



PLUMAS BANCORP

ADMINISTRATION OFFICE



35 S. Lindan Avenue • Quincy, CA 95971 • 530.283.7305 • Fax 530.283.9665

To our Shareholders:

For the past five years, the management team at Plumas Bank has worked diligently to navigate through a difficult economic environment and to strengthen and prepare the company for opportunities post financial crisis. This has required trust and patience on the part of our shareholders, to whom we are very grateful. So it is with great pleasure that we announce that the close of the 4th quarter of 2013 marked the 16th consecutive post-recession quarter of profitability for your company, and that Plumas Bank posted annual profits for 2013 of \$3.4 million, a 76% increase from our previous year's earnings.

In 2009, during the financial crisis, Plumas Bank, along with many other banks, issued new preferred stock to the U.S. Treasury under the Troubled Asset Relief Program (TARP). Contributing to our profitability in 2013 was the redemption of all of our preferred stock formerly held under this program. Our exit from TARP was accomplished at a discount which resulted in an additional \$565 thousand of profits for our shareholders. With this additional income, our Company's earnings per share almost tripled, growing from \$0.26 per share in 2012 to \$0.76 in 2013.

During 2013, the Company's balance sheet grew, with total deposits increasing by almost \$38 million and net loan balances increasing by \$24 million, resulting in total assets of \$515 million at year end. Our deposit growth has been driven by a changing competitive landscape in our marketplace. As competitors have exited the market, we have acquired a significant amount of new low-cost core deposits. The overall low-rate environment, coupled with a less competitive marketplace, has meant that we have been able to keep the costs associated with these new and existing core deposits low.

This deposit growth has fueled the expansion of our loan portfolio. Over the last few years we have been focused on expanding our lending capabilities by adding personnel to our Small Business Administration unit, indirect auto financing department, and agricultural and commercial lending teams. These personnel investments are now paying off in that we have been successful in using the incremental deposits acquired in the last year to both grow our loan balances and diversify our loan portfolio. The combination of our low-cost core deposit base and our expanding diversified loan portfolio has resulted in increased revenues with our net interest income growing by \$775 thousand in 2013.

While growing our earning assets, we have also strengthened our balance sheet by reducing our problem loans. Through the efforts of our management team, our workout specialists and our bankers, we made measurable improvements in the quality and performance of our loan portfolio. The improvement in our asset quality metrics was significant, as evidenced by a 60% reduction in non-performing loans and a 56% reduction in net loan charge-offs. These positive asset quality trends allowed us to reduce our provision for loan losses by \$950 thousand to \$1.4 million during 2013.

One other change to our balance sheet in 2013 was the addition of new debt. In order to redeem all of our outstanding preferred stock last year, we increased our other borrowings by \$10.3 million. This transaction, along with the asset growth mentioned earlier, has impacted our capital ratios and has required the retention of all of our 2013 profits. Our plan is to continue to retain our profits over the next few years in order to repay these other borrowings.

Operationally we continue to maintain strong discipline with regard to expenses. At the end of 2013, our efficiency ratio—defined as non-interest expenses as a share of revenues—stood at 71.5 %, down from 80.3% in 2011 and 77.4% in 2012. Because the economy is improving at such a modest pace, we continue to take a very conservative approach to managing non-interest expenses. Our belief is that expense control and investing for growth should be balanced, however, so while we have been diligent in keeping overhead costs tightly controlled, we have also been making strategic investments in our lending capabilities.

Our local economy, especially with regard to the drought conditions in our region, will present its own set of challenges to many of our customers in the coming year. As a response to this environment, we will continue to be proactive in dealing with any additional risks by applying careful risk-based pricing to our loans. At the same time, we will continue to buttress our loan loss reserves to address the impact on our customers of both the drought as well as the slow-growing economy.

With the guidance of our Board of Directors, Plumas Bank has a clear path forward. We anticipate that our improving core earnings trend, our healthy and growing balance sheet, a favorable competitive environment, and our sustained focus on controlling costs, will result in continuing profitability and increased shareholder value for years to come.

On behalf of your Board and Management team, thank you for your continued trust and confidence.

Sincerely,



Andrew J. Ryback
President & Chief Executive Officer



Daniel E. West
Chairman of the Board





Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Plumas Bancorp, (the "Company") which will be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 21, 2014 at 9:30 a.m. At this annual meeting, shareholders will be asked to (i) elect nine directors for the next year and (ii) ratify the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2014.

The Company is requesting your proxy to vote on the election of directors and the ratification of auditors. The Board of Directors of the Company recommends that you vote "FOR" the election of each of the nominees for director and "FOR" the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as the Company's independent auditors for the fiscal year ending December 31, 2014.

The proxy statement contains information about each of the nominees for directors, the Company's executive compensation, and proposal 2.

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

Sincerely,

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

Andrew J. Ryback
President and Chief Executive Officer

The date of this proxy statement is April 1, 2014.

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

**To: The Shareholders of
Plumas Bancorp**

Notice is hereby given that, pursuant to its Bylaws and the call of its Board of Directors, the annual meeting of shareholders of Plumas Bancorp will be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 21, 2014 at 9:30 a.m., for the purpose of considering and voting upon the following matters:

1. **Election of Directors.** To elect nine (9) persons to serve as directors of the Bancorp until their successors are duly elected and qualified.

Alvin G. Blickenstaff
Steven M. Coldani
William E. Elliott
Gerald W. Fletcher
John Flourney

Arthur C. Grohs
Robert J. McClintock
Terrance J. Reeson
Daniel E. West

2. **Ratification of the Appointment of Independent Auditors.** To vote on the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2014.
3. **Transaction of Other Business.** To transact such other business as may properly come before the meeting and any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 31, 2014 as the record date for determination of shareholders entitled to notice of, and the right to vote at, the meeting.

You are urged to vote “FOR” the election of all of the nominees for directors and “FOR” the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2014, by signing and returning the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. As an alternative to using your paper proxy card to vote, you may also vote by telephone or over the internet by following the instructions on your proxy card. If you do attend the meeting, you may then withdraw your proxy. The proxy may be revoked at any time prior to its exercise.

