	
	2017	2016	2015	2017	2016
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 11,505	\$ 10,440	\$ 10,277	\$ 1,065	\$ 163
Occupancy and equipment	2,840	2,847	2,782	(7)	65
Outside service fees	2,234	2,105	2,003	129	102
Professional fees	612	608	707	4	(99)
Telephone and data communications	561	450	376	111	74
Business development	389	344	332	45	12
Advertising and promotion	372	366	305	6	61
Director compensation, education and retirement	336	348	300	(12)	48
Armored car and courier	278	248	234	30	14
Deposit insurance	248	285	362	(37)	(77)
Loan collection costs	194	166	200	28	(34)
Provision from change in OREO valuation	124	37	79	87	(42)
Stationery and supplies	118	119	105	(1)	14
Insurance	75	78	95	(3)	(17)
OREO expenses	73	(34)	182	107	(216)
Postage	49	40	41	9	(1)
Gain on sale of OREO	(130)	(60)	(198)	(70)	138
Other operating expense	233	309	309	(76)	-
Total non-interest expense	\$ 20,111	\$ 18,696	\$ 18,491	\$ 1,415	\$ 205

2017 compared to 2016. Non-interest expense increased by \$1.4 million to \$20.1 million during the twelve months ended December 31, 2017, up from \$18.7 million during 2016. The largest components of this increase were \$1.1 million in salary and benefit expense, \$129 thousand in outside service fees, \$111 thousand in telephone and data communication costs and \$107 thousand in OREO expenses. The largest declines in non-interest expense were \$70 thousand in gain on sale of OREO and \$76 thousand in other operating expense.

Salary expense increased by \$481 thousand to \$8.8 million related to additions to staff and merit and promotion increases. Bonus expense increased by \$199 thousand related to increased profitability, commission expense, related to our SBA operations, increased by \$121 thousand consistent with an increase in SBA activity, payroll tax expense increased by \$81 thousand and health insurance costs increased by \$67 thousand. Outside service fees increased by \$129 thousand to \$2.2 million during the twelve months ended December 31, 2017. This increase included an increase in expenses related to the generation of interchange income consistent with the increase in interchange income and an increase in expense related to the outsourced operations of the Company's computer network as well as an increase in costs associated with the Company's online banking offerings.

During 2017 the Company expanded its data communication network, installed a secondary fallback network at its branches and changed data communication providers. The increases in telephone and data communications was primarily related to the expanded data communication network and to a lesser extent to one-time costs related to the conversion to a new data communication provider. OREO costs in 2016 were abnormally low, benefiting from a reimbursement of previously incurred costs and \$86 thousand in rental income on a new OREO property which was sold in December of 2016. During the year ended December 31, 2016 we sold 6 OREO properties for total proceeds of \$2.2 million recording a net gain on sale of \$60 thousand. This compares to proceeds of \$0.7 million on the sale of 5 properties and a net gain on sale of \$130 thousand during 2017. The \$130 thousand gain is related to one property which was acquired and sold during the fourth quarter of 2017.

2016 compared to 2015. Non-interest expense increased by \$205 thousand to \$18.7 million during the twelve months ended December 31, 2016, up from \$18.5 million during 2015. The largest components of this increase were \$163 thousand in salary and benefit expense, \$138 thousand related to a reduction in gain on sale of OREO properties, \$102 thousand in outside service fees, \$74 thousand in telephone and data communications costs, \$65 thousand in occupancy and equipment expense and \$61 thousand in advertising and promotion expense. The largest declines in non-interest expense were \$216 thousand in OREO expenses, \$99 thousand in professional fees and \$77 thousand in deposit insurance expense.

The largest category of non-interest expense is salary and benefits expense. The two largest increases in this category were \$247 thousand in salary expense and \$225 thousand in bonus expense. Other increases in salary and benefit include \$93 thousand in commissions related to SBA lending activity and \$51 thousand in accrued vacation expense. Bonus expense increased from \$600 thousand during the twelve months ended December 31, 2015 to \$825 thousand during the current period. Offsetting the increase in salary and bonus expense was an increase of \$545 thousand in the deferral of loan origination costs related to an increase in loan production. During the year ended December 31, 2015 we sold 12 OREO properties for total proceeds of \$2.1 million recording a net gain on sale of \$198 thousand. This compares to net proceeds of \$2.2 million on the sale of 6 properties and a net gain on sale of \$60 thousand during 2016. The largest component of the increase in outside service fees is \$37 thousand in costs associated with the outsourcing of our email processing beginning in February, 2016. Of the \$74 thousand increase in telephone and data communications \$33 thousand relates to our Reno Nevada branch which opened in December, 2015 while the remainder is primarily related to an upgrade in our data communication network. The increase in occupancy and equipment costs and advertising and promotion expense also relate to the Reno branch. We have developed an aggressive marketing plan for Reno branch which includes print and radio advertising as well as various efforts to reach out to the community.

OREO costs which declined from \$182 thousand during the twelve months ended December 31, 2015 to credit of \$34 thousand during 2016 benefited from a reduction in OREO properties, a reimbursement of previously incurred costs and \$86 thousand in rental income on a new OREO property. The OREO property that produced the rental income was sold during December, 2016. The decrease in professional fees is mostly related to a decline in legal expense related to loan collection activities as our two largest collection cases were resolved in 2016. One case resulted in a loan loss recovery of \$360 thousand while the other case resulted in foreclosure on a commercial property which was sold in December, 2016.

Provision for Income Taxes. The Company recorded an income tax provision of \$7.3 million, or 47.2% of pre-tax income for the year ended December 31, 2017. During 2016 the Company recorded an income tax provision of \$4.8 million, or 38.9% of pre-tax income. The increase in tax provision during 2017 was related to a \$1.4 million one-time revaluation of net deferred tax assets to reflect their value at the lower corporate tax rate of 21% in effect beginning January 1, 2018. In addition to the \$1.4 million adjustment, the percentages for 2017 and 2016 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance and interest on qualified municipal securities.

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 December 31, 2017 and 2016 will be fully realized and therefore no valuation allowance was recorded.

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. Those changes will impact corporate taxation requirements, such as the reduction of the top federal tax rate for corporations from 35% to 21%. They will also provide for changes or limitations to certain tax deductions.

The reduction in the corporate tax rate under the TCJ Act required a one-time revaluation of certain tax-related assets to reflect their value at the lower corporate tax rate of 21%. As such, the Company has recorded a reduction in the value of these assets of \$1.4 million, which relates to the Company's net deferred tax assets. Solely based on this reduction in certain tax assets, the Company recorded an additional provision for income taxes of \$1.4 million, or \$0.27 per diluted share, in its income statement for the fourth quarter of 2017.

Financial Condition

Loan Portfolio. Gross loans balances increased by \$25.5 million, or 5.5%, from \$461 million at December 31, 2016 to \$487 million at December 31, 2017. 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 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, auto loans, equity lines of credit, agricultural loans and commercial loans.

(dollars in thousands)	Balance at	Percent of	Balance at	Percent of
	End of	Loans in	End of	Loans in
	Period	Each	Period	Each
	12/31/17	Category to	12/31/16	Category to
		Total Loans		Total Loans
	12/31/17	12/31/17	12/31/16	12/31/16
Commercial	\$ 39,620	8.1%	\$ 41,293	9.0%
Agricultural	58,908	12.1%	51,103	11.1%
Real estate – residential	16,624	3.4%	21,283	4.6%
Real estate – commercial	240,257	49.4%	226,136	49.0%
Real estate – construction & land development	25,181	5.2%	21,904	4.7%
Equity Lines of Credit	41,798	8.6%	42,338	9.2%
Auto	60,438	12.4%	53,553	11.6%
Other	3,808	0.8%	3,513	0.8%
Total	\$ 486,634	100%	\$ 461,123	100%

Construction and land development loans represented 5.2% and 4.7% of the loan portfolio as of December 31, 2017 and December 31, 2016, 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 and land development loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 72% of the total loan portfolio at December 31, 2017. Moreover, the business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, and 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. The frequency in which variable rate loans reprice can vary from one day to several years. At December 31, 2017 and December 31, 2016, approximately 75% and 74%, respectively of the Company's loan portfolio was comprised of variable rate loans. At December 31, 2017 and December 31, 2016, 40% and 42%, 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. The most significant change has been an increase in indirect auto lending with automobile loans increasing from 2.5% of gross loans at December 31, 2011 to 12.4% of gross loans at December 31,

2017. The automobile portfolio provides diversification to the loan portfolio in terms of rate, term and balance as these loans tend to have a much shorter term and balance than commercial real-estate loans and are fixed rate. 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 \$59 million at December 31, 2017 and \$51 million at December 31, 2016.

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

	At December 31,				
	2017	2016	2015	2014	2013
	<i>(dollars in thousands)</i>				
Real estate – mortgage	\$ 256,881	\$ 247,419	\$ 217,569	\$ 192,590	\$ 187,264
Real estate – construction and land development	25,181	21,904	16,188	24,572	17,793
Commercial	39,620	41,293	37,084	31,465	32,612
Consumer (1)	106,044	99,404	90,274	86,408	70,235
Agriculture (2)	58,908	51,103	39,856	35,355	30,647
Total loans	<u>486,634</u>	<u>461,123</u>	<u>400,971</u>	<u>370,390</u>	<u>338,551</u>
Plus:					
Deferred costs	2,283	2,006	1,940	1,848	1,340
Less:					
Allowance for loan losses	6,669	6,549	6,078	5,451	5,517
Net loans	<u>\$ 482,248</u>	<u>\$ 456,580</u>	<u>\$ 396,833</u>	<u>\$ 366,787</u>	<u>\$ 334,374</u>

(1) Includes equity lines of credit and auto

(2) Includes agriculture real estate

The following table sets forth the maturity of gross loan categories as of December 31, 2017. Also provided with respect to such loans are the amounts due after one year, classified according to sensitivity to changes in interest rates:

	Within One Year	After One Through Five Years	After Five Years	Total
		<i>(dollars in thousands)</i>		
Real estate – mortgage	\$ 17,699	\$ 56,801	\$ 182,381	\$ 256,881
Real estate – construction and land development	5,270	7,379	12,532	25,181
Commercial	14,339	17,355	7,926	39,620
Consumer	15,231	46,263	44,550	106,044
Agriculture	20,946	15,587	22,375	58,908
Total	<u>\$ 73,485</u>	<u>\$ 143,385</u>	<u>\$ 269,764</u>	<u>\$ 486,634</u>
Loans maturing after one year with:				
Fixed interest rates		\$ 65,926	\$ 28,631	\$ 94,557
Variable interest rates		77,459	241,133	318,592
Total		<u>\$ 143,385</u>	<u>\$ 269,764</u>	<u>\$ 413,149</u>

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. 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 assets. It consists of the Bank's Chief Executive Officer, Chief Financial Officer and Chief Credit Officer, and the activities are governed by a formal written charter. The MARC meets 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 years indicated with respect to the Company's allowance for loan losses as well as charge-off and recovery activity.

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
	<i>(dollars in thousands)</i>				
Balance at beginning of period	\$ 6,549	\$ 6,078	\$ 5,451	\$ 5,517	\$ 5,686
Charge-offs:					
Commercial and agricultural (2)	202	268	91	191	401
Real estate mortgage	48	292	132	1,015	419
Real estate construction & land	-	5	55	106	735
Consumer (1)	629	414	549	601	360
Total charge-offs	<u>879</u>	<u>979</u>	<u>827</u>	<u>1,913</u>	<u>1,915</u>
Recoveries:					
Commercial and agricultural (2)	89	53	173	89	140
Real estate mortgage	118	45	8	19	109
Real estate construction & land	-	389	-	491	-
Consumer (1)	192	163	173	148	97
Total recoveries	<u>399</u>	<u>650</u>	<u>354</u>	<u>747</u>	<u>346</u>
Net charge-offs	480	329	473	1,166	1,569
Provision for loan losses	600	800	1,100	1,100	1,400
Balance at end of period	<u>\$ 6,669</u>	<u>\$ 6,549</u>	<u>\$ 6,078</u>	<u>\$ 5,451</u>	<u>\$ 5,517</u>
Net charge-offs during the period to average loans	0.10%	0.08%	0.12%	0.33%	0.49%
Allowance for loan losses to total loans	1.37%	1.42%	1.52%	1.47%	1.63%

(1) Includes equity lines of credit and auto

(2) Includes agriculture real estate

During the years ended December 31, 2017 and 2016 we recorded a provision for loan losses of \$600 thousand and \$800 thousand, respectively. Net charge-offs totaled \$480 thousand during the year ended December 31, 2017 up \$151 thousand from \$329 thousand during the year ended December 31, 2016. This increase was mostly related to an increase in charge-offs on automobile loans. Net charge-offs as a percentage of average loans increased from 0.08% during 2016 to 0.10% during the year ended December 31, 2017.

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

(dollars in thousands)	Balance at End of Period 2017	Percent of Loans in Each Category to Total Loans 2017	Balance at End of Period 2016	Percent of Loans in Each Category to Total Loans 2016
Commercial and agricultural	\$ 1,348	20.2%	\$ 1,121	20.1%
Real estate mortgage	2,960	52.8%	3,020	53.6%
Real estate construction & land	783	5.2%	927	4.7%
Consumer (includes equity lines of credit & auto)	1,578	21.8%	1,481	21.6%
Total	<u>\$ 6,669</u>	<u>100.0%</u>	<u>\$ 6,549</u>	<u>100.0%</u>

The allowance for loan losses totaled \$6.7 million at December 31, 2017 and \$6.5 million at December 31, 2016. Specific reserves related to impaired loans decreased by \$284 thousand from \$366 thousand at December 31, 2016 to \$82 thousand at December 31, 2017. 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 were \$6.6 million at December 31, 2017 and \$6.2 million at December 31, 2016. The allowance for loan losses as a percentage of total loans decreased from 1.42% at December 31, 2016 to 1.37% at December 31, 2017. The percentage of general reserves to unimpaired loans totaled 1.36% at December 31, 2017 and December 31, 2016.

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. Included in nonperforming loans 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 December 31, 2017. As of March 7, 2018 we have collected \$1.7 million in principal on these loans through the liquidation of a portion of the collateral securing the loans reducing the outstanding balance to \$0.1 million. We anticipate collecting the remaining principal and interest by March 31, 2018 through liquidation of the remaining collateral. 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 (TDRs) and not included in nonperforming loans in the following table totaled \$1.1 million, \$2.6 million, \$2.0 million, \$2.0 million and \$4.5 million at December 31, 2017, 2016, 2015, 2014 and 2013, respectively. For additional information related to restructured loans see Note 5 of the Company's Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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

	At December 31,				
	2017	2016	2015	2014	2013
	<i>(dollars in thousands)</i>				
Nonaccrual loans	\$ 1,226	\$ 2,724	\$ 4,546	\$ 6,625	\$ 5,519
Loans past due 90 days or more and still accruing	1,796	-	-	-	17
Total nonperforming loans	3,022	2,724	4,546	6,625	5,536
Other real estate owned	1,344	735	1,756	3,590	6,399
Other vehicles owned	35	12	30	13	60
Total nonperforming assets	<u>\$ 4,401</u>	<u>\$ 3,471</u>	<u>\$ 6,332</u>	<u>\$ 10,228</u>	<u>\$ 11,995</u>
Interest income forgone on nonaccrual loans	\$ 50	\$ 164	\$ 303	\$ 345	\$ 280
Interest income recorded on a cash basis on nonaccrual loans	\$ -	\$ 29	\$ -	\$ 31	\$ 22
Nonperforming loans to total loans	0.62%	0.59%	1.13%	1.79%	1.64%
Nonperforming assets to total assets	0.59%	0.53%	1.06%	1.90%	2.33%

Nonperforming loans at December 31, 2016 were 3.0 million, an increase of \$298 thousand from the \$2.7 million balance at December 31, 2016. Specific reserves on nonaccrual loans totaled \$24 thousand at December 31, 2017 and \$298 thousand at December 31, 2016, respectively. Performing loans past due thirty to eighty-nine days were \$3.4 million at December 31, 2017 and \$2.0 million at December 31, 2016.

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans decreased by \$243 thousand from \$3.4 million at December 31, 2016 to \$3.2 million at December 31, 2017. Loans classified as special mention decreased by \$603 thousand from \$1.2 million at December 31, 2016 to \$642 thousand at December 31, 2017. At December 31, 2017, \$0.5 million of performing loans were classified as substandard. Further deterioration in the credit quality of individual performing substandard loans or other adverse circumstances could result in the need to place these loans on nonperforming status.

At December 31, 2017 and December 31, 2016, the Company's recorded investment in impaired loans totaled \$2.3 million and \$5.4 million, respectively. The specific allowance for loan losses related to impaired loans totaled \$82 thousand and \$366 thousand at December 31, 2017 and December 31, 2016, respectively. Additionally, \$11 thousand and \$657 thousand had been charged off against the impaired loans at December 31, 2017 and December 31, 2016.

It is the policy of management to make additions to the allowance for loan losses so that it remains appropriate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at December 31, 2017 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 six properties totaling \$1.3 million at December 31, 2017 and six properties totaling \$735 thousand at December 31, 2016. Nonperforming assets as a percentage of total assets were 0.59% at December 31, 2017 and 0.53% at December 31, 2016.

The following table provides a summary of the change in the number and balance of OREO properties for the years ended December 31, 2017 and 2016, dollars in thousands:

	Year Ended December 31,			
	#	2017	#	2016
Beginning Balance	6	\$ 735	7	\$ 1,756
Additions	5	1,292	5	1,200
Dispositions	(5)	(559)	(6)	(2,184)
Provision from change in OREO valuation	-	(124)	-	(37)
Ending Balance	6	\$ 1,344	6	\$ 735

Investment Portfolio and Federal Funds Sold. Total investment securities were \$137.5 million as of December 31, 2017 and \$101.6 million as of December 31, 2016. Unrealized loss on available-for-sale investment securities totaling \$809 thousand were recorded, net of \$239 thousand in tax benefits, as accumulated other comprehensive income within shareholders' equity at December 31, 2017. During the year ended December 31, 2017 the Company sold sixteen available-for-sale investment securities for total proceeds of \$9.6 million recording a \$158 thousand loss on sale. The Company realized a gain on sale from four of these securities totaling \$4 thousand and a loss on sale on twelve securities of \$162 thousand. The investment portfolio at December 31, 2017 consisted of \$103.8 million in securities of U.S. Government-sponsored agencies and 115 municipal securities totaling \$33.7 million. Unrealized loss on available-for-sale investment securities totaling \$1.7 million were recorded, net of \$682 thousand in tax benefits, as accumulated other comprehensive income within shareholders' equity at December 31, 2016. During the year ended December 31, 2016 the Company sold fourteen available-for-sale investment securities for total proceeds of \$14.6 million recording a \$32 thousand loss on sale. The Company realized a gain on sale from eight of these securities totaling \$48 thousand and a loss on sale on six securities of \$80 thousand. The investment portfolio at December 31, 2016 consisted of \$74.9 million in securities of U.S. Government-sponsored agencies and 99 municipal securities totaling \$26.7 million.

There were no Federal funds sold at December 31, 2017 and December 31, 2016; however, the Bank maintained interest earning balances at the Federal Reserve Bank totaling \$62.2 million at December 31, 2017 and \$32.4 million at December 31, 2016. The balances, at December 31, 2017, earn interest at the rate of 1.50%.

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.

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

Available-for-sale (fair value)	December 31,		
	2017	2016	2015
	<i>(dollars in thousands)</i>		
U.S. Government-sponsored agencies	\$ -	\$ -	\$ 1,977
U.S. Government-sponsored agency residential mortgage-backed securities	103,788	74,911	72,370
Municipal obligations	33,678	26,684	22,357
Total	<u>\$ 137,466</u>	<u>\$ 101,595</u>	<u>\$ 96,704</u>

The following table summarizes the maturities of the Company's securities at their carrying value, which represents fair value, and their weighted average tax equivalent yields at December 31, 2017. Mortgage-backed securities are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations.

(dollars in thousands)	Within One Year		After One Through Five Years		After Five Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-sale (Fair Value)										
U.S. Government-sponsored agency residential mortgage-backed securities	\$ -	-%	\$ -	-%	\$ 12,461	1.96%	\$ 91,327	2.40%	\$ 103,788	2.34%
Municipal obligations	-	-%	4,706	2.52%	17,098	2.76%	11,874	3.15%	33,678	2.86%
Total	<u>\$ -</u>	<u>-%</u>	<u>\$ 4,706</u>	<u>2.52%</u>	<u>\$ 29,559</u>	<u>2.42%</u>	<u>\$ 103,201</u>	<u>2.49%</u>	<u>\$ 137,466</u>	<u>2.47%</u>

Deposits. Total deposits increased by \$80.3 million, or 14%, from \$582.4 million at December 31, 2016 to \$662.7 million at December 31, 2017. At December 31, 2017, 43% of the Company's deposits were in the form of non-interest bearing demand deposits. Core deposit growth remained strong in 2017 as evidenced by increases of \$45.5 million in demand deposits, \$27.0 million in savings accounts, \$3.5 million in money market accounts and \$7.9 million in interest bearing transaction accounts. Time deposits declined by \$3.6 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 December 31, 2017 and 2016.

