

PLUMAS BANCORP
Form 10-Q
August 02, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**(Mark
One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**

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

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California **75-2987096**
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

35 S. Lindan Avenue, Quincy, California **95971**
(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company
Emerging growth company

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of July 31, 2017.
5,042,971 shares

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****PLUMAS BANCORP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands, except share data)

	June 30, 2017	December 31, 2016
<u>Assets</u>		
Cash and cash equivalents	\$68,851	\$ 62,646
Investment securities available for sale	112,329	101,595
Loans, less allowance for loan losses of \$6,855 at June 30, 2017 and \$6,549 at December 31, 2016	471,418	456,580
Real estate acquired through foreclosure	844	735
Premises and equipment, net	11,459	11,768
Bank owned life insurance	12,695	12,528
Accrued interest receivable and other assets	12,292	12,123
Total assets	\$689,888	\$ 657,975
<u>Liabilities and Shareholders' Equity</u>		
Deposits:		
Non-interest bearing	\$258,464	\$ 236,779
Interest bearing	357,695	345,574
Total deposits	616,159	582,353
Repurchase agreements	4,325	7,547
Note payable	-	2,375
Accrued interest payable and other liabilities	6,166	7,396
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	636,960	609,981
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 5,042,971 shares at June 30, 2017 and 4,896,875 at December 31, 2016	6,252	5,918
Retained earnings	46,884	43,048

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Accumulated other comprehensive loss, net	(208)	(972)
Total shareholders' equity	52,928	47,994
Total liabilities and shareholders' equity	\$689,888	\$ 657,975

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(In thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income:				
Interest and fees on loans	\$6,433	\$5,553	\$12,541	\$11,009
Interest on investment securities	603	473	1,164	945
Other	83	51	179	123
Total interest income	7,119	6,077	13,884	12,077
Interest Expense:				
Interest on deposits	140	130	280	262
Interest on note payable	4	31	28	76
Interest on junior subordinated deferrable interest debentures	99	85	192	169
Other	1	1	2	2
Total interest expense	244	247	502	509
Net interest income before provision for loan losses	6,875	5,830	13,382	11,568
Provision for Loan Losses	200	200	400	400
Net interest income after provision for loan losses	6,675	5,630	12,982	11,168
Non-Interest Income:				
Service charges	1,118	1,034	2,173	1,965
Gain on sale of loans	786	559	1,314	892
Loss on sale of investments	-	-	(17)	(32)
Other	478	462	960	882
Total non-interest income	2,382	2,055	4,430	3,707
Non-Interest Expenses:				
Salaries and employee benefits	2,864	2,558	5,791	5,166
Occupancy and equipment	654	677	1,423	1,384
Other	1,374	1,445	2,761	2,763
Total non-interest expenses	4,892	4,680	9,975	9,313
Income before provision for income taxes	4,165	3,005	7,437	5,562
Provision for Income Taxes	1,624	1,168	2,832	2,152
Net income	\$2,541	\$1,837	\$4,605	\$3,410
Basic earnings per share	\$0.51	\$0.38	\$0.93	\$0.70
Diluted earnings per share	\$0.49	\$0.36	\$0.89	\$0.67

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

(In thousands)

	For the Three Months Ended June 30, 2017 2016		For the Six Months Ended June 30, 2017 2016	
Net income	\$2,541	\$1,837	\$4,605	\$3,410
Other comprehensive income:				
Change in net unrealized gain	780	681	1,283	2,072
Less: reclassification adjustments for net losses included in net income	-	-	17	32
Net unrealized holding gains	780	681	1,300	2,104
Related tax effect:				
Change in net unrealized gain	(322)	(281)	(529)	(856)
Reclassification of net losses included in net income	-	-	(7)	(13)
Income tax effect	(322)	(281)	(536)	(869)
Other comprehensive income	458	400	764	1,235
Total comprehensive income	\$2,999	\$2,237	\$5,369	\$4,645

