PLUMAS BANCORP
Form 10-K
March 19, 2015
**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, 2014**

**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** | **75-2987096** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **35 S. Lindan Avenue, Quincy, CA** | **95971** |
| (Address of principal executive offices) | (Zip Code) |

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

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

| **Title of Each Class:** | **Name of Each Exchange on which Registered:** |
|---|---|
| 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 or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule12b-2 of the Exchange Act:

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

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, 2014 the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $28.8 million, based on the closing price reported to the Registrant on June 30, 2014 of $6.80 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 13, 2015 was 4,799,139.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2015 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

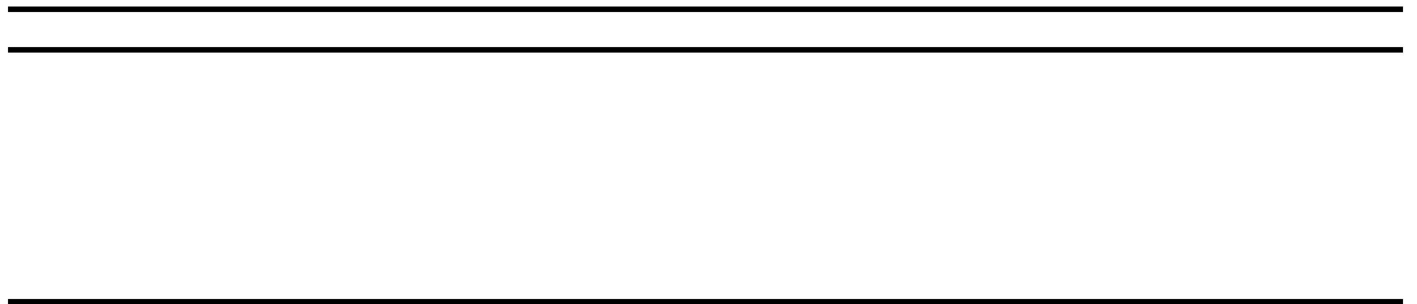

**TABLE OF CONTENTS**


| | | Page |
|---|---|---|
| **PART I** | | |
| Item 1. | Business | 2 |
| Item 1A. | Risk Factors | 13 |
| Item 1B. | Unresolved Staff Comments | 13 |
| Item 2. | Properties | 14 |
| Item 3. | Legal Proceedings | 15 |
| Item 4. | Mine Safety Disclosures | 15 |
| **PART II** | | |
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 16 |
| Item 6. | Selected Financial Data | 17 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 18 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 39 |
| Item 8. | Financial Statements and Supplementary Data | 39 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 40 |
| Item 9A. | Controls and Procedures | 40 |
| Item 9B. | Other Information | 41 |
| **PART III** | | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 41 |
| Item 11. | Executive Compensation | 41 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 41 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 41 |
| Item 14. | Principal Accountant Fees and Services | 41 |
| **PART IV** | | |
| Item 15. | Exhibits and Financial Statement Schedules | 42 |
| | Signatures | 45 |

**PART I**

**Forward-Looking Information**

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

*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 to receive regulatory approval for the 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 impact of the recent joint rule proposals by the Federal Reserve Board, Office of the Comptroller of the Currency, and the FDIC to revise the regulatory capital rules, 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 inquires.*

*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.*

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

**ITEM 1. BUSINESS**

**General**

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

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

At December 31, 2014, the Company had consolidated assets of $539 million, deposits of $468 million, other liabilities of $35 million and shareholders' equity of $36 million. The Company's other liabilities include $10.3 million in junior subordinated deferrable interest debentures, $7.5 million in subordinated debentures and a $1.0 million note payable. These items are described in detail later in this section.

References herein to the "Company," "we," "us" and "our" refer to Plumas Bancorp and its consolidated subsidiary, unless the context indicates otherwise. Our operations are conducted at 35 South Lindan Avenue, Quincy, California. Our annual, quarterly and other reports, required under the Securities Exchange Act of 1934 and filed with the Securities and Exchange Commission, (the "SEC") are posted and are available at no cost on the Company's website, *www.plumasbank.com*, 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, 2014 the Bank had approximately $538 million in assets, $367 million in net loans and $469 million in deposits (including deposits of $0.6 million from the Bancorp). It is currently the largest independent bank headquartered in Plumas County. The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to maximum insurable amounts.

The Bank’s primary service area covers the Northeastern portion of California, with Lake Tahoe to the South and the Oregon border to the North. The Bank, through its eleven branch network, serves the seven contiguous California counties of Plumas, Nevada, Sierra, Placer, Lassen, Modoc and Shasta. The branches are located in the communities of Quincy, Portola, Greenville, Truckee, Fall River Mills, Alturas, Susanville, Chester, Tahoe City, Kings Beach and Redding. The Bank maintains fifteen automated teller machines (“ATMs”) tied in with major statewide and national networks. In addition to its branch network, the Bank operates lending offices specializing in government-guaranteed lending in Auburn, California and Beaverton, Oregon, a commercial/agricultural lending office located in Chico, California, and a commercial loan office located in Reno, Nevada. 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 with additional personnel in Truckee, California and Beaverton, Oregon (serving the Portland Oregon metropolitan area) provides Small Business Administration and USDA Rural Development loans to qualified borrowers throughout Northern California, Oregon 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 2014 proceeds from the sale of government-guaranteed loans totaled $21.6 million and we generated a gain on sale of $1.4 million. In 2013 proceeds from the sale of government guaranteed loans totaled $21.7 million and we generated a gain on sale of $1.4 million.

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

As of December 31, 2014, the principal areas to which we directed our lending activities, and the percentage of our total loan portfolio comprised by each, were as follows: (i) commercial real estate – 44.1%; (ii) commercial and industrial loans – 8.5%; (iii) consumer loans (including residential equity lines of credit and automobile loans) – 23.4%; (iv) agricultural loans (including agricultural real estate loans) – 9.5%; (v) residential real estate – 7.9%; and (vi) construction and land development – 6.6% .

In addition to the lending activities noted above, we offer a wide range of deposit products for the retail and commercial banking markets including checking, interest-bearing checking, business sweep, public funds sweep, savings, time deposit and retirement accounts, as well as remote deposit, telephone and mobile banking and internet banking with bill-pay options. Interest bearing deposits include high yield sweep accounts designed for our commercial customers and for public entities such as municipalities. In addition we offer a premium interest bearing checking account for our consumer customers. As of December 31, 2014, the Bank had 28,821 deposit accounts with balances totaling approximately $469 million, compared to 29,072 deposit accounts with balances totaling approximately $450 million at December 31, 2013.  We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, extended hours, remote deposit operations and drive-up banking, all provided with a high level of customer service.

Most of our deposits are attracted from individuals, business-related sources and smaller municipal entities.  This mix of deposit customers resulted in a relatively modest average deposit balance of approximately $16.2 thousand at December 31, 2014. However, it makes us less vulnerable to adverse effects from the loss of depositors who may be seeking higher yields in other markets or who may otherwise draw down balances for cash needs.

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

electronic funds transfers, on-line banking, remote deposit, mobile banking and other customary banking services.

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

Additionally, the Bank has devoted a substantial amount of time and capital to the improvement of existing Bank services, during 2009 we replaced our on-line banking service with a new state of the art product that greatly expands the features available to our customers. In addition we utilized this platform to add mobile banking services during the first quarter of 2010. During 2010 Plumas Bank began offering a new Green Account which promotes protecting the environment, reducing clutter and making life simpler for the customer through technological advancements such as eStatements, online banking, and debit card usage. In 2011, we introduced a new product for our larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at December 31, 2014 was $9.6 million. Interest paid on this product is similar to that which can be earned on the Bank’s premium money market account; however, these are not deposits and are not FDIC insured. During the first quarter of 2012 we replaced our ATMs with new state of the art machines that are capable of accepting check and cash deposits without a deposit envelope.

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

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

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

We offer various loan products which 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 community infrastructure loans. Many banking decisions are made locally with the goal of maintaining customer satisfaction through the timely delivery of high quality products and services.

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

On April 11, 2013, the Treasury announced its intent to sell its investment in the Bancorp’s Series A Preferred Stock along with similar investments the Treasury had made in seven other financial institutions, principally to qualified institutional buyers. Using a modified Dutch auction methodology that establishes a market price by allowing investors to submit bids at specified increments during the period of April 15, 2013 through April 18, 2013, the U.S. Treasury auctioned all of the Bancorp’s 11,949 Series A Preferred Stock. The Bancorp sought and obtained regulatory permission to participate in the auction. The Bancorp successfully bid to repurchase 7,000 shares of the 11,949 outstanding shares. This repurchase resulted in a discount of approximately 7% on the face value of the Series A Preferred Stock plus related outstanding dividends. The remaining 4,949 shares were purchased at auction by third

party private investors. On June 27, 2013 the Bancorp repurchased 1,566 shares of the Series A Preferred Stock at $1,000 per share from certain of those third party private investors and on September 16, 2013 the Bancorp repurchased 250 shares at $985 per share from another one of the third party investors leaving 3,133 shares outstanding as of September 30, 2013. On October 25, 2013, Plumas Bancorp repurchased the remaining 3,133 shares of the Series A Preferred Stock from a third party private investor for $3,101,670 plus accrued dividends of $30,453. This represents a discount of 1% from the liquidation value of the Preferred Stock. On May 22, 2013 the Bancorp repurchased the Warrant from the Treasury at a cost of $234,500.

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

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

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

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

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

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

The subordinated debt bears an interest rate of 7.5% per annum, has a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant (the "Lender Warrant") to purchase up to 300,000 shares of the Bancorp's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. Interest expense related to the subordinated debt for the years ended December 31,

2014 and 2013 totaled $756,000 and $541,000, respectively.

The Company allocated the proceeds received on April 15, 2013 between the subordinated debt and the Lender Warrant based on the estimated relative fair value of each. The fair value of the Warrant was estimated based on a Black-Scholes-Merton model and totaled $318,000. The discount recorded on the subordinated note will be amortized by the level-yield method over 2 years.



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**Promissory Note.** On October 24, 2013 the Bancorp issued a $3 million promissory note (the "Note") payable to an unrelated commercial bank. The note bears interest at the U.S. "Prime Rate" plus three-quarters percent per annum, 4.00% at December 31, 2014 and 2013, has a term of 18 months and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Interest expense related to this note for the years ended December 31, 2014 and 2013 totaled $111,000 and $23,000, respectively. 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 requirements at December 31, 2014 and December 31, 2013.

On July 28, 2014, Plumas Bancorp entered into a Renewal, Extension, and Modification of Loan Agreement (the "Agreement") related to the Note. This Agreement provides for the following changes, among others:

1.) The maturity date of the Note is October 24, 2015.
2.) The maximum amount of the Note is $7.5 million.
3.) The Company may borrow, repay, and reborrow up to the principal face amount of the Note.