(dollars in thousands)	Percent of Deposits in Each Category		Percent of Deposits in Each Category	
	Balance at End of Period	to Total Deposits	Balance at End of Period	to Total Deposits
	12/31/17	12/31/17	12/31/16	12/31/16
Non-interest bearing	\$ 282,239	42.6%	\$ 236,779	40.7%
NOW	99,195	15.0%	91,289	15.7%
Money Market	60,757	9.2%	57,208	9.8%
Savings	174,426	26.3%	147,474	25.3%
Time	46,040	6.9%	49,603	8.5%
Total Deposits	<u>\$ 662,657</u>	<u>100%</u>	<u>\$ 582,353</u>	<u>100%</u>

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 FHLB. There were no brokered deposits at December 31, 2017 or 2016.

The Company's time deposits of \$100,000 or more had the following schedule of maturities at December 31, 2017 (dollars in thousands):

Remaining Maturity:	Amount
Three months or less	\$ 4,897
Over three months to six months	3,020
Over six months to 12 months	5,230
Over 12 months	4,599
Total	<u>\$ 17,746</u>

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

Short-term Borrowing Arrangements. The Company is a member of the FHLB and can borrow up to \$206 million from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$322 million. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2017 and December 31, 2016, the Company held \$2.7 million and \$2.4 million, respectively of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2017, the Company can borrow up to \$99.4 million. To borrow the \$206 million in available credit the Company would need to purchase \$2.9 million in additional FHLB stock. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with three of its correspondent banks in the amounts of \$20 million, \$11 million and \$10 million. There were no outstanding borrowings to the FHLB or the correspondent banks under these agreements at December 31, 2017 and 2016.

Note Payable and Term Loan. On October 1, 2015, the Company entered into a \$5.0 million term loan (the "Term Loan"), which was scheduled to mature on October 1, 2018. On April 20, 2017 Plumas Bancorp paid off the \$2,250,000 remaining balance on the Term Loan. The payment was funded through a \$4 million dividend from Plumas Bank. The balance of this Term Loan was \$2,375,000 at December 31, 2016.

On October 1, 2017 the Company renewed its line of credit, for a one year term, with the same lender (the "Note"). The maximum amount outstanding at any one time on the Note cannot exceed \$5 million. There were no balances outstanding on the Note as of December 31, 2017 or December 31, 2016. The Note bears interest at a rate of the U.S. "Prime Rate" plus one-quarter percent per annum and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Under the Note, the Bank is subject to several negative and affirmative covenants including, but not limited to providing timely financial information, maintaining specified levels of capital, restrictions on additional borrowings, and meeting or exceeding certain capital and asset quality ratios. The Bank was in compliance with all such covenants related to the Note at December 31, 2017 and December 31, 2016. Interest expense related to the Note and the Term Loan for the years ended December 31, 2017, 2016 and 2015 totaled \$28 thousand, \$133 thousand and \$155 thousand, respectively.

Repurchase Agreements. In 2011 the Bank introduced a new product for its larger business customers which use securities sold under agreements to repurchase as an alternative to interest-bearing deposits. Securities sold under agreements to repurchase totaling \$10,074,000 and \$7,547,000 at December 31, 2017, and 2016, respectively are secured by U.S. Government agency securities with a carrying amount of \$16,769,000 and \$15,113,000 at December 31, 2017 and 2016, respectively. 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.

Junior Subordinated Deferrable Interest Debentures. Plumas Statutory Trust I and II are business trust subsidiaries formed by the Company with capital of \$328,000 and \$169,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company.

During 2002, 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, 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 5.07% (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 3.07% (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 years ended December 31, 2017, 2016 and 2015 related to the subordinated debentures was \$401,000, \$348,000 and \$306,000, respectively.

Capital Resources

Total shareholders' equity increased by \$7.7 million from \$48.0 million at December 31, 2016 to \$55.7 million at December 31, 2017. The \$7.7 million includes earnings during the twelve month period totaling \$8.2 million, a decrease in the net unrealized loss on investment securities of \$0.4 million; stock option activity totaling \$0.4 million and a \$0.1 million reclassification from accumulated other comprehensive loss to retained earnings. These items were partially offset by the payment of two \$0.14 semi-annual cash dividends totaling \$1.4 million.

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 will periodically, but on no regular schedule, reviews the appropriateness of a cash dividend payment. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. The Company is subject to various restrictions on the payment of dividends.

On October 20, 2016 the Company announced that its Board of Directors approved the reinstatement of a semi-annual cash dividend. The dividend in the amount of \$0.10 per share was paid on November 21, 2016 to shareholders of record at the close of business day on November 7, 2016. On April 19, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on May 15, 2017 to shareholders of record at the close of business day on May 1, 2017. On October 18, 2017 the Company declared a semi-annual cash dividend totaling \$0.14 per share which was paid on November 15, 2017 to shareholders of record at the close of business day on November 1, 2017.

Warrant. On April 15, 2013 the Company issued a \$7.5 million subordinated debenture ("subordinated debt"). The subordinated debt was issued to an unrelated third-party pursuant to a subordinated debenture purchase agreement, subordinated debenture note, and stock purchase warrant. On April 16, 2015 the Company paid off the subordinated debt. The subordinated debt had an interest rate of 7.5% per annum and a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year 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. In May of 2016 the Company repurchased a portion of the warrant, representing the right to purchase 150,000 shares of the registrant's common stock at a cost of \$862 thousand. The remaining warrant represented the right to purchase 150,000 shares of Plumas Bancorp common stock at an exercise price of \$5.25 per share was scheduled to expire on April 15, 2021. In May, 2017 the warrant was exercised in a cashless exercise resulting in the issuance of 108,112 common shares.

Capital Standards. The Company uses a variety of measures to evaluate its capital adequacy. 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.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks, sometimes called "Basel III". The phase-in period for the final rules began in 2015, with certain of the rules' requirements phased in over a multi-year schedule. Under the final rules minimum requirements increased for both the quantity and quality of capital held by the Company and the Bank. The new capital rules include a new minimum "common equity Tier 1" ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements was January 1, 2015. In addition, the new capital rules include a capital conservation buffer of 2.5% above each of these levels (to be phased in over three years which beginning at 0.625% on January 1, 2016 and increasing by that amount on each subsequent January 1, until reaching 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to pay dividends, repurchase stock or pay discretionary bonuses. Including the capital conservation buffer of 2.5%, the New Capital Rules would result in the following minimum ratios to be considered well capitalized: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The final rules also implement strict eligibility criteria for regulatory capital instruments.

The Board of Governors of the Federal Reserve System has adopted final amendments to the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) (the "Policy Statement") that, among other things, raised from \$500 million to \$1 billion the asset threshold to qualify for the Policy Statement. Plumas Bancorp qualifies for treatment under the Policy Statement and is no longer subject to consolidated capital rules at the bank holding company level.

The following table sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Amount of Capital Required					
	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Common Equity Tier 1 Ratio	\$ 65,085	12.0%	\$ 24,453	4.5%	\$ 35,321	6.5%
Tier 1 Leverage Ratio	65,085	8.8%	29,663	4.0%	37,079	5.0%
Tier 1 Risk-Based Capital Ratio	65,085	12.0%	32,604	6.0%	43,472	8.0%
Total Risk-Based Capital Ratio	71,878	13.2%	43,472	8.0%	53,340	10.0%
December 31, 2016						
Common Equity Tier 1 Ratio	\$ 60,521	12.1%	\$ 22,597	4.5%	\$ 32,641	6.5%
Tier 1 Leverage Ratio	60,521	9.2%	26,353	4.0%	32,941	5.0%
Tier 1 Risk-Based Capital Ratio	60,521	12.1%	30,130	6.0%	40,173	8.0%
Total Risk-Based Capital Ratio	66,804	13.3%	40,173	8.0%	50,217	10.0%

Management believes that Plumas Bank currently meets all its capital adequacy requirements.

The current and projected capital positions of 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 ratios at all times.

Off-Balance Sheet Arrangements

Loan Commitments. In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of December 31, 2017, the Company had \$107.4 million in unfunded loan commitments and \$477 thousand in letters of credit. This compares to 93.7 million in unfunded loan commitments and \$625 thousand in letters of credit at December 31, 2016. Of the \$107.4 million in unfunded loan commitments, \$62.2 million and \$45.2 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2017, \$58.6 million were secured by real estate, of which \$23.9 million was secured by commercial real estate and \$34.7 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 two depository branches and three lending offices and two non-branch automated teller machine locations. Total rental expenses under all operating leases were \$308,000 and \$276,000 during the years ended December 31, 2017 and 2016, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2018 and the last such lease expiring during 2021.

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 \$206 million from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$322 million. See “Short-term Borrowing Arrangements” for additional information on our FHLB borrowing capacity. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with three of its correspondent banks in the amounts of \$20 million, \$11 million and \$10 million. There were no outstanding borrowings under the FHLB or the correspondent bank borrowing lines at December 31, 2017 or 2016.

Customer deposits are the Company’s primary source of funds. Total deposits increased by \$80.3 million, or 14%, from \$582.4 million at December 31, 2016 to \$662.7 million at December 31, 2017. Deposits are held in various forms with varying maturities. The Company’s securities portfolio, Federal funds sold, FHLB advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as cash held at the FRB, Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company’s available sources of funds, including borrowings, will provide adequate liquidity for its operations in the foreseeable future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of Plumas Bancorp and subsidiary, and report of the independent registered public accounting firm are included in the Annual Report of Plumas Bancorp to its shareholders for the years ended December 31, 2017, 2016 and 2015.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Plumas Bancorp and subsidiary (the "Company"), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2017, management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in the *2013 Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2017, is effective.

Vavrinek, Trine, Day & Co., LLP, the independent registered public accounting firm that audited the 2017 consolidated financial statements included in this annual report on Form 10-K, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Plumas Bancorp and Subsidiary
Quincy, California

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Plumas Bancorp and Subsidiary (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements").

We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, and as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Vavrinek, Trine, Day & Co., LLP

We have served as the Company's auditor since 2013.

Laguna Hills, California
March 12, 2018

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 87,537,000	\$ 62,646,000
Investment securities available for sale	137,466,000	101,595,000
Loans, less allowance for loan losses of \$6,669,000 in 2017 and \$6,549,000 in 2016	482,248,000	456,580,000
Real estate acquired through foreclosure	1,344,000	735,000
Premises and equipment, net	11,346,000	11,768,000
Bank owned life insurance	12,866,000	12,528,000
Accrued interest receivable and other assets	<u>12,620,000</u>	<u>12,123,000</u>
 Total assets	 <u>\$ 745,427,000</u>	 <u>\$ 657,975,000</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 282,239,000	\$ 236,779,000
Interest bearing	<u>380,418,000</u>	<u>345,574,000</u>
 Total deposits	 662,657,000	 582,353,000
Repurchase agreements	10,074,000	7,547,000
Note payable	-	2,375,000
Accrued interest payable and other liabilities	6,686,000	7,396,000
Junior subordinated deferrable interest debentures	<u>10,310,000</u>	<u>10,310,000</u>
 Total liabilities	 <u>689,727,000</u>	 <u>609,981,000</u>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Serial preferred stock - no par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock - no par value; 22,500,000 shares authorized; issued and outstanding – 5,064,972 at December 31, 2017 and 4,896,875 at December 31, 2016	6,415,000	5,918,000
Retained earnings	49,855,000	43,048,000
Accumulated other comprehensive loss, net of taxes	<u>(570,000)</u>	<u>(972,000)</u>
 Total shareholders' equity	 <u>55,700,000</u>	 <u>47,994,000</u>
 Total liabilities and shareholders' equity	 <u>\$ 745,427,000</u>	 <u>\$ 657,975,000</u>

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

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income:			
Interest and fees on loans	\$ 25,800,000	\$ 22,928,000	\$ 20,747,000
Interest on investment securities:			
Taxable	1,791,000	1,382,000	1,351,000
Exempt from Federal income taxes	688,000	516,000	343,000
Other	<u>674,000</u>	<u>274,000</u>	<u>174,000</u>
Total interest income	<u>28,953,000</u>	<u>25,100,000</u>	<u>22,615,000</u>
Interest expense:			
Interest on deposits	582,000	537,000	518,000
Interest on note payable	28,000	133,000	155,000
Interest on subordinated debenture	-	-	219,000
Interest on junior subordinated deferrable interest debentures	401,000	348,000	306,000
Other	<u>6,000</u>	<u>5,000</u>	<u>6,000</u>
Total interest expense	<u>1,017,000</u>	<u>1,023,000</u>	<u>1,204,000</u>
Net interest income before provision for loan losses	27,936,000	24,077,000	21,411,000
Provision for loan losses	<u>600,000</u>	<u>800,000</u>	<u>1,100,000</u>
Net interest income after provision for loan losses	<u>27,336,000</u>	<u>23,277,000</u>	<u>20,311,000</u>
Non-interest income:			
Service charges	4,454,000	4,031,000	3,954,000
Gain on sale of loans	2,039,000	1,770,000	1,942,000
Loan servicing fees	731,000	642,000	562,000
(Loss) gain on sale of investments	(158,000)	(32,000)	21,000
Earnings on bank owned life insurance policies, net	338,000	341,000	342,000
Other	<u>876,000</u>	<u>900,000</u>	<u>894,000</u>
Total non-interest income	<u>8,280,000</u>	<u>7,652,000</u>	<u>7,715,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Continued)
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Non-interest expenses:			
Salaries and employee benefits	\$ 11,505,000	\$ 10,440,000	\$ 10,277,000
Occupancy and equipment	2,840,000	2,847,000	2,782,000
Other	5,766,000	5,409,000	5,432,000
Total non-interest expenses	<u>20,111,000</u>	<u>18,696,000</u>	<u>18,491,000</u>
 Income before income taxes	 15,505,000	 12,233,000	 9,535,000
 Provision for income taxes	 <u>7,316,000</u>	 <u>4,759,000</u>	 <u>3,717,000</u>
 Net income	 <u>\$ 8,189,000</u>	 <u>\$ 7,474,000</u>	 <u>\$ 5,818,000</u>
 Basic earnings per common share	 <u>\$ 1.64</u>	 <u>\$ 1.54</u>	 <u>\$ 1.21</u>
Diluted earnings per common share	<u>\$ 1.58</u>	<u>\$ 1.47</u>	<u>\$ 1.15</u>
Common dividends per share	<u>\$ 0.28</u>	<u>\$ 0.10</u>	<u>\$ -</u>

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

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Income	\$ 8,189,000	\$ 7,474,000	\$ 5,818,000
Other comprehensive income (loss):			
Change in net unrealized gain (loss)	687,000	(1,614,000)	51,000
Less: reclassification adjustments for net losses (gains) included in net income	<u>158,000</u>	<u>32,000</u>	<u>(21,000)</u>
Net unrealized holding gain (loss)	<u>845,000</u>	<u>(1,582,000)</u>	<u>30,000</u>
Related income tax effect:			
Change in unrealized (gain) loss	(284,000)	665,000	(21,000)
Reclassification of (losses) gains included in net income	<u>(65,000)</u>	<u>(13,000)</u>	<u>9,000</u>
Income tax effect	<u>(349,000)</u>	<u>652,000</u>	<u>(12,000)</u>
Total other comprehensive income (loss)	<u>496,000</u>	<u>(930,000)</u>	<u>18,000</u>
Comprehensive income	<u>\$ 8,685,000</u>	<u>\$ 6,544,000</u>	<u>\$ 5,836,000</u>

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

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2017, 2016 and 2015

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income (Net of Taxes)</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2015	4,799,139	\$ 6,312,000	\$ 30,245,000	\$ (60,000)	\$ 36,497,000
Net Income			5,818,000		5,818,000
Other comprehensive income				18,000	18,000
Exercise of stock options and tax effect	39,700	125,000			125,000
Retirement of common stock in connection with the exercise of stock options	(3,407)	(32,000)			(32,000)
Stock-based compensation expense		70,000			70,000
Balance, December 31, 2015	<u>4,835,432</u>	<u>6,475,000</u>	<u>36,063,000</u>	<u>(42,000)</u>	<u>42,496,000</u>
Net Income			7,474,000		7,474,000
Other comprehensive loss				(930,000)	(930,000)
Exercise of stock options and tax effect	61,443	189,000			189,000
Repurchase of common stock warrant		(862,000)			(862,000)
Cash dividend on common stock			(489,000)		(489,000)
Stock-based compensation expense		116,000			116,000
Balance, December 31, 2016	<u>4,896,875</u>	<u>5,918,000</u>	<u>43,048,000</u>	<u>(972,000)</u>	<u>47,994,000</u>
Net Income			8,189,000		8,189,000
Other comprehensive income				496,000	496,000
Cumulative effect of adopting of ASU 2016-09		84,000	(78,000)		6,000
Reclassification of stranded tax effects from change in tax rate			94,000	(94,000)	-
Exercise of stock options	59,985	261,000			261,000
Cashless exercise of common stock warrant	108,112				-
Cash dividends on common stock			(1,398,000)		(1,398,000)
Stock-based compensation expense		152,000			152,000
Balance, December 31, 2017	<u>5,064,972</u>	<u>\$ 6,415,000</u>	<u>\$ 49,855,000</u>	<u>\$ (570,000)</u>	<u>\$ 55,700,000</u>

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

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Net income	\$ 8,189,000	\$ 7,474,000	\$ 5,818,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	600,000	800,000	1,100,000
Change in deferred loan origination costs/fees, net	(754,000)	(491,000)	(350,000)
Stock-based compensation expense	152,000	116,000	70,000
Depreciation and amortization	1,026,000	1,076,000	1,151,000
Amortization of investment security premiums	615,000	650,000	506,000
Loss (gain) on sale of investments	158,000	32,000	(21,000)
Gain on sale of loans held for sale	(2,039,000)	(1,770,000)	(1,942,000)
Loans originated for sale	(31,348,000)	(30,368,000)	(26,699,000)
Proceeds from loan sales	36,583,000	30,727,000	29,430,000
Provision from change in OREO valuation	124,000	37,000	79,000
Net gain on sale of OREO	(130,000)	(60,000)	(198,000)
Net gain on sale of other vehicles owned	(10,000)	(36,000)	(78,000)
Earnings on bank owned life insurance policies	(338,000)	(341,000)	(342,000)
Provision (benefit) for deferred income taxes	503,000	(660,000)	(539,000)
Decrease (increase) in accrued interest receivable and other assets	(513,000)	975,000	(1,298,000)
(Decrease) increase in accrued interest payable and other liabilities	(1,340,000)	738,000	540,000
Net cash provided by operating activities	<u>11,478,000</u>	<u>8,899,000</u>	<u>7,227,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from investing activities:			
Proceeds from matured and called available- for-sale investment securities	\$ -	\$ 4,000,000	\$ 3,499,000
Proceeds from sale of available-for-sale securities	9,594,000	14,589,000	12,260,000
Purchases of available-for-sale investment securities	(58,341,000)	(39,643,000)	(34,609,000)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	12,702,000	13,905,000	12,015,000
Net increase in loans	(30,962,000)	(60,619,000)	(32,777,000)
Proceeds from sale of vehicles	313,000	331,000	445,000
Proceeds from sale of other real estate	689,000	2,245,000	2,281,000
Proceeds from sale of premises and equipment	-	42,000	1,032,000
Purchases of premises and equipment	(531,000)	(600,000)	(2,645,000)
Net cash used in investing activities	<u>(66,536,000)</u>	<u>(65,750,000)</u>	<u>(38,499,000)</u>
Cash flows from financing activities:			
Net increase in demand, interest-bearing and savings deposits	83,866,000	57,738,000	63,464,000
Net decrease in time deposits	(3,562,000)	(2,661,000)	(4,079,000)
Net increase (decrease) in securities sold under agreements to repurchase	3,157,000	(124,000)	(1,955,000)
Redemption of subordinated debenture	-	-	(7,500,000)
Cash dividends paid on common stock	(1,398,000)	(489,000)	-
Increase in note payable	-	-	4,000,000
Principal payment on note payable	(2,375,000)	(2,500,000)	(125,000)
Repurchase of common stock warrant	-	(862,000)	-
Proceeds from exercise of stock options	261,000	200,000	88,000
Net cash provided by financing activities	<u>79,949,000</u>	<u>51,302,000</u>	<u>53,893,000</u>
Increase (decrease) in cash and cash equivalents	24,891,000	(5,549,000)	22,621,000
Cash and cash equivalents at beginning of year	62,646,000	68,195,000	45,574,000
Cash and cash equivalents at end of year	<u>\$ 87,537,000</u>	<u>\$ 62,646,000</u>	<u>\$ 68,195,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 1,012,000	\$ 1,022,000	\$ 1,172,000
Income taxes	\$ 7,175,000	\$ 5,206,000	\$ 4,405,000
Non-cash investing activities:			
Real estate acquired through foreclosure	\$ 1,293,000	\$ 1,201,000	\$ 328,000
Vehicles acquired through repossession	\$ 325,000	\$ 277,000	\$ 382,000
Loans provided for sales of real estate owned	\$ 480,000	\$ 2,073,000	\$ 593,000
Non-Cash Financing Activities:			
Common stock retired in connection with the exercise of stock options	\$ 10,000	\$ -	\$ -
Common stock issued in connection with the cashless exercise of stock warrant	\$ 787,000	\$ -	\$ -

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF PLUMAS BANCORP

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

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. 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 consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, Plumas Bank. All significant intercompany balances and transactions have been eliminated.