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$4,605	\$3,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	400	400
Change in deferred loan origination costs/fees, net	(459)	(78)
Depreciation and amortization	520	538
Stock-based compensation expense	86	55
Loss on sale of investments	17	32
Amortization of investment security premiums	295	320
Gain on sale of OREO and other vehicles	(7)	(6)
Gain on sale of loans held for sale	(1,314)	(892)
Loans originated for sale	(19,681)	(14,863)
Proceeds from loan sales	22,260	15,307
Provision from change in OREO valuation	9	9
Earnings on bank-owned life insurance	(167)	(171)
(Increase) decrease in accrued interest receivable and other assets	(106)	997
Decrease in accrued interest payable and other liabilities	(1,230)	(491)
Net cash provided by operating activities	5,228	4,567
Cash Flows from Investing Activities:		
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	6,073	5,973
Proceeds from matured and called available-for-sale investment securities	-	1,000
Purchases of available-for-sale securities	(20,287)	(22,529)
Proceeds from sale of available-for-sale securities	4,221	14,589
Net increase in loans	(16,722)	(31,269)
Proceeds from sale of OREO	75	92
Proceeds from sale of other vehicles	114	164
Purchase of premises and equipment	(179)	(375)
Net cash used in investing activities	(26,705)	(32,355)

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PLUMAS BANCORP**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In thousands)

(Continued)

	For the Six Months Ended June 30, 2017 2016	
Cash Flows from Financing Activities:		
Net increase in demand, interest bearing and savings deposits	\$36,978	\$8,520
Net decrease in time deposits	(3,172)	(1,162)
Principal payment on note payable	(2,375)	(2,250)
Net decrease in securities sold under agreements to repurchase	(3,222)	(3,777)
Repurchase of common stock warrant	-	(862)
Cash dividends paid on common stock	(691)	-
Proceeds from exercise of stock options	164	89
Net cash provided by financing activities	27,682	558
Increase (decrease) in cash and cash equivalents	6,205	(27,230)
Cash and Cash Equivalents at Beginning of Year	62,646	68,195
Cash and Cash Equivalents at End of Period	\$68,851	\$40,965
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$502	\$509
Income taxes	\$3,490	\$2,500
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	\$288	\$1,301
Non-Cash Financing Activities:		
Common stock retired in connection with the exercise of stock options	\$10	\$-
Common stock issued in connection with the cashless exercise of stock warrant	\$787	\$-

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

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

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

2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position at June 30, 2017 and the results of its operations and its cash flows for the three-month and six-month periods ended June 30, 2017 and 2016. Our condensed consolidated balance sheet at December 31, 2016 is derived from audited financial statements. Certain reclassifications have been made to prior period's balances to conform to classifications used in 2017.

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The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted. The Company believes that the disclosures are adequate to make the information not misleading.

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2016 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2017 may not necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

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

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at June 30, 2017 and December 31, 2016 consisted of the following, in thousands:

<u>Available-for-Sale</u>	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	\$81,137	\$ 100	\$ (821)	\$80,416
Obligations of states and political subdivisions	31,546	505	(138)	31,913
	\$112,683	\$ 605	\$ (959)	\$112,329

Net unrealized loss on available-for-sale investment securities totaling \$354,000 were recorded, net of \$146,000 in tax benefit, as accumulated other comprehensive loss within shareholders' equity at June 30, 2017. During the six months ended June 30, 2017 the Company sold seven available-for-sale investment securities for total proceeds of \$4,221,000 recording a \$17,000 loss on sale. The Company realized a gain on sale from four of these securities totaling \$4,000 and a loss on sale on three securities of \$21,000. No securities were sold during the three months ended June 30, 2017.

<u>Available-for-Sale</u>	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Fair Value
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	\$76,207	\$ 11	\$ (1,307)	\$74,911
Obligations of states and political subdivisions	27,042	89	(447)	26,684
	\$103,249	\$ 100	\$ (1,754)	\$101,595

Net unrealized loss on available-for-sale investment securities totaling \$1,654,000 were recorded, net of \$682,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2016. During the six months ended June 30, 2016 the Company sold fourteen available-for-sale investment securities for total proceeds of \$14,589,000 recording a \$32,000 loss on sale. The Company realized a gain on sale from eight of these securities totaling \$48,000 and a loss on sale on six securities of \$80,000. No securities were sold during the three months ended June 30, 2016.

There were no transfers of available-for-sale investment securities during the six months ended June 30, 2017 and twelve months ended December 31, 2016. There were no securities classified as held-to-maturity at June 30, 2017 or December 31, 2016.