By Order of the Board of Directors,



Dated: April 1, 2014

Terrance J. Reeson, Vice Chairman and Secretary

**Plumas Bancorp
Proxy Statement
Annual Meeting of Shareholders
May 21, 2014**

Plumas Bancorp (the “Company”) is providing this proxy statement to its shareholders in connection with the annual meeting (the “Meeting”) of shareholders to be held at the Plumas Bank Credit Administration Building located at 32 Central Avenue, Quincy, California, on Wednesday, May 21, 2014 at 9:30 a.m. and at any and all adjournments thereof.

It is expected that the Company will mail this proxy statement and accompanying notice and form of proxy to shareholders on or about April 9, 2014.

Shareholders may also view this proxy statement and the 2013 Annual Report to Stockholders on the internet at <http://materials.proxyvote.com/729273>.

General Information

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

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

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

- Proposal 1: Election to the Board of all of the 9 director nominees named in this proxy statement; and
- Proposal 2: Ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2014.

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

Revocability of Proxies and Proxy Voting

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

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

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

If no instruction is specified by the shareholder with regard to the matter on the proxy to be acted upon, the proxy holders will vote the shares represented by the proxy "FOR" each of the nominees for directors and "FOR" the ratification of the appointment of Vavrinek, Trine, Day & Company, LLP as our independent auditors for the fiscal year ending December 31, 2014. If any other matter is presented at the Meeting, the proxy holders will vote in accordance with the recommendations of management.

Persons Making the Solicitation

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

Voting Securities

Management of the Company has fixed March 31, 2014 as the record date for purposes of determining the shareholders entitled to notice of, and to vote at, the Meeting. On March 31, 2014, there were 4,789,639 shares of the Company's common stock issued and outstanding. Each holder of the Company's common stock will be entitled to one vote for each share of the Company's common stock held of record on the books of the Company as of the record date. In connection with the election of directors, shares may be voted cumulatively if a shareholder present at the Meeting gives notice at the Meeting, prior to the voting for election of directors, of his or her intention to vote cumulatively. If any shareholder of the Company gives that notice, then all shareholders eligible to vote will be entitled to cumulate their shares in voting for election of directors. Cumulative voting allows a shareholder to cast a number of votes equal to the number of shares held in his or her name as of the record date, multiplied by the number of directors to be elected. These votes may be cast for any one nominee, or may be distributed

among as many nominees as the shareholder sees fit. If cumulative voting is declared at the Meeting, votes represented by proxies delivered pursuant to this proxy statement may be cumulated in the discretion of the proxy holders, in accordance with management's recommendation.

The effect of broker non-votes is that such votes are not counted as being voted; however, such votes are counted for purposes of determining a quorum. The effect of a vote of abstention on any matter is that such vote is not counted as a vote for or against the matter, but is counted as an abstention.

Shareholdings of Certain Beneficial Owners and Management

Management of the Company knows of no person who owns, beneficially or of record, either individually or together with associates, 5 percent or more of the outstanding shares of the Company's common stock, except as set forth in the table below. The following table sets forth, as of March 21, 2014, the number and percentage of shares of the Company's outstanding common stock beneficially owned, directly or indirectly, by principal shareholders, by each of the Company's directors, our executive officers named in the Summary Compensation Table contained in this proxy statement and by the directors and executive officers of the Company as a group. The shares "beneficially owned" are determined under the Securities and Exchange Commission ("SEC") Rules, and do not necessarily indicate ownership for any other purpose. In general, beneficial ownership includes shares over which the director, named executive officer or principal shareholder has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of March 21, 2014. Unless otherwise indicated, the persons listed below have sole voting and investment powers of the shares beneficially owned or acquirable by exercise of stock options. Management is not aware of any arrangements, which may result in a change of control of the Company.

Beneficial Owner	Amount and Nature of Beneficial Ownership (1) Percent of Class (1)	
Principal Shareholders that own 5% or more:		
Cortopassi (2)	476,967	9.9
Siena Capital Management, LLC (3)	261,840	5.5
Directors and Named Executive Officers:		
Andrew J. Ryback, President and CEO	50,953 (4)	1.1
B. J. North, EVP of Retail Banking, Marketing and Commercial Lending of Plumas Bank.	10,800 (5)	*
Kerry D. Wilson, EVP and Chief Credit Officer of Plumas Bank	25,631 (6)	*
Daniel E. West, Director and Chairman of the Board	72,657 (7)	1.5
Terrance J. Reeson, Director, Vice Chairman and Secretary of the Board	86,843 (8)	1.8
Alvin G. Blickenstaff, Director	82,456 (9)	1.7
Steven M. Coldani, Director	6,514 (10)	*
William E. Elliott, Director	81,810 (11)	1.7
Gerald W. Fletcher, Director	37,446 (12)	*
John Flournoy, Director	52,681 (13)	1.1
Arthur Grohs, Director	36,261 (14)	*
Robert J. McClintock, Director	78,268 (15)	1.6
All 14 Directors and Executive Officers as a Group	700,840	14.2