Plumas Statutory Trust I and Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. The Company's investment in Trust I of \$328,000 and Trust II of \$169,000 are included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated deferrable interest debentures issued and guaranteed by the Company and held by Trust I and Trust II are reflected as debt on the consolidated balance sheet.

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

Reclassifications

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC limits as of December 31, 2017 was \$7.0 million. Net cash flows are reported for customer loans and deposit transactions and repurchase agreements.

Investment Securities

Investments are classified into one of the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums. As of December 31, 2017 and 2016 the Company did not have any investment securities classified as held-to-maturity.

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

As of December 31, 2017 and 2016 the Company did not have any investment securities classified as trading and gains or losses on the sale of securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums accounted for by the level yield method with no pre-payment anticipated.

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2017 and December 31, 2016, the Company held \$2,685,000 and \$2,438,000, respectively of FHLB stock. On the consolidated balance sheet, FHLB stock is included in accrued interest receivable and other assets.

Loans Held for Sale, Loan Sales and Servicing

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

As of December 31, 2017 and 2016 the Company had \$614 thousand and \$2.5 million, respectively in government guaranteed loans held for sale. Loans held for sale are recorded at the lower of cost or fair value and therefore may be reported at fair value on a non-recurring basis. The fair values for loans held for sale are based on either observable transactions of similar instruments or formally committed loan sale prices.

Government guaranteed loans with unpaid balances of \$112,781,000 and \$96,592,000 were being serviced for others at December 31, 2017 and 2016, respectively.

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

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

The Company's investment in the loan is allocated between the retained portion of the loan and the sold portion of the loan based on their fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale.

The carrying value of the retained portion of the loan is discounted based on the estimated value of a comparable non-guaranteed loan.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

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

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality.

When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance.

Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2017 and 2016, there were no such loans being accounted for under this policy.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable incurred credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired but collectively evaluated for impairment.

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

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

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment from January 1, 2008 (the beginning of the latest business cycle as determined by management) to the most current balance sheet date, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable incurred losses inherent in the portfolio taken as a whole.

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

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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

Commercial – Commercial loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

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

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

Other – Other loans primarily consist of consumer loans and are similar in nature to automobile loans.

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

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for these commitments totaled \$200,000 at December 31, 2017 and 2016 and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations, which was \$1,344,000 (\$2,642,000 less a valuation allowance of \$1,298,000) at December 31, 2017 and \$735,000 (\$2,005,000 less a valuation allowance of \$1,270,000) at December 31, 2016. Of these amounts \$110,000 at December 31, 2017 and 84,000 at December 31, 2016 represent foreclosed residential real estate property. No consumer mortgage loans secured by residential real estate properties were in the process of foreclosure at December 31, 2017. There were four consumer mortgage loans with a balance of \$335 thousand secured by residential real estate properties for which formal foreclosure proceedings were in process at December 31, 2016. Proceeds from sales of other real estate owned totaled \$689,000, \$2,245,000 and \$2,281,000 for the years ended December 31, 2017, 2016 and 2015, respectively. For the years ended December 31, 2017, 2016 and 2015 the Company recorded gains on sale of other real estate owned of \$130,000, \$60,000 and \$198,000, respectively. Other real estate owned is initially recorded at fair value less cost to sell when acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair value of the property less costs to sell is charged against the allowance for loan losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from permanent impairment are also recorded in other expenses as incurred.

The following table provides a summary of the change in the OREO balance for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
Beginning balance	\$ 735,000	\$ 1,756,000
Additions	1,292,000	1,200,000
Dispositions	(559,000)	(2,184,000)
Write-downs	(124,000)	(37,000)
Ending balance	<u>\$ 1,344,000</u>	<u>\$ 735,000</u>

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over a period not to exceed fifteen years. The Company evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances during the periods presented. At December 31, 2017 and 2016, intangible assets totaled \$81,000 and \$87,000, respectively.

Premises and Equipment

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Owned Life Insurance

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

Income Taxes

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

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

Accounting for Uncertainty in Income Taxes

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

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated income statement. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2017 and 2016.

Earnings Per Share

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity. The amount reclassified out of other accumulated comprehensive income relating to realized (losses) gains on securities available for sale was \$(158,000), \$(32,000) and \$21,000 for 2017, 2016 and 2015, with the related tax effect of \$(65,000), \$(13,000) and \$9,000, respectively.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“AOCI”). The Company early adopted this new standard in the current year. 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.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividend paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Stock-Based Compensation

Compensation expense related to the Company’s Stock Option Plans, net of related tax benefit, recorded in 2017, 2016 and 2015 totaled \$141,000, \$103,000 and \$63,000 or \$0.03, \$0.02 and \$0.01 per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

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

During 2016 the Company granted options to purchase 108,000 shares of common stock, respectively. The fair value of each option was estimated on the date of grant using the following assumptions.

	<u>2016</u>
Expected life of stock options (in years)	5.1
Risk free interest rate	1.52%
Volatility	53.6%
Dividend yields	2.00%
Weighted-average fair value of options granted during the year	\$3.55

No options were granted during the years ended December 31, 2017 and 2015.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

On March 30, 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted. The Company adopted ASU No. 2016-09 on January 1, 2017 and elected to recognize forfeitures as they occur. The cumulative effect adjustment from the modified retrospective transition of the forfeitures and the classification of awards did not have a material effect on the Company's financial statements or disclosures. The Company expects adoption of ASU No. 2016-09 could result in increased volatility to reported income tax expense related to excess tax benefits.

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.

Pending Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers. This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 supersedes Topic 605 – Revenue Recognition and most industry-specific guidance. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information.

This update was originally effective for annual reporting periods beginning on or after December 15, 2016 and interim periods therein and requires expanded disclosures. In July 2015 the FASB issued a deferral of ASU 2014-09 of one year making it effective for annual reporting periods beginning on or after December 15, 2017 while also providing for early adoption but not before the original effective date. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income. The Company plans to adopt ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach.

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 has performed a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the Company will continue to closely monitor developments and additional guidance.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Accounting Pronouncements (continued)

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. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated statements of condition. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Financial Statements.

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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS

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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2017 are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2017 Using:			Total Fair Value
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$ 87,537,000	\$ 87,537,000			\$ 87,537,000
Investment securities	137,466,000		\$ 137,466,000		137,466,000
Loans, net	482,248,000			\$ 484,269,000	484,269,000
FHLB stock	2,685,000				N/A
Accrued interest receivable	2,582,000	31,000	522,000	2,029,000	2,582,000
Financial liabilities:					
Deposits	662,657,000	616,617,000	46,061,000		662,678,000
Repurchase agreements	10,074,000		10,074,000		10,074,000
Junior subordinated deferrable interest debentures	10,310,000			7,829,000	7,829,000
Accrued interest payable	64,000	10,000	39,000	15,000	64,000

The carrying amounts and estimated fair values of financial instruments, at December 31, 2016 are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2016 Using:			Total Fair Value
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and cash equivalents	\$ 62,646,000	\$ 62,646,000			\$ 62,646,000
Investment securities	101,595,000		\$ 101,595,000		101,595,000
Loans, net	456,580,000			\$ 459,618,000	459,618,000
FHLB stock	2,438,000				N/A
Accrued interest receivable	2,312,000	7,000	398,000	1,907,000	2,312,000
Financial liabilities:					
Deposits	582,353,000	532,750,000	49,586,000		582,336,000
Repurchase agreements	7,547,000		7,547,000		7,547,000
Note payable	2,375,000			2,375,000	2,375,000
Junior subordinated deferrable interest debentures	10,310,000			7,762,000	7,762,000
Accrued interest payable	59,000	9,000	36,000	14,000	59,000

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

The following methods and assumptions were used by management to estimate the fair value of its financial instruments:

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments (continued)

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.

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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments (continued)

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 December 31, 2017 and December 31, 2016, 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 December 31, 2017 are summarized below:

	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	\$ 103,788,000	\$ -	\$ 103,788,000	\$ -
Obligations of states and political subdivisions	33,678,000		33,678,000	
	<u>\$ 137,466,000</u>	<u>\$ -</u>	<u>\$ 137,466,000</u>	<u>\$ -</u>

Assets and liabilities measured at fair value on a recurring basis at December 31, 2016 are summarized below:

	Total Fair Value	Fair Value Measurements at December 31, 2016 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	\$ 74,911,000	\$ -	\$ 74,911,000	\$ -
Obligations of states and political subdivisions	26,684,000		26,684,000	
	<u>\$ 101,595,000</u>	<u>\$ -</u>	<u>\$ 101,595,000</u>	<u>\$ -</u>

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 2017 or 2016. 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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

	Fair Value Measurements at December 31, 2017 Using				Total Gains (Losses)
	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:					
Impaired loans:					
Equity lines of credit	\$ 80,000	\$ -	\$ -	\$ 80,000	\$ 7,000
Total impaired loans	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>7,000</u>
Other real estate:					
Real estate – residential	-	-	-	-	(3,000)
Real estate – commercial	285,000	-	-	285,000	(9,000)
Real estate – construction and land development	969,000	-	-	969,000	(112,000)
Equity lines of credit	90,000	-	-	90,000	-
Total other real estate	<u>1,344,000</u>	<u>-</u>	<u>-</u>	<u>1,344,000</u>	<u>(124,000)</u>
	<u>\$ 1,424,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,424,000</u>	<u>\$ (117,000)</u>

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2016 are summarized below:

	Fair Value Measurements at December 31, 2016 Using				Total Gains (Losses)
	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:					
Impaired loans:					
Real estate – commercial	\$ 453,000	\$ -	\$ -	\$ 453,000	\$ (81,000)
Equity lines of credit	83,000	-	-	83,000	6,000
Total impaired loans	<u>536,000</u>	<u>-</u>	<u>-</u>	<u>536,000</u>	<u>(75,000)</u>
Other real estate:					
Real estate – residential	10,000	-	-	10,000	-
Real estate – commercial	84,000	-	-	84,000	(37,000)
Real estate – construction and land development	641,000	-	-	641,000	-
Total other real estate	<u>735,000</u>	<u>-</u>	<u>-</u>	<u>735,000</u>	<u>(37,000)</u>
	<u>\$ 1,271,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271,000</u>	<u>\$ (112,000)</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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 \$7,000 and \$(75,000) represent impairment charges recognized during the years ended December 31, 2017 and 2016, 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 December 31, 2017 and 2016 (dollars in thousands):

Description	Fair Value 12/31/2017	Fair Value 12/31/2016	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)	
					12/31/2017	12/31/2016
<u>Impaired Loans:</u>						
RE – Commercial	\$ -	\$ 453	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	N/A	12% (12%)
Equity Lines of Credit	\$ 80	\$ 83	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	8% (8%)	8% (8%)
<u>Other Real Estate:</u>						
RE – Residential	\$ -	\$ 10	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	N/A	48% (48%)
Construction and Land	\$ 969	\$ 641	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% (10%)	10% - 36% (33%)
RE – Commercial	\$ 285	\$ 84	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	17%- 31% (22%)	40% (40%)
Equity Lines of Credit	\$ 90	\$ -	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% (10%)	N/A

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2017 and 2016 consisted of the following:

<u>Available-for-Sale</u>	2017			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	\$104,935,000	\$ 26,000	\$(1,173,000)	\$ 103,788,000
Obligations of states and political subdivisions	33,340,000	482,000	(144,000)	33,678,000
	<u>\$ 138,275,000</u>	<u>\$ 508,000</u>	<u>\$(1,317,000)</u>	<u>\$ 137,466,000</u>

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 year ended December 31, 2017 the Company sold sixteen available-for-sale investment securities for total proceeds of \$9,594,000 recording a \$158,000 loss on sale. The Company realized a gain on sale from four of these securities totaling \$4,000 and a loss on sale on twelve securities of \$162,000.

<u>Available-for-Sale</u>	2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	\$ 76,207,000	\$ 11,000	\$(1,307,000)	\$ 74,911,000
Obligations of states and political subdivisions	27,042,000	89,000	(447,000)	26,684,000
	<u>\$ 103,249,000</u>	<u>\$ 100,000</u>	<u>\$(1,754,000)</u>	<u>\$ 101,595,000</u>

Unrealized loss on available-for-sale investment securities totaling \$1,654,000 were recorded, net of \$682,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2016. During the year ended December 31, 2016 the Company sold fourteen available-for-sale investment securities for total proceeds of \$14,589,000 recording a \$32,000 loss on sale. The Company realized a gain on sale from eight of these securities totaling \$48,000 and a loss on sale on six securities of \$80,000.

Unrealized loss on available-for-sale investment securities totaling \$72,000 were recorded, net of \$30,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2015. During the year ended December 31, 2015 the Company sold fifteen available-for-sale investment securities for total proceeds of \$12,260,000 recording a \$21,000 net gain on sale. The Company realized a gain on sale from eight of these securities totaling \$62,000 and a loss on sale on seven of these securities of \$41,000.

Investment securities with unrealized losses at December 31, 2017 and 2016 are summarized and classified according to the duration of the loss period as follows:

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 agencies collateralized by mortgage obligations-residential	\$ 60,070,000	\$ 441,000	\$31,213,000	\$ 732,000	\$ 91,283,000	\$1,173,000
Obligations of states and political subdivisions	2,621,000	31,000	3,403,000	113,000	6,024,000	144,000
	<u>\$ 62,691,000</u>	<u>\$ 472,000</u>	<u>\$34,616,000</u>	<u>\$ 845,000</u>	<u>\$ 97,307,000</u>	<u>\$1,317,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. INVESTMENT SECURITIES (Continued)

Investment securities with unrealized losses at December 31, 2016 are summarized and classified according to the duration of the loss period as follows:

December 31, 2016

	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 agencies collateralized by mortgage obligations-residential	\$ 68,338,000	\$ 1,237,000	\$ 2,043,000	\$ 70,000	\$ 70,381,000	\$ 1,307,000
Obligations of states and political subdivisions	18,052,000	447,000	-	-	18,052,000	447,000
	<u>\$ 86,390,000</u>	<u>\$ 1,684,000</u>	<u>\$ 2,043,000</u>	<u>\$ 70,000</u>	<u>\$ 88,433,000</u>	<u>\$ 1,754,000</u>

At December 31, 2017, the Company held 192 securities of which 92 were in a loss position. Of the securities in a loss position, 56 were in a loss position for less than twelve months. Of the 192 securities 77 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 115 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 December 31, 2017, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of December 31, 2017 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2017 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
After one year through five years	\$ 4,649,000	\$ 4,706,000
After five years through ten years	16,897,000	17,098,000
After ten years	11,794,000	11,874,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	104,935,000	103,788,000
	<u>\$ 138,275,000</u>	<u>\$ 137,466,000</u>

Investment securities with amortized costs totaling \$82,059,000 and \$73,331,000 and estimated fair values totaling \$81,006,000 and \$72,112,000 at December 31, 2017 and 2016, respectively, were pledged to secure deposits and repurchase agreements.

There were no transfers of available-for-sale investment securities during the years ended December 31, 2017, 2016 or 2015. There were no securities classified as held-to-maturity at December 31, 2017 or December 31, 2016.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	December 31,	
	2017	2016
Commercial	\$ 39,620,000	\$ 41,293,000
Agricultural	58,908,000	51,103,000
Real estate – residential	16,624,000	21,283,000
Real estate – commercial	240,257,000	226,136,000
Real estate – construction & land development	25,181,000	21,904,000
Equity lines of credit	41,798,000	42,338,000
Auto	60,438,000	53,553,000
Other	3,808,000	3,513,000
	486,634,000	461,123,000
Deferred loan costs, net	2,283,000	2,006,000
Allowance for loan losses	(6,669,000)	(6,549,000)
Loans, net	\$ 482,248,000	\$ 456,580,000

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,		
	2017	2016	2015
Balance, beginning of year	\$ 6,549,000	\$ 6,078,000	\$ 5,451,000
Provision charged to operations	600,000	800,000	1,100,000
Losses charged to allowance	(879,000)	(979,000)	(827,000)
Recoveries	399,000	650,000	354,000
Balance, end of year	\$ 6,669,000	\$ 6,549,000	\$ 6,078,000

The recorded investment in impaired loans totaled \$2,270,000 and \$5,442,000 at December 31, 2017 and 2016, respectively. The Company had specific allowances for loan losses of \$82,000 on impaired loans of \$475,000 at December 31, 2017 as compared to specific allowances for loan losses of \$366,000 on impaired loans of \$1,534,000 at December 31, 2016. The balance of impaired loans in which no specific reserves were required totaled \$1,795,000 and \$3,908,000 at December 31, 2017 and 2016, respectively. The average recorded investment in impaired loans for the years ended December 31, 2017, 2016 and 2015 was \$1,760,000, \$5,077,000 and \$6,528,000, respectively. The Company recognized \$73,000, \$149,000 and \$119,000 in interest income on impaired loans during the years ended December 31, 2017, 2016 and 2015, respectively. Of these amounts \$0, \$29,000 and \$0 were recognized on the cash basis, 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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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 December 31, 2017 and December 31, 2016 was \$1,111,000 and \$4,616,000, respectively. The Company has allocated \$63,000 and \$342,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2017 and December 31, 2016, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at December 31, 2017 and December 31, 2016.

There were no new troubled debt restructurings during the twelve months ending December 31, 2017 and 2016.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended December 31, 2017 and 2016.

At December 31, 2017 and 2016, nonaccrual loans totaled \$1,226,000 and \$2,724,000, respectively. Interest foregone on nonaccrual loans totaled \$50,000, \$164,000 and \$303,000 for the twelve months ended December 31, 2017, 2016 and 2015, respectively. The Company recognized \$0, \$29,000 and \$0 in interest income on nonaccrual loans during the years ended December 31, 2017, 2016 and 2015, respectively. 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 December 31, 2017. There were no loans past due 90 days or more and on accrual status at December 31, 2016.