The above provisions are subject to the following conditions:

1.) An advance under the Note in excess of $3 million is subject to the lender completing a satisfactory loan review of the Company.
2.) The Company shall provide an assignment of Key Man life Policy(s) in a minimum amount of $3.5 million.
3.) The Company shall not prepay the Company's Junior Subordinated Deferrable Interest Debentures until the Note has been paid in full.

On August 26, 2014 the Company made a $2 million payment on the Note reducing the outstanding balance to $1 million.

Proceeds from the Note and the subordinated debt were used to partially fund the repurchase of preferred stock.

**Regulatory Developments.** Effective February 8, 2012, the Bank entered into an informal agreement with the FDIC and the California Department of Financial Institutions ("DFI") which, among other things, requested that the Bank maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At December 31, 2012 this ratio was 32% and the Bank's Tier 1 Leverage Capital Ratio was 10.4%. The FDIC and DFI terminated the informal agreement effective

January 24, 2013.

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the "FRB Agreement"). Under the terms of the FRB Agreement, Plumas Bancorp agreed to take certain actions that are designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement required prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. In addition, the FRB Agreement required Plumas Bancorp to submit, within 60 days of the FRB Agreement, a written statement of Plumas Bancorp's planned sources and uses of cash for debt service, operating expense and other purposes ("Cash Flow Statement") for the remainder of 2011 and annually thereafter. The Company submitted the Cash Flow Statements within the required time frames. On April 19, 2013 the Company received notice that the FRB Agreement had been terminated.

**Business Concentrations.** No individual or single group of related customer accounts is considered material in relation to the Banks' assets or deposits, or in relation to our overall business. However, at December 31, 2014 approximately 74% of the Bank's total loan portfolio consisted of real estate-secured loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate. Moreover, our business activities are currently focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta and Sierra and Washoe County in Nevada. Consequently, our results of operations and financial condition are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in these areas of California and Nevada exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions in California and Nevada.

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

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

Currently, within the towns in which the Bank has a branch there are 51 banking branch offices of competing institutions (excluding credit unions, but including savings banks), including 28 branches of 8 major banks. As of June 30, 2014, the Federal Deposit Insurance Corporation (FDIC) estimated the Bank's market share of insured deposits within the communities it serves to be as follows: Chester 65%, Quincy 57%, Alturas 66%, Fall River Mills 37%, Kings Beach 32%, Susanville 28%,Truckee 17%, Tahoe City 9%, Redding less than 1% and 100% in Greenville and Portola. Redding is the location of our most recently opened branch, which became operational in June 2007.

Technological innovations have also resulted in increased competition in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously were considered traditional banking products. In addition, many customers now expect a choice of delivery systems and channels, including 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, and personal computer and internet banking with bill payment capabilities. This high tech and high touch approach allows the customers to tailor their access to our services based on their particular preference.

**Employees.** At December 31, 2014, the Company and its subsidiary employed 155 persons. On a full-time equivalent basis, we employed 133 persons. None of the Company's employees are represented by a labor union, and management considers its relations with employees to be good.

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

**Supervision and Regulation**

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

**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.

**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").

**Capital Adequacy.** The Federal Deposit Insurance Corporation (the "FDIC") has risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking

organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are reported as off-balance-sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

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

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

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC and/or the DBO to ensure the maintenance of required capital levels. The Company is also required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company as of December 31, 2014 were as follows:

| | **Minimum ratio required to be:** | | | |
|---|---|---|---|---|
| | **Adequately Capitalized** | **Well Capitalized** | **Plumas Bank** | **Plumas Bancorp** |
| Tier 1 leverage capital ratio | 4.0% | 5.0% | 9.8% | 8.4% |
| Tier 1 risk-based capital ratio | 4.0% | 6.0% | 13.2% | 11.4% |
| Total risk-based capital ratio | 8.0% | 10.0% | 14.4% | 14.5% |

The Company and the Bank met all of the above capital adequacy requirements as of December 31, 2014 and 2013.

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

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

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

**New Capital Rules.** 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. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments.

The phase-in period for the final rules begin on January 1, 2015, with full compliance with all of the final rule’s requirements phased in over a multi-year schedule. As of January 1, 2015, the Company’s and the Bank’s capital levels remained “well-capitalized” under the new rules.

**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 prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the 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, 2014, the maximum amount available for dividend distribution under this restriction was approximately $5,100,000. 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.

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

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

*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 $0.4 million for 2014.

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 FICO assessment rates, which are determined quarterly, averaged less than 0.01% of deposits in fiscal 2014. These assessments will continue until the FICO bonds mature in 2017.

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 deposit insurance for the Bank would result in a termination of the Bank's charter.

*Interstate Branching*. The Dodd-Frank Wall Street Reform and Consumer Protection Act (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 will be able to 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 ("ECOA") generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

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

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 with generally, the Company may incur additional compliance costs.

The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted 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 will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

*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 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism 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. he 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 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 Hawaii 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 3 – “Summary of Significant Accounting Policies – Adoption of New Accounting Standards” of the Company’s Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K for information related to recent accounting pronouncements.

**ITEM 1A. RISK FACTORS**

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

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

**Owned Properties**

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

**Leased Properties**

| | | |
|---|---|---|
| 243 North Lake Boulevard<br>Tahoe City, California | 1755 E. Plumb Lane, Suite 270<br>Reno, Nevada (1) (3) | 470 Nevada St., Suite 108<br>Auburn, California (2) |
| 12725 SW Millikan Way, Suite 30<br>Beaverton, OR 97005 (2) | 2585 Ceanothus Avenue, Suite 173<br>Chico, CA 95973 (3) | |

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

(2) SBA lending office.

(3) Commercial lending office.

Total rental expenses under all leases, including premises, totaled $192,000, $154,000 and $153,000, in 2014, 2013 and 2012 respectively. The expiration dates of the leases vary, with the first such lease expiring during 2015 and the last such lease expiring during 2016.

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

| Year Ending December 31, | |
|---|---|
| 2015 | $140,000 |
| 2016 | 88,000 |
| | $228,000 |

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, 2014, there were 4,799,139 shares of the Company’s stock outstanding held by approximately 1,300 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 | High | Low |
|---|---|---|---|
| 4th Quarter 2014 | - | $ 8.25 | $ 7.52 |
| 3rd Quarter 2014 | - | $ 8.50 | $ 6.77 |
| 2nd Quarter 2014 | - | $ 7.74 | $ 6.12 |
| 1st Quarter 2014 | - | $ 6.75 | $ 5.96 |
| | | | |
| 4th Quarter 2013 | - | $ 6.74 | $ 6.00 |
| 3rd Quarter 2013 | - | $ 6.99 | $ 5.72 |
| 2nd Quarter 2013 | - | $ 8.00 | $ 4.36 |
| 1st Quarter 2013 | - | $ 5.96 | $ 3.24 |

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company’s stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the “Board). The Board will periodically, but on no regular schedule and in accordance with regulatory restrictions, if any, reviews the appropriateness of a cash dividend payment. No common cash dividends were paid in 2014 or 2013.

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

**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, 2014.

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 416,793 | $ 7.52 | 389,600 |
| Equity compensation plans not approved by security holders | None | Not Applicable | None |
| Total | 416,793 | $ 7.52 | 389,600 |

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

**Issuer Purchases of Equity Securities.** There were no purchases of Plumas Bancorp common stock by the Company during 2014.

**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,** | | | | |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** |
| | *(dollars in thousands except per share information)* | | | | |
| **Statement of Income** | | | | | |
| Interest income | $21,147 | $19,460 | $18,425 | $18,668 | $20,680 |
| Interest expense | 1,693 | 1,534 | 1,274 | 1,848 | 3,147 |
| Net interest income | 19,454 | 17,926 | 17,151 | 16,820 | 17,533 |
| Provision for loan losses | 1,100 | 1,400 | 2,350 | 3,500 | 5,500 |
| Noninterest income | 7,315 | 6,642 | 6,596 | 7,162 | 8,468 |
| Noninterest expense | 17,845 | 17,570 | 18,377 | 19,246 | 19,141 |
| Provision for income taxes | 3,086 | 2,167 | 1,070 | 295 | 389 |
| Net income | $4,738 | $3,431 | $1,950 | $941 | $971 |
| Discount on redemption of Preferred Stock | - | 565 | - | - | - |
| Preferred Stock dividends and discount accretion | - | 347 | 684 | 684 | 684 |
| Net income available to common shareholders | $4,738 | $3,649 | $1,266 | $257 | $287 |
| **Balance sheet (end of period)** | | | | | |
| Total assets | $538,862 | $515,725 | $477,802 | $455,349 | $484,480 |
| Total loans | $370,390 | $338,551 | $315,057 | $293,865 | $314,200 |
| Allowance for loan losses | $5,451 | $5,517 | $5,686 | $6,908 | $7,324 |
| Total deposits | $467,891 | $449,439 | $411,562 | $391,140 | $424,887 |
| Total common equity | $36,497 | $30,593 | $29,995 | $27,865 | $26,306 |
| Total shareholders' equity | $36,497 | $30,593 | $41,850 | $39,634 | $37,988 |
| **Balance sheet (period average)** | | | | | |
| Total assets | $531,528 | $497,711 | $464,609 | $467,354 | $500,082 |
| Total loans | $353,389 | $321,210 | $301,799 | $302,841 | $323,906 |
| Total deposits | $464,067 | $432,284 | $401,110 | $407,982 | $430,777 |
| Total shareholders' equity | $33,810 | $36,032 | $41,023 | $39,244 | $38,941 |
| **Capital ratios** | | | | | |
| Leverage ratio | 8.4 % | 7.8 % | 10.3 % | 9.8 % | 8.9 % |
| Tier 1 risk-based capital | 11.4 % | 10.7 % | 13.9 % | 13.7 % | 12.7 % |
| Total risk-based capital | 14.5 % | 13.8 % | 15.1 % | 15.0 % | 13.9 % |
| **Asset quality ratios** | | | | | |
| Nonperforming loans/total loans | 1.79 % | 1.64 % | 4.35 % | 5.73 % | 8.07 % |
| Nonperforming assets/total assets | 1.90 % | 2.33 % | 3.98 % | 5.60 % | 7.07 % |
| Allowance for loan losses/total loans | 1.47 % | 1.63 % | 1.80 % | 2.35 % | 2.33 % |
| Net loan charge-offs | $1,166 | $1,569 | $3,572 | $3,916 | $7,744 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Performance ratios** | | | | | | | | | | |
| Return on average assets | 0.89 | % | 0.69 | % | 0.42 | % | 0.20 | % | 0.19 | % |
| Return on average common equity | 14.0 | % | 12.0 | % | 4.3 | % | 0.9 | % | 1.1 | % |
| Return on average equity | 14.0 | % | 9.5 | % | 4.8 | % | 2.4 | % | 2.5 | % |
| Net interest margin | 4.05 | % | 4.03 | % | 4.18 | % | 4.08 | % | 4.24 | % |
| Loans to deposits | 79.2 | % | 75.3 | % | 76.6 | % | 75.1 | % | 73.9 | % |
| Efficiency ratio | 66.7 | % | 71.5 | % | 77.4 | % | 80.3 | % | 73.6 | % |
| **Per share information** | | | | | | | | | | |
| Basic earnings | $0.99 | | $0.76 | | $0.26 | | $0.05 | | $0.06 | |
| Diluted earnings | $0.95 | | $0.75 | | $0.26 | | $0.05 | | $0.06 | |
| Common cash dividends | $0.00 | | $0.00 | | $0.00 | | $0.00 | | $0.00 | |
| Book value per common share | $7.61 | | $6.39 | | $6.28 | | $5.83 | | $5.51 | |
| Common shares outstanding at period end | 4,799,139 | | 4,787,739 | | 4,776,339 | | 4,776,339 | | 4,776,339 | |

**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 fees from the sale of loans. Our major operating expenses are the interest we pay on deposits and borrowings and general operating expenses. We rely on locally-generated deposits to provide us with funds for making loans.