* Less than one percent

- (1) Includes 144,846 shares subject to options held by the directors and executive officers that were exercisable within 60 days of March 21, 2014. These are treated as issued and outstanding for the purpose of computing the percentage of each director, named executive officer and the directors and executive officers as a group, but not for the purpose of computing the percentage of class owned by any other person, including principal shareholders.
- (2) Two Cortopassi controlled entities have beneficial ownership over a total of 476,967 shares of the Company. The Cortopassi Family Trust owns 156,410 shares of the Company's common stock, while Cortopassi Partners, L.P. owns 320,557 shares of the Company's common stock. Dean A. Cortopassi is the Trustee of the Cortopassi Family Trust and is also President of San Tomo, Inc., the general partner of Cortopassi Partners, L.P. Mr. Cortopassi disclaims beneficial ownership of the shares held by Cortopassi Family Trust and Cortopassi Partners, L.P. except to the extent of his pecuniary or partnership interests therein. The address of the Cortopassi entities is 11292 North Alpine Road, Stockton, California 95212.
- (3) Siena Capital Management, LLC is the general partner of each of Siena Capital Partners I, L.P. and Siena Capital Partners Accredited, L.P. Siena Capital Partners I, L.P. may be deemed to beneficially own 254,407 shares of common stock of the Company, Siena Capital Partners Accredited, L.P. may be deemed to own 7,433 shares of common stock of the Company and Siena Capital Management, LLC may be deemed to own 261,840 shares of common stock of the Company. The address of the Siena entities is 100 North Riverside Plaza, Suite 1630 Chicago, Illinois 60606.
- (4) Mr. Ryback has shared voting and investment powers as to 10,250 of these shares. Mr. Ryback also has 19,112 shares acquirable by exercise of stock options.
- (5) Ms. North has 10,800 shares acquirable by exercise of stock options.
- (6) Mr. Wilson has 18,962 shares acquirable by exercise of stock options.
- (7) Mr. West has shared voting and investment powers as to 33,014 of these shares, sole voting powers but shared investment powers as to 16,794 of these shares and no voting or investment powers as to 6,912 of these shares. He also has 7,212 shares acquirable by exercise of stock options.
- (8) Mr. Reeson has shared voting and investment powers as to 74,771 of these shares. He also has 7,212 shares acquirable by exercise of stock options.
- (9) Mr. Blickenstaff has shared voting and investment powers as to 67,202 of these shares, and no voting or investment powers as to 2,851 of these shares. He also has 7,212 shares acquirable by exercise of stock options.
- (10) Mr. Coldani has shared voting and investment powers as to 2,464 of these shares and no voting or investment powers as to 775 of these shares.
- (11) Mr. Elliott has shared voting and investment powers as to 77,410 of these shares. He also has 4,400 shares acquirable by exercise of stock options.

- (12) Mr. Fletcher has shared voting and investment powers as to 30,209 of these shares. He also has 7,212 shares acquirable by exercise of stock options.
- (13) Mr. Flournoy has no voting or investment powers as to 375 of these shares. He also has 6,900 shares acquirable by exercise of stock options.
- (14) Mr. Grohs has shared voting and investment powers as to 28,478 of these shares and no voting or investment powers as to 571 of these shares. He also has 7,212 shares acquirable by exercise of stock options.
- (15) Mr. McClintock has shared voting and investment powers as to 43,058 of these shares. He also has 2,400 shares acquirable by exercise of stock options.

Section 16(a) Beneficial Ownership Compliance

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

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company during and with respect to its 2013 fiscal year, no director, executive officer or beneficial owner of 10% or more of the Company's common stock failed to file, on a timely basis, reports required during or with respect to 2013 by Section 16(a) of the Securities Exchange Act of 1934, as amended, except for Mr. Coldani, who inadvertently failed to file two timely reports on Form 4 with respect to four transactions.

PROPOSAL 1 ELECTION OF DIRECTORS

The persons named below, all of whom are current members of the Board of Directors (the “Board”), will be nominated for election as directors at the Meeting to serve until the 2015 Annual Meeting of Shareholders and until their successors are elected and have qualified. Votes of the proxy holders will be cast in such a manner as to effect the election of all 9 nominees, as appropriate. The 9 nominees for directors receiving the most votes will be elected directors. In the event that any of the nominees should be unable to serve as a director, it is intended that the proxy will be voted for the election of such substitute nominee, if any, as shall be designated by the Board. The Board has no reason to believe that any of the nominees named below will be unable to serve if elected. Additional nominations for directors may only be made by complying with the nomination procedures which are included in the notice of annual meeting of shareholders accompanying this proxy statement.

The following table sets forth the names of, and certain information concerning, the persons to be nominated by the Board for election as directors of the Company.

Name and Title Other than Director	Age	Year First Appointed	Principal Occupation During the Past Five Years
		Director	
Daniel E. West Chairman of the Board	60	1997	President, Graeagle Land & Water Co., a land management company. President, Graeagle Water Co, a private water utility, Graeagle, CA.
Terrance J. Reeson Vice Chairman and Secretary of the Board	69	1984	Retired. Formerly with the U.S. Forestry Service, Quincy, CA.
Alvin G. Blickenstaff	78	1988	Farmer and Rancher, partner in Blickenstaff Ranch, Janesville, CA.
Steven M. Coldani	60	2013	President, Owner/Broker, Coldani Realty Inc. and co-owner of Graeagle Associates Realtors; a managing member of Coldani Farming, LLC, a diversified farming company, Lodi, CA.
William E. Elliott	73	1987	Retired. Formerly President and CEO of the Company and Plumas Bank, Quincy, CA.
Gerald W. Fletcher	71	1988	Forest Products Wholesaler, Susanville, CA.
John Flournoy	69	2005	Rancher and Chief Financial Officer of Likely Land and Livestock Corporation, Likely, CA.
Arthur C. Grohs	77	1988	Retired. Former Retailer, Sparks, NV.
Robert J. McClintock	56	2008	Certified Public Accountant, co-owner of McClintock Accountancy Corporation, Tahoe City, CA.

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

Daniel E. West

Chairman of the Board

Director since 1997

Mr. Daniel E. West has lived in Graeagle, California since 1958. He is president of Graeagle Land and Water Company, a land management company, and Graeagle Water Company, a private water utility. Mr. West is a managing member of Graeagle Timber Company, LLC and is a member of the Feather River College Foundation. He also serves as a director on the boards of Graeagle Fire Protection District and California Water Association. Mr. West's valuable business acumen, his extensive experience on various and diverse boards, and his deep ties to his community highly qualify him for service as a member of the Board and Chairman.

Terrance J. Reeson

Vice Chairman

Director since 1984

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

Alvin G. Blickenstaff

Director

Director since 1988

Mr. Alvin G. Blickenstaff was born and raised in the Susanville, California area. Mr. Blickenstaff is the senior partner of Blickenstaff Ranch, a family owned and operated partnership that raises premium alfalfa hay, wheat, straw and alfalfa seed. He was a founding director and chairman of former Sierra Security Bank. Mr. Blickenstaff is a member and past president of both the Lassen County Farm Bureau and Lassen County Cattleman's Association. He served as a 4-H leader and on the Jr. Sale Livestock Sale Committee for 42 years. He served on the FHA Loan Board and the Agricultural Stabilization and Conservation committee and received the Conservationist of the Year Award in 1972. In 2007, he was recognized by his peers with a Distinguished Service Award for community service. Mr. Blickenstaff's expertise in the agricultural industry and business management highly qualifies him for service as a member of the Board.