Salaries and employee benefits totaling \$1,789,000, \$1,882,000 and \$1,337,000 have been deferred as loan origination costs during the years ended December 31, 2017, 2016 and 2015, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

December 31, 2017

	Commercial Credit Exposure						Total
	Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	
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	<u>\$ 39,620</u>	<u>\$ 58,908</u>	<u>\$ 16,624</u>	<u>\$ 240,257</u>	<u>\$ 25,181</u>	<u>\$ 41,798</u>	<u>\$ 422,388</u>

December 31, 2016

	Commercial Credit Exposure						Total
	Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	
Grade:							
Pass	\$ 40,459	\$ 50,790	\$ 21,125	\$ 223,854	\$ 21,201	\$ 41,983	\$ 399,412
Special Mention	565	280	-	400	-	-	1,245
Substandard	269	33	158	1,882	703	355	3,400
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 41,293</u>	<u>\$ 51,103</u>	<u>\$ 21,283</u>	<u>\$ 226,136</u>	<u>\$ 21,904</u>	<u>\$ 42,338</u>	<u>\$ 404,057</u>

	Consumer Credit Exposure			Consumer Credit Exposure		
	Credit Risk Profile			Credit Risk Profile		
	Based on Payment Activity			Based on Payment Activity		
Grade:	December 31, 2017			December 31, 2016		
	Auto	Other	Total	Auto	Other	Total
Performing	\$ 60,060	\$ 3,788	\$ 63,848	\$ 53,474	\$ 3,511	\$ 56,985
Non-performing	378	20	398	79	2	81
Total	<u>\$ 60,438</u>	<u>\$ 3,808</u>	<u>\$ 64,246</u>	<u>\$ 53,553</u>	<u>\$ 3,513</u>	<u>\$ 57,066</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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
Year ended 12/31/17:									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 655	\$ 466	\$ 280	\$ 2,740	\$ 927	\$ 575	\$ 815	\$ 91	\$ 6,549
Charge-offs	(202)	-	-	(48)	-	(121)	(450)	(58)	(879)
Recoveries	89	-	3	115	-	4	173	15	399
Provision	183	157	(52)	(78)	(144)	75	408	51	600
Ending balance	<u>\$ 725</u>	<u>\$ 623</u>	<u>\$ 231</u>	<u>\$ 2,729</u>	<u>\$ 783</u>	<u>\$ 533</u>	<u>\$ 946</u>	<u>\$ 99</u>	<u>\$ 6,669</u>
Year ended 12/31/16:									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 639	\$ 294	\$ 341	\$ 2,525	\$ 874	\$ 528	\$ 784	\$ 93	\$ 6,078
Charge-offs	(268)	-	(39)	(253)	(5)	(23)	(319)	(72)	(979)
Recoveries	53	-	42	3	389	2	131	30	650
Provision	231	172	(64)	465	(331)	68	219	40	800
Ending balance	<u>\$ 655</u>	<u>\$ 466</u>	<u>\$ 280</u>	<u>\$ 2,740</u>	<u>\$ 927</u>	<u>\$ 575</u>	<u>\$ 815</u>	<u>\$ 91</u>	<u>\$ 6,549</u>
Year ended 12/31/15:									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 574	\$ 225	\$ 379	\$ 1,701	\$ 1,227	\$ 691	\$ 581	\$ 73	\$ 5,451
Charge-offs	(88)	(3)	(132)	-	(55)	(98)	(414)	(37)	(827)
Recoveries	167	6	8	-	-	6	124	43	354
Provision	(14)	66	86	824	(298)	(71)	493	14	1,100
Ending balance	<u>\$ 639</u>	<u>\$ 294</u>	<u>\$ 341</u>	<u>\$ 2,525</u>	<u>\$ 874</u>	<u>\$ 528</u>	<u>\$ 784</u>	<u>\$ 93</u>	<u>\$ 6,078</u>
December 31, 2017:									
<u>Allowance for Loan Losses</u>									
Ending balance: individually evaluated for impairment	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 32</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82</u>
Ending balance: collectively evaluated for impairment	<u>\$ 723</u>	<u>\$ 623</u>	<u>\$ 183</u>	<u>\$ 2,729</u>	<u>\$ 751</u>	<u>\$ 533</u>	<u>\$ 946</u>	<u>\$ 99</u>	<u>\$ 6,587</u>
<u>Loans</u>									
Ending balance	<u>\$ 39,620</u>	<u>\$ 58,908</u>	<u>\$ 16,624</u>	<u>\$ 240,257</u>	<u>\$ 25,181</u>	<u>\$ 41,798</u>	<u>\$60,438</u>	<u>\$ 3,808</u>	<u>\$ 486,634</u>
Ending balance: individually evaluated for impairment	<u>\$ 14</u>	<u>\$ 253</u>	<u>\$ 934</u>	<u>\$ 287</u>	<u>\$ 224</u>	<u>\$ 162</u>	<u>\$ 377</u>	<u>\$ 19</u>	<u>\$ 2,270</u>
Ending balance: collectively evaluated for impairment	<u>\$ 39,606</u>	<u>\$ 58,655</u>	<u>\$ 15,690</u>	<u>\$ 239,970</u>	<u>\$ 24,957</u>	<u>\$ 41,636</u>	<u>\$60,061</u>	<u>\$ 3,789</u>	<u>\$ 484,364</u>
December 31, 2016:									
<u>Allowance for Loan Losses</u>									
Ending balance: individually evaluated for impairment	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ 81</u>	<u>\$ 206</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366</u>
Ending balance: collectively evaluated for impairment	<u>\$ 653</u>	<u>\$ 466</u>	<u>\$ 227</u>	<u>\$ 2,659</u>	<u>\$ 721</u>	<u>\$ 551</u>	<u>\$ 815</u>	<u>\$ 91</u>	<u>\$ 6,183</u>
<u>Loans</u>									
Ending balance	<u>\$ 41,293</u>	<u>\$ 51,103</u>	<u>\$ 21,283</u>	<u>\$ 226,136</u>	<u>\$ 21,904</u>	<u>\$ 42,338</u>	<u>\$53,553</u>	<u>\$ 3,513</u>	<u>\$ 461,123</u>
Ending balance: individually evaluated for impairment	<u>\$ 16</u>	<u>\$ 258</u>	<u>\$ 1,615</u>	<u>\$ 2,323</u>	<u>\$ 833</u>	<u>\$ 326</u>	<u>\$ 69</u>	<u>\$ 2</u>	<u>\$ 5,442</u>
Ending balance: collectively evaluated for impairment	<u>\$ 41,277</u>	<u>\$ 50,845</u>	<u>\$ 19,668</u>	<u>\$ 223,813</u>	<u>\$ 21,071</u>	<u>\$ 42,012</u>	<u>\$53,484</u>	<u>\$ 3,511</u>	<u>\$ 455,681</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

	<u>December 31, 2017</u>			Total Past Due		Total
	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	and Nonaccrual	Current	
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	<u>\$ 3,449</u>	<u>\$ 1,796</u>	<u>\$ 1,226</u>	<u>\$ 6,471</u>	<u>\$ 480,163</u>	<u>\$ 486,634</u>

	<u>December 31, 2016</u>			Total Past Due		Total
	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	and Nonaccrual	Current	
Commercial	\$ 77	\$ -	\$ -	\$ 77	\$ 41,216	\$ 41,293
Agricultural	-	-	-	-	51,103	51,103
Real estate - residential	179	-	145	324	20,959	21,283
Real estate - commercial	519	-	1,479	1,998	224,138	226,136
Real estate – construction & land	10	-	703	713	21,191	21,904
Equity Lines of Credit	276	-	326	602	41,736	42,338
Auto	919	-	69	988	52,565	53,553
Other	23	-	2	25	3,488	3,513
Total	<u>\$ 2,003</u>	<u>\$ -</u>	<u>\$ 2,724</u>	<u>\$ 4,727</u>	<u>\$ 456,396</u>	<u>\$ 461,123</u>

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

<u>As of December 31, 2017:</u>	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	<u>\$ 2,270</u>	<u>\$ 2,281</u>	<u>\$ 82</u>	<u>\$ 1,760</u>	<u>\$ 73</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

As of December 31, 2016:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ -	\$ -		\$ -	\$ -
Agricultural	258	258		259	19
Real estate – residential	1,373	1,385		1,291	77
Real estate – commercial	1,789	2,227		1,589	33
Real estate – construction & land	198	198		210	-
Equity Lines of Credit	219	219		121	-
Auto	69	69		46	-
Other	2	2		-	-
With an allowance recorded:					
Commercial	\$ 16	\$ 16	\$ 2	\$ 16	\$ 1
Agricultural	-	-	-	-	-
Real estate – residential	242	242	53	243	11
Real estate – commercial	534	742	81	534	-
Real estate – construction & land	635	635	206	658	8
Equity Lines of Credit	107	107	24	110	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:	\$ 16	\$ 16	\$ 2	\$ 16	\$ 1
Commercial	258	258	-	259	19
Real estate – residential	1,615	1,627	53	1,534	88
Real estate – commercial	2,323	2,969	81	2,123	33
Real estate – construction & land	833	833	206	868	8
Equity Lines of Credit	326	326	24	231	-
Auto	69	69	-	46	-
Other	2	2	-	-	-
Total	<u>\$ 5,442</u>	<u>\$ 6,100</u>	<u>\$ 366</u>	<u>\$ 5,077</u>	<u>\$ 149</u>
As of December 31, 2015:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 47	\$ 47		\$ 39	\$ 1
Agricultural	260	260		262	20
Real estate – residential	1,347	1,359		1,346	79
Real estate – commercial	1,976	2,622		2,057	-
Real estate – construction & land	221	221		232	-
Equity Lines of Credit	199	199		156	-
Auto	65	65		21	-
Other	-	-		-	-
With an allowance recorded:					
Commercial	\$ 26	\$ 26	\$ 26	\$ 29	\$ -
Agricultural	-	-	-	-	-
Real estate – residential	245	245	54	246	11
Real estate – commercial	1,154	1,154	371	1,203	-
Real estate – construction & land	808	808	269	822	8
Equity Lines of Credit	113	113	31	115	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:	\$ 73	\$ 73	\$ 26	\$ 68	\$ 1
Commercial	260	260	-	262	20
Real estate – residential	1,592	1,604	54	1,592	90
Real estate – commercial	3,130	3,776	371	3,260	-
Real estate – construction & land	1,029	1,029	269	1,054	8
Equity Lines of Credit	312	312	31	271	-
Auto	65	65	-	21	-
Other	-	-	-	-	-
Total	<u>\$ 6,461</u>	<u>\$ 7,119</u>	<u>\$ 751</u>	<u>\$ 6,528</u>	<u>\$ 119</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2017	2016
Land	\$ 2,863,000	\$ 2,863,000
Premises	16,133,000	16,028,000
Furniture, equipment and leasehold improvements	7,153,000	7,505,000
	26,149,000	26,396,000
Less accumulated depreciation and amortization	(14,803,000)	(14,628,000)
Premises and equipment, net	\$ 11,346,000	\$ 11,768,000

Depreciation and amortization included in occupancy and equipment expense totaled \$953,000, \$1,024,000 and \$1,055,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

7. DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2017	2016
Interest-bearing demand deposits	\$ 99,195,000	\$ 91,289,000
Money market	60,757,000	57,208,000
Savings	174,426,000	147,474,000
Time, \$250,000 or more	3,199,000	4,055,000
Other time	42,841,000	45,548,000
Interest-bearing deposits	\$ 380,418,000	\$ 345,574,000

At December 31, 2017, the scheduled maturities of time deposits were as follows:

Year Ending December 31,	
2018	\$ 35,858,000
2019	6,569,000
2020	2,515,000
2021	729,000
2022	369,000
thereafter	-
	\$ 46,040,000

Deposit overdrafts reclassified as loan balances were \$240,000 and \$252,000 at December 31, 2017 and 2016, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaling \$10,074,000 and \$7,547,000 at December 31, 2017, and 2016, respectively are secured by U.S. Government agency securities with a carrying amount of \$16,769,000 and \$15,113,000 at December 31, 2017 and 2016, respectively.

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase during 2017 and 2016 is summarized as follows:

	2017	2016
Average daily balance during the year	\$ 7,421,000	\$ 6,411,000
Average interest rate during the year	0.08%	0.08%
Maximum month-end balance during the year	\$ 10,074,000	\$ 9,069,000
Weighted average interest rate at year-end	0.09%	0.08%

9. BORROWING ARRANGEMENTS

The Company is a member of the FHLB and can borrow up to \$206,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$322,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2017 and December 31, 2016, the Company held \$2,685,000 and \$2,438,000, respectively of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2017, the Company can borrow up to \$99,448,000. To borrow the \$206,000,000 in available credit the Company would need to purchase \$2,884,000 in additional FHLB stock. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with three of its correspondent banks in the amounts of \$20 million, \$11 million and \$10 million. There were no outstanding borrowings to the FHLB or the correspondent banks under these agreements at December 31, 2017 and 2016.

On October 1, 2015, the Company entered into a \$5.0 million term loan (the "Term Loan"), which was scheduled to mature on October 1, 2018. On April 20, 2017 Plumas Bancorp paid off the \$2,250,000 remaining balance on the Term Loan. The payment was funded through a \$4 million dividend from Plumas Bank. The balance of this Term Loan was \$2,375,000 at December 31, 2016.

On October 1, 2017 the Company renewed its line of credit, for a one year term, with the same lender (the "Note"). The maximum amount outstanding at any one time on the Note cannot exceed \$5 million. There were no balances outstanding on the Note as of December 31, 2017 or December 31, 2016. The Note bears interest at a rate of the U.S. "Prime Rate" plus one-quarter percent per annum and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Under the Note, the Bank is subject to several negative and affirmative covenants including, but not limited to providing timely financial information, maintaining specified levels of capital, restrictions on additional borrowings, and meeting or exceeding certain capital and asset quality ratios. The Bank was in compliance with all such covenants related to the Note at December 31, 2017 and December 31, 2016. Interest expense related to the Note and the Term Loan for the years ended December 31, 2017, 2016 and 2015 totaled \$28 thousand, \$133 thousand and \$155 thousand, respectively.

On April 15, 2013 the Company issued a \$7.5 million subordinated debenture ("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. On April 16, 2015 the Bancorp paid off the subordinated debt. Interest expense related to the subordinated debt for the year ended December 31, 2015 totaled \$219,000.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. BORROWING ARRANGEMENTS (Continued)

The subordinated debt had an interest rate of 7.5% per annum and 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 "Warrant") to purchase up to 300,000 shares of the Company's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share.

In May of 2016 the Company repurchased a portion of the warrant, representing the right to purchase 150,000 shares of the registrant's common stock at a cost of \$862,000. The remaining warrant represented the right to purchase 150,000 shares of Plumas Bancorp common stock at an exercise price of \$5.25 per share was scheduled to expire on April 15, 2021. In May, 2017 the warrant was exercised in a cashless exercise resulting in the issuance of 108,112 common shares.

10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Plumas Statutory Trust I and II are business trusts formed by the Company with capital of \$328,000 and \$169,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company.

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 5.07% (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 3.07% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any quarterly anniversary date on or after the 5-year anniversary date of the issuance. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 26, 2032 for Trust I and September 28, 2035 for Trust II.

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security. The interest rate of the Trust Preferred Securities issued by Trust I adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 3.40%. The Trust Preferred Securities issued by Trust II adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 1.48%. Both Trusts I and II have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures.

The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities.

Interest expense recognized by the Company for the years ended December 31, 2017, 2016 and 2015 related to the subordinated debentures was \$401,000, \$348,000 and \$306,000, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. COMMITMENTS AND CONTINGENCIES

Leases

The Company has commitments for leasing premises under the terms of noncancelable operating leases expiring from 2018 to 2021. Future minimum lease payments are as follows:

Year Ending December 31,	2018	2019	2020	2021	2022
	\$	308,000	289,000	202,000	91,000
		-	-	-	-
	<u>\$</u>	<u>890,000</u>			

Rental expense included in occupancy and equipment expense totaled \$308,000, \$276,000 and \$233,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Financial Instruments With Off-Balance-Sheet Risk

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

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

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

	December 31,	
	2017	2016
Commitments to extend credit	\$ 107,366,000	\$ 93,699,000
Letters of credit	\$ 477,000	\$ 625,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, crops, inventory, equipment, income-producing commercial properties, farm land and residential properties.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2017 and 2016. The Company recognizes these fees as revenues over the term of the commitment or when the commitment is used.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. COMMITMENTS AND CONTINGENCIES (Continued)

At December 31, 2017, consumer loan commitments represent approximately 10% of total commitments and are generally unsecured. Commercial and agricultural loan commitments represent approximately 38% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments, including consumer home equity lines of credit, represent the remaining 52% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company's commitments have variable interest rates.

Concentrations of Credit Risk

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

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

Contingencies

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

12. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law permits a California corporation such as the Company to make a distribution to its shareholders if its retained earnings equal at least the amount of the proposed distribution or if after giving effect to the distribution, the value of the corporation's assets exceed the amount of its liabilities plus the amount of shareholders preferences, if any, and certain other conditions are met.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the DBO, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2017, the maximum amount available for dividend distribution under this restriction was approximately \$11,281,000. In addition the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trusts (see Note 10 for additional information related to the Trust Preferred Securities).

On October 20, 2016 the Company announced that its Board of Directors approved the reinstatement of a semi-annual cash dividend. The dividend in the amount of \$0.10 per share was paid on November 21, 2016 to shareholders of record at the close of business day on November 7, 2016. On May 15, 2017 and November 15, 2017 the Company paid semi-annual cash dividends each of which totaled \$0.14 per share.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

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 Year Ended December 31,		
	2017	2016	2015
Net Income:			
Net income	\$ 8,189	\$ 7,474	\$ 5,818
Earnings Per Share:			
Basic earnings per share	\$ 1.64	\$ 1.54	\$ 1.21
Diluted earnings per share	\$ 1.58	\$ 1.47	\$ 1.15
Weighted Average Number of Shares Outstanding:			
Basic shares	5,005	4,864	4,817
Diluted shares	5,185	5,098	5,058

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 0, 63,000 and 53,000 for the years ended December 31, 2017, 2016 and 2015, respectively. At December 31, 2016 one stock warrant was outstanding to purchase up to 150,000 shares of the Bancorp's common stock at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share. At December 31, 2015 one stock warrant was outstanding to purchase up to 300,000 shares of the Bancorp's common stock at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share.

Stock Options

In 2001, the Company established a Stock Option Plan for which 46,293 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of December 31, 2017.

As of December 31, 2017, all remaining shares in this plan have vested and no compensation cost remains unrecognized.

The total fair value of options vested was \$0 for the years ended December 31, 2017 and 2016. The total intrinsic value of options at time of exercise was \$590,000 and \$427,000 for the years ended December 31, 2017 and 2016, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

A summary of the activity within the 2001 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value
Options outstanding at January 1, 2015	306,393	\$ 7.95		
Options cancelled	(74,600)	16.26		
Options exercised	(38,900)	2.95		
Options outstanding at December 31, 2015	192,893	5.75		
Options cancelled	(55,800)	12.61		
Options exercised	(55,200)	2.95		
Options outstanding at December 31, 2016	81,893	2.95		
Options exercised	(35,600)	2.95		
Options outstanding at December 31, 2017	46,293	\$ 2.95	1.2	\$ 937,000
Options exercisable at December 31, 2017	46,293	\$ 2.95	1.2	\$ 937,000
Expected to vest after December 31, 2017	-			

In May 2013, the Company established the 2013 Stock Option Plan for which 466,200 shares of common stock are reserved and 305,600 shares are available for future grants as of December 31, 2017. The 2013 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 year ended December 31, 2016 108,000 options were granted. No options were granted during the years ended December 31, 2017 and 2015.

As of December 31, 2017, there was \$196,000 of total unrecognized compensation cost related to non-vested, share-based compensation arrangements granted under the 2013 Plan. That cost is expected to be recognized over a weighted average period of 1.9 years.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Stock Options (continued)

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, 2015	110,400	\$ 6.32		
Options cancelled	(7,200)	6.32		
Options exercised	(800)	6.32		
Options outstanding at December 31, 2015	102,400	6.32		
Option granted	108,000	8.75		
Options cancelled	(9,600)	7.94		
Options exercised	(8,000)	6.32		
Options outstanding at December 31, 2016	192,800	7.60		
Options cancelled	(7,200)	8.14		
Options exercised	(25,000)	6.65		
Options outstanding at December 31, 2017	160,600	\$ 7.72	5.4	\$ 2,486,000
Options exercisable at December 31, 2017	68,000	\$ 7.11	4.9	\$ 1,094,000
Expected to vest after December 31, 2017	82,507	\$ 8.18	5.7	\$ 1,239,000

Compensation cost related to stock options recognized in operating results under the two stock option plans was \$152,000, \$116,000 and \$70,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The associated future income tax benefit recognized was \$11,000, \$13,000, \$7,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

The total fair value of options vested was \$161,000 and \$76,000 for the years ended December 31, 2017 and 2016, respectively. The total intrinsic value of options at time of exercise was \$894,000 and \$451,000 for the years ended December 31, 2017 and 2016, respectively.

Cash received from option exercises for the years ended December 31, 2017, 2016 and 2015 was \$261,000, \$200,000 and \$88,000, respectively. The tax benefit realized for the tax deductions from option exercise totaled \$112,000, \$12,000 and \$13,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the FDIC. Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (continued)

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page and cannot be subject to a written agreement, order or capital directive issued by the FDIC.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks, sometimes called "Basel III". The phase-in period for the final rules began in 2015, with certain of the rules' requirements phased in over a multi-year schedule. Under the final rules minimum requirements increased for both the quantity and quality of capital held by the Company and the Bank. The new capital rules include a new minimum "common equity Tier 1" ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements was January 1, 2015. In addition, the new capital rules include a capital conservation buffer of 2.5% above each of these levels (to be phased in over three years which beginning at 0.625% on January 1, 2016 and increasing by that amount on each subsequent January 1, until reaching 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to pay dividends, repurchase stock or pay discretionary bonuses. Including the capital conservation buffer of 2.5%, the New Capital Rules would result in the following minimum ratios to be considered well capitalized: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The final rules also implement strict eligibility criteria for regulatory capital instruments.

The Board of Governors of the Federal Reserve System has adopted final amendments to the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) (the "Policy Statement") that, among other things, raised from \$500 million to \$1 billion the asset threshold to qualify for the Policy Statement. Plumas Bancorp qualifies for treatment under the Policy Statement and is no longer subject to consolidated capital rules at the bank holding company level.