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

**Critical Accounting Policies**

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

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

We evaluate our allowance for loan losses quarterly. We believe that the allowance for loan losses is a “critical accounting estimate” because it is based upon management’s assessment of various factors affecting the 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 is charged to allowance for loan losses. Subsequent to foreclosure, we periodically evaluate the value of OREO held for sale and record a valuation allowance for any subsequent declines in fair value less selling costs. Subsequent declines in value are charged to operations. Fair value is based on our assessment of information available to us at the end of a reporting period and depends upon a number of factors, including our historical experience, economic conditions, and issues specific to individual properties. Our evaluation of these factors involves subjective estimates and judgments that may change.

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, 2014 and 2013 and for each of the three years in the period ended December 31, 2014. 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 $4.7 million for the year ended December 31, 2014, a 38% increase over net income of $3.4 million during the year ended December 31, 2013. Pretax income increased by $2.2 million, or 40%, from $5.6 million in 2013 to $7.8 million during the year ended December 31, 2014.

Net interest income increased by $1.5 million from $17.9 million during 2013 to $19.4 million for the year ended December 31, 2014. This increase in net interest income resulted from an increase in interest income of $1.7 million partially offset by an increase in interest expense of $159 thousand. Interest on loans increased by $1.3 million and interest on investment securities increased by $353 thousand. A decrease of $84 thousand in interest expense on deposits was offset by an increase in interest expense on borrowings of $243 thousand. The provision for loan losses declined by $300 thousand from $1.4 million during 2013 to $1.1 million during 2014 resulting in an increase in net interest income after provision for loan losses of $1.8 million.

During the year ended December 31, 2014 non-interest income totaled $7.3 million an increase of $673 thousand from the year ended December 31, 2013. The $673 thousand includes increases of $196 thousand in service charges on deposits accounts, $179 thousand in loan servicing income, a $148 thousand gain on sale of our credit card portfolio and $128 thousand in gains on sale of securities.

Non-interest expense increased by $275 thousand from $17.6 million during the twelve months ended December 31, 2013 to $17.8 million during 2014. We achieved reductions is several categories of expense the largest two of which were $248 thousand in professional fees and $246 thousand in the provision for losses on OREO. The two largest increases in expense were $745 thousand in salary and benefits expense and $187 thousand in outside service fees.

The provision for income taxes increased from $2.2 million in 2013 to $3.1 million during the year ended December 31, 2014.

Net income allocable to common shareholders increased by $1.1 million from $3.6 million during the year ended December 31, 2013 to $4.7 million during 2014. Income allocable to common shareholders is calculated by adding discount on redemption of preferred stock and subtracting dividends and discount amortized on preferred stock from net income. During 2013 the Company redeemed all of its outstanding preferred stock, recording a $565 discount on redemption. Discount amortized on the preferred stock during 2013 totaled $347 thousand.

Total assets at December 31, 2014 were $539 million, an increase of $23.1 million from $516 million at December 31, 2013. An increase of $32.4 million in net loans and $0.3 million in bank owned life insurance was partially offset by decreases of $4.3 million in cash and due from banks, $23 thousand in investment securities, $0.9 million in premises and equipment, $2.9 million in OREO and $1.5 million in other assets.

Total deposits increased by $18.5 million from $449 million at December 31, 2013 to $468 million at December 31, 2014. Core deposit growth remained strong in 2014 as evidenced by increases of $17.8 million in demand deposits and $12.3 million in savings accounts. Time deposits declined by $6.3 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. Interest-bearing transaction accounts (NOW) declined by $0.5 million and money market accounts declined by $4.8 million.

Total shareholders’ equity increased by $5.9 million from $30.6 million at December 31, 2013 to $36.5 million at December 31, 2014. The $5.9 million includes earnings during the twelve month period totaling $4.7 million and a decrease in net unrealized loss on investment securities of $1.1 million with the balance of $0.1 million representing stock option activity.

The return on average assets was 0.89% for 2014, up from 0.69% for 2013. The return on average common equity was 14.0% for 2014, up from 12.0% for 2013.

**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,** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | | | | **2013** | | | | **2012** | | | |
| | **Average balance** | **Interest income/ expense** | **Rates earned/ paid** | | **Average balance** | **Interest income/ expense** | **Rates earned/ paid** | | **Average balance** | **Interest income/ expense** | **Rates earned/ paid** | |
| | *(dollars in thousands)* | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Interest bearing deposits | $38,626 | $137 | 0.35 | % | $41,262 | $124 | 0.30 | % | $38,783 | $106 | 0.27 | % |
| Investment securities[1] | 87,906 | 1,515 | 1.72 | | 82,820 | 1,162 | 1.40 | | 69,664 | 892 | 1.28 | |
| Total loans [2][3] | 353,389 | 19,495 | 5.52 | | 321,210 | 18,174 | 5.66 | | 301,799 | 17,427 | 5.77 | |
| Total earning assets | 479,921 | 21,147 | 4.41 | % | 445,292 | 19,460 | 4.37 | % | 410,246 | 18,425 | 4.49 | % |
| Cash and due from banks | 16,323 | | | | 14,572 | | | | 14,560 | | | |
| Other assets | 35,284 | | | | 37,847 | | | | 39,803 | | | |
| Total assets | $531,528 | | | | $497,711 | | | | $464,609 | | | |
| **Liabilities and shareholders' equity** | | | | | | | | | | | | |
| Interest bearing demand deposits | $83,398 | 76 | 0.09 | % | $83,966 | 90 | 0.11 | % | $82,648 | 111 | 0.13 | % |
| Money market deposits | 46,691 | 65 | 0.14 | | 48,730 | 82 | 0.17 | | 42,957 | 91 | 0.21 | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Savings deposits | 102,664 | 163 | 0.16 | | 84,475 | 147 | 0.17 | | 68,755 | 132 | 0.19 | |
| Time deposits | 59,063 | 212 | 0.36 | | 66,046 | 281 | 0.43 | | 76,138 | 513 | 0.67 | |
| Note payable | 2,299 | 111 | 4.83 | | 567 | 23 | 4.06 | | - | - | - | |
| Subordinated debentures | 7,371 | 756 | 10.26 | | 5,185 | 541 | 10.43 | | - | - | - | |
| Junior subordinated debentures | 10,310 | 303 | 2.94 | | 10,310 | 313 | 3.04 | | 10,310 | 344 | 3.34 | |
| Other | 7,529 | 7 | 0.09 | | 7,298 | 57 | 0.78 | | 6,003 | 83 | 1.38 | |
| Total interest bearing liabilities | 319,325 | 1,693 | 0.53 | % | 306,577 | 1,534 | 0.50 | % | 286,811 | 1,274 | 0.44 | % |
| Noninterest bearing demand deposits | 172,251 | | | | 149,067 | | | | 130,612 | | | |
| Other liabilities | 6,142 | | | | 6,035 | | | | 6,163 | | | |
| Shareholders' equity | 33,810 | | | | 36,032 | | | | 41,023 | | | |
| Total liabilities and shareholders' equity | $531,528 | | | | $497,711 | | | | $464,609 | | | |
| **Net interest income** | | $19,454 | | | | $17,926 | | | | $17,151 | | |
| **Net interest spread** (4) | | | 3.88 | % | | | 3.87 | % | | | 4.05 | % |
| **Net interest margin** (5) | | | 4.05 | % | | | 4.03 | % | | | 4.18 | % |

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

(2) Average nonaccrual loan balances of $6.7 million for 2014, $9.3 million for 2013 and $14.6 million for 2012 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 $380,000, $371,000 and $75,000 for 2014, 2013 and 2012, 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:

| | 2014 compared to 2013 | | | | 2013 compared to 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Increase (decrease) due to change in: | | | | Increase (decrease) due to change in: | | | |
| | Average Volume[1] | Average Rate[2] | Mix[3] | Total | Average Volume[1] | Average Rate[2] | Mix[3] | Total |
| | *(dollars in thousands)* | | | | | | | |
| **Interest-earning assets:** | | | | | | | | |
| Interest bearing deposits | $(8) | $ 22 | $ (1) | $13 | $6 | $ 11 | $1 | $18 |
| Investment securities | 72 | 265 | 16 | 353 | 169 | 85 | 16 | 270 |
| Loans | 1,821 | (454) | (46) | 1,321 | 1,121 | (351) | (23) | 747 |
| Total interest income | 1,885 | (167) | (31) | 1,687 | 1,296 | (255) | (6) | 1,035 |
| **Interest-bearing liabilities:** | | | | | | | | |
| Interest bearing demand deposits | (1) | (13) | - | (14) | 2 | (22) | (1) | (21) |
| Money market deposits | (3) | (14) | - | (17) | 12 | (19) | (2) | (9) |
| Savings deposits | 32 | (13) | (3) | 16 | 30 | (12) | (3) | 15 |
| Time deposits | (30) | (44) | 5 | (69) | (68) | (189) | 25 | (232) |
| Note payable | 70 | 4 | 14 | 88 | - | - | 23 | 23 |
| Subordinated debentures | 228 | (9) | (4) | 215 | - | - | 541 | 541 |
| Junior subordinated debentures | - | (10) | - | (10) | - | (31) | - | (31) |
| Other borrowings | 2 | (50) | (2) | (50) | 18 | (36) | (8) | (26) |
| Total interest expense | 298 | (149) | 10 | 159 | (6) | (309) | 575 | 260 |
| **Net interest income** | $1,587 | $ (18) | $ (41) | $1,528 | $1,302 | $ 54 | $(581) | $775 |

(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.

**2014 compared to 2013.** Net interest income is the difference between interest income and interest expense. Net interest income, on a nontax-equivalent basis, was $19.4 million for the year ended December 31, 2014, up $1.5 million, or 8.5%, from $17.9 million for 2013. An increase of $1.7 million, or 8.7% in interest income, from $19.4

million during 2013 to $21.1 million during the current year, was partially offset by an increase in interest expense of $159 thousand.