Steven M. Coldani

Director

Director since 2013

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

Bureau, the Lodi Association of Realtors and the Plumas Association of Realtors; and he also previously served as a director of the California Association of Realtors.

William E. Elliott

Director

Director since 1987

Mr. William E. Elliott joined Plumas Bank in 1987 as President and Chief Executive Officer and retired in 2005. He has been in the banking industry for 50 years holding various management and board positions; this experience highly qualifies him for service as a board director. Mr. Elliott graduated from California State University, Sacramento where he received a Bachelor of Science degree in Accounting and a Masters in Business Administration. He also graduated from the Pacific Coast Banking School at the University of Washington. Mr. Elliott is very active in his community; he is a director and former chairman of the Feather River Community College Board with over 20 years experience, and he is a former director on the Plumas District Hospital Board with 22 years experience, both in Quincy, California. He has been a member of the Rotary Club for over 40 years.

Gerald W. Fletcher

Director

Director since 1988

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

John Flournoy

Director

Director since 2005

Mr. John Flournoy was born and raised in Likely, California. He is a rancher and hay producer in Likely, California. Since 1971, he has served on the board of directors of the South Fork Irrigation District (SFID). He served for many years as a committee member for the Farm Service Agency where he reviewed all loan applications for small agricultural operations and evaluated collateral releases and settlements. Mr. Flournoy's relevant experience qualifying him for service as a member of the Board includes his lifelong experience as a rancher and hay producer on his family owned ranch, expertise in business and agricultural lending, and operational risk management.

Arthur C. Grohs

Director

Director since 1988

Mr. Arthur C. Grohs was born in Susanville, California and raised in Westwood and Susanville, California. He retired after 35 years of retail store ownership in Susanville. Mr. Grohs now resides in Reno, Nevada. As an experienced business owner and entrepreneur, Mr. Grohs is an active counselor with SCORE of Northern Nevada. Through SCORE, Mr. Grohs enjoys providing free and confidential business advice to entrepreneurs working to start new businesses and grow existing businesses; and in turn, helps them become a vital part of the Northern Nevada business community. Mr. Grohs' relevant

experience qualifying him for service as a member of the Board includes marketing, long range planning, personnel management, and operational risk management.

Robert J. McClintock

Director

Director since 2008

Mr. Robert J. McClintock has lived in Tahoe City, California for over 25 years. He is a Certified Public Accountant and is co-owner of McClintock Accountancy Corporation headquartered in Tahoe City, California with an additional office in Truckee, California. As a CPA, Mr. McClintock brings strong accounting and financial skills important to the oversight of the Company's financial reporting, enterprise and operational risk management. Mr. McClintock is Troop Committee Chairman for Boy Scouts of America. He is also a board member of the Kiwanis Club of North Lake Tahoe and has served as past President and Treasurer. He is a member of the advisory board for the Tahoe Truckee Excellence in Education Foundation and has served previously as Treasurer. Mr. McClintock attended Michigan Tech University where he received his Bachelor of Science degree in Business Administration.

All nominees will continue to serve if elected at the Meeting until the 2015 annual meeting of shareholders and until their successors are elected and have been qualified. None of the directors were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Company acting within their capacities as such. There are no family relationships between any of the directors of the Company. No director of the Company serves as a director of any company that has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940.

The Board of Directors and Committees

During 2013, the Company's Board of Directors met 18 times. None of the Company's directors attended less than 75 percent of all Board of Directors' meetings and committee meetings of which they were members. The Company does not have a policy requiring director attendance at its annual meeting; however, most directors attend the meeting as a matter of course. All current directors, with the exception of Mr. Coldani who was appointed to the Board on November 20, 2013, attended the annual meeting of shareholders held in May 2013. The Board has established, among others, an Audit Committee and a Corporate Governance Committee and each of these committees have charters. Charters for each of these committees are available on the Company's website www.plumasbank.com.

Shareholder Communication with the Board of Directors

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

Board Role in Risk Oversight

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

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

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

With respect to risk related to compensation matters, the Corporate Governance Committee considers, in establishing and reviewing the Company's executive compensation program, whether the program encourages unnecessary or excessive risk taking and has concluded that it does not. Executives' base salaries are fixed in amount and thus do not encourage risk-taking. During 2013, the Company established a non-equity incentive plan (the NEI) for its officer level employees, exclusive of its CEO. Under the NEI, an allocation of 50% of pretax income in excess of budgeted pretax income is payable to eligible employees up to a maximum of \$250,000 for all eligible employees. For 2013, the entire \$250,000 was earned. No individual officer's earnings under the NEI exceeded \$10,000. Mr. Ryback was not included in the NEI as during most of 2013 we were subject to restrictions on paying incentives to our CEO under the Troubled Asset Relief Program Capital Purchase Program (TARP). The Corporate Governance Committee concluded that the NEI as described above did not encourage unnecessary or excessive risk taking. The other significant source of compensation to executives is in the form of long-term equity awards that are important to help further align executives' interests with those of the Company's shareholders. The Corporate Governance Committee believes that these awards do not encourage unnecessary or excessive risk-taking since the ultimate value of the awards is tied to the Company's stock price, and awards are subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance.