The following table sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required			
			For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Common Equity Tier 1 Ratio	\$ 65,085	12.0%	\$ 24,453	4.5%	\$ 35,321	6.5%
Tier 1 Leverage Ratio	65,085	8.8%	29,663	4.0%	37,079	5.0%
Tier 1 Risk-Based Capital Ratio	65,085	12.0%	32,604	6.0%	43,472	8.0%
Total Risk-Based Capital Ratio	71,878	13.2%	43,472	8.0%	53,340	10.0%
December 31, 2016						
Common Equity Tier 1 Ratio	\$ 60,521	12.1%	\$ 22,597	4.5%	\$ 32,641	6.5%
Tier 1 Leverage Ratio	60,521	9.2%	26,353	4.0%	32,941	5.0%
Tier 1 Risk-Based Capital Ratio	60,521	12.1%	30,130	6.0%	40,173	8.0%
Total Risk-Based Capital Ratio	66,804	13.3%	40,173	8.0%	50,217	10.0%

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 ratios at all times. Management believes that the Bank currently meets all its capital adequacy requirements.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
	2017	2016	2015
Outside service fees	\$ 2,234,000	\$ 2,105,000	\$ 2,003,000
Professional fees	612,000	608,000	707,000
Telephone and data communications	561,000	450,000	376,000
Business development	389,000	344,000	332,000
Advertising and promotion	372,000	366,000	305,000
Director compensation and retirement	336,000	348,000	300,000
Armored car and courier	278,000	248,000	234,000
Deposit insurance	248,000	285,000	362,000
Loan collection expenses	194,000	166,000	200,000
Provision from change in OREO valuation	124,000	37,000	79,000
Stationery and supplies	118,000	119,000	105,000
Insurance	75,000	78,000	95,000
OREO expenses	73,000	(34,000)	182,000
Postage	49,000	40,000	41,000
Gain on sale of other real estate	(130,000)	(60,000)	(198,000)
Other operating expenses	233,000	309,000	309,000
Other non-interest expense	<u>\$ 5,766,000</u>	<u>\$ 5,409,000</u>	<u>\$ 5,432,000</u>

14. INCOME TAXES

The provision for income taxes for the years ended December 31, 2017, 2016 and 2015 consisted of the following:

<u>2017</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 5,170,000	\$ 1,643,000	\$ 6,813,000
Deferred tax asset adjustment for enacted change in tax rate	1,419,000	-	1,419,000
Deferred	(738,000)	(178,000)	(916,000)
Provision for income taxes	<u>\$ 5,851,000</u>	<u>\$ 1,465,000</u>	<u>\$ 7,316,000</u>
<u>2016</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 4,156,000	\$ 1,263,000	\$ 5,419,000
Deferred	(575,000)	(85,000)	(660,000)
Provision for income taxes	<u>\$ 3,581,000</u>	<u>\$ 1,178,000</u>	<u>\$ 4,759,000</u>
<u>2015</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 3,625,000	\$ 631,000	\$ 4,256,000
Deferred	(848,000)	309,000	(539,000)
Provision for income taxes	<u>\$ 2,777,000</u>	<u>\$ 940,000</u>	<u>\$ 3,717,000</u>

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of \$1,419,000, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2017	2016
Deferred tax assets:		
Allowance for loan losses	\$ 1,927,000	\$ 1,741,000
Deferred compensation	1,114,000	1,574,000
OREO valuation allowance	391,000	519,000
Premises and equipment	422,000	515,000
Unrealized loss on available-for-sale investment securities	239,000	682,000
Other	646,000	1,070,000
Total deferred tax assets	4,739,000	6,101,000
Deferred tax liabilities:		
Deferred loan costs	(1,266,000)	(1,628,000)
Other	(184,000)	(238,000)
Total deferred tax liabilities	(1,450,000)	(1,866,000)
Net deferred tax assets	\$ 3,289,000	\$ 4,235,000

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

At December 31, 2017 total deferred tax assets were approximately \$4,739,000 and total deferred tax liabilities were approximately \$1,450,000 for a net deferred tax asset of \$3,289,000. The Company's deferred tax assets primarily relate timing differences in the tax deductibility of impairment charges on other real estate owned, depreciation on premises and equipment, the provision for loan losses and deferred compensation. Based upon our analysis of available evidence, management of the Company determined that it is "more likely than not" that all of our deferred income tax assets as of December 31, 2017 and 2016 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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. INCOME TAXES (Continued)

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

	2017	2016	2015
Federal income tax, at statutory rate	34.0 %	34.0 %	34.0 %
State franchise tax, net of Federal tax effect	6.2 %	6.9 %	6.9 %
Interest on obligations of states and political subdivisions	(1.5)%	(1.5)%	(1.3) %
Net increase in cash surrender value of bank owned life insurance	(0.7)%	(0.9)%	(1.2) %
Deferred tax Federal rate adjustment	9.2 %	-	-
Other	0.0 %	0.4 %	0.6 %
Effective tax rate	47.2 %	38.9 %	39.0 %

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

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2014, and by state and local taxing authorities for years ended before December 31, 2013.

The unrecognized tax benefits and changes therein and the interest and penalties accrued by the Company as of or during the years ended December 31, 2017 and 2016 were not significant. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2017:

Balance, January 1, 2017	\$ 2,236,000
Disbursements	3,587,000
Amounts repaid	(303,000)
Balance, December 31, 2017	\$ 5,520,000
Undisbursed commitments to related parties, December 31, 2017	\$ 1,556,000

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Plumas Bank Profit Sharing Plan commenced April 1, 1988 and is available to employees meeting certain service requirements. Under the Plan, employees are able to defer a selected percentage of their annual compensation. Included under the Plan's investment options is the option to invest in Company stock. During 2017, the Company's contribution totaled \$150,000 consisting of a matching amount of 30% of the employee's contribution up to a total of 2.4% of the employee's compensation. During 2016 and 2015, the Company's contribution consisted of a matching amount of 25% of the employee's contribution up to a total of 2% of the employee's compensation totaling \$114,000 and \$111,000, respectively.

Salary Continuation and Retirement Agreements

Salary continuation and retirement agreements are in place for the Company's president, its current executive vice presidents, six members of the Board of Directors as well as five former executives and four former directors. Under these agreements, the directors and executives will receive monthly payments for periods ranging from ten to fifteen years, after retirement. The estimated present value of these future benefits is accrued over the period from the effective dates of the agreements until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2017, 2016 and 2015 totaled \$307,000, \$269,000 and \$258,000, respectively. Accrued compensation payable under these plans totaled \$3,855,000 and \$3,889,000 at December 31, 2017 and 2016, respectively.

In connection with some of these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling \$12,866,000 and \$12,528,000 at December 31, 2017 and 2016, respectively. Income earned on these policies, net of expenses, totaled \$338,000, \$341,000 and \$342,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 383,000	\$ 281,000
Investment in bank subsidiary	64,989,000	59,840,000
Other assets	653,000	571,000
Total assets	\$ 66,025,000	\$ 60,692,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 15,000	\$ 13,000
Note payable	-	2,375,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
Total liabilities	10,325,000	12,698,000
Shareholders' equity:		
Common stock	6,415,000	5,918,000
Retained earnings	49,855,000	43,048,000
Accumulated other comprehensive loss	(570,000)	(972,000)
Total shareholders' equity	55,700,000	47,994,000
Total liabilities and shareholders' equity	\$ 66,025,000	\$ 60,692,000

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Income:			
Dividends declared by bank subsidiary	\$ 4,000,000	\$ 3,500,000	\$ 4,000,000
Earnings from investment in Plumas Statutory Trusts I and II	12,000	10,000	9,000
Total income	4,012,000	3,510,000	4,009,000
Expenses:			
Interest on note payable	28,000	133,000	155,000
Interest on subordinated debenture	-	-	219,000
Interest on junior subordinated deferrable interest debentures	401,000	348,000	306,000
Other expenses	251,000	235,000	206,000
Total expenses	680,000	716,000	886,000
Income before equity in undistributed income of subsidiary	3,332,000	2,794,000	3,123,000
Equity in undistributed income of subsidiary	4,538,000	4,390,000	2,353,000
Income before income taxes	7,870,000	7,184,000	5,476,000
Income tax benefit	319,000	290,000	342,000
Net income	\$ 8,189,000	\$ 7,474,000	\$ 5,818,000
Total comprehensive income	\$ 8,685,000	\$ 6,544,000	\$ 5,836,000

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Net income	\$ 8,189,000	\$ 7,474,000	\$ 5,818,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(4,538,000)	(4,390,000)	(2,353,000)
Amortization of discount on debentures	-	-	45,000
Stock-based compensation expense	37,000	32,000	17,000
(Increase) decrease in other assets	(76,000)	(31,000)	238,000
Increase (decrease) in other liabilities	2,000	(2,000)	(7,000)
Net cash provided by operating activities	<u>3,614,000</u>	<u>3,083,000</u>	<u>3,758,000</u>
Cash flows from financing activities:			
Cash dividends paid on common stock	(1,398,000)	(489,000)	-
Redemption of subordinated debt	-	-	(7,500,000)
Repurchase of common stock warrant	-	(862,000)	-
Increase in note payable	-	-	4,000,000
Payment on note payable	(2,375,000)	(2,500,000)	(125,000)
Proceeds from exercise of stock options	261,000	200,000	88,000
Net cash used in financing activities	<u>(3,512,000)</u>	<u>(3,651,000)</u>	<u>(3,537,000)</u>
Increase (decrease) in cash and cash equivalents	102,000	(568,000)	221,000
Cash and cash equivalents at beginning of year	<u>281,000</u>	<u>849,000</u>	<u>628,000</u>
Cash and cash equivalents at end of year	<u>\$ 383,000</u>	<u>\$ 281,000</u>	<u>\$ 849,000</u>

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's CEO and the Company's CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures at the end of the period covered by this report pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's CEO and CFO concluded the Company's disclosure controls and procedures are effective in ensuring that information relating to the Company, including its consolidated subsidiaries, required to be disclosed in reports that it files under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fourth quarter of 2017, no change in the Company's internal control over financial reporting was identified in connection with this evaluation that has materially affected or is reasonably likely to materially affect internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are set forth in our consolidated financial statements and the reports thereon beginning at page F-1.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

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

- 3.1 Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 3.2 Bylaws of Registrant as amended on March 16, 2011 included as exhibit 3.2 to the Registrant's Form 10-K for December 31, 2010, which is incorporated by this reference herein.
- 3.3 Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 3.4 Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 4 Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 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.
- 10.4 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.
- 10.6 Promissory Note Dated October 24, 2013, is included as Exhibit 10.6 to the Registrant's 10-Q filed on November 7, 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.
- 10.9 Amendment to Salary Continuation Agreement of Andrew J. Ryback dated April 1, 2016, is included as Exhibit 10.1 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.
- 10.10 Salary Continuation Agreement of Richard L. Belstock dated April 1, 2016, is included as Exhibit 10.2 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.
- 10.11 Salary Continuation Agreement of Kerry D. Wilson dated April 1, 2016, is included as Exhibit 10.3 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.
- 10.12 Salary Continuation Agreement of BJ North dated April 1, 2016, is included as Exhibit 10.4 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.
- 10.13 Director Retirement Agreement of Steven M. Coldani dated December 21, 2016, is included as Exhibit 10.13 to the Registrant's 10-K filed on March 17, 2017, 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.
- 10.24 Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included

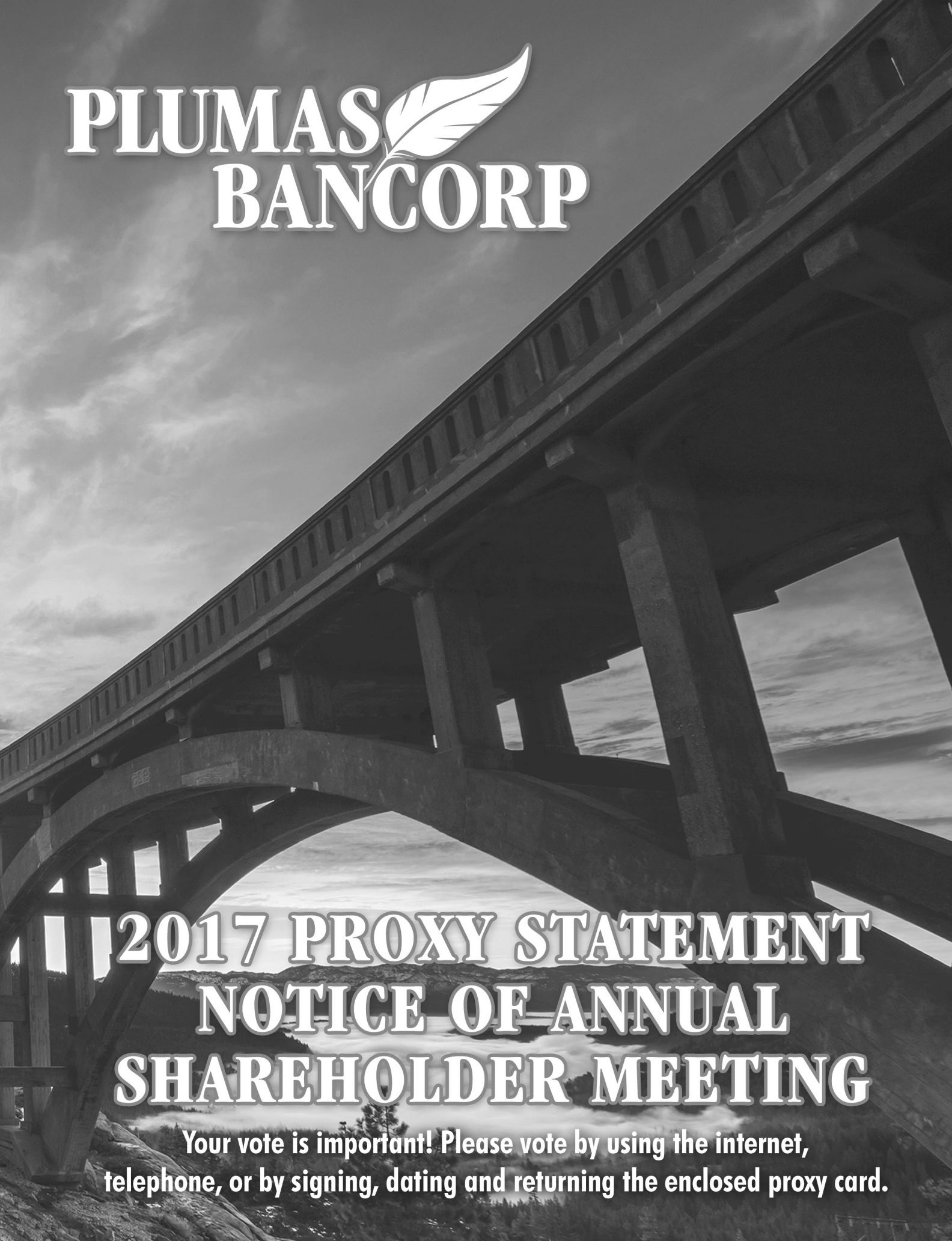
- as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.25 Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.33 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.
- 10.41 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.
- 10.47 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.
- 10.51 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.
- 10.66 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.
- 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-K under Item 8 Financial Statements Plumas Bancorp and Subsidiary Notes to Consolidated Financial Statements as Footnote 12 – Shareholders' Equity.
- 21.01 Plumas Bank – California.
- 21.02 Plumas Statutory Trust I – Connecticut.
- 21.03 Plumas Statutory Trust II – Delaware.
- 23.01* Independent Registered Public Accountant's Consent dated March 12, 2018.
- 31.1* Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated March 12, 2018.
- 31.2* Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated March 12, 2018.

- 32.1* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 12, 2018.
- 32.2* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 12, 2018.
- 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



PLUMAS BANCORP



2017 PROXY STATEMENT NOTICE OF ANNUAL SHAREHOLDER MEETING

Your vote is important! Please vote by using the internet, telephone, or by signing, dating and returning the enclosed proxy card.

To our Shareholders,

We are thrilled to report that with record-breaking and award-winning performance, it's been another phenomenal year for your Company. We ended the year once again with record levels of earnings, loans, deposits and assets. In 2017, our Company's total assets grew by more than \$87 million, or 13%, ending the year close to three quarters of a billion dollars in total assets. With our significantly improved financial performance and our solid capital position, we declared a 40% increase in our 2017 semi-annual cash dividend to our shareholders.

Moreover, we are extremely proud of being awarded the prestigious Community Bankers Cup by Raymond James & Associates for operating one of the top performing community banks in our nation. Out of the 272 community banks across the United States analyzed for the awards, Plumas Bancorp made the top 10% thus earning the Banker's Cup. But even more exciting is that out of the 28 chosen for the award, Plumas Bancorp ranked fifth overall. One of the metrics that we're most proud of is our five-year stock performance. With our stock price increasing by over 600%, we significantly outperformed all of the top performing community banks in the nation. We are exceptionally proud of this performance and will continue to focus on building long-term shareholder value.

We are also pleased to report the addition of two key individuals to our team. First, Richard F. Kenny was appointed to the Plumas Bancorp and Plumas Bank board effective July 19, 2017. Kenny is a proven executive with over 40 years of management experience in operations, information systems, strategic planning and credit risk management. Before retiring in 2010, Kenny was the founding CEO and on the Board of Directors of Charles Schwab Bank headquartered in Reno, Nevada, and a subsidiary of the Charles Schwab Corporation. Prior to this, Kenny held a variety of key management positions for CITIBANK in Chicago, and Seoul, South Korea. Kenny's extensive financial management experience and his significant leadership skills will be of great value as we continue to build our Company.

Second, Jeff Moore joined our bank as senior vice president, credit administrator. Jeff brings 37 years of banking experience to his new role and is responsible for assisting in managing our loan portfolio, loan documentation, loan operations and our special asset team. Jeff's wealth of experience and industry knowledge makes him a key addition to our growing team. His expertise in credit and loan operations will be a valuable asset as we continue to strengthen and expand our franchise.

We continue to build our team, monitor the competitive landscape and look for opportunities for investment and growth. Our strict attention to both return on investment and expense control will ensure that we have the necessary capital to execute our long-term strategic plan and continue to produce growth and strong returns for our shareholders.

Thank you for your continued confidence in and support of Plumas Bancorp.



Andrew J. Ryback
Director, President &
Chief Executive Officer



Daniel E. West
Director, Chairman
of the Board



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Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Plumas Bancorp (the “Company”), which will be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 16, 2018 at 9:30 a.m. At this annual meeting, shareholders will be asked to (i) elect eight directors for the next year and (ii) ratify the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018.

The Company is requesting your proxy to vote at the annual meeting. The Board of Directors of the Company recommends that you vote “FOR” the election of each of the nominees for director and “FOR” the ratification of appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018. The proxy statement contains information about each of the nominees for directors, the Company’s executive compensation, and each of the other proxy proposals for shareholder vote.

To ensure that your vote is represented at this important meeting, please sign, date, and return the proxy card in the enclosed envelope as promptly as possible. As an alternative to using your paper proxy card to vote, you may also vote by telephone or over the internet by following the instructions on your proxy card.

Sincerely,

A handwritten signature in black ink, appearing to read 'Andrew J. Ryback', written in a cursive style.

Andrew J. Ryback
President and Chief Executive Officer

The date of this proxy statement is March 29, 2018.

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**Notice of Annual Meeting of Shareholders
Plumas Bancorp**

To: The Shareholders of Plumas Bancorp

Notice is hereby given of the Annual Meeting of Shareholders of Plumas Bancorp. The meeting will be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 16, 2018 at 9:30 a.m., for the purpose of considering and voting upon the following matters:

1. **Election of Directors.** To elect eight (8) persons to serve as directors of Plumas Bancorp until their successors are duly elected and qualified.

Steven M. Coldani
William E. Elliott
Gerald W. Fletcher
Richard F. Kenny

Robert J. McClintock
Terrance J. Reeson
Andrew J. Ryback
Daniel E. West

2. **Ratification of the Appointment of Independent Auditors.** To vote on the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018.
3. **Transaction of Other Business.** To transact such other business as may properly come before the meeting and any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 29, 2018 as the record date for determination of shareholders entitled to notice of, and the right to vote at, the meeting.

You are urged to vote in favor of the election of all of the Board of Directors nominees for directors and “FOR” the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018, by signing and returning the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. As an alternative to using your paper proxy card to vote, you may also vote by telephone or over the internet by following the instructions on your proxy card. If you do attend the meeting, you may then withdraw your proxy. The proxy may be revoked at any time prior to its exercise.

By Order of the Board of Directors,



Dated: March 29, 2018

Terrance J. Reeson, Vice Chairman and Secretary

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**Plumas Bancorp
Proxy Statement
Annual Meeting of Shareholders
May 16, 2018**

Plumas Bancorp (the “Company”) is providing this proxy statement to its shareholders in connection with the annual meeting of shareholders to be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 16, 2018 at 9:30 a.m. and at any and all adjournments or postponements thereof (the “Meeting”).

It is expected that the Company will mail this proxy statement and accompanying notice and form of proxy to shareholders on or about April 6, 2018.

Shareholders may also view this proxy statement and the 2017 Annual Report to Shareholders on the internet at <http://materials.proxyvote.com/729273>.