Interest and fees on loans increased by $1.3 million, interest on investment securities increased by $353 thousand and interest on deposits increased by $13 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 $19.5 million during 2014 and $18.2 million for the year ended December 31, 2013. The average loan balances were $353.4 million for 2014, up $32.2 million from the $321.2 million for 2013. The following table compares loan balances by type at December 31, 2014 and 2013.

| (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 | |
|---|---|---|---|---|---|---|
| | **12/31/14** | **12/31/14** | | **12/31/13** | **12/31/13** | |
| Commercial | $31,465 | 8.5 | % | $32,612 | 9.6 | % |
| Agricultural | 35,355 | 9.5 | % | 30,647 | 9.0 | % |
| Real estate - residential | 29,284 | 7.9 | % | 31,322 | 9.3 | % |
| Real estate – commercial | 163,306 | 44.1 | % | 155,942 | 46.1 | % |
| Real estate – construction | 24,572 | 6.6 | % | 17,793 | 5.3 | % |
| Equity Lines of Credit | 38,972 | 10.5 | % | 35,800 | 10.6 | % |
| Auto | 44,618 | 12.1 | % | 30,305 | 8.9 | % |
| Other | 2,818 | 0.8 | % | 4,130 | 1.2 | % |
| Total Gross Loans | $370,390 | 100 | % | $338,551 | 100 | % |

The average yield on loans was 5.52% for 2014 down from 5.66% for 2013. We attribute much of the decrease in yield to price competition in our service area as well as an increase in lower yielding automobile loans as a percentage of total loans.

Interest on investment securities increased by $353 thousand as a result of an increase in yield of 32 basis points from 1.40% during 2013 to 1.72% during 2014 and an increase in average balance from $82.8 million in 2013 to $87.9 million in 2014. The increase in yield on investment securities incudes an increase in government sponsored agency residential mortgage backed securities and municipal securities as a percentage of total securities and an increase in market yields. Interest income on other interest-earning assets, which totaled $137 thousand in 2014 and $124 thousand in 2013, primarily relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by $84 thousand, or 14%, to $516 thousand for the twelve months ended December 31, 2014, down from $600 thousand in 2013. Interest expense on time deposits declined by $69 thousand from $281 thousand during 2013 to $212 thousand at during 2014. Average time deposits declined by $6.9 million from $66.0 million during 2013 to $59.1 million for the year ended December 31, 2014. 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 0.43% during 2013 to 0.36% during the current twelve month period. This decrease primarily relates to a decline in market rates paid in the Company’s service area and the maturity of higher rate time deposits.

Interest expense on NOW accounts declined by $14 thousand. Rates paid on NOW accounts declined by 2 basis points from 0.11% during 2013 to 0.09% during 2014. Average balances decreased by $568 thousand from 2013. Interest expense on money market accounts decreased by $17 thousand related to a decrease in rate paid on these accounts of 3 basis points from 0.17% during 2013 to 0.14% during 2014 and a decline in average balances from $48.7 million during 2013 to $46.7 million in 2014. Interest expense on savings accounts increased by $16 thousand as we continued to experience strong growth in this category of deposits. Average savings deposits increased by $18.2 million from $84.5 million during 2013 to $102.7 million during 2014. The average rate paid on savings accounts during this same period declined from 17 basis points during 2013 to 16 basis points during 2014. The decline in rates paid on deposits is consistent with a decline in competitive market rates in our service area.

Interest expense on other interest-bearing liabilities increased by $243 thousand from $934 thousand during the twelve months ending December 31, 2013 to $1,177 thousand during 2014. This increase was mostly related to an increase of $215 thousand in interest expense on a $7.5 million subordinated debenture which was only outstanding for 8.5 months during 2013. The subordinated debt bears an interest rate of 7.5% per annum, has a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant (the “Lender Warrant”) to purchase up to 300,000 shares of the Bancorp’s common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. The effective yield on the debenture during 2014 was 10.3% which was in excess of the 7.5% rate due to amortization of a $75 thousand commitment fee and a discount recorded on issuance of $318 thousand.

On October 24, 2013 the Bancorp issued a $3 million promissory note dated October 24, 2013 payable to an unrelated commercial bank. The note bears interest at the U.S. "Prime Rate" plus three-quarters percent per annum (currently 4%), has a term of 18 months and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Proceeds from this note were used to help fund the redemption of the remaining preferred shares during 2013. Interest expense on this note for 2013 totaled $23 thousand and for 2014 it totaled $111 thousand. The increase relates mostly to an increase in average balance from $567 thousand in 2013 to $2.3 million during 2014.

Interest expense on junior subordinated debentures, which decreased by $10 thousand from 2013, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate.

Interest on other borrowings, which during 2014 relates to repurchase agreements, totaled $7 thousand in 2014 and $57 thousand in 2013.

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 2014 increased slightly to 4.05%, from 4.03% for 2013.

**2013 compared to 2012.** Net interest income, on a nontax-equivalent basis, was $17.9 million for the year ended December 31, 2013, up $775 thousand, or 4.5%, from $17.2 million for 2012. An increase of $1.0 million, or 5.6% in interest income, from $18.4 million during 2012 to $19.4 million during the current year, was partially offset by an increase in interest expense of $260 thousand.

Interest and fees on loans increased by $747 thousand, interest on investment securities increased by $270 thousand and interest on deposits increased by $18 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 $18.2 million during 2013 and $17.4 million for the year ended December 31, 2012. The average loan balances were $321.2 million for 2013, up $19.4 million from the $301.8 million for 2012. The largest areas of loan growth were in our commercial real estate and auto portfolios. We have dedicated significant resources to our loan production activities and have emphasized the need for quality and diversified growth in the portfolio.

The average yields on loans were 5.66% for 2013 down from 5.77% for 2012. We attribute much of the decrease in yield to intense pricing competition in our service area.

Interest on investment securities increased by $270 thousand as a result of an increase in yield of 12 basis points from 1.28% during 2012 to 1.40% during 2013 and an increase in average balance from $69.7 million in 2012 to $82.8 million in 2013. The increase in yield incudes an increase in government sponsored agency residential mortgage backed securities as a percentage of total securities and an increase in market yields.

Interest income on interest-bearing deposits, which totaled $124 thousand in 2013 and $106 thousand in 2012, mostly relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by $247 thousand, or 29%, to $600 thousand for the twelve months ended December 31, 2013, down from $847 thousand in 2012. Interest expense on time deposits declined by $232 thousand from $513 thousand at December 31, 2012 to $281 thousand at December 31, 2013. Average time deposits declined by $10.1 million from $76.1 million during 2012 to $66.0 million for the year ended December 31, 2013. 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 0.67% during 2012 to 0.43% during the current twelve month period. This decrease primarily relates to a decline in market rates paid in the Company's service area and the maturity of higher rate time deposits.

Interest expense on NOW accounts declined by $21 thousand. Rates paid on NOW accounts declined by 2 basis points from 0.13% during 2012 to 0.11% during 2013. Average balances increased by $1.3 million from 2012. Interest expense on money market accounts decreased by $9 thousand related to a decrease in rate paid on these accounts of 4 basis points from 0.21% during 2012 to 0.17% during 2013. Average money market balances increased by $5.8 million from $42.9 million during 2012 to $48.7 million in 2013. Interest expense on savings accounts increased by $15 thousand as we have experienced strong growth in this category of deposits. Average savings deposits increased by $15.7 million from $68.8 million during 2012 to $84.5 million during 2013. The average rate paid on savings accounts during this same period declined from 19 basis points during 2012 to 17 basis points during 2013. The decline in rates paid on deposits is consistent with a decline in competitive market rates in our service area.

Interest expense on other interest-bearing liabilities increased by $507 thousand from $427 thousand during the twelve months ending December 31, 2012 to $934 thousand during 2013. This increase was related to $541 thousand in interest expense on the $7.5 million subordinated debenture. The effective yield on the debenture was 10.4% which was in excess of the 7.5% rate due to amortization of a $75 thousand commitment fee and a discount recorded on issuance of $318 thousand.

Interest expense on junior subordinated debentures decreased by $31 thousand from 2012. Interest expense on our outstanding note payable for 2013 totaled $23 thousand. Interest on other borrowings, which totaled $57 thousand in 2013 and $83 thousand in 2012, primarily relates to interest paid on repurchase agreements.

Net interest margin is net interest income expressed as a percentage of average interest-earning assets. As a result of the changes noted above, the net interest margin for 2013 decreased 15 basis points to 4.03%, from 4.18% for 2012.

**Provision for Loan Losses**

During the year ended December 31, 2014 we recorded a provision for loan losses of $1.1 million, down $300 thousand from the $1.4 million provision recorded during 2013. 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, 2014, 2013 and 2012.

| | Years Ended December 31, | | | Change during Year | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | *(dollars in thousands)* | | | | |
| Service charges on deposit accounts | $4,108 | $3,912 | $3,617 | $196 | $295 |
| Gain on sale of loans, net | 1,396 | 1,399 | 1,324 | (3) | 75 |
| Gain on sale of investments | 128 | - | 403 | 128 | (403) |
| Earnings on bank owned life insurance policies | 341 | 344 | 345 | (3) | (1) |

| | | | | | |
|---|---|---|---|---|---|
| Loan servicing fees | 502 | 323 | 215 | 179 | 108 |
| Other income | 840 | 664 | 692 | 176 | (28 ) |
| Total non-interest income | $7,315 | $6,642 | $6,596 | $673 | $46 |

**2014 compared to 2013.** During the twelve months ended December 31, 2014 non-interest income totaled $7.3 million an increase of $673 thousand from the twelve months ended December 31, 2013. The largest component of this increase was an increase of $196 thousand in service charge income which we attribute to growth in the Company's demand deposit accounts, an increase in debit card interchange income and a restructuring of our service charge fee structure beginning in August of 2013. During July and August 2014 we sold fourteen available-for- sale securities totaling $16.2 million recognizing a gain on sale of $128 thousand. Loan servicing fees, which totaled $502 thousand for the 12 months ended December 31, 2014, increased by $179 thousand from 2013. Loan servicing fees mostly relate to servicing income on the sold portion of government guaranteed small business administration loans. Other non-interest income increased by $176 thousand mostly related to a $148 thousand gain on the sale of our credit card portfolio during the fourth quarter of 2014. Prior to the sale, credit card loans represented less than one-half of a percent of our loan portfolio.

**2013 compared to 2012.** During the twelve months ended December 31, 2013 non-interest income totaled $6.6 million an increase of $46 thousand from 2012. The largest component of this change was an increase of $295 thousand in service charges on deposit accounts which we attribute to growth in the Company's demand deposit accounts, an increase in debit card interchange income and a restructuring of our service charge fee schedule beginning in August of 2013. Gains on sale of government guaranteed loans increased by $75 thousand. During 2012 we sold 53 loans receiving proceeds of $20.1 million on sale. Sales proceeds increased to $21.7 million in 2013 related to the sale of 55 loans. During 2013 loan servicing income totaled $323 thousand an increase of $108 thousand from $215 thousand during 2012.

The largest decrease in non-interest income was $403 thousand in gain on sale of investment securities. No investment securities were sold in 2013. During 2012 we sold twenty-five available-for-sale securities totaling $20.8 million recognizing a gain on sale of $403 thousand.