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

Leadership Structure of Board

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

Code of Ethics

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

Director Independence

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

Daniel E. West
Alvin G. Blickenstaff
Steven M. Coldani
John Flournoy

Robert J. McClintock
Terrance J. Reeson
Gerald W. Fletcher
Arthur C. Grohs

Audit Committee

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

The Audit Committee met 8 times during 2013. The Audit Committee reviews all internal and external audits including the audit by Crowe Horwath LLP, the Company's independent auditor for 2013. The Audit Committee reports any significant findings of audits to the Board of Directors, and ensures that the Company's internal audit plans are met, programs are carried out, and deficiencies and weaknesses, if any, are addressed. The Audit Committee meets regularly to discuss and review the overall audit plan. The Audit Committee's policy is to pre-approve all recurring audit and non-audit services provided by the independent auditors through the use of engagement letters. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding all services provided by the independent auditors and fees associated with those services performed to date. The fees paid to the independent auditors in 2013 and 2012 were approved per the Audit Committee's pre-approval policies.

Audit Committee Report

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

The Board of Directors and the Audit Committee has reviewed the Company's audited financial statements and discussed such statements with management. The Audit Committee has discussed with Crowe Horwath LLP, the Company's independent auditors during the year 2013, the matters required to be discussed by Statement of Auditing Standards No. 61, as amended (Communication with Audit Committee, as amended).

The Audit Committee received written disclosures and a letter from Crowe Horwath LLP, required by Independence Standards Board Standard No. 1 and has discussed with them their independence from management. The Audit Committee has also considered whether the independent auditors' provision of other non-audit services is compatible with the auditors' independence.

Based on the review and discussions noted above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

THE AUDIT COMMITTEE:

Robert J. McClintock, Chairman
Arthur C. Grohs

John Flournoy
Terrance J. Reeson

Corporate Governance Committee

The Company has a Corporate Governance Committee which met 6 times during 2013. The Corporate Governance Committee consists of Mr. Flournoy, Chairman, and Messrs. Grohs, Reeson and West. The Board has determined that Messrs. Flournoy, Grohs, Reeson and West are "independent" within the meaning of the listing standards and rules of NASDAQ. The Corporate Governance Committee provides assistance to the Board by identifying qualified individuals as prospective Board members, recommends to the Board the director nominees for election at the annual meeting of shareholders, nominates the Chairperson and Vice-Chairperson of the Board, oversees the annual review and evaluation of the performance of the Board and its committees, and develops and recommends corporate governance guidelines to the Board of Directors.

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

The Corporate Governance Committee is also responsible for compliance with the Emergency Economic Stabilization Act, as amended with respect to the semi-annual review and certification of incentive compensation arrangements for the Chief Executive Officer and other senior executive officers to ensure that the senior executive officer (SEO) incentive compensation arrangements do not encourage the senior executive officers to take unnecessary and excessive risks that threaten the value of the Company for the duration that the Company has funds from the United States Treasury under the Capital Purchase Program (the CPP). The Corporate Governance Committee completed two such reviews during 2013 and identified and limited during the applicable period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Company, and during that same applicable period identified any features of the employee compensation plans that pose risks to the Company and limited those features to ensure that the Company is not unnecessarily exposed to risks. The Corporate Governance Committee has reviewed the terms of each employee compensation plan and identified any features of the plan that could encourage the manipulation of reported earnings of the Company to enhance the compensation of an employee and has limited those features. During 2013 the Company repurchased all preferred stock issued under the CPP and effective October 25, 2013 the Company no longer had funds outstanding related to the CPP. As a result, the Company is no longer subject to the requirements and limitations of the TARP program.

The Corporate Governance Committee has the authority, to the extent it deems necessary, to retain and terminate an outside compensation consultant to assist in the evaluation of director and executive officer compensation and benefit matters. During the year ending December 31, 2013 the Corporate Governance Committee did not engage an outside compensation consultant.

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

The Corporate Governance Committee will consider nominees to the Board proposed by shareholders, although the Board has no formal policy with regard to shareholder nominees as it considers all nominees on their merits as aforementioned. Any shareholder nominations proposed for consideration by the Board may only be made by complying with the procedures which are included in this proxy statement and should be addressed to:

President
Plumas Bancorp
35 S. Lindan Avenue
Quincy, CA 95971

Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position and Principal Occupation for the Past Five Years</u>
Andrew J. Ryback	48	President and Chief Executive Officer of the Company and Plumas Bank since November 16, 2011. Interim President and Chief Executive Officer of the Company and Plumas Bank effective March 29, 2010. Formerly Executive Vice President and Chief Financial Officer of the Company and Plumas Bank.
Richard L. Belstock	57	Executive Vice President of the Company and Plumas Bank since July 18, 2012. Chief Financial Officer of the Company and Plumas Bank since November 16, 2011. Interim Chief Financial Officer of the Company and Plumas Bank effective March 31, 2010. Formerly Vice President and Controller of the Company and Plumas Bank.
Monetta R. Dembosz	63	Executive Vice President and Operations Manager of Plumas Bank.
B. J. North	63	Executive Vice President of Retail Banking, Marketing and Commercial Lending of Plumas Bank.
Kerry D. Wilson	57	Executive Vice President and Chief Credit Officer of Plumas Bank since July 18, 2012. Chief Credit Administrator of Plumas Bank since February, 2012. Previously Senior Vice President and Assistant Loan Administrator of Plumas Bank.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Andrew J. Ryback President and CEO of the Company and Plumas Bank	2013	\$200,000	\$0	\$0	\$ 0	\$ 0	\$ 0	\$ 7,018	\$207,018
	2012	\$184,167	\$0	\$0	\$ 0	\$ 0	\$ 0	\$ 6,714	\$190,881
Kerry D. Wilson EVP, Chief Credit Officer of Plumas Bank	2013	\$135,000	\$0	\$0	\$ 0	\$ 8,700	\$ 0	\$ 4,583	\$148,283
	2012	\$128,712	\$0	\$0	\$ 0	\$ 0	\$ 0	\$ 4,282	\$132,994
B. J. North EVP, Retail Banking, Marketing and Commercial Lending	2013	\$135,000	\$0	\$0	\$ 0	\$ 9,000	\$ 0	\$ 4,202	\$148,202
	2012	\$135,000	\$0	\$0	\$ 0	\$ 0	\$ 0	\$ 12,924	\$147,924

- (1) The Company did not grant any stock awards in 2013 or 2012.
- (2) No options were granted in 2013 or 2012.
- (3) The Company did not provide a non-equity incentive plan for its employees during 2012.
- (4) The amounts in column (i) include premiums paid and accrued on life insurance policies, personal use of a Company automobile, Company-provided gasoline and cell phone allowance. The amount for Ms. North in 2012 includes a \$9,000 automobile allowance.