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Investment securities with unrealized losses at June 30, 2017 and December 31, 2016 are summarized and classified according to the duration of the loss period as follows, in thousands:

<u>June 30, 2017</u>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies collateralized by mortgage obligations-residential	\$58,300	\$ 764	\$1,845	\$ 57	\$60,145	\$ 821
Obligations of states and political subdivisions	6,546	138	-	-	6,546	138
	\$64,846	\$ 902	\$1,845	\$ 57	\$66,691	\$ 959
<u>December 31, 2016</u>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies collateralized by mortgage obligations-residential	\$68,338	\$ 1,237	\$2,043	\$ 70	\$70,381	\$ 1,307
Obligations of states and political subdivisions	18,052	447	-	-	18,052	447
	\$86,390	\$ 1,684	\$2,043	\$ 70	\$88,433	\$ 1,754

At June 30, 2017, the Company held 179 securities of which 76 were in a loss position. Of the 179 securities 68 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 111 were obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. As of June 30, 2017, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of June 30, 2017 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at June 30, 2017 by contractual maturity are shown below, in thousands.

Amortized Estimated
Cost

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		Fair Value
Within one year	\$ -	\$ -
After one year through five years	2,842	2,891
After five years through ten years	16,639	16,930
After ten years	12,065	12,092
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	81,137	80,416
	\$ 112,683	\$ 112,329

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. Investment securities with amortized costs totaling \$71,619,000 and \$73,331,000 and estimated fair values totaling \$70,926,000 and \$72,112,000 at June 30, 2017 and December 31, 2016, respectively, were pledged to secure deposits and repurchase agreements.

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	June 30, 2017	December 31, 2016
Commercial	\$39,394	\$41,293
Agricultural	54,974	51,103
Real estate – residential	18,952	21,283
Real estate – commercial	236,791	226,136
Real estate – construction and land development	24,819	21,904
Equity lines of credit	42,211	42,338
Auto	55,255	53,553
Other	3,695	3,513
	476,091	461,123
Deferred loan costs, net	2,182	2,006
Allowance for loan losses	(6,855)	(6,549)
Loans, net	\$471,418	\$456,580

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

	June 30, 2017	December 31, 2016
Balance, beginning of year	\$6,549	\$ 6,078
Provision charged to operations	400	800
Losses charged to allowance	(175)	(979)
Recoveries	81	650
Balance, end of period	\$6,855	\$ 6,549

The recorded investment in impaired loans totaled \$5,300,000 and \$5,442,000 at June 30, 2017 and December 31, 2016, respectively. The Company had specific allowances for loan losses of \$480,000 on impaired loans of \$1,600,000 at June 30, 2017 as compared to specific allowances for loan losses of \$366,000 on impaired loans of \$1,534,000 at December 31, 2016. The balance of impaired loans in which no specific reserves were required totaled \$3,700,000 and \$3,908,000 at June 30, 2017 and December 31, 2016, respectively. The average recorded investment in impaired loans for the six months ended June 30, 2017 and June 30, 2016 was \$4,890,000 and \$5,421,000, respectively. The Company recognized \$79,000 and \$61,000 in interest income for impaired loans during the six

months ended June 30, 2017 and 2016, respectively. No interest was recognized on nonaccrual loans accounted for on a cash basis during the six months ended June 30, 2017 and 2016.

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

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

The carrying value of troubled debt restructurings at June 30, 2017 and December 31, 2016 was \$4,132,000 and \$4,616,000, respectively. The Company has allocated \$328,000 and \$342,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2017 and December 31, 2016, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at June 30, 2017 and December 31, 2016. There were no troubled debt restructurings that occurred during the six months ending June 30, 2017 or June 30, 2016. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the six months ended June 30, 2017 and 2016, respectively.

At June 30, 2017 and December 31, 2016, nonaccrual loans totaled \$2,910,000 and \$2,724,000, respectively. Interest foregone on nonaccrual loans totaled \$89,000 and \$106,000 for the six months ended June 30, 2017 and 2016, respectively. Interest foregone on nonaccrual loans totaled \$38,000 and \$31,000 for the three months ended June 30, 2017 and 2016, respectively. There were no loans past due 90 days or more and on accrual status at June 30, 2017 and December 31, 2016.

Salaries and employee benefits totaling \$936,000 and \$942,000 have been deferred as loan origination costs during the six months ended June 30, 2017 and 2016, respectively. Salaries and employee benefits totaling \$541,000 and \$569,000 have been deferred as loan origination costs during the three months ended June 30, 2017 and 2016, respectively.