General Information

Voting By Proxy. Whether or not you plan to attend the Meeting, you may submit a proxy to vote the **shares registered in your name** via internet, telephone or mail as more fully described below:

- By Internet: Go to <http://www.proxyvote.com> and follow the instructions. You will need information from your proxy card or electronic delivery notice to submit your proxy.
- By Telephone: Call 1.800.690.6903 and follow the voice prompts. You will need information from your proxy card or electronic delivery notice to submit your proxy.
- By Mail: Mark your vote, sign your name exactly as it appears on your proxy card, date your proxy card, and return it in the envelope provided.

If a bank, broker or other nominee holds your shares, you will receive voting instructions directly from the holder of record. All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card or as instructed via internet or telephone. If you properly submit a proxy without giving specific voting instructions, your shares will be voted in accordance with the Board’s recommendations “FOR”:

- Proposal 1: Election to the Board of all of the 8 director nominees named in this proxy statement;
- Proposal 2: Ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018.

If other matters properly come before the Meeting, the persons appointed to vote the proxies will vote on such matters in accordance with their best judgment. Such persons also have discretionary authority to vote to adjourn the Meeting, including for the purpose of soliciting proxies to vote in accordance with the recommendations of the Board of Directors (the “Board”) on any of the above items.

Revocability of Proxies and Proxy Voting

You may revoke your proxy at any time before it is exercised by:

- written notice of revocation delivered to Terrance J. Reeson, Corporate Secretary of Plumas Bancorp, at 35 S. Lindan Avenue, Quincy, California 95971;
- a properly executed proxy of a later date mailed to the Company;
- casting a new vote by telephone or internet; or
- voting in person at the Meeting if you are the holder of record.

If you are a street name shareholder and you voted by proxy, you may revoke your proxy by informing the holder of record in accordance with that entity's procedures. In addition, the powers of the proxy holders will be revoked if the person executing the proxy is present at the Meeting and elects to vote in person. Subject to such revocation or suspension, the proxy holders will vote all shares represented by a properly executed proxy received in time for the Meeting in accordance with the instructions on the proxy.

If no instruction is specified by the shareholder with regard to the matter on the proxy to be acted upon, the proxy holders will vote the shares represented by the proxy "FOR" each of the nominees for director, and "FOR" ratifying the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2018. If any other matter is presented at the Meeting, the proxy holders will vote in accordance with the recommendations of the Board.

Persons Making the Solicitation

The Board of Directors of the Company is soliciting proxies. The Company will bear the expense of preparing, assembling, printing, and mailing this proxy statement and the material used in the solicitation of proxies for the Meeting. The Company contemplates that proxies will be solicited principally through the use of the mail, but officers, directors, and employees of the Company may solicit proxies personally or by telephone, without receiving special compensation for the solicitation. Although there is no formal agreement to do so, the Company will reimburse banks, brokerage houses and other custodians, nominees, and fiduciaries for their reasonable expenses in forwarding these proxy materials to their principals. In addition, the Company may utilize the services of individuals or entities not regularly employed by the Company in connection with the solicitation of proxies, if management of the Company determines that this is advisable.

Voting Securities

Management of the Company has fixed March 29, 2018 as the record date for purposes of determining the shareholders entitled to notice of, and to vote at, the Meeting. On March 29, 2018, there were 5,082,675 shares of the Company's common stock issued and outstanding. Each holder of the Company's common stock will be entitled to one vote for each share of the Company's common stock held of record on the Company's books as of the record date. In connection with the election of directors, shares may be voted cumulatively if a shareholder present at the Meeting gives notice at the Meeting, prior to the voting for election of directors, of his or her intention to vote cumulatively. If any shareholder of the Company gives that notice, then all shareholders eligible to vote will be entitled to cumulate their shares in voting for election of directors. Cumulative voting allows a shareholder to cast a number of votes equal to the number of shares held in his or her name as of the record date, multiplied by the number of directors to be elected. These votes may be cast for any one nominee, or may be distributed among as many nominees as the shareholder sees fit. If cumulative voting is declared at the Meeting, votes represented by proxies delivered pursuant to this proxy statement may be cumulated at the discretion of the proxy holders, in accordance with management's recommendation.

The eight nominees for director receiving the most votes will be elected. Therefore, shares voted “withhold” and broker non-votes will have no impact on the outcome of the election of directors. Proposal 2 regarding the ratification of the appointment of the Company’s auditors requires the approval of a majority of the shares represented and voting at the Meeting, with affirmative votes constituting at least a majority of the required quorum. Therefore, shares voted “withhold” and broker non-votes will have no impact on the outcome of these proposals, assuming that the affirmative votes constitute at least a majority of the required quorum.

Shareholdings of Certain Beneficial Owners and Management

Management of the Company knows of no person who owns, beneficially or of record, either individually or together with associates, five percent or more of the outstanding shares of the Company’s common stock, except as set forth in the table below. The following table sets forth, as of March 16, 2018, the number and percentage of shares of the Company’s outstanding common stock beneficially owned, directly or indirectly, by principal shareholders, by each of the Company’s directors, our executive officers named in the Summary Compensation Table contained in this proxy statement, and by the directors and executive officers of the Company as a group. The shares “beneficially owned” are determined under the Securities and Exchange Commission (“SEC”) Rules, and do not necessarily indicate ownership for any other purpose. In general, beneficial ownership includes shares over which the director, named executive officer (“NEO”) or principal shareholder has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of March 16, 2018. Unless otherwise indicated, the persons listed below have sole voting and investment powers of the shares beneficially owned or acquirable by exercise of stock options. Management is not aware of any arrangements that may result in a change of control of the Company.

Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
<u>Principal Shareholders that own 5% or more:</u>		
Cortopassi Partners, L.P.	476,967 (2)	9.4
Siena Capital Partners GP, LLC.	352,747 (3)	7.0
<u>Directors and Named Executive Officers:</u>		
Andrew J. Ryback, President, CEO and Director	62,874 (4)	1.2
Richard L. Belstock, EVP and CFO	53,418 (5)	1.0
BJ North, EVP and Chief Banking Officer (CBO) of Plumas Bank	20,800 (6)	*
Kerry D. Wilson, EVP and CCO of Plumas Bank	32,250 (7)	*
Daniel E. West, Director and Chairman of the Board	57,238 (8)	1.1
Terrance J. Reeson, Director, Vice Chairman and Secretary of the Board	87,631 (9)	1.7
Steven M. Coldani, Director	16,439 (10)	*
William E. Elliott, Director	81,000 (11)	1.6
Gerald W. Fletcher, Director	37,058 (12)	*
John Flournoy, Director	57,406 (13)	1.1
Richard F. Kenny	2,300 (14)	*
Robert J. McClintock, Director	100,281 (15)	2.0
All 12 Directors and Executive Officers as a Group	608,695	11.8

* Less than one percent

(1) Includes 87,200 shares subject to options held by the directors and executive officers that were exercisable within 60 days of March 16, 2018. In accordance with SEC rules, these are treated as issued and outstanding for the purpose of computing the percentage of each director, named executive officer, and the directors and executive officers as a group, but not for the purpose of computing the percentage of class owned by any other person, including principal shareholders.

(2) Based solely on information provided by the beneficial owners in a Schedule 13G filed with the SEC on January 25, 2017 by Cortopassi Partners, L.P., Dean A. Cortopassi is President of San Tomo, Inc., the general partner of Cortopassi Partners, L.P. Mr. Cortopassi disclaims beneficial ownership of the shares held by Cortopassi Partners, L.P. except to the extent of his partnership interests therein. The address of the Cortopassi Partners, L.P. is 11292 North Alpine Road, Stockton, California 95212.

- (3) Based solely on information provided by the beneficial owners in a Schedule 13G/A filed with the SEC on January 27, 2017. Siena Capital Partners GP, LLC. is the general partner of each of Siena Capital Partners I, L.P. and Siena Capital Partners Accredited, L.P. Siena Capital Partners I, L.P. may be deemed to beneficially own 343,768 shares of common stock of the Company, Siena Capital Partners Accredited, L.P. may be deemed to own 8,979 shares of common stock of the Company, and Siena Capital Partners GP, LLC. may be deemed to own 352,747 shares of common stock of the Company. The address of the Siena entities is 100 North Riverside Plaza, Suite 1630 Chicago, Illinois 60606.
- (4) Mr. Ryback has shared voting and investment powers as to 23,500 of these shares. Includes 12,800 shares that Mr. Ryback has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (5) Includes 14,400 shares that Mr. Belstock has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (6) Includes 20,800 shares that Ms. North has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (7) Mr. Wilson has shared voting and investment powers as to 15,922 of these shares. Includes 9,600 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (8) Mr. West has shared voting and investment powers as to 23,662 of these shares and sole voting powers but shared investment powers as to 16,794 of these shares. Includes 8,000 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (9) Mr. Reeson has shared voting and investment powers as to 74,771 of these shares. Includes 8,000 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (10) Mr. Coldani has shared voting and investment powers as to 9,313 of these shares. Includes 2,400 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (11) Mr. Elliott has shared voting and investment powers as to 73,000 of these shares. Includes 8,000 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (12) Mr. Fletcher has shared voting and investment powers as to 36,213 of these shares. Includes 800 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (13) Includes 5,600 shares that Mr. Flournoy has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.
- (14) Mr. Kenny has shared voting and investment powers as to these shares.
- (15) Mr. McClintock has shared voting and investment powers as to 56,058 of these shares. Includes 1,600 shares that he has the right to acquire upon the exercise of stock options within 60 days of March 16, 2018.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and certain executive officers and persons who own more than ten percent (10%) of a registered class of the Company's equity securities (collectively, the "Reporting Persons"), to file reports of ownership and changes in ownership with the SEC. The Reporting Persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company during and with respect to its 2017 fiscal year, no director, executive officer or beneficial owner of 10% or more of the Company's common stock failed to file, on a timely basis, reports required during or with respect to 2017 by Section 16(a) of the Securities Exchange Act of 1934, as amended, except for Ms. North, who inadvertently failed to timely file one report on Form 4 with respect to one transaction, Mr. West who inadvertently failed to timely file one report on Form 5 with respect to one transaction and Mr. Wilson who inadvertently failed to timely file one report on Form 5 for the year ended December 31, 2016 with respect to one transaction and one report on Form 5 for the year ended December 31, 2017 with respect to two transactions.

PROPOSAL 1
ELECTION OF DIRECTORS

The persons named below, all of whom are current members of the Company’s Board of Directors (the “Board”), will be nominated for election as directors at the Meeting to serve until the 2019 Annual Meeting of Shareholders and until their successors are elected and have qualified. Votes of the proxy holders will be cast in such a manner as to effect the election of all eight nominees, as appropriate, or as many as possible under the rules of cumulative voting. The eight nominees for directors receiving the most votes will be elected directors. In the event that any of the nominees should be unable to serve as a director, it is intended that the proxy will be voted for the election of such substitute nominee, if any, as shall be designated by the Board. The Board has no reason to believe that any of the nominees named below will be unable to serve if elected. Additional nominations for directors may only be made by complying with the nomination procedures set forth in the Company’s Bylaws. See “Shareholder Proposals - Nomination of Director Candidates.”

The following table sets forth the names of, and certain information concerning, the persons to be nominated by the Board for election as directors of the Company. Each of the nominees is currently a director of the Company and the Company’s subsidiary, Plumas Bank (the “Bank”).

Name and Title Other than Director	Age	Year First Appointed Director	Principal Occupation During the Past Five Years
Daniel E. West Chairman of the Board	64	1997	President, Graeagle Land & Water Co., a land management company. President, Graeagle Water Co, a private water utility, Graeagle, CA.
Terrance J. Reeson Vice Chairman and Secretary of the Board	73	1984	Retired.
Steven M. Coldani	64	2013	President, Owner/Broker, Coldani Realty Inc. and co-owner of Graeagle Associates Realtors; a managing member of Coldani Farming, LLC, a diversified farming company, Lodi, CA.
William E. Elliott	77	1987	Retired.
Gerald W. Fletcher	75	1988	Forest Products Wholesaler, Susanville, CA.
Richard F. Kenny	69	2017	Retired.
Robert J. McClintock	60	2008	Certified Public Accountant, co-owner of McClintock Accountancy Corporation, Tahoe City, CA.
Andrew J. Ryback	52	2016	President and CEO of Plumas Bancorp and Plumas Bank.

Experience and Qualifications

The following is a brief description of the experience and qualifications of each nominee that the Corporate Governance Committee considered, in light of the Company's business and structure, in nominating them for service as Directors:

Daniel E. West

Chairman of the Board

Director since 1997

Mr. Daniel E. West has lived in Graeagle, California since 1958. He is president of Graeagle Land and Water Company, a land management company, and Graeagle Water Company, a private water utility. Mr. West is a managing member of Graeagle Timber Company, LLC. He also serves as a director on the boards of Graeagle Fire Protection District and California Water Association. Mr. West graduated from the University of the Pacific, Stockton, California where he received a Bachelor of Science degree in Business Administration. Mr. West's valuable business acumen, his extensive experience on various and diverse boards, and his deep ties to his community highly qualify him for service as a member of the Board and Chairman.

Terrance J. Reeson

Vice Chairman

Director since 1984

Mr. Terrance J. Reeson has lived in Quincy, California for over 50 years. He is a retired U.S. Forest Service Aviation Officer for the Plumas National Forest. Mr. Reeson is active in his community and is a former executive director of the Quincy Chamber of Commerce. Mr. Reeson's relevant experience qualifying him for service as a director includes extensive government service, leadership experience, and widespread civic and community involvement.

Steven M. Coldani

Director

Director since 2013

Mr. Steven M. Coldani was born and raised in Lodi, California. He is a licensed real estate broker and the president and owner of Coldani Realty Inc. in Lodi, California; he is also co-owner of Graeagle Associates Realtors in Graeagle, California since 1992. In addition, Mr. Coldani is a managing member of Coldani Farming, LLC, a diversified farming company producing various row crops such as olives and grapes, hay and livestock. Mr. Coldani graduated from the University of the Pacific, Stockton, California where he received a Bachelor of Science degree in Business and Public Administration. Mr. Coldani's relevant experience qualifying him for service as a member of the Board includes his familiarity with the real estate markets in which we operate, a broad range of management and community service experience including his service on the board of Community Business Bank, and his membership in the Lodi District Chamber of Commerce, the California Farm Bureau, the Lodi Association of Realtors and the Plumas Association of Realtors. He is also a past director of the California Association of Realtors.

William E. Elliott

Director

Director since 1987

Mr. William E. Elliott joined Plumas Bank in 1987 as President and Chief Executive Officer and retired in 2005. He has been in the banking industry for over 50 years holding various management and board positions; this experience highly qualifies him for service as a board director. Mr. Elliott graduated from California State University, Sacramento where he received a Bachelor of Science degree in Accounting and a Master's in Business Administration. He also graduated from the Pacific School of Banking at the University of Washington. Mr. Elliott is very active in his community; he is a director and

former chairman of the Feather River Community College Board, and he is a former chairman and director on the Plumas District Hospital Board, both in Quincy, California. He has been a member of the Rotary Club for over 40 years. Our Board of Directors benefits from Mr. Elliot's in-depth knowledge of the Company gained through his position as our former President and Chief Executive Officer, including with respect to its operations, strategy, financial condition, and competitive position.

Gerald W. Fletcher

Director

Director since 1988

Mr. Gerald W. Fletcher has lived in Susanville, California since 1956 and is a retired rancher, realtor, and insurance agent. He is a former director of Sierra Security Bank. Mr. Fletcher owns and operates Fletcher Christmas Trees. He was also a reforestation contractor and has planted millions of trees throughout Northern California. He is a member and past president of Lassen County Cattleman's Association and a member of the Lassen County Farm Bureau. Mr. Fletcher's relevant experience qualifying him for service as a member of the Board is comprised of a broad range of management and community service including his past service as Lieutenant in the Susanville Volunteer Fire Department, a past 4-H Leader, and previous experience as bank director.

Richard F. Kenny

Director

Director since 2017

Richard F. Kenny resides in Reno, Nevada and brings over 40 years of management experience in Operations, Information Systems, Strategic Planning and Credit Risk Management. Before retiring in 2010, he was the founding President and CEO of Charles Schwab Bank, a subsidiary of the Charles Schwab brokerage corporation. Prior to that, he served in a variety of management roles with Citibank, both domestic and international. He is actively involved with KNPB public television and the Food Bank of Northern Nevada in the Reno community. He graduated from Northwestern University in Evanston, Illinois with a Bachelor of Science degree in Business Administration and Marketing and received his Master's in Finance from the University of Chicago.

Robert J. McClintock

Director

Director since 2008

Mr. Robert J. McClintock has lived in Tahoe City, California for over 30 years. He is a Certified Public Accountant and is a shareholder of McClintock Accountancy Corporation headquartered in Tahoe City, California with an additional office in Truckee, California. As a CPA, Mr. McClintock brings strong accounting and financial skills important to the oversight of the Company's financial reporting, enterprise and operational risk management. Mr. McClintock is Troop Committee Chairman for Boy Scouts of America Troop 266. He is also a board member of the Kiwanis Club of North Lake Tahoe and has served previously as President and Treasurer. He is a member of the advisory board for the Tahoe Truckee Excellence in Education Foundation and has served previously as Treasurer. Mr. McClintock attended Michigan Tech University where he received his Bachelor of Science degree in Business Administration.

Andrew J. Ryback

Director, President and CEO

Director since 2016

Mr. Andrew J. Ryback joined Plumas Bank in 2001. In 2005 he was appointed Executive Vice President and Chief Financial Officer of the Company and the Bank. In 2010 he was appointed interim President and Chief Executive officer and in 2011 that position became permanent.

Mr. Ryback received his Bachelor of Science degree in Business Administration from California State University, Northridge. He is a Certified Public Accountant and a graduate of Pacific Coast Banking School. Mr. Ryback actively serves in a variety of international, regional and local organizations. He is a member of Rotary International and is a past president of the Quincy club. He is on the board of the California Community Banking Network (CCBN), an affiliate of the Independent Community Bankers of America (ICBA) and actively serves on ICBA's Bank Education Committee. He is also on the Federal Reserve Bank of San Francisco's Community Depository Institutions Advisory Council. Locally, Mr. Ryback serves as the Treasurer on the Board of Directors of Sierra Cascade Family Opportunities, which oversees Head Start operations in Northeastern California, and he chairs the Plumas District Hospital Bond Oversight Committee. Additionally, Mr. Ryback serves as Commissioner and Treasurer for the Quincy Fire Protection District and previously served as a volunteer firefighter. Our Board of Directors benefits from Mr. Ryback's in-depth knowledge of the Company gained through his position as our President and Chief Executive Officer, including with respect to its operations, strategy, financial condition, and competitive position.

All nominees will continue to serve if elected at the Meeting until the 2019 annual meeting of shareholders and until their successors are elected and have been qualified. None of the directors were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Company acting within their capacities as such. There are no family relationships between any of the directors of the Company. No director of the Company serves as a director of any company that has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940.

Board Matters

The Board of Directors and Committees

During 2017, the Company's Board of Directors met 14 times. None of the Company's directors attended less than 75 percent of all Board of Directors meetings and committee meetings of which they were members. The Company does not have a policy requiring director attendance at its annual meeting; however, most directors attend the meeting as a matter of course. All current directors attended the 2017 annual meeting of shareholders. The Board has established, among others, an Audit Committee and a Corporate Governance Committee, which serves as a nominating committee and a compensation committee, and each of these committees have charters. Charters for each of these committees are available on the Company's website, www.plumasbank.com.

Shareholder Communication with the Board of Directors

If you wish to communicate with the Board of Directors or the Chairman of the Board you may send correspondence to the Corporate Secretary, Plumas Bancorp, 35 S. Lindan Avenue, Quincy, California 95971. The Corporate Secretary will perform a review of such correspondence to ensure that communications forwarded to the Board or the Chairman preserve the integrity of the process. For example, items that are unrelated to the duties and responsibilities of the Board or the Chairman such as spam, junk mail and mass mailings, product complaints, personal employee complaints, product inquiries, new product suggestions, resumes and other forms of job inquiries, surveys, business solicitations or advertisements (the "Unrelated Items") will not be forwarded. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will not be forwarded. Any communication that is relevant to the conduct of the Company's business and is not forwarded will be retained for one year (other than Unrelated Items) and made available to the Chairman and any other independent director on request. The independent directors grant the Corporate Secretary discretion to decide what correspondence shall be shared with the Company's management and specifically instruct that any personal employee complaints be forwarded to the Company's Human Resources Department.

Board Role in Risk Oversight

The Board's duties include understanding and assessing risks to the Company and monitoring the management of those risks. To fulfill this responsibility the directors are expected to attend all meetings and review materials in advance of the meetings. Each meeting includes a review of the activities of each board committee including the committee's activities related to risk management. Each of our board committees concentrates on specific risks for which they have an expertise, and each committee is required to regularly report to the Board of Directors on its findings.