Non-Equity Incentive Plan

During 2013 the Company established a non-equity incentive plan (the NEI) for its officer level employees, exclusive of its CEO. Under the NEI an allocation of 50% of pretax income in excess of budgeted pretax income is payable to eligible employees up to a maximum of \$250,000 for all eligible employees. For 2013 the entire \$250,000 was earned. No individual officer's earnings under the NEI exceeded \$10,000. Mr. Ryback was not included in the NEI as during most of 2013 we were subject to restrictions on paying incentives to our CEO under the Troubled Asset Relief Program Capital Purchase Program. The Company did not provide a non-equity incentive plan for its employees during 2012 and no bonus or incentive payments were made in 2013 or 2012.

Stock Option Awards

We consider equity compensation in the form of annual stock option awards an important component of our total compensation package because it helps align the interests of our executives to those of our shareholders and provides a significant retention benefit. During 2013 the Company's shareholders approved the Plumas Bancorp 2013 Stock Option Plan (2013 Plan) which allows for the granting of stock option awards to employees. The 2013 Plan is for a term of 10 years. No more than 500,000 shares of common stock may be issued pursuant to Awards of stock options. The Corporate Governance Committee approves and recommends to the Board for its approval all stock option grants.

There were no stock options granted during the years ended December 31, 2013 and 2012. The Company makes grants of equity-based compensation only at fair market value of our stock at the time of grant. The exercise price of stock options is set at the closing stock price on the date of grant. All option grants have a maximum vesting period of five (5) years and expire no more than ten (10) years from the date of grant.

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

Post-Employment Benefits and Potential Payments Upon Termination Or Change of Control

We consider providing significant post-employment benefits in the form of providing salary continuation benefits to our executives as an important part of their total executive compensation to reward them for their service and loyalty to the Company. The Company has entered into salary continuation agreements with Mr. Ryback and Ms. Dembosz. The purpose of the salary continuation agreements is to provide special incentive to the experienced executive officer to continue employment with the Company on a long-term basis. The agreements provide the executive with salary continuation benefits of up to \$62,000 per year for 15 years after retirement at age 65. In the event of death prior to retirement, the executive's beneficiary will receive salary continuation benefits at a reduced amount depending on the length of service with the Company or in the case of Mr. Ryback his beneficiary is entitled to a portion of the death benefits pursuant to a split dollar agreement. In the event of disability wherein the executive does not continue employment with the Company, the executive is entitled to salary continuation benefits, at a reduced amount depending on the length of service with the Company, beginning at age 65 or on the date on which he is no longer entitled to disability benefits under the Company's group disability insurance, whichever is earlier. If the executive terminates employment with the Company for a reason other than death or disability prior to the retirement age of 65, such person will be entitled to salary continuation benefits at a reduced amount depending on the length of service with the Company. The vesting of salary continuation benefits for Mr. Ryback occurs at a rate that provides for a 90% vesting at age 60 and 2% per year for the next five years of service, for a total vesting of 100%. Ms. Dembosz's salary continuation benefits were approximately 32% vested at age 60. Between age 60 and 65 her vesting will increase at an annual rate of between 13% and 15% per year and she will become fully vested at age 65.

In the event of a change of control of the Company and the executive terminates employment with the Company or its successor within a period of 24 months after such change in control, then the executive may elect full vesting of his salary continuation payments and the payment of the salary continuation benefits beginning with the month following the month of termination, subject to the reduction of benefits if the benefits result in a limitation of deductibility of such benefits for the Company under Section 280G of the Internal Revenue Code. The salary continuation benefits are informally funded by single premium life insurance policies with the executive as the insured parties and the Company as the beneficiary of the policies.

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

The Company has agreed to pay the taxes on the imputed income on the life insurance benefit provided to Mr. Ryback under the split dollar agreement.

Perquisites

We offer a qualified 401(k) plan in which the named executive officers participate on the same terms as all other employees. On April 1, 2010 we discontinued the Company's matching contribution but hope to reinstate it in 2015. In addition we offer medical, dental and vision plans under the same terms to all employees. Other perquisites and benefits, which do not represent a significant portion of the named executive's total compensation, include for Mr. Ryback a Company provided automobile, Company provided gasoline and maintenance and the payment of Mr. Ryback's portion of the split dollar insurance. Mr. Ryback, Ms. North and Mr. Wilson also receive a monthly allowance to cover the business portion of their cellular phone use and are provided with gasoline for the business use of their automobiles. These plans, and the contributions we make to them, provide an additional benefit to attract and retain executive officers of the Company.

Outstanding Equity Awards at Fiscal Year-End									
Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Andrew J. Ryback	2,812 (1)	0		\$14.19	12/15/2014				
	10,400 (2)	0		\$16.37	03/01/2015				
	5,900 (3)	0		\$12.40	02/20/2016				
	3,000 (4)	0	N/A	\$12.67	04/02/2014	\$0	\$0	0	\$0
Kerry D. Wilson	862 (1)	0		\$14.19	12/15/2014				
	7,200 (2)	0		\$16.37	03/01/2015				
	3,700 (3)	0		\$12.40	02/20/2016				
	4,800 (5)	4,800	N/A	\$ 2.95	03/16/2019	\$0	\$0	0	\$0
B. J. North	7,200 (5)	7,200	N/A	\$ 2.95	03/16/2019	\$0	\$0	0	\$0

- (1) Options vest 20% per year beginning 12/15/2005
- (2) Options were granted 3/1/2007, have an eight year life and vest 25% per year beginning 3/01/2008
- (3) Options were granted 2/20/2008, have an eight year life and vest 25% per year beginning 2/20/2009
- (4) Options vest 20% per year beginning 04/02/2005
- (5) Options were granted 3/16/2011, have an eight year life and vest 25% per year beginning 3/16/2012

Compensation of Directors

Director Compensation: During the period from January 1, 2013 to July 31, 2013, non-employee Directors, except the Chairman, each received \$1,890 per month for serving on the Company's and Plumas Bank's Board of Directors. Effective August 1, 2013 the monthly fee was increased to \$2,100. The Chairman received \$2,385 per month until August 1, 2013 at which time the monthly payment to the Chairman increased to \$2,650.