**Non-Interest Expense**

The following table sets forth the components of other non-interest expense for the years ended December 31, 2014, 2013 and 2012.

| | Years Ended December 31, | | | Change during Year | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | *(dollars in thousands)* | | | | |
| Salaries and employee benefits | $9,474 | $8,729 | $8,968 | 745 | $(239) |
| Occupancy and equipment | 2,902 | 2,874 | 3,023 | 28 | (149) |
| Outside service fees | 2,042 | 1,855 | 1,503 | 187 | 352 |
| Professional fees | 583 | 831 | 875 | (248) | (44) |
| Deposit insurance | 387 | 435 | 613 | (48) | (178) |
| OREO costs | 362 | 310 | 187 | 52 | 123 |
| Telephone and data communications | 351 | 287 | 308 | 64 | (21) |
| Director compensation and retirement | 298 | 232 | 255 | 66 | (23) |
| Advertising and promotion | 282 | 281 | 251 | 1 | 30 |
| Business development | 279 | 291 | 268 | (12) | 23 |
| Provision for OREO losses | 240 | 486 | 907 | (246) | (421) |
| Armored car and courier | 224 | 228 | 224 | (4) | 4 |
| Loan collection costs | 182 | 212 | 219 | (30) | (7) |
| Stationery and supplies | 122 | 113 | 124 | 9 | (11) |
| Postage | 45 | 51 | 104 | (6) | (53) |
| Core deposit intangible | - | 128 | 173 | (128) | (45) |
| Insurance | (9) | 112 | 120 | (121) | (8) |
| (Gain) loss on sale of OREO | (101) | (171) | 16 | 70 | (187) |
| Other operating expense | 182 | 286 | 239 | (104) | 47 |
| Total non-interest expense | $17,845 | $17,570 | $18,377 | $275 | $(807) |

**2014 compared to 2013.** During the twelve months ended December 31, 2014, total non-interest expense increased by $275 thousand, or 2%, to $17.8 million, up from $17.6 million for the comparable period in 2013. The largest components of this increase were $745 thousand in salary and benefit expense, $187 thousand in outside service fees and $70 thousand related to reduction in gain on sale of OREO. The largest declines in non-interest expense were $248 thousand in professional fees, $246 thousand in provision for OREO losses, $128 thousand in deposit premium amortization and $121 thousand in insurance expense.

Salaries and employee benefits increased by $745 thousand primarily related to an increase in bonus expense of $350 thousand. The Bank’s bonus plan for 2014 provides for a bonus pool of 60% of the amount that pretax income exceeds budgeted pretax income with a cap of $600 thousand. Bonus expense was $600 thousand for the twelve months ended December 31, 2014 and $250 thousand during the twelve months ended December 31, 2013. In both years the maximum allowed under the bonus plans was earned. Salary expense, exclusive of commissions, increased by $265 thousand as a decline of four employees from 159 at December 31, 2013 to 155 at December 31, 2014 was offset by an increase in average salary per employee which includes the effect of merit and promotional increases.

Other increases include, but were not limited to an $89 thousand increase in commissions, which relate to government guaranteed loan production, and a $67 thousand increase in payroll tax expense. Partially offsetting these items was an increase in deferred loan origination costs totaling $104 thousand.

Of the $187 thousand increase in outside service fees, $96 thousand was related to the outsourcing of our item processing beginning in June of 2013. This cost as been offset by savings in salary and benefit expense and software expense. In addition we incurred an increase in costs for the management of our investment portfolio and an increase in costs related to an increase in debit card interchange transactions.

Professional fees benefited from reductions in legal expense related to loan collection activities totaling $148 thousand, a reduction in corporate legal expense of $88 thousand mostly related the repurchase of the preferred stock in 2013 and a reduction in audit expense related to a change in audit firms beginning in 2014.

When other real estate is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market 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 subsequent losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from impairment are recorded as incurred. The provision for OREO losses declined by $246 thousand from $486 thousand during the twelve months ended December 31, 2013 to $240 thousand during the current period. During the second quarter of 2013 we recorded a $300 thousand provision related to one land development property.

Insurance expense benefited from a one-time adjustment to accrued life insurance costs. The deposit premium intangible asset was fully amortized at the end of September, 2013 resulting in a savings of $128 thousand during the comparison periods.

**2013 compared to 2012.** Non-interest expense declined by $807 thousand from $18.4 million during the twelve months ended December 31, 2012 to $17.6 million during 2013. Reductions of $239 thousand in salary and benefits expense, $421 thousand in the provision for changes in OREO, $187 thousand in gain/loss on sale of OREO, $149 thousand in occupancy and equipment, $44 thousand in professional fees, $178 thousand in deposit insurance and $53 thousand in postage were partially offset by increases in other expenses, the largest of which were outside service fees of $352 thousand and costs associated with OREO properties of $123 thousand.

During June of 2012 we outsourced the processing of our account statements and notices and during June of 2013 we outsourced our item processing department resulting in savings in salary expense, occupancy and equipment costs, postage and stationary costs. The $178 thousand reduction in deposit insurance expense is related to a decline in the rate charged to Plumas Bank. The reduction in professional fees primarily relates to a decrease in consulting costs.

Salaries and employee benefits decreased by $239 thousand primarily related to declines in salary continuation expense and stock compensation expense and an increase in deferred loan origination costs. Salary continuation

expense declined by $188 thousand related to an adjustment in 2012. During 2012, related to a significant reduction in long term market interest rates, we reduced the discount rates used in calculating the present value of our salary continuation liabilities. This had the effect of increasing salary continuation expense during 2012 by $195 thousand. Stock compensation expense decreased by $58 thousand from $93 thousand during 2012 to $35 thousand during the current period. During the first quarter of 2012 we had an adjustment to the estimated forfeiture rate resulting in an increase in stock compensation; no adjustment was required during 2013. The largest reduction in salary and benefits was related to an increase in deferred loan origination costs totaling $384 thousand. We attribute this increase in deferred loan origination costs to an increase in lending activity. These items were partially offset by an increase in bonus expense of $250 thousand and salary expense of $173 thousand. The Bank's bonus plan for 2013 provided for a bonus pool of 50% of the amount that pretax income exceeds budgeted pretax income with a cap of $250 thousand. The maximum amount was allocated under this formula. There was no bonus plan in place and no bonuses were earned or paid in 2012. Salary expense increased by $173 thousand as savings related to the outsourcing of statement and item processing were offset by an increase in loan production personnel and salary increases.

The $486 thousand OREO provision during 2013, a $421 thousand decline from 2012, resulted from declines in value of ten properties. The $907 thousand in OREO provision during the 2012 was related to a decline in the value of twenty-one properties. During the year ended December 31, 2013, we sold twenty-eight properties and a portion of another property recording a gain on sale of $171 thousand. During 2012, we sold fourteen properties and a portion of two other properties recording a loss on sale of $16 thousand.

The increase in outside service fees was related to the outsourcing of our statement and notice processing in June of 2012, the outsourcing of our item processing beginning in June of 2013, an increase in costs related to monitoring and maintaining our ATMs and an increase in the cost of managing our investment portfolio. During 2012 the Bank modernized its ATM network by purchasing new ATM machines which have the ability to accept currency and checks and provide an imaged receipt. While these ATMs provide a significant increase in functionality, they are also more expensive to operate and maintain. During the first half of 2012 we began to use a third party for assistance with the analysis and management of our investment securities portfolio. The increase in cost during 2013 for this function was related to a full year of costs and an increase in the balance of our portfolio.

OREO expense during the 2012 period benefited from $80 thousand in rental income net of operating expenses on an apartment building acquired in July 2011. Both the rental income and the operating expenses are included under the category of OREO expense. This building was sold during the third quarter of 2012. The remaining increase in OREO expense during 2013 primarily relates to an increase in legal expense as we are actively pursuing additional recoveries on selected OREO properties through legal channels.

**Provision for Income Taxes.** The Company recorded an income tax provision of $3.1 million, or 39.4% of pre-tax income for the year ended December 31, 2014. During 2013 the Company recorded an income tax provision of $2.2 million, or 38.7% of pre-tax income for the year ended December 31, 2013. The percentages for 2014 and 2013 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance, municipal loan interest and in 2013 state of California enterprise zone interest, decrease taxable income.

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

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, 2014 and 2013 will be fully realized and therefore no valuation allowance was recorded.

**Financial Condition**

**Loan Portfolio.** Net loans increased by $32.4 million, or 10%, from $334.4 million at December 31, 2013 to $366.8 million at December 31, 2014. The two largest areas of growth in the Company's loan portfolio were $14.3 million in automobile loans and $7.4 million in commercial real estate loans. Additionally, construction and land development loans increased by $6.8 million to $24.6 million and agricultural loans increased by $4.7 million. The Company continues to manage the mix of its loan portfolio consistent with its identity as a community bank serving the financing needs of all sectors of the area it serves. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized commercial businesses. These commercial loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment.

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

| (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 |
|---|---|---|---|---|
| | **12/31/14** | **12/31/14** | **12/31/13** | **12/31/13** |
| Commercial | $31,465 | 8.5 % | $32,612 | 9.6 % |
| Agricultural | 35,355 | 9.5 % | 30,647 | 9.0 % |
| Real estate - residential | 29,284 | 7.9 % | 31,322 | 9.3 % |
| Real estate – commercial | 163,306 | 44.1 % | 155,942 | 46.1 % |
| Real estate – construction | 24,572 | 6.6 % | 17,793 | 5.3 % |
| Equity Lines of Credit | 38,972 | 10.5 % | 35,800 | 10.6 % |
| Auto | 44,618 | 12.1 % | 30,305 | 8.9 % |
| Other | 2,818 | 0.8 % | 4,130 | 1.2 % |
| Total Gross Loans | $370,390 | 100 % | $338,551 | 100 % |

Construction and land development loans represented 6.6% and 5.3% of the loan portfolio as of December 31, 2014 and December 31, 2013, respectively. The construction and land development portfolio component has been identified by Management as a higher-risk loan category. The quality of the construction and land development category is highly dependent on property values both in terms of the likelihood of repayment once the property is transacted by the current owner as well as the level of collateral the Company has securing the loan in the event of default. Loans in this category are characterized by the speculative nature of commercial and residential development properties and can include property in various stages of development from raw land to finished lots. The decline in these loans as a percentage of the Company's loan portfolio from over 21% at December 31, 2007 to less than 7% 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 74% of the total loan portfolio at December 31, 2014. Moreover, the business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, Sierra and in Washoe County in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

The rates of interest charged on variable rate loans are set at specific increments in relation to the Company's lending rate or other indexes such as the published prime interest rate or U.S. Treasury rates and vary with changes in these indexes. At December 31, 2014 and December 31, 2013, approximately 71% and 73%, respectively of the Company's loan portfolio was comprised of variable rate loans. At December 31, 2014 and December 31, 2013, 42% and 40%, respectively of the variable loans were at their respective floor rate. While real estate mortgage, commercial and consumer lending remain the foundation of the Company's historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types. 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 12.1% of gross loans at December 31, 2014. 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 $35 million at December 31, 2014 and $31 million at December 31, 2013.