The Board believes that evaluating how the executive team manages the various risks confronting the Company is one of its most important areas of oversight. In carrying out this critical responsibility, the Board has designated the Audit Committee with primary responsibility for overseeing enterprise risk management. While the Audit Committee has primary responsibility for overseeing enterprise risk management, each of the other Board committees also considers risk within its area of responsibility. For example, the Corporate Governance Committee reviews risks related to legal and regulatory compliance as they relate to corporate governance structure and processes and reviews risks related to compensation matters. Our Loan Committee regularly reviews the Company's lending policies, evaluates the adequacy of our allowance for loan losses, and approves the Company's larger extensions of credit. The Board is apprised by the committee chairs of significant risks and management's response to those risks via periodic reports. While the Board and its committees oversee risk management strategy, management is responsible for implementing and supervising day-to-day risk management processes and reporting to the Board and its committees on such matters.

Furthermore, because the banking industry is highly regulated, certain risks to the Company are monitored by the Board through its review of the Company's compliance with regulations set forth by its regulatory authorities, including the FDIC and recommendations contained in regulatory examinations. The Company's chief compliance officer regulatory reports to and meets with the Corporate Governance Committee.

With respect to risk related to compensation matters, the Corporate Governance Committee considers, in establishing and reviewing the Company's executive compensation program, whether the program encourages unnecessary or excessive risk-taking and has concluded that it does not. Executives' base salaries are fixed in amount and thus do not encourage risk-taking. On December 21, 2016, the Board approved the Company's cash non-equity incentive plan for 2017 (See "Executive Compensation – Non-Equity Incentive Plan.") No individual officer's earnings under the 2017 non-equity incentive plan exceeded \$51,200, with the exception of Mr. Ryback who earned an incentive of \$124,213. The Corporate Governance Committee concluded that the 2017 non-equity incentive plan did not encourage unnecessary or excessive risk taking. The other significant source of compensation to executives is in the form of long-term equity awards that are important to help further align executives' interests with those of the Company's shareholders. The Corporate Governance Committee believes that these awards do not encourage unnecessary or excessive risk-taking since the ultimate value of the awards is tied to the Company's stock price, and awards are subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance.

The Corporate Governance Committee has also reviewed the Company's compensation programs for employees generally and has concluded that these programs do not create risks that are reasonably likely to have a material adverse effect on the Company. The Corporate Governance Committee believes that the design of the Company's annual cash and long-term equity incentives provides an effective and appropriate mix of incentives to help ensure the Company's performance is focused on long-term shareholder value creation and does not encourage the taking of short-term risks at the expense of long-term results.

Leadership Structure of Board

The Board believes that the Company and its shareholders are best served by having an independent Board Chairman and a separate CEO. We separate these roles in recognition of the differences between the two roles. The CEO is responsible for day-to-day leadership and performance of the Company, while the Chairman of the Board provides strategic guidance to the CEO and presides over meetings of the full Board.

Code of Ethics

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

Director Independence

The Board has determined that each of the following non-employee directors are "independent" within the meaning of the listing standards and rules of NASDAQ.

Daniel E. West	Richard F. Kenny
Steven M. Coldani	Robert J. McClintock
Gerald W. Fletcher	Terrance J. Reeson
John Flournoy	

Mr. Ryback is not independent because he is an employee of the Company. The Board has not determined that Mr. Elliot is independent because he is the Company's former President and Chief Executive Officer and receives retirement benefits from the Company.

Audit Committee

The Company has an Audit Committee composed of Mr. McClintock, Chairman, and Messrs. Flournoy, Kenny and Reeson. The Board has determined that each member of the Audit Committee meets the independence and experience requirements of the listing standards of NASDAQ and the SEC applicable to audit committee members. The Board has also determined that Mr. Robert J. McClintock is qualified as an audit committee financial expert and that he has accounting or related financial management expertise, in each case in accordance with the rules of the SEC and NASDAQ's listing standards.

The Audit Committee met nine times during 2017. The Audit Committee reviews all internal and external audits including the audit by Vavrinek, Trine, Day & Company, LLP, the Company's independent auditor for 2017. The Audit Committee reports any significant findings of audits to the Board of Directors and ensures that the Company's internal audit plans are met, programs are carried out, and deficiencies and weaknesses, if any, are addressed. The Audit Committee meets regularly to discuss and review the overall audit plan. The Audit Committee's policy is to pre-approve all recurring audit and non-audit services provided by the independent auditors through the use of engagement letters. These services may include audit services, audit-related services, tax services, and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding all services provided by the independent auditors and fees associated with those services performed to date. The fees paid to the independent auditors in 2017 and 2016 were approved per the Audit Committee's pre-approval policies.

Audit Committee Report

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the Acts.

The Board of Directors and the Audit Committee has reviewed the Company's audited financial statements and discussed such statements with management. The Audit Committee has discussed with Vavrinek, Trine, Day & Company, LLP, the Company's independent auditors during the year 2017, all communications required by standards of the Public Company Accounting Oversight Board, including the matters required to be discussed by Auditing Standard No. 16 (Communications with Audit Committees) and Rule 2-07(Communication with Audit Committees) of Regulation S-X and, with and without management present, discussed and reviewed the results of the independent external audit firm's examination of the financial statements. The Committee also discussed the results of internal audits.

The Audit Committee has also received the written disclosures and the letter from Vavrinek, Trine, Day & Company, LLP as required by the PCAOB's Ethics and Independence Rule 3526 (Communication with Audit Committees Concerning Independence) and has discussed with the independent registered public accounting firm their independence.

Based on the review and discussions noted above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the SEC.

THE AUDIT COMMITTEE:

Robert J. McClintock, Chairman
Terrance J. Reeson

John Flournoy
Richard F. Kenny

Corporate Governance Committee

The Company has a Corporate Governance Committee which met five times during 2017. The Corporate Governance Committee consists of Mr. Flournoy, Chairman, and Messrs. Coldani, Kenny, Reeson, and West. The Board has determined that Messrs. Flournoy, Coldani, Kenny, Reeson, and West are "independent" within the meaning of the listing standards and rules of NASDAQ, including those applicable to compensation committee members. The Corporate Governance Committee, which functions as the Board's nominating and compensation committees, provides assistance to the Board by identifying qualified individuals as prospective Board members, recommends to the Board the director nominees for election at the annual meeting of shareholders, nominates the Chairperson and Vice-Chairperson of the Board, oversees the annual review and evaluation of the performance of the Board and its committees, and develops and recommends corporate governance guidelines to the Board of Directors.

The Corporate Governance Committee also serves as the Board's compensation committee and at least annually reviews, adjusts (as appropriate), and approves the Company's directors' compensation, including cash, equity, or other compensation for service on the Board, any committee of the Board, and as Chairperson of the Board or any committee of the Board. The Corporate Governance Committee at least annually reviews, adjusts (as appropriate) and approves the Chief Executive Officer's compensation, provides advice and consents to the Chief Executive Officer in the review and adjustment of executive officer compensation (other than the Chief Executive Officer), approves the compensation strategy for the Company's employees, reviews and recommends for approval by the Board all equity-based compensation, including stock options and stock grants, and approves other personnel matters, which are in excess of management's authority.

The Corporate Governance Committee does not have any written specific minimum qualifications or skills that the committee believes must be met by either a committee-recommended or a shareholder-recommended candidate in order to serve on the Board. The Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company’s business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Corporate Governance Committee or the Board decided not to re-nominate a member for re-election, the Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the following criteria. While no specific diversity policy exists, in practice, when identifying and evaluating new directors, the Corporate Governance Committee considers the diversity and mix of the existing members of the Board, including, but not limited to, such factors as: the age of the current directors, their geographic location (being a community bank, there is a strong preference for local directors), background, skills, and employment experience. Among other things, when examining a specific candidate’s qualifications, the Corporate Governance Committee considers the candidate’s ability to represent the best interest of the Company; existing relationships with the Company; interest in the affairs of the Company and its purpose; ability to fulfill director responsibilities; leadership skills; reputation within the Company’s community; community service; integrity; business judgment; ability to develop business for the Company; and ability to work as a member of a team. The Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Committee does not discriminate against prospective nominees on the basis of race, religion, national origin, gender, sexual orientation, disability or any other basis proscribed by law. All nominees to be considered for election as directors at the Meeting were recommended by the Corporate Governance Committee.

The Corporate Governance Committee will consider nominees to the Board proposed by shareholders, although the Board has no formal policy with regard to shareholder nominees as it considers all nominees on their merits as aforementioned. Any shareholder nominations proposed for consideration by the Board may only be made by complying with the nomination procedures set forth in the Company’s Bylaws, which are summarized below. See “Shareholder Proposals - Nomination of Director Candidates.” Any such notices should be addressed to:

Chairman of the Board
 Plumas Bancorp
 35 S. Lindan Avenue
 Quincy, CA 95971

Executive Officers

The following table sets forth information concerning the executive officers of the Company and the Bank:

<u>Name</u>	<u>Age</u>	<u>Position and Principal Occupation for the Past Five Years</u>
Andrew J. Ryback	52	President and Chief Executive Officer of the Company and the Bank since November, 2011.
Richard L. Belstock	61	Executive Vice President of the Company and the Bank since July, 2012. Chief Financial Officer of the Company and the Bank since November, 2011.
BJ North	67	Executive Vice President and Chief Banking Officer of Plumas Bank since January, 2018. Executive Vice President of Retail Banking, Marketing and Commercial Lending of the Bank since July, 2011.
Kerry D. Wilson	61	Executive Vice President and Chief Credit Officer of the Bank since July 18, 2012.

Executive Compensation Compensation Discussion and Analysis

We strive for a total executive compensation program that will:

- support our business strategy, improve our overall performance, and be cost effective by paying for performance with incentive pay being a key part of executive compensation,
- align the interests of our executives with the long-term interests of our shareholders by having a significant portion of the compensation of our executives as equity in the Company,
- be internally equitable with the total compensation of our Chief Executive Officer being a low multiple of the total compensation of our other executive officers,
- be externally equitable with the base salary of our executive officers being competitive with our peers.

As such, the Corporate Governance Committee believes that executive officer compensation should be closely aligned with the performance of the Company on a short-term and long-term basis, and that such compensation should be structured to assist the Company in attracting and retaining key executives critical to its long-term success. The total compensation of our executive officers consists of five components: (i) an annual base salary; (ii) annual incentive bonuses paid only upon achievement of pre-established objective performance targets for the Company; (iii) stock option awards granted to link the interests of our executive officers with those of the Company's shareholders by providing long-term incentives to executive officers of the Company through appreciation in the Company's stock price; (iv) post-employment benefits, specifically salary continuation agreements designed as a long-term incentive and retention benefit and (v) perquisites that the Committee believes to be customary with those made available to executive officers in similar positions, including a 401(k) match.

We believe that the higher the level of the executive, the higher the level of leadership required and risk associated with that executive position to achieve our corporate and financial objectives. Therefore, incentive compensation related to achieving our corporate performance targets and equity compensation related to stock price performance is emphasized in the positions of the Chief Executive Officer and in the Executive Vice President positions, with these elements of compensation providing a higher percentage of total compensation than in lower level positions within the Company.

At the 2016 annual shareholder meeting, the Company's shareholders approved an advisory vote on the named executive officers' compensation by approximately 95% of the votes cast. The Corporate Governance Committee believes this high degree of shareholder support for our 2016 say-on-pay proposal affirms shareholders' support of our executive compensation program, and the Corporate Governance Committee considered the results of this vote in setting compensation for the named executive officers for 2017 and 2018. We believe shareholders' support of the Company's compensation program indicates that shareholders concur with the compensation program that we have implemented. The Corporate Governance Committee will continue to consider the outcome of shareholders' votes on our say-on-pay proposals when making future compensation decisions for the named executive officers.

During 2015, the Corporate Governance Committee consulted with Pearl Meyer & Partners, LLC, ("Pearl Meyer"), a compensation consulting firm. Pearl Meyer served as an independent compensation consultant to advise the Corporate Governance Committee on matters related to the executives' compensation. Pearl Meyer also provided guidance on industry best practices and assisted the Corporate Governance Committee by providing comparative market data on compensation practices and programs for the executives based on an analysis of peer competitors. Related to the executive's compensation, Pearl Meyer advised the Corporate Governance Committee in (1) determining base salaries, (2) setting competitive levels for the Company's Executive Incentive Plan, (3) determining the appropriateness of individual grant levels for equity awards, (4) evaluating the retirement plans and benefit amounts, (5) evaluating the perquisite program and allowances provided, and (6) determining the appropriateness of the change in control and termination benefits.

(i) **Annual Base Salary**

In setting base salaries our goal is to provide competitive levels of cash compensation to the named executives based upon their duties, responsibilities, and experience.

Non-Equity Incentive Plan

On December 21, 2016, the Board of Directors of Plumas Bancorp approved the Company's cash non-equity incentive plan for 2017 (the "2017 NEI", the "Plan"). Eligible employees under the 2017 NEI include all officers of Plumas Bank (the "Bank") who have reached, at a minimum, the level of Assistant Vice President. Incentives were payable under the 2017 NEI once the Bank had reached 80% of budgeted pretax, pre-bonus income. The maximum total bonus pool available for distribution was \$1,086,000 at 120% of budgeted pretax, pre-bonus income. At budget, the bonus pool would total \$754,000. Up to 13% of the pool could be allocated to Mr. Andrew Ryback, the Company's Chief Executive Officer and President. Executive Vice Presidents each could earn up to 5% of the bonus pool. Under the 2017 NEI, cash incentive payments to the Company's Chief Executive Officer and President were based 60% on pretax, pre-bonus income targets, 20% upon the attainment of performance goals, and 20% upon various performance metrics. Cash incentive payments for the Company's Executive Vice Presidents were based 70% on pretax, pre-bonus income targets, 10% upon the attainment of performance goals, and 20% upon various performance metrics. Goals and metrics for the Company's Chief Executive Officer and President included targeted increases in loans and deposits, continued improvement in asset quality, targeted levels of ROE and ROA compared to a select group of peer institutions and promoting efficiency in the lending area. At budget, the maximum amount of incentive payment that could be earned by the Company's Chief Executive Officer and President was \$98,053 and for each Executive Vice President the maximum incentive payable at budget was \$37,713. At 120% or more of budget, the maximum amount of incentive payment that could be earned by the Company's Chief Executive Officer and President was \$141,196 and for each Executive Vice President the maximum incentive payable was \$54,306. A bonus pool of \$1,023,000 was earned under the 2017 NEI based on the Bank achieving 115% of budgeted pretax, pre-bonus income, exceeding targeted levels of ROE and ROA and meeting three of the five goals. Incentives earned by NEOs under the Plan were as follows:

Executive	Incentive Earned Based on:			
	Pretax Income	Goals	Metrics	Total
Andrew J. Ryback	\$80,939	\$16,228	\$27,046	\$124,213
Richard L. Belstock	\$37,297	\$3,467	\$10,402	\$51,166
BJ North	\$36,197	\$3,467	\$10,402	\$50,066
Kerry D. Wilson	\$35,733	\$2,601	\$10,402	\$48,736

A total of forty-six employees received incentive payments under the Plan, which were paid during the first quarter of 2018.

A bonus pool of \$825,000 was earned under the 2016 NEI based on the Bank achieving 116% of budgeted pretax, pre-bonus income. No individual officer's earnings under the 2016 NEI exceeded \$42,500, with the exception of Mr. Ryback who earned an incentive of \$107,358 in 2016. A total of forty-five employees received bonus payments under the 2016 NEI, which were paid during the first quarter of 2017.

(ii) **Stock Option Awards**

The Board considers equity compensation in the form of stock option awards to be an important component of its total compensation package because it helps align the interests of the Company's executives to those of its shareholders and provides a significant retention incentive. During 2013 the Company's shareholders approved the Plumas Bancorp 2013 Stock Option Plan (the "2013 Plan"), which allows for the granting of stock option awards to employees. The 2013 Plan has a term of 10 years. Up to 500,000 shares of common stock may be issued pursuant to awards of stock options under the 2013 Plan. The Corporate Governance Committee approves and recommends to the Board for its approval all stock option grants. The Company makes grants of equity-based compensation only at fair market value of our stock at the time of grant. The exercise price of stock options is set at the closing stock price on the date of grant. All option grants have a maximum vesting period of five (5) years and expire no more than ten (10) years from the date of grant.

During 2016, the Company granted a total of 79,200 stock options under the 2013 Plan to officers at the level of Senior Vice President or above, including Mr. Ryback (14,400 shares), Mr. Belstock (9,600 shares), Ms. North (9,600 shares) and Mr. Wilson (9,600 shares). The options were granted on February 17, 2016, have an exercise price of \$8.75 per share, vest in four equal annual installments over a four year period and expire eight years after the date of grant. The Company granted no stock options during the years ended December 31, 2017 and December 31, 2015.

The Company incorporates the officer's position level in the determination of the total value of the equity-based compensation to be included in the officer's total compensation. Generally, the higher the officer's level, the more options that may be granted to the officer. Additional options may be granted to an individual based on outstanding achievement. This is consistent with the Company's philosophy of rewarding those officers who have the most impact on our performance.

(iii) **Post-Employment Benefits**

We consider providing significant post-employment benefits in the form of providing salary continuation benefits to our executives as an important long-term component of their total executive compensation to reward them for their service and loyalty to the Company. These post-employment benefits also help us retain executives because the benefits are subject to vesting over a period of years.

In 2005 the Company entered into a salary continuation agreement with Mr. Ryback. The purpose of the salary continuation agreement is to provide a special incentive to the experienced executive officer to continue employment with the Company on a long-term basis. The 2005 agreement provides Mr. Ryback with salary continuation benefits of up to \$62,000 per year for 15 years after retirement at age 65. On April 1, 2016 this agreement was amended to increase Mr. Ryback's annual benefit from \$62,000 to \$80,000 per year. In the event of death prior to retirement, Mr. Ryback's beneficiary is entitled to a portion of the death benefits pursuant to a split dollar agreement. In the event of disability wherein Mr. Ryback does not continue employment with the Company, he is entitled to salary continuation benefits, at a reduced amount depending on the length of service with the Company, beginning at age 65 or on the date on which he is no longer entitled to disability benefits under the Company's group disability insurance, whichever is earlier. If Mr. Ryback terminates employment with the Company for a reason other than death or disability prior to the retirement age of 65, he will be entitled to salary continuation benefits at a reduced amount depending on the length of service with the Company. The vesting of salary continuation benefits for Mr. Ryback occurs at a rate that provides for a 90% vesting at age 60 and 2% per year for the next five years of service.

In the event of a change of control of the Company and Mr. Ryback terminates employment with the Company or its successor within a period of 24 months after such change in control, the unvested portion of his salary continuation benefits would vest and the payment of the salary continuation benefits would begin the month following the month of termination, subject to the reduction of benefits if the benefits result in a limitation of deductibility of such benefits for the Company under Section 280G of the Internal Revenue Code. The salary continuation benefits are informally funded by single premium life insurance policies with Mr. Ryback as the insured party and the Company as the beneficiary of the policies.

The Company has entered into a split dollar agreement with Mr. Ryback. The purpose of the split dollar agreement is to provide special incentive to Mr. Ryback to continue employment with the Company on a long-term basis. To accomplish this, the Company agrees to divide the net death proceeds of life insurance policies on Mr. Ryback's life with Mr. Ryback's beneficiary. However, Mr. Ryback's rights or interests in the split dollar policies no longer exist once he ceases to be employed by the Company for any reason whatsoever prior to normal retirement age provided that he has received or had the opportunity to receive any benefit under his executive salary continuation agreement. The Company has agreed to pay the taxes on the imputed income on the life insurance benefit provided to Mr. Ryback under the split dollar agreement.

On April 1, 2016, the Company entered into Salary Continuation Agreements with Mr. Belstock, Ms. North and Mr. Wilson. Mr. Belstock's agreement provides him with salary continuation benefits of up to \$54,000 per year for 10 years, subject to his continuous employment through March 31, 2026. Mr. Wilson's and Ms. North's agreement provides salary continuation benefits of up to \$48,000 per year for 10 years, subject to his/her continuous employment through March 31, 2026. If Messrs. Belstock or Wilson or Ms. North terminates employment with the Company for a reason other than a change in control prior to the retirement date of March 31, 2026, he/she will be entitled to salary continuation benefits at a reduced amount depending on their length of service with the Company. In the event that Messrs. Belstock or Wilson or Ms. North terminates his/her employment with the Company or its successor within a period of 24 months after a change in control, he/she is entitled to the full vesting of his/her salary continuation payments and the payment of the salary continuation benefits beginning with the month following the month of termination, subject to the reduction of benefits if the benefits result in a limitation of deductibility of such benefits for the Company under Section 280G of the Internal Revenue Code.