Non-Qualified Stock Options: On March 16, 2011, the Company granted to each of its directors 3,200 in non-qualified stock options with an exercise price of \$2.95 per share. The options vest 25% per year beginning on March 16, 2012 and have an eight year life. No stock options were granted to directors during 2013. The Company makes grants of non-qualified stock options only at fair market value of our stock at the time of grant. All option grants have a maximum vesting period of five (5) years and expire no more than ten (10) years from the date of grant. Upon a change in control, all stock options held by directors may vest and become exercisable.

Director Emeritus Plans

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

Post-Retirement Consulting Agreement: The Company has entered into Post-Retirement Consulting Agreements with its non-employee Directors with the exception of Messrs. Flournoy, Elliott, McClintock and Coldani. The purpose of the Agreements is to provide consideration to the Board members in exchange for consulting services after their retirement from the Board. The Agreements provide for consulting fees of \$10,000 per year for 3 years after retirement. In the event of death prior to completion of the consulting services, the beneficiary will receive death benefits equal to the remaining unpaid consulting fee benefits. In the event of disability wherein the retired director is unable to continue consulting services with the Company, the Company may terminate the director's post-retirement consulting services. If the retired director voluntarily terminates his or her consulting services for other than good reason or if the Company terminates the director's post-retirement consulting services for cause, the Post-Retirement Consulting Agreement shall terminate.

The table below summarizes the compensation paid by the Company to non-employee Directors for the fiscal year ended December 31, 2013.

Director Compensation Table							
Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Daniel E. West	\$29,945	N/A	\$ 0	N/A	N/A	\$0	\$29,945
Terrance J. Reeson	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
Alvin G. Blickenstaff	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
William E. Elliott	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
Gerald W. Fletcher	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
John Flournoy	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
Arthur Grohs	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
Robert J. McClintock	\$23,730	N/A	\$ 0	N/A	N/A	\$0	\$23,730
Steven M. Coldani	\$ 2,100	N/A	\$ 0	N/A	N/A	\$0	\$ 2,100

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

On December 19, 2013, the Company's Audit Committee appointed Vavrinek, Trine, Day & Company, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014. We have been advised by Vavrinek, Trine, Day & Company, LLP and by the directors themselves that neither it nor any of its members or associates has any relationship with us or our subsidiaries, other than as independent auditors.

On December 19, 2013, the Company notified Crowe Horwath LLP that it will be dismissed as the Company's independent registered public accounting firm upon the completion of its audit of the Company's consolidated financial statements as of and for the year ending December 31, 2013. The decision to dismiss Crowe Horwath LLP was approved by the Company's Audit Committee. Crowe Horwath LLP served as the Company's independent registered public accounting firm since the year ended December 31, 2011. The audit report of Crowe Horwath LLP on the consolidated financial statements of the Company for the years ended December 31, 2013 and December 31, 2012 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2013 and December 31, 2012 and the subsequent interim period through March 20, 2014 there were: (1) no disagreements between the Company and Crowe Horwath LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Crowe Horwath LLP would have caused them to make reference thereto in their reports on the Company's financial statements for such years, and (2) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2013 and December 31, 2012, and the subsequent interim period through March 20, 2014 the Company did not consult Vavrinek, Trine, Day & Company, LLP regarding: (1) the application of accounting principles to a specified transaction, either completed or proposed; (2) the type of audit opinion that might be rendered on the Company's financial statements, and Vavrinek, Trine, Day & Company, LLP did not provide any written report or oral advice that Vavrinek, Trine, Day & Company, LLP concluded was an important factor considered by the Company in reaching a decision as to any such accounting, auditing or financial reporting issue; or (3) any matter that was either the subject of a disagreement or a reportable event.

Representatives of Vavrinek, Trine, Day & Company, LLP will be present at the Meeting, will have an opportunity to make any statement that they may desire to make, and will be available to answer appropriate questions from shareholders. Representatives of Crowe Horwath LLP will not be present at the Meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE APPOINTMENT OF VAVRINEK, TRINE, DAY & COMPANY, LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2014.

Aggregate fees billed by Crowe Horwath LLP to the Company and Plumas Bank and the percentage of those fees that were pre-approved by the Company's Audit Committee for the years ended 2013 and 2012 are as follows:

	Percentage Pre- 2013 Approved		Percentage Pre- 2012 Approved	
Audit fees	\$ 215,000	100%	\$ 213,000	100 %
Audit-related fees	19,000	100%	15,000	100 %
Tax fees	19,000	100%	20,000	100 %
Total fees	<u>\$ 253,000</u>	<u>100%</u>	<u>\$ 248,000</u>	<u>100 %</u>

The Audit Committee of the Bancorp has considered the provision of non-audit services provided by Crowe Horwath LLP to be compatible with maintaining the independence of Crowe Horwath LLP.

Shareholder Proposals

Shareholder Proposals: In order for a shareholder proposal to be considered for inclusion in the Company's proxy statement for next year's annual meeting, the written proposal must be received by the Company no later than December 10, 2014 and should contain such information as is required under the Company's Bylaws. Such proposals will need to comply with the SEC's regulations regarding the inclusion of shareholder proposals in the Company's proxy materials.

Nomination of Director Candidates: The Company's Bylaws permit shareholders to nominate directors at a shareholder meeting. In order to make a director nomination at an annual shareholder meeting, it is necessary that you notify the Company not less than 120 days before the first anniversary of the date that the proxy statement for the preceding year's annual meeting was first sent to shareholders. The Company's 2014 proxy statement was first sent to stockholders on April 9, 2014. Thus, in order for any such nomination notice to be timely for next year's annual meeting, it must be received by the Company not later than December 10, 2014. In addition, the notice must meet all other requirements contained in the Company's Bylaws and include any other information required pursuant to Regulation 14A under the Exchange Act.