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

| | **At December 31,** | | | | |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** |
| | ***(dollars in thousands)*** | | | | |
| Real estate – mortgage | $192,590 | $187,264 | $174,212 | $158,431 | $162,513 |
| Real estate – construction and land development | 24,572 | 17,793 | 15,801 | 17,063 | 31,199 |
| Commercial | 31,465 | 32,612 | 29,552 | 30,235 | 33,433 |
| Consumer (1) | 86,408 | 70,235 | 60,368 | 49,268 | 48,586 |
| Agriculture (2) | 35,355 | 30,647 | 35,124 | 38,868 | 38,469 |
| Total loans | 370,390 | 338,551 | 315,057 | 293,865 | 314,200 |
| | | | | | |
| Plus: | | | | | |
| Deferred costs | 1,848 | 1,340 | 900 | 475 | 275 |
| Less: | | | | | |
| Allowance for loan losses | 5,451 | 5,517 | 5,686 | 6,908 | 7,324 |
| Net loans | $366,787 | $334,374 | $310,271 | $287,432 | $307,151 |

(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, 2014. 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** |
|---|---|---|---|---|
| | *(dollars in thousands)* | | | |
| Real estate – mortgage | $11,320 | $58,463 | $122,807 | $192,590 |
| Real estate – construction and land development | 6,542 | 7,512 | 10,518 | 24,572 |
| Commercial | 10,962 | 10,712 | 9,791 | 31,465 |
| Consumer | 11,077 | 39,485 | 35,846 | 86,408 |
| Agriculture | 13,208 | 8,189 | 13,958 | 35,355 |
| Total | $53,109 | $124,361 | $192,920 | $370,390 |
| Loans maturing after one year with: | | | | |
| Fixed interest rates | | $53,957 | $38,017 | $91,974 |
| Variable interest rates | | 70,404 | 154,903 | 225,307 |
| Total | | $124,361 | $192,920 | $317,281 |

29

**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 at least monthly and reports to the Board of Directors.

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

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

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

Formula allocations are calculated by applying loss factors to outstanding loans with similar characteristics. Loss factors are based on the Company's historical loss experience as adjusted for changes in the business cycle and may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the

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

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

The following table provides certain information for the 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,** | | | | |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** |
| | ***(dollars in thousands)*** | | | | |
| Balance at beginning of period | $5,517 | $5,686 | $6,908 | $7,324 | $9,568 |
| Charge-offs: | | | | | |
| Commercial and agricultural (2) | 191 | 401 | 1,159 | 539 | 1,219 |
| Real estate mortgage | 1,015 | 419 | 616 | 483 | 3,105 |
| Real estate construction | 106 | 735 | 1,524 | 2,603 | 3,617 |
| Consumer (1) | 601 | 360 | 602 | 622 | 408 |
| Total charge-offs | 1,913 | 1,915 | 3,901 | 4,247 | 8,349 |
| Recoveries: | | | | | |
| Commercial and agricultural (2) | 89 | 140 | 66 | 199 | 26 |
| Real estate mortgage | 19 | 109 | 8 | 18 | 396 |
| Real estate construction | 491 | - | 81 | 5 | 65 |
| Consumer (1) | 148 | 97 | 174 | 109 | 118 |
| Total recoveries | 747 | 346 | 329 | 331 | 605 |
| Net charge-offs | 1,166 | 1,569 | 3,572 | 3,916 | 7,744 |
| Provision for loan losses | 1,100 | 1,400 | 2,350 | 3,500 | 5,500 |
| Balance at end of period | $5,451 | $5,517 | $5,686 | $6,908 | $7,324 |
| Net charge-offs during the period to average loans | 0.33 % | 0.49 % | 1.18 % | 1.29 % | 2.39 % |
| Allowance for loan losses to total loans | 1.47 % | 1.63 % | 1.80 % | 2.35 % | 2.33 % |

(1) Includes equity lines of credit and auto

(2) Includes agriculture real estate

During the year ended December 31, 2014 we recorded a provision for loan losses of $1.1 million down $300 thousand from the $1.4 million provision recorded during the year ended December 31, 2013. Net charge-offs totaled $1.2 million during the year ended December 31, 2014 down $403 thousand from $1.6 million during 2013. Net charge-offs as a percentage of average loans decreased from 0.49% during 2013 to 0.33% during the year ended December 31, 2014.

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

| (dollars in thousands) | Balance at | Percent of Loans | Balance at | Percent of Loans |
|---|---|---|---|---|

| | End of Period 2014 | in Each Category to Total Loans 2014 | | End of Period 2013 | in Each Category to Total Loans 2013 | |
|---|---|---|---|---|---|---|
| Commercial and agricultural | $ 799 | 18.0 | % | $ 949 | 18.6 | % |
| Real estate mortgage | 2,080 | 52.0 | % | 2,412 | 55.4 | % |
| Real estate construction | 1,227 | 6.6 | % | 944 | 5.3 | % |
| Consumer (includes equity LOC & Auto) | 1,345 | 23.4 | % | 1,212 | 20.7 | % |
| Total | $ 5,451 | 100.0 | % | $ 5,517 | 100.0 | % |

The allowance for loan losses totaled $5.5 million at December 31, 2014 and December 31, 2013. Specific reserves related to impaired loans decreased by $65 thousand from $629 thousand at December 31, 2013 to $564 thousand at December 31, 2014. At least quarterly the Company evaluates each specific reserve and if it determines that the loss represented by the specific reserve is uncollectable it records a charge-off for the uncollectable portion. General reserves were $4.9 million at December 31, 2014 and December 31, 2013. The allowance for loan losses as a percentage of total loans decreased from 1.63% at December 31, 2013 to 1.47% at December 31, 2014. The percentage of general reserves to unimpaired loans decreased from 1.49% at December 31, 2013 to 1.35% at December 31, 2014 primarily related to reductions in historical net charge-offs.

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

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

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

Loans restructured (TDRs) and not included in nonperforming loans in the following table totaled $2.0 million, $4.5 million, $5.4 million, $8.6 million and $2.0 million at December 31, 2014, 2013, 2012, 2011 and 2010, respectively. For additional information related to restructured loans see Note 6 of the Company’s Consolidated Financial Statements in Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10K.

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

| | **At December 31,** | | | | |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** |
| | ***(dollars in thousands)*** | | | | |
| Nonaccrual loans | $6,625 | $5,519 | $13,683 | $16,757 | $25,313 |
| Loans past due 90 days or more and still accruing | - | 17 | 15 | 72 | 45 |
| Total nonperforming loans | 6,625 | 5,536 | 13,698 | 16,829 | 25,358 |
| Other real estate owned | 3,590 | 6,399 | 5,295 | 8,623 | 8,867 |

| | | | | | |
|---|---|---|---|---|---|
| Other vehicles owned | 13 | 60 | 41 | 57 | 17 |
| Total nonperforming assets | $10,228 | $11,995 | $19,034 | $25,509 | $34,242 |
| Interest income forgone on nonaccrual loans | $345 | $280 | $646 | $510 | $1,021 |
| Interest income recorded on a cash basis on nonaccrual loans | $31 | $22 | $192 | $285 | $608 |
| Nonperforming loans to total loans | 1.79 % | 1.64 % | 4.35 % | 5.73 % | 8.07 % |
| Nonperforming assets to total assets | 1.90 % | 2.33 % | 3.98 % | 5.60 % | 7.07 % |

Nonperforming loans at December 31, 2014 were $6.6 million, an increase of $1.1 million from the $5.5 million balance at December 31, 2013. Specific reserves on nonaccrual loans totaled $522 thousand at December 31, 2014 and $578 thousand at December 31, 2013, respectively. Performing loans past due thirty to eighty-nine days increased by $0.1 million from $1.5 million at December 31, 2013 to $1.6 million at December 31, 2014.

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans increased by $612 thousand from $7.5 million at December 31, 2013 to $8.1 million at December 31, 2014. Loans classified as watch decreased by $1.4 million from $5.8 million at December 31, 2013 to $4.4 million at December 31, 2014. At December 31, 2014, $1.6 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, 2014 and December 31, 2013, the Company's recorded investment in impaired loans totaled $8.6 million and $9.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled $564 thousand and $629 thousand at December 31, 2014 and December 31, 2013, respectively. Additionally, $0.7 million has been charged off against the impaired loans at December 31, 2014 and December 31 2013.

It is the policy of management to make additions to the allowance for loan losses so that it remains appropriate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at December 31, 2014 is appropriate. However, the determination of the amount of the allowance is judgmental and subject to economic conditions which cannot be predicted with certainty. Accordingly, the Company cannot predict whether charge-offs of loans in excess of the allowance may occur in future periods.

OREO represents real property acquired by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. OREO holdings represented fifteen properties totaling $3.6 million at December 31, 2014 and twenty-six properties totaling $6.4 million at December 31, 2013. During June 2014 the Company sold its largest property in OREO, a land development property with an OREO value of $2.2 million which represented 36% of the total OREO balance prior to sale. A gain of $28 thousand was recorded on the sale of this property. Nonperforming assets as a percentage of total assets were 1.90% at December 31, 2014 and 2.33% at December 31, 2013.

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

| | **Year Ended December 31,** | | | |
|---|---|---|---|---|
| | **#** | **2014** | **#** | **2013** |
| Beginning Balance | 26 | $6,399 | 40 | $5,295 |
| Additions | 6 | 729 | 14 | 3,824 |
| Dispositions | (17) | (3,298) | (28) | (2,234) |
| Provision from change in OREO valuation | - | (240) | - | (486) |
| Ending Balance | 15 | $3,590 | 26 | $6,399 |

**Investment Portfolio and Federal Funds Sold.** Total investment securities were $90.3 million as of December 31, 2014 and December 31, 2013. During the twelve months ended December 31, 2014 we sold investment securities with a book balance of $16.2 million and recognized a gain on sale of $128 thousand. The investment portfolio at December 31, 2014 consisted of $77.3 million in securities of U.S. Government-sponsored agencies, 52 municipal securities totaling $12.5 million and one corporate security totaling $0.5 million. Included in the $90.3 million at December 31, 2013 were $89.0 million in securities of U.S. Government-sponsored agencies and six municipal securities totaling $1.3 million.

There were no Federal funds sold at December 31, 2014 and December 31, 2013; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling $22.9 million at December 31, 2014 and $29.1 million at December 31, 2013. These balances currently earn 25 basis points.