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

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

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Watch – A Watch loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

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

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

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

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

June 30, 2017 Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

Grade:	Commercial	Agricultural	Real	Real	Real	Equity LOC	Total
			Estate-	Estate-	Estate-		
			Residential	Commercial	Construction		
Pass	\$38,221	\$ 51,320	\$ 18,688	\$ 234,800	\$ 24,123	\$41,951	\$409,103
Watch	811	3,654	133	343	-	-	4,941
Substandard	362	-	131	1,648	696	260	3,097
Doubtful	-	-	-	-	-	-	-
Total	\$39,394	\$ 54,974	\$ 18,952	\$ 236,791	\$ 24,819	\$42,211	\$417,141

December 31, 2016 Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

Grade:	Commercial	Agricultural	Real	Real	Real	Equity LOC	Total
			Estate-	Estate-	Estate-		
			Residential	Commercial	Construction		
Pass	\$40,459	\$ 50,790	\$ 21,125	\$ 223,854	\$ 21,201	\$41,983	\$399,412
Watch	565	280	-	400	-	-	1,245
Substandard	269	33	158	1,882	703	355	3,400
Doubtful	-	-	-	-	-	-	-
Total	\$41,293	\$ 51,103	\$ 21,283	\$ 226,136	\$ 21,904	\$42,338	\$404,057

**Consumer Credit
Exposure
Credit Risk Profile**

**Consumer Credit
Exposure
Credit Risk Profile**

**Based on Payment
Activity
June 30, 2017**

**Based on Payment
Activity
December 31, 2016**

Grade:	Based on Payment Activity June 30, 2017			Based on Payment Activity December 31, 2016		
	Auto	Other	Total	Auto	Other	Total
Performing	\$54,947	\$3,693	\$58,640	\$53,474	\$3,511	\$56,985

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Non-performing	308	2	310	79	2	81
Total	\$55,255	\$3,695	\$58,950	\$53,553	\$3,513	\$57,066

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

	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Auto	Other	Total
<u>Six months ended 6/30/17:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 655	\$ 466	\$ 280	\$ 2,740	\$ 927	\$ 575	\$ 815	\$ 91	\$ 6,549
Charge-offs	(67)	-	-	-	-	-	(90)	(18)	(175)
Recoveries	19	-	2	3	-	2	50	5	81
Provision	98	48	(30)	69	144	(16)	70	17	400
Ending balance	\$ 705	\$ 514	\$ 252	\$ 2,812	\$ 1,071	\$ 561	\$ 845	\$ 95	\$ 6,855
<u>Three months ended 6/30/17:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 788	\$ 473	\$ 268	\$ 2,919	\$ 838	\$ 561	\$ 806	\$ 90	\$ 6,743
Charge-offs	(67)	-	-	-	-	-	(40)	(13)	(120)
Recoveries	11	-	1	1	-	2	16	1	32
Provision	(27)	41	(17)	(108)	233	(2)	63	17	200
Ending balance	\$ 705	\$ 514	\$ 252	\$ 2,812	\$ 1,071	\$ 561	\$ 845	\$ 95	\$ 6,855
<u>Six months ended 6/30/16:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 639	\$ 294	\$ 341	\$ 2,525	\$ 874	\$ 528	\$ 784	\$ 93	\$ 6,078
Charge-offs	(73)	-	-	(252)	-	(23)	(158)	(24)	(530)
Recoveries	17	-	36	2	329	1	82	15	482
Provision	252	122	(55)	190	(320)	67	133	11	400
Ending balance	\$ 835	\$ 416	\$ 322	\$ 2,465	\$ 883	\$ 573	\$ 841	\$ 95	\$ 6,430
<u>Three months ended 6/30/16:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 637	\$ 311	\$ 318	\$ 2,762	\$ 800	\$ 524	\$ 763	\$ 83	\$ 6,198
Charge-offs	-	-	-	(252)	-	1	(53)	(6)	(310)
Recoveries	6	-	1	2	300	1	25	7	342
Provision	192	105	3	(47)	(217)	47	106	11	200