Perquisites

The Company offers a qualified 401(k) plan in which the named executive officers participate on the same terms as all other employees. The Company recommenced its matching contribution beginning on January 1, 2015. During 2017, the Company's contribution to the 401(k) plan totaled \$150,000 consisting of a matching amount of 30% of the employee's contribution up to a total of 2.4% of the employee's compensation. During 2016 and 2015, the Company's contribution consisted of a matching amount of 25% of the employee's contribution up to a total of 2% of the employee's compensation totaling \$114,000 and \$111,000, respectively. The Company also offers its executives medical, dental, and vision plans under the same terms to all employees. Other perquisites and benefits, which do not represent a significant portion of the named executive's total compensation, include for Mr. Ryback and Ms. North a Company provided automobile and maintenance on the automobile. For Mr. Ryback the payment of his portion of the split dollar insurance premium. For Messrs. Ryback, Belstock, and Wilson and for Ms. North a monthly allowance to cover the business portion of their cellular phone use and gasoline for use in their automobiles. These plans and the contributions we make to them provide an additional benefit to attract and retain executive officers of the Company.

The Role of Executive Officers in Determining Executive Compensation: The Corporate Governance Committee, working with the Chief Executive Officer, sets the Chief Executive Officer's goals not later than the end of the first quarter of each fiscal year. The Corporate Governance Committee is responsible for obtaining information from management and the Board with respect to the performance of the Chief Executive Officer in connection with these goals at the end of each fiscal year and evaluates the performance of the Chief Executive Officer. The Compensation Committee, at least annually, reviews, adjusts, and approves the Chief Executive Officer's compensation, including annual base salary, incentive bonuses, equity compensation, employment agreements, severance agreements, change in control agreements/provisions, and any other benefits, compensation, or arrangements. The Chief Executive Officer reviews and recommends adjustments to the other named executive officers' compensation. The Compensation Committee provides advice to the Chief Executive Officer in his review and adjustment of other named executive officers' compensation, and their compensation is ultimately subject to the committee's approval.

Tax Considerations: It is our intent that all compensation be deductible by the Company. At this time, essentially all compensation we paid to the named executive officers is deductible under the provisions of the Internal Revenue Code.

Compensation Committee Report

We have reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, we have recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

THE CORPORATE GOVERNANCE COMMITTEE:

John Flourney, Chairman
Steven M. Coldani
Richard F. Kenny

Terrance J. Reeson
Daniel E. West

The following table sets forth information concerning the compensation earned by the Company's 2017 NEOs.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Andrew J. Ryback President and CEO of the Company and Plumas Bank	2017	\$275,010	\$ 0	\$ 0	\$ 0	\$ 124,213	\$ 36,346	\$ 13,622	\$ 449,191
	2016	\$275,010	\$ 0	\$ 0	\$ 51,179	\$ 107,358	\$ 24,226	\$ 12,326	\$ 470,099
	2015	\$210,000	\$ 0	\$ 0	\$ 0	\$ 100,000	\$ 15,170	\$ 10,632	\$ 335,802
Richard L. Belstock EVP and CFO of the Company and Plumas Bank	2017	\$175,100	\$ 0	\$ 0	\$ 0	\$ 51,166	\$ 28,990	\$ 7,367	\$ 262,623
	2016	\$173,825	\$ 0	\$ 0	\$ 34,120	\$ 42,500	\$ 19,891	\$ 5,769	\$ 276,105
	2015	\$170,000	\$ 0	\$ 0	\$ 0	\$ 25,300	\$ 0	\$ 5,421	\$ 200,721
BJ North EVP and Chief Banking Officer of Plumas Bank	2017	\$169,950	\$ 0	\$ 0	\$ 0	\$ 50,066	\$ 25,769	\$ 7,459	\$ 253,244
	2016	\$168,713	\$ 0	\$ 0	\$ 34,120	\$ 40,875	\$ 17,681	\$ 6,321	\$ 267,710
	2015	\$165,000	\$ 0	\$ 0	\$ 0	\$ 24,500	\$ 0	\$ 8,146	\$ 197,646
Kerry D. Wilson EVP and Chief Credit Officer of Plumas Bank	2017	\$169,950	\$ 0	\$ 0	\$ 0	\$ 48,736	\$ 25,769	\$ 6,314	\$ 250,769
	2016	\$168,713	\$ 0	\$ 0	\$ 34,120	\$ 40,500	\$ 17,681	\$ 6,139	\$ 267,153
	2015	\$165,000	\$ 0	\$ 0	\$ 0	\$ 23,700	\$ 0	\$ 5,658	\$ 194,358

- (1) The Company did not grant any stock awards in 2017, 2016 or 2015.
- (2) The amounts in column (f) reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in footnote 2 to the Company's audited financial statements for the fiscal year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2018. No stock options were granted in 2017 or 2015.
- (3) The amounts in this column relate to cash awards earned and accrued under the Incentive Compensation Plan. That plan and these awards are discussed in the Compensation Discussion and Analysis section of this proxy statement.
- (4) The amounts in column (i) include premiums paid and accrued on life insurance policies (Mr. Ryback), personal use of a Company automobile (Mr. Ryback and Ms. North), tax gross ups, Company-provided gasoline, Company 401(k) matching contribution and cell phone allowance.

The following table shows all outstanding option awards held by NEOs as of December 31, 2017. There are no outstanding stock awards.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
Andrew J. Ryback	3,600 (1) 3,600 (2)	10,800 3,600	N/A	\$8.75 \$6.32	02/18/2024 04/28/2022
Richard L. Belstock	2,400 (1) 7,200 (2) 2,500 (3)	7,200 2,400 0	N/A	\$8.75 \$6.32 \$2.95	02/18/2024 04/28/2022 03/16/2019
BJ North	2,400 (1) 7,200 (2) 6,400 (3)	7,200 2,400 0	N/A	\$8.75 \$6.32 \$2.95	02/18/2024 04/28/2022 03/16/2019
Kerry D. Wilson	2,400 (1) 2,400 (2)	7,200 2,400	N/A	\$8.75 \$6.32	02/18/2024 04/28/2022

- (1) Options were granted 2/17/2016, have an eight year life and vest 25% per year beginning 2/17/2017
(2) Options were granted 4/28/2014, have an eight year life and vest 25% per year beginning 4/28/2015
(3) Options were granted 3/16/2011, have an eight year life and vest 25% per year beginning 3/16/2012

The following table shows all option awards exercised by NEOs during the year end December 31, 2017. There are no outstanding stock awards.

Name	Option Awards	
	Number of Shares Acquired On Exercise (#)	Value Realized On Exercise (\$)
(a)	(b)	(c)
Andrew J. Ryback	2,400	\$27,432
Richard L. Belstock	2,000	\$31,700
Kerry D. Wilson	4,800	\$56,064
BJ North	8,000	\$127,200

The following table shows all plan-based awards granted to NEOs during 2017. For more information about these awards, see “Non-Equity Incentive Plan” on page 14.

Grant of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards (3)	All Other Option Awards (3)	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum	Threshold	Target	Maximum	# of Shares of Stock or Units	# of Securities Underlying Options		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		\$	\$	\$	#	#	#	#	#	\$/share	\$
Andrew J. Ryback	N/A	15,688	98,053	141,196	N/A	N/A	N/A	0	0	0	0
Richard L. Belstock	N/A	12,822	37,713	54,306	N/A	N/A	N/A	0	0	0	0
BJ North	N/A	12,822	37,713	54,306	N/A	N/A	N/A	0	0	0	0
Kerry D. Wilson	N/A	12,822	37,713	54,306	N/A	N/A	N/A	0	0	0	0

- (1) The Company’s named executive officers participate in an annual bonus plan in which payments are determined based on the achievement of certain financial performance measures for that fiscal year and the achievement of certain position specific individual goals, except for the Chief Executive Officer. Payments earned in 2017 and paid in February of 2018 under this plan were as follows: Mr. Ryback: \$124,123; Mr. Belstock: \$51,166; Ms. North: \$50,066; and Mr. Wilson: \$48,736.
- (2) The Company does not have an equity incentive plan.
- (3) The Company did not issue options or stock to the named executive officers during 2017.

The following table presents information related to pension benefits to named executive officers, and specifically the benefits associated with their salary continuation agreements as of December 31, 2017. The Company also provides certain pension benefits under the Plumas Bank 401(k) plan, and the annual amount of matching contributions to the named executive officers in such plan for their behalf is included in column (i) of the Summary Compensation Table. For more information about these benefits, please see “Post-Employment Benefits” on page 15.

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
(a)	(b)	(c)	(d)	(e)
Andrew J. Ryback	Salary Continuation Agreement	12	\$ 199,655	\$0
Richard L. Belstock	Salary Continuation Agreement	2	\$ 48,881	\$0
BJ North	Salary Continuation Agreement	2	\$ 43,450	\$0
Kerry D. Wilson	Salary Continuation Agreement	2	\$ 43,450	\$0

- (1) Years of service are calculated from the date of the executive’s original Salary Continuation Agreement.

None of the Company’s named executive officers participated in nonqualified defined contribution or other nonqualified deferred compensation plans during 2017.

Potential Payments Upon Termination Or Change of Control

The following is a discussion of the payments that may come due to a named executive officer following a change of control of the named executive officer. None of the Company's NEOs have employment agreements that provide additional benefits, other than those previously discussed, upon termination. The amounts assume that such termination was effective as of December 31, 2017, and thus include amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination. Regardless of the manner in which a named executive officer's employment terminates, he is entitled to receive amounts earned during his term of employment including all unused vacation pay and amounts vested through the Bank's 401(k) Plan. Upon termination of employment, a named executive officer also has the right to exercise all vested stock options, unless their termination is for cause.

Potential Payments Made Upon a Change in Control

Salary Continuation Agreements: The Company has entered into salary continuation agreements with Messrs. Ryback, Belstock, Wilson and Ms. North. In the event of a change of control of the Company and the executive terminates employment with the Company or its successor within a period of 24 months after such change in control, the unvested portion of the salary continuation benefits would be vested in full and the payment of the salary continuation benefits would begin with the month after the executive's termination, subject to the reduction of benefits if the benefits result in a limitation of deductibility of such benefits for the Company under Section 280G of the Internal Revenue Code.

Stock Option Agreements: Upon a change in control all stock options held by a named executive officer may vest and become exercisable.

The following information is based on (i) the executive's salary at December 31, 2017; and (ii) assumes the triggering event was on December 31, 2017.

Change in Control			
	Vesting of Options (1)	Salary Continuation (2)	Total
Andrew J. Ryback	\$ 216,828	\$ 646,893	\$ 863,721
Richard L. Belstock	\$ 144,552	\$ 377,153	\$ 521,705
BJ North	\$ 144,552	\$ 335,247	\$ 479,799
Kerry D. Wilson	\$ 144,552	\$ 335,247	\$ 479,799

- (1) Represents the difference between the market price of the Company's stock at December 31, 2017 and the weighted average exercise price of the options that would vest on a change in control multiplied by the number of options that would become fully vested on a change in control.
- (2) Represents the present value of the fully vested salary continuation benefit, using interest rate assumptions consistent with those used in the Company's financial statements, less the present value of the accumulated benefit that was recorded on the Company's financial statements as of December 31, 2017.

Compensation of Directors

The table below summarizes the compensation paid by the Company to non-employee Directors for the fiscal year ended December 31, 2017.

Director Compensation Table							
Name	Fees Earned or Paid in Cash(1)	Stock Awards	Option Awards (\$) (2)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Daniel E. West (Chairman)	\$33,720	N/A	\$0	N/A	\$8,839	\$0	\$42,559
John Flournoy	\$26,700	N/A	\$0	N/A	\$11,361	\$0	\$38,061
Robert J. McClintock	\$26,700	N/A	\$0	N/A	\$7,978	\$0	\$34,678
Steven M. Coldani	\$26,700	N/A	\$0	N/A	\$6,598	\$0	\$33,298
William E. Elliott	\$26,700	N/A	\$0	N/A	\$0	\$0	\$26,700
Gerald W. Fletcher	\$26,700	N/A	\$0	N/A	\$0	\$0	\$26,700
Terrance J. Reeson	\$26,700	N/A	\$0	N/A	\$0	\$0	\$26,700
Richard F. Kenny	\$11,125	N/A	\$0	N/A	N/A	\$0	\$11,125

- (1) During 2017, non-employee directors other than Chairman each received \$2,225 per month for serving on the Company's and Plumas Bank's Board of Directors. The Chairman received \$2,810 per month.
- (2) As of December 31, 2017, each of Messrs. Elliott, Reeson and West held options to purchase 9,600 shares of common stock; each of Messrs. Flournoy and Fletcher held options to purchase 7,200 shares of common stock; Mr. McClintock held options to purchase 3,200 shares of common stock; and Mr. Coldani held options to purchase 4,000 shares of common stock.
- (3) Represents the change in value of the retirement benefits discussed in the following section titled "Director Retirement Benefits."

Director Retirement Agreements

The Company has entered into Director Retirement (fee continuation) Agreements with its non-employee Directors excluding Messrs. Elliott and Kenny. Mr. Elliott retired as President and Chief Executive Officer of the Company during 2005 and is currently receiving benefits under his executive salary continuation agreement. Mr. Kenny will become eligible to participate in the Company's Director Retirement Program after three years of service on the Board. The purpose of the fee continuation agreements is to provide a retirement benefit to the Board members as an incentive to continue informal service with the Company. The agreements provide for fee continuation benefits of up to \$10,000 per year with a term of 12 years after retirement with the exception that Board members Coldani, Flournoy and McClintock's agreements have a term of 15 years. In the event of death prior to retirement, the beneficiary will receive full fee continuation benefits, with the exception of Messrs. Coldani, Flournoy and McClintock's beneficiaries who would be entitled to receive a lump sum payment of \$30,000. In the event of disability wherein the director does not continue service with the Company, the director is entitled to fee continuation benefits, at a reduced amount depending on the length of service with the Company, beginning the month following termination of service. The agreements, with the exception of Messrs. Coldani, Flournoy and McClintock's agreements, allow for a Hardship Distribution under specified circumstances. Hardship Distributions are limited to the amount the Company had accrued under the terms of the agreement as of the day the director petitioned the Board to receive a Hardship Distribution. Upon a change in control, the director is eligible to receive the full fee continuation benefits upon the director's termination of service. The fee continuation benefits, with the exception of Messrs. Coldani's and McClintock's benefits, are informally funded by single premium life insurance policies. The directors are the insured parties and the Company is the beneficiary of the respective policies.

Post-Retirement Consulting Agreements

The Company has entered into Post-Retirement Consulting Agreements with its Messrs. Fletcher, Reeson and West. The purpose of the Agreements is to provide consideration to the Board members in exchange for consulting services after their retirement from the Board. The Agreements provide for consulting fees of \$10,000 per year for three years after retirement. In the event of death prior to completion of the consulting services, the beneficiary will receive death benefits equal to the remaining unpaid consulting fee benefits. In the event of disability wherein the retired director is unable to continue consulting services with the Company, the Company may terminate the director's post-retirement consulting services. If the retired director voluntarily terminates his consulting services for other than good reason or if the Company terminates the director's post-retirement consulting services for cause, the Post-Retirement Consulting Agreement shall terminate.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

At the Meeting, shareholders will be asked to ratify the appointment of Vavrinek, Trine, Day & Company, LLP (“VTD”) as the Company’s independent auditors for the fiscal year ending December 31, 2018. VTD has served as independent registered public accounting firm for the audit of the Company’s consolidated financial statements as of and for the years ended December 31, 2017 and 2016. We have been advised by VTD and by the directors themselves that neither it nor any of its members or associates has any relationship with us or our subsidiaries, other than as independent auditors.

Proposal 2 is nonbinding. If the appointment is not ratified, our Audit Committee will consider whether to appoint another independent registered public accounting firm at its discretion. If the appointment is ratified, our Audit Committee in its discretion may appoint a different independent registered public accounting firm at any time if it determines that such a change would be advisable.

Representatives of VTD will be present at the Meeting, will have an opportunity to make any statement that they may desire to make, and will be available to answer appropriate questions from shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE APPOINTMENT OF VAVRINEK, TRINE, DAY & COMPANY, LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018.

Fees Paid to Independent Auditors:

Aggregate fees billed by VTD to the Company and Plumas Bank and the percentage of those fees that were pre-approved by the Company’s Audit Committee for the years ended 2017 and 2016 are as follows:

	Percentage Pre-		Percentage Pre-	
	2017	Approved	2016	Approved
Audit fees	\$179,000	100%	\$106,000	100%
Audit-related fees	16,000	100%	15,000	100%
Tax fees	16,000	100%	16,000	100%
Other fees	-	-	-	-
Total fees	<u>\$211,000</u>	<u>100%</u>	<u>\$137,000</u>	<u>100%</u>

The Audit Committee has considered the provision of non-audit services provided by VTD to be compatible with maintaining its independence.

Shareholder Proposals

In order for a shareholder proposal to be considered for inclusion in the Company’s proxy statement for next year’s annual meeting, the written proposal must be received by the Company no later than December 7, 2018 and should contain such information as is required under the Company’s Bylaws. Such proposals will need to comply with the SEC’s regulations regarding the inclusion of shareholder proposals in the Company’s proxy materials.

Nomination of Director Candidates: The Company's Bylaws permit shareholders to nominate directors at a shareholder meeting. In order to make a director nomination at an annual shareholder meeting, it is necessary that you notify the Company not less than 120 days before the first anniversary of the date that the proxy statement for the preceding year's annual meeting was first sent to shareholders. This proxy statement was first sent to shareholders on April 6, 2018. Thus, in order for any such nomination notice to be timely for next year's annual meeting, it must be received by the Company not later than December 7, 2018. In addition, the notice must meet all other requirements contained in the Company's Bylaws and include any other information required pursuant to Regulation 14A under the Exchange Act.

Copy of Bylaw Provisions: You may contact the Investor Relations Officer, Ms. Elizabeth Kuipers, at the Company for a copy of the relevant Bylaw provisions regarding the requirements for making shareholder proposals and nominating director candidates. Additionally, a copy of the Company's Bylaws can be accessed at <http://www.plumasbank.com>. Click on the "Investor Relations" tab, "Corporate Information", and then "Governance Documents."

Certain Transactions

Some of the directors and executive officers of the Company and their immediate families, as well as the companies with which they are associated, are customers of, or have had banking transactions with, the Company in the ordinary course of the Company's business, and the Company expects to have banking transactions with such persons in the future. In management's opinion, all loans and commitments to lend in such transactions were made in compliance with applicable laws and on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other non-affiliated persons of similar creditworthiness and, in the opinion of management, did not involve more than a normal risk of collectability or present other unfavorable features.

Other Matters

Management does not know of any matters to be presented at the Meeting other than those set forth above. However, if other matters come before the Meeting, it is the intention of the persons named in the accompanying proxy to vote the shares represented by the proxy in accordance with the recommendations of management on such matters, and discretionary authority to do so is included in the proxy.

Available Information

The Company's common stock is registered under the Securities Exchange Act of 1934 and as a result the Company is required to file annual reports, quarterly reports and other periodic filings with the SEC which are posted and available at no cost on the Company's website, www.plumasbank.com, as soon as reasonably practicable after the Company files such documents with the SEC. These reports and filings are also available for inspection and/or printing at no cost through the SEC website, www.sec.gov. In addition, regulatory report data for both the Company and Plumas Bank are available for inspection and/or printing at no cost through the Federal Financial Institutions Examination Council's (the "FFIEC") website, www.ffiec.gov and the Federal Deposit Insurance Corporation's (the "FDIC") website, www.fdic.gov, respectively.

You may request an additional copy of the proxy statement, 10-K, 2017 annual report to shareholders, and form of proxy as to this Meeting or all future shareholder meetings by calling us at 1.888.375.8627, by writing to us at Plumas Bancorp, 35 S. Lindan Avenue, Quincy, California 95971, Attn: Ms. Elizabeth Kuipers, Vice President and Investor Relations Officer, or by email at investorrelations@plumasbank.com.

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CORPORATE INFORMATION

Annual Meeting
May 16, 2018 at 9:30am

Corporate Website
www.plumasbank.com

Plumas Bancorp Credit Administration Office
32 Central Avenue • Quincy, CA 95971

Corporate Headquarters
Plumas Bancorp & Plumas Bank
35 S. Lindan Avenue
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Transfer Agent & Registrar
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PLUMAS BANCORP

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UBS Securities LLC

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John P. Coffey
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203.719.7400

Stock Market Listed on NASDAQ, Symbol: PLBC

SEC REPORTS & ADDITIONAL INFORMATION

Plumas Bancorp, upon request and without charge, will provide shareholders, security analysts and investors a copy of Form 10-K filed with the Securities and Exchange Commission. To request a copy by mail, please contact our Administrative Offices. To view a pdf version online, please go to our website at www.plumasbank.com.

Photo By: Scott Thompson (Scott Shots Photography)
Sunrise at Rainbow Bridge, Truckee, CA