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

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

| Available-for-sale (fair value) | December 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| | *(dollars in thousands)* | | |
| U.S. Government-sponsored agencies | $7,002 | $27,097 | $38,442 |
| U.S. Government-sponsored agency residential mortgage-backed securities | 70,280 | 61,875 | 42,522 |
| Municipal obligations | 12,532 | 1,371 | - |
| Corporate debt | 506 | - | - |
| Total | $90,320 | $90,343 | $80,964 |

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, 2014. 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Available-for-sale (Fair Value) | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| U.S. Government- sponsored agencies | $ - | - % | $7,002 | 1.22 % | - | - % | - | - % | $7,002 | 1.22 % |
| U.S. Government-sponsored agency residential mortgage-backed securities | - | - % | - | - % | $12,926 | 1.55 % | $57,354 | 1.82 % | 70,280 | 1.77 % |
| Municipal obligations | - | - % | - | - % | 9,393 | 3.59 % | 3,139 | 4.05 % | 12,532 | 3.71 % |
| Corporate debt | - | - % | 506 | 2.02 % | - | - % | - | - % | 506 | 2.02 % |
| Total | $ - | - % | $7,508 | 1.27 % | $22,319 | 2.41 % | $60,493 | 1.94 % | $90,320 | 2.00 % |

**Deposits.** During 2013 and continuing into 2014 we have experienced strong core deposit growth and have benefited from the closing of two branches of a large national bank in our service area. Total deposits increased by $18.5 million from $449 million at December 31, 2013 to $468 million at December 31, 2014. Core deposit growth remained strong in 2014 as evidenced by increases of $17.8 million in demand deposits and $12.3 million in savings accounts. Time deposits declined by $6.3 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. Interest-bearing transaction accounts (NOW) declined by $0.5 million and money market accounts declined by $4.8 million.

The Company continues to manage the mix of its deposits consistent with its identity as a community bank serving the financial needs of its customers. The following table shows the distribution of deposits by type at December 31, 2014 and 2013.

| (dollars in thousands) | Balance at End of Period | Percent of Deposits in Each Category Total Loans | | Balance at End of Period | Percent of Deposits in Each Category Total Loans | |
|---|---|---|---|---|---|---|
| | **12/31/14** | **12/31/14** | | **12/31/13** | **12/31/13** | |
| Non-interest bearing | $180,649 | 38.6 | % | $162,816 | 36.2 | % |
| NOW | 82,144 | 17.6 | % | 82,687 | 18.4 | % |
| Money Market | 42,499 | 9.1 | % | 47,331 | 10.5 | % |
| Savings | 106,257 | 22.7 | % | 93,922 | 20.9 | % |
| Time | 56,342 | 12.0 | % | 62,683 | 14.0 | % |
| Total Deposits | $467,891 | 100 | % | $449,439 | 100 | % |

Deposits represent the Bank's primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. In order to assist in meeting any funding demands, the Company maintains a secured borrowing arrangement with the FHLB. There were no brokered deposits at December 31, 2014 or 2013.

The Company's time deposits of $100,000 or more had the following schedule of maturities at December 31, 2014:

| *(dollars in thousands)* | |
|---|---|
| | Amount |
| Remaining Maturity: | |
| Three months or less | $7,277 |
| Over three months to six months | 4,601 |
| Over six months to 12 months | 6,296 |
| Over 12 months | 4,283 |
| Total | $22,457 |

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 $133,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $205,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2014 and 2013, the Company held $2,380,000 and $2,226,000 of FHLB stock which is recorded as a component of other assets. Based on the level of stock holdings at December 31, 2014, the Company can borrow up to $50,600,000. To borrow the $133,000,000 in available credit the Company would need to purchase $3,900,000 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 $11 million, $10 million and $10 million. There were no outstanding borrowings to the FHLB or the correspondent banks under these agreements at December 31, 2014 and 2013.

**Note Payable.** On October 24, 2013 the Bancorp issued a $3 million promissory note (the “Note”) payable to an unrelated commercial bank. The note bears interest at the U.S. "Prime Rate" plus three-quarters percent per annum, 4.00% at December 31, 2014 and 2013, has a term of 18 months and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Interest expense related to this note for the years ended December 31, 2014 and 2013 totaled $111,000 and $23,000, respectively. 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 requirements at December 31, 2014 and December 31, 2013.

On July 28, 2014, Plumas Bancorp entered into a Renewal, Extension, and Modification of Loan Agreement (the "Agreement") related to the Note. This Agreement provides for the following changes, among others:

1.) The maturity date of the Note is October 24, 2015.

2.) The maximum amount of the Note is $7.5 million.

3.) The Company may borrow, repay, and reborrow up to the principal face amount of the Note.

The above provisions are subject to the following conditions:

1.) An advance under the Note in excess of $3 million is subject to the lender completing a satisfactory loan review of the Company.

2.) The Company shall provide an assignment of Key Man life Policy(s) in a minimum amount of $3.5 million.

3.) The Company shall not prepay the Company's Junior Subordinated Deferrable Interest Debentures until the Note has been paid in full.

On August 26, 2014 the Company made a $2 million payment on the Note reducing the outstanding balance to $1 million.

**Repurchase Agreements.** In 2011 Plumas Bank introduced a new product for their larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at December 31, 2014 was $9.6 million an increase of $0.5 million from the December 31, 2013 balance of $9.1 million. Interest paid on this product is similar to that which is paid on the Bank's premium money market account; however, these are not deposits and are not FDIC insured.

**Subordinated Debentures.** On April 15, 2013, to help fund the repurchase of preferred stock during 2013, the Company issued a $7.5 million subordinated debenture. The subordinated debt bears an interest rate of 7.5% per annum, has a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant to purchase up to 300,000 shares of the Bancorp's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. The effective yield on the debenture was 10.3% which was in excess of the 7.5% rate due to amortization of a $75 thousand commitment fee and a discount recorded on issuance of $318 thousand. Interest expense related to the subordinated debt for the years ended December 31, 2014 and 2013 totaled $756,000 and $541,000, respectively.

The subordinated debt agreement provides that in the event of default with respect to the subordinated debt, the Bancorp will be subject to certain restrictions on the payment of dividends and distributions to shareholders, repurchase or redemption of the Bancorp's securities and payment on certain debts or guarantees. The subordinated debenture agreement also provides that in the event of default, Lender will have the right to appoint a director to the Bancorp's board of directors and/or the Plumas Bank board in certain limited circumstances. Under current capital guidelines the subordinated debt qualifies as Tier 2 capital; however, under Basel III guidelines effective January 1, 2015 it does not qualify for regulatory capital.

**Junior Subordinated Deferrable Interest Debentures.** Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of $304,000 and $161,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. Under current applicable regulatory guidance, the amount of trust preferred securities (TRUPS) that is eligible as Tier 1 capital is limited to twenty-five percent of the Company's Tier 1 capital, as defined, on a pro forma basis. At December 31, 2014, all of the trust preferred securities that have been issued qualify as Tier 1 capital. Under Basel III guidelines the twenty-five percent limitation applies to Tier 1 capital exclusive of the TRUPS which we expect will result in a portion of the TRUPS not qualifying as Tier 1 capital. The amount of the TRUPS that does not qualify as Tier 1 capital will be included in Tier 2 capital.

During 2002, Plumas Statutory Trust I issued 6,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of $1,000 per security, for gross proceeds of $6,000,000. During 2005,

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

Trust I's Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 3.66% (based on 3-month LIBOR plus 3.40%), with repricing and payments due quarterly. Trust II's Subordinated Debentures mature on September 28, 2035, bear a current interest rate of 1.72% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The interest rate of the Trust Preferred Securities issued by Trust I adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 3.40%. The Trust Preferred Securities issued by Trust II adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 1.48%. Both Trusts I and II have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures.

Interest expense recognized by the Company for the years ended December 31, 2014, 2013 and 2012 related to the subordinated debentures was $303,000, $313,000 and $344,000, respectively.

**Capital Resources**

Total shareholders’ equity increased by $5.9 million from $30.6 million at December 31, 2013 to $36.5 million at December 31, 2014. The $5.9 million includes earnings during the twelve month period totaling $4.7 million and a decrease in net unrealized loss on investment securities of $1.1 million with the balance of $0.1 million representing stock option activity.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company’s stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the “Board). The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. No common cash dividends were paid during the last five years.

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

**Capital Standards.**

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

The following tables present the capital ratios for the Company and the Bank compared to the standards for bank holding companies and the regulatory minimum requirements for depository institutions as of December 31, 2014 and 2013 (amounts in thousands except percentage amounts).

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| **Tier 1 Leverage Ratio** | | | | |
| **Plumas Bancorp and Subsidiary** | **$46,557** | **8.4 %** | **$40,909** | **7.8 %** |
| Minimum regulatory requirement | 22,157 | 4.0 % | 20,856 | 4.0 % |
| **Plumas Bank** | **53,925** | **9.8 %** | **50,748** | **9.7 %** |
| Minimum requirement for “Well-Capitalized” institution under the prompt corrective action regulation | 27,643 | 5.0 % | 26,026 | 5.0 % |
| Minimum regulatory requirement | 22,114 | 4.0 % | 20,821 | 4.0 % |
| **Tier 1 Risk-Based Capital Ratio** | | | | |
| **Plumas Bancorp and Subsidiary** | **46,557** | **11.4 %** | **40,909** | **10.7 %** |
| Minimum regulatory requirement | 16,358 | 4.0 % | 15,332 | 4.0 % |
| **Plumas Bank** | **53,925** | **13.2 %** | **50,748** | **13.2 %** |
| Minimum requirement for “Well-Capitalized” institution under the prompt corrective action regulation | 24,517 | 6.0 % | 22,986 | 6.0 % |
| Minimum regulatory requirement | 16,344 | 4.0 % | 15,324 | 4.0 % |
| **Total Risk-Based Capital Ratio** | | | | |
| **Plumas Bancorp and Subsidiary** | **59,128** | **14.5 %** | **53,006** | **13.8 %** |
| Minimum regulatory requirement | 32,715 | 8.0 % | 30,664 | 8.0 % |
| **Plumas Bank** | **59,039** | **14.4 %** | **55,547** | **14.5 %** |
| Minimum requirement for “Well-Capitalized” institution under the prompt corrective action regulation | 40,860 | 10.0 % | 38,310 | 10.0 % |
| Minimum regulatory requirement | 32,689 | 8.0 % | 30,648 | 8.0 % |

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

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

**Basel III Capital Rules.** 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. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. Under current capital guidelines the Company's subordinated debt qualifies as Tier 2 capital; however, under Basel III guidelines effective January 1, 2015 it does not qualify for regulatory capital. Additionally, the Basel III rules have reduced the amount of TRUPS that is eligible for inclusion in Tier 1 capital which will we expect will result in a portion of the TRUPS not qualifying as Tier 1 capital. The amount that does not qualify as Tier 1 capital will qualify as Tier 2 capital.

The phase-in period for the final rules begin on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. As of January 1, 2015, the Company's and the Bank's capital levels remained "well-capitalized" under the new rules.