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Ending balance	\$ 835	\$ 416	\$ 322	\$ 2,465	\$ 883	\$ 573	\$ 841	\$ 95	\$ 6,430
<u>June 30, 2017:</u>									
<u>Allowance for</u>									
<u>Loan Losses</u>									
Ending balance:									
individually	\$ 93	\$ -	\$ 53	\$ 76	\$ 218	\$ 22	\$ 16	\$ 2	\$ 480
evaluated for									
impairment									
Ending balance:									
collectively	\$ 612	\$ 514	\$ 199	\$ 2,736	\$ 853	\$ 539	\$ 829	\$ 93	\$ 6,375
evaluated for									
impairment									
<u>Loans</u>									
Ending balance	\$ 39,394	\$ 54,974	\$ 18,952	\$ 236,791	\$ 24,819	\$ 42,211	\$ 55,255	\$ 3,695	\$ 476,091
Ending balance:									
individually	\$ 105	\$ 256	\$ 1,288	\$ 2,258	\$ 823	\$ 260	\$ 308	\$ 2	\$ 5,300
evaluated for									
impairment									
Ending balance:									
collectively	\$ 39,289	\$ 54,718	\$ 17,664	\$ 234,533	\$ 23,996	\$ 41,951	\$ 54,947	\$ 3,693	\$ 470,791
evaluated for									
impairment									
<u>December 31,</u>									
<u>2016:</u>									
<u>Allowance for</u>									
<u>Loan Losses</u>									
Ending balance:									
individually	\$ 2	\$ -	53	\$ 81	\$ 206	\$ 24	\$ -	\$ -	\$ 366
evaluated for									
impairment									
Ending balance:									
collectively	\$ 653	\$ 466	\$ 227	\$ 2,659	\$ 721	\$ 551	\$ 815	\$ 91	\$ 6,183
evaluated for									
impairment									
<u>Loans</u>									
Ending balance	\$ 41,293	\$ 51,103	\$ 21,283	\$ 226,136	\$ 21,904	\$ 42,338	\$ 53,553	\$ 3,513	\$ 461,123
Ending balance:									
individually	\$ 16	\$ 258	\$ 1,615	\$ 2,323	\$ 833	\$ 326	\$ 69	\$ 2	\$ 5,442
evaluated for									
impairment									
Ending balance:									
collectively	\$ 41,277	\$ 50,845	\$ 19,668	\$ 223,813	\$ 21,071	\$ 42,012	\$ 53,484	\$ 3,511	\$ 455,681
evaluated for									
impairment									

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

June 30, 2017	30-89 Days Past Due	90 Days		Total Past		
		and Still		Due and		
		Accruing	Nonaccrual	Nonaccrual	Current	Total
Commercial	\$618	\$ -	\$ 90	\$ 708	\$38,686	\$39,394
Agricultural	302	-	-	302	54,672	54,974
Real estate – residential	153	-	131	284	18,668	18,952
Real estate – commercial	1,590	-	1,422	3,012	233,779	236,791
Real estate – construction & land	-	-	696	696	24,123	24,819
Equity Lines of Credit	595	-	260	855	41,356	42,211
Auto	872	-	308	1,180	54,075	55,255
Other	31	-	3	34	3,661	3,695
Total	\$4,161	\$ -	\$ 2,910	\$ 7,071	\$469,020	\$476,091

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

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

	Recorded	Unpaid	Related	Average	Interest
	Investment	Principal	Allowance	Recorded	Income
<u>As of June 30, 2017:</u>		Balance		Investment	Recognized
With no related allowance recorded:					
Commercial	\$ -	\$ -		\$ -	\$ -
Agricultural	256	256		257	10
Real estate – residential	1,048	1,059		1,060	30
Real estate – commercial	1,731	2,169		1,618	29
Real estate – construction & land	171	171		176	-
Equity Lines of Credit	219	219		207	-
Auto	275	275		87	-
Other	-	-		-	-
With an allowance recorded:					
Commercial	\$ 105	\$ 105	\$ 93	\$ 35	\$ 1
Agricultural	-	-	-	-	-
Real estate – residential	240	240	53	241	5
Real estate – commercial	527	735	76	530	-
Real estate – construction & land	652	652	218	664	4
Equity Lines of Credit	41	41	22	13	-
Auto	33	34	16	1	-
Other	2	2	2	1	-
Total:					
Commercial	\$ 105	\$ 105	\$ 93	\$ 35	\$ 1
Agricultural	256	256	-	257	10
Real estate – residential	1,288	1,299	53		