**Off-Balance Sheet Arrangements**

**Loan Commitments.** In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of December 31, 2014, the Company had $89.7 million in unfunded loan commitments and no letters of credit. This compares to $84.2 million in unfunded loan commitments and $60 thousand in letters of credit at December 31, 2013. Of the $89.7 million in unfunded loan commitments, $52.3 million and $37.4 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2014, $41.7 million were secured by real estate, of which $14.8 million was secured by commercial real estate and $26.9 million was secured by residential real estate in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines and overdraft protection lines. Since some of the commitments are expected to expire without being drawn upon the total

commitment amounts do not necessarily represent future cash requirements.

**Operating Leases.** The Company leases one depository branch, three lending offices, one loan administration office and two non-branch automated teller machine locations. Total rental expenses under all operating leases were $192,000 and $154,000 during the years ended December, 31, 2014 and 2013, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2015 and the last such lease expiring during 2016.

**Liquidity**

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

The Company is a member of the FHLB and can borrow up to $133,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $205,000,000. 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 $11 million, $10 million and $10 million. There were no outstanding borrowings under the FHLB or the correspondent bank borrowing lines at December 31, 2014 or 2013.

Customer deposits are the Company's primary source of funds. Total deposits increased by $18.5 million from $449 million at December 31, 2013 to $468 million at December 31, 2014. 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, 2014, 2013 and 2012.


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm | F-1 |
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets as of December 31, 2014 and 2013 | F-3 |
| Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012 | F-4 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012 | F-6 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012 | F-7 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 | F-8 |
| Notes to Consolidated Financial Statements | F-11 |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Plumas Bancorp and Subsidiary

Quincy, California

We have audited the accompanying consolidated balance sheets of Plumas Bancorp and Subsidiary (the "Company") as of December 31, 2014 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plumas Bancorp and Subsidiary as of December 31, 2014 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Laguna Hills, California

March 19, 2015

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Shareholders and Board of Directors

Plumas Bancorp

Quincy, California

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and Subsidiary (the "Company") as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plumas Bancorp and Subsidiary as of December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe Horwath LLP

Sacramento, California

March 20, 2014

**PLUMAS BANCORP AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

**December 31, 2014 and 2013**

| | **2014** | **2013** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $45,574,000 | $49,917,000 |
| Investment securities available for sale | 90,320,000 | 90,343,000 |
| Loans, less allowance for loan losses of $5,451,000 in 2014 and $5,517,000 in 2013 | 366,787,000 | 334,374,000 |
| Premises and equipment, net | 11,642,000 | 12,519,000 |
| Bank owned life insurance | 11,845,000 | 11,504,000 |
| Other real estate and vehicles acquired through foreclosure | 3,603,000 | 6,459,000 |
| Accrued interest receivable and other assets | 9,091,000 | 10,609,000 |
| Total assets | $538,862,000 | $515,725,000 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits: | | |
| Non-interest bearing | $180,649,000 | $162,816,000 |
| Interest bearing | 287,242,000 | 286,623,000 |
| Total deposits | 467,891,000 | 449,439,000 |
| Repurchase agreements | 9,626,000 | 9,109,000 |
| Note payable | 1,000,000 | 3,000,000 |
| Subordinated debenture | 7,454,000 | 7,295,000 |
| Accrued interest payable and other liabilities | 6,084,000 | 5,979,000 |
| Junior subordinated deferrable interest debentures | 10,310,000 | 10,310,000 |
| Total liabilities | 502,365,000 | 485,132,000 |
| Commitments and contingencies (Note 12) | | |
| 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 – 4,799,139 at December 31, 2014 and 4,787,739 at December 31, 2013 | 6,312,000 | 6,249,000 |
| Retained earnings | 30,245,000 | 25,507,000 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (60,000) | (1,163,000) |
| Total shareholders' equity | 36,497,000 | 30,593,000 |
| Total liabilities and shareholders' equity | $538,862,000 | $515,725,000 |

**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, 2014, 2013 and 2012**

| | **2014** | **2013** | **2012** |
|---|---|---|---|
| Interest income: | | | |
| Interest and fees on loans | $19,495,000 | $18,174,000 | $17,427,000 |
| Interest on investment securities: | | | |
| Taxable | 1,368,000 | 1,155,000 | 892,000 |
| Exempt from Federal income taxes | 147,000 | 7,000 | - |
| Other | 137,000 | 124,000 | 106,000 |
| Total interest income | 21,147,000 | 19,460,000 | 18,425,000 |
| Interest expense: | | | |
| Interest on deposits | 516,000 | 600,000 | 847,000 |
| Interest on note payable | 111,000 | 23,000 | - |
| Interest on subordinated debenture | 756,000 | 541,000 | - |
| Interest on junior subordinated deferrable interest debentures | 303,000 | 313,000 | 344,000 |
| Other | 7,000 | 57,000 | 83,000 |
| Total interest expense | 1,693,000 | 1,534,000 | 1,274,000 |
| Net interest income before provision for loan losses | 19,454,000 | 17,926,000 | 17,151,000 |
| Provision for loan losses | 1,100,000 | 1,400,000 | 2,350,000 |
| Net interest income after provision for loan losses | 18,354,000 | 16,526,000 | 14,801,000 |
| Non-interest income: | | | |
| Service charges | 4,108,000 | 3,912,000 | 3,617,000 |
| Gain on sale of loans | 1,396,000 | 1,399,000 | 1,324,000 |
| Gain on sale of investments | 128,000 | - | 403,000 |
| Earnings on bank owned life insurance policies, net | 341,000 | 344,000 | 345,000 |
| Other | 1,342,000 | 987,000 | 907,000 |
| Total non-interest income | 7,315,000 | 6,642,000 | 6,596,000 |

(Continued)

F - 4

**PLUMAS BANCORP AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

(Continued)

**For the Years Ended December 31, 2014, 2013 and 2012**

| | **2014** | **2013** | **2012** |
|---|---|---|---|
| Non-interest expenses: | | | |
| Salaries and employee benefits | $9,474,000 | $8,729,000 | $8,968,000 |
| Occupancy and equipment | 2,902,000 | 2,874,000 | 3,023,000 |
| Provision for losses on other real estate | 240,000 | 486,000 | 907,000 |
| Other | 5,229,000 | 5,481,000 | 5,479,000 |
| Total non-interest expenses | 17,845,000 | 17,570,000 | 18,377,000 |
| Income before income taxes | 7,824,000 | 5,598,000 | 3,020,000 |
| Provision for income taxes | 3,086,000 | 2,167,000 | 1,070,000 |
| Net income | 4,738,000 | 3,431,000 | 1,950,000 |
| Discount on redemption of preferred stock | - | 565,000 | - |
| Preferred stock dividends and discount accretion | - | (347,000) | (684,000) |
| Net income available to common shareholders | $4,738,000 | $3,649,000 | $1,266,000 |
| Basic earnings per common share | $0.99 | $0.76 | $0.26 |
| Diluted earnings per common share | $0.95 | $0.75 | $0.26 |
| Common dividends per share | $- | $- | $- |

**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, 2014, 2013 and 2012**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net Income | $4,738,000 | $3,431,000 | $1,950,000 |
| Other comprehensive income (loss): | | | |
| Change in net unrealized gain (loss) | 2,006,000 | (2,540,000) | 695,000 |
| Less: reclassification adjustments for net gains included in net income | (128,000) | - | (403,000) |
| Net unrealized holding gain (loss) | 1,878,000 | (2,540,000) | 292,000 |
| Related income tax effect: | | | |
| Change in unrealized (gain) loss | (828,000) | 1,048,000 | (288,000) |
| Reclassification of gains included in net income | 53,000 | - | 167,000 |
| Income tax effect | (775,000) | 1,048,000 | (121,000) |
| Total other comprehensive income (loss) | 1,103,000 | (1,492,000) | 171,000 |
| Comprehensive income | $5,841,000 | $1,939,000 | $2,121,000 |

**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, 2014, 2013 and 2012**

| | Preferred Stock | | Common Stock | | Retained | Accumulated Other Comprehensive (Loss) Income (Net of Taxes) | Total Shareholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Earnings | | Equity |
| Balance, January 1, 2012 | 11,949 | $ 11,769,000 | 4,776,339 | $ 5,998,000 | $ 21,709,000 | $ 158,000 | $ 39,634,000 |
| Net lncome | | | | | 1,950,000 | | 1,950,000 |
| Other comprehensive loss | | | | | | 171,000 | 171,000 |
| Preferred stock accretion | | 86,000 | | | (86,000) | | - |
| Stock-based compensation expense | | | | 95,000 | | | 95,000 |
| Balance, December 31, 2012 | 11,949 | 11,855,000 | 4,776,339 | 6,093,000 | 23,573,000 | 329,000 | 41,850,000 |
| Net lncome | | | | | 3,431,000 | | 3,431,000 |
| Other comprehensive loss | | | | | | (1,492,000) | (1,492,000) |
| Preferred stock accretion | | 94,000 | | | (94,000) | | - |
| Preferred stock dividends | | | | | (1,968,000) | | (1,968,000) |
| Redemption of preferred stock | (11,949) | (11,384,000) | | | | | (11,384,000) |
| | | (565,000) | | | 565,000 | | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Discount on redemption of preferred stock | | | | | | | |
| Exercise of stock options | | | 11,400 | 34,000 | | | 34,000 |
| Repurchase of common stock warrant | | | | (234,000 ) | | | (234,000 ) |
| Issuance of common stock warrant | | | | 318,000 | | | 318,000 |
| Stock-based compensation expense | | | | 38,000 | | | 38,000 |
| Balance, December 31, 2013 | - | - | 4,787,739 | 6,249,000 | 25,507,000 | (1,163,000) | 30,593,000 |
| Net lncome | | | | | 4,738,000 | | 4,738,000 |
| Other comprehensive income | | | | | | 1,103,000 | 1,103,000 |
| Exercise of stock options and tax effect | | | 11,400 | (18,000 ) | | | (18,000 ) |
| Stock-based compensation expense | | | | 81,000 | | | 81,000 |
| Balance, December 31, 2014 | - | $ - | 4,799,139 | $ 6,312,000 | $ 30,245,000 | $ (60,000 ) | $ 36,497,000 |

**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, 2014, 2013 and 2012**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $4,738,000 | $3,431,000 | $1,950,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 1,100,000 | 1,400,000 | 2,350,000 |
| Change in deferred loan origination costs/fees, net | (752,000) | (667,000) | (629,000) |
| Stock-based compensation expense | 81,000 | 38,000 | 95,000 |
| Depreciation and amortization | 1,306,000 | 1,408,000 | 1,354,000 |
| Amortization of investment security premiums | 487,000 | 445,000 | 525,000 |
| Accretion of investment security discounts | (8,000) | (6,000) | (5,000) |
| Gain on sale of investments | (128,000) | - | (403,000) |
| Gain on sale of loans held for sale | (1,396,000) | (1,399,000) | (1,324,000) |
| Loans originated for sale | (22,063,000) | (17,609,000) | (21,154,000) |
| Proceeds from loan sales | 21,592,000 | 21,733,000 | 20,084,000 |
| Provision for losses on other real estate | 240,000 | 486,000 | 907,000 |
| Net (gain) loss on sale of other real estate and vehicles owned | | | |