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

Certain Transactions

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

Other Matters

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

Available Information

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

You may request an additional copy of the proxy statement, 10-K, 2013 annual report to shareholders, and form of proxy as to this Meeting or all future shareholder meetings by calling us at 1.888.375.8627, by writing to us at Plumas Bancorp, 35 S. Lindan Avenue, Quincy, California 95971, Attn: Ms. Elizabeth Kuipers, Vice President and Investor Relations Officer, or by email at investorrelations@plumasbank.com.

**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, 2013**
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
(Address of principal executive offices)

95971
(Zip Code)

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

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

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

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

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

☒ Yes ☐ No

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

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

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

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

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, 2013 the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$26.3 million, based on the closing price reported to the Registrant on 6/28/13 of \$6.20 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 17, 2014 was 4,788,339.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2014 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

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PART I

Forward-Looking Information

This Annual Report on Form 10-K includes forward-looking statements and information is subject to the “safe harbor” provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements (which involve Plumas Bancorp’s (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 inquiries.*
- *Changes in the interest rate environment and volatility of rate sensitive assets and liabilities.*
- *Declines in the health of the economy, nationally or regionally, which could reduce the demand for loans, reduce the ability of borrowers to repay loans and/or reduce the value of real estate collateral securing most of the Company’s loans.*
- *Credit quality deterioration, which could cause an increase in the provision for loan and lease losses.*
- *Devaluation of fixed income securities.*
- *Asset/liability matching risks and liquidity risks.*
- *Loss of key personnel.*
- *Operational interruptions including data processing systems failure and fraud.*
- *Our success at managing the risks involved in the foregoing items.*

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, 2013, the Company had consolidated assets of \$516 million, deposits of \$449 million, other liabilities of \$36 million and shareholders’ equity of \$31 million. The Company’s other liabilities include \$10.3 million in junior subordinated deferrable interest debentures, \$7.3 million in subordinated debentures and a \$3.0 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, 2013 the Bank had approximately \$515 million in assets, \$334 million in net loans and \$450 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 a lending office specializing in government-guaranteed lending in Auburn, California. 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, provides Small Business Administration and USDA Rural Development loans to qualified borrowers throughout Northern California and Northern Nevada. During 2007 the Bank was granted nationwide Preferred Lender status with the U.S. Small Business Administration and we expect government-guaranteed lending to continue to be an important part of our overall lending operation. During 2013 proceeds from the sale of government-guaranteed loans totaled \$21.7 million and we generated a gain on sale of \$1.4 million. In 2012 proceeds from the sale of government guaranteed loans totaled \$20.1 million and we generated a gain on sale of \$1.3 million.

The Agricultural Credit Centers located in Susanville 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, 2013, 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 – 46.1%; (ii) commercial and industrial loans – 9.6%; (iii) consumer loans (including residential equity lines of credit) – 20.7%; (iv) agricultural loans (including agricultural real estate loans) – 9.1%; (v) residential real estate – 9.2%; and (vi) construction and land development – 5.3% .

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, 2013, the Bank had 29,072 deposit accounts with balances totaling approximately \$450 million, compared to 30,997 deposit accounts with balances totaling approximately \$412 million at December 31, 2012. 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 \$15,460 at December 31, 2013. 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, 2013 was \$9.1 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 promote home ownership and affordable housing, encourage job growth and support community economic development. Types of loans offered range from personal and commercial loans to real estate, construction, agricultural, 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. At the request of the FRB, Plumas Bancorp deferred its regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities. As of December 31, 2012 the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities was \$906,000 representing eleven quarterly payments. On March 15, 2013, with the approval of the FRB, the Company made all current and deferred interest payments on its trust preferred securities.

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. Under current capital guidelines the subordinated debt qualifies as Tier 2 capital subject to a 20% reduction per year beginning in 2017 and which accumulates by 20% per year through maturity in 2021. Interest expense related to the subordinated debt for the year ended December 31, 2013 totaled \$541,000.

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.

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

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, 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 year ended December 31, 2013 totaled \$23,000.

Recent 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, 2013 approximately 76% 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 Bank's branch service area there are 61 banking branch offices of competing institutions, including 28 branches of 8 major banks. As of June 30, 2013, 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 66%, Quincy 57%, Alturas 66%, Fall River Mills 37%, Kings Beach 30%, Susanville 24%, Truckee 15%, Tahoe City 8%, 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, 2013, the Company and its subsidiary employed 159 persons. On a full-time equivalent basis, we employed 137 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. 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, the Company is subject to NASDAQ rules for listed companies.

Holding Company Regulation. We are a registered bank holding company under the Bank Holding Company Act, and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the FRB.) As a bank holding company, we are examined by and file reports with the FRB. The FRB expects a bank holding company 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.

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 (DBO), the FDIC, and the Consumer Financial Protection Bureau (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 (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 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.”

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders 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.

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. We believe that the Bank is in compliance with these standards.

Federal Deposit Insurance. Substantially all deposits with the Bank are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF.

The FDIC utilizes a risk-based assessment system to set quarterly insurance premium assessments which categorizes banks into four risk categories based on capital levels and supervisory “CAMELS” ratings and names them Risk Categories I, II, III and IV. The CAMELS rating system is based upon an evaluation of the six critical elements of an institution’s operations: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to risk.

This rating system is designed to take into account and reflect all significant financial and operational factors financial institution examiners assess in their evaluation of an institution's performance. The following table sets forth these four Risk Categories:

Capital Group	Supervisory Subgroup		
	A	B	C
1. Well Capitalized	I	II	III
2. Adequately Capitalized			
3. Undercapitalized	III		IV

Within Risk Category I, the assessment system combines supervisory ratings with other risk measures to differentiate risk. For most institutions, the assessment system combines CAMELS component ratings with financial ratios to determine an institution's assessment rate. The base assessment rates as of April 1, 2011 (which are still in effect as of December 31, 2013) are as follows (expressed in terms of cents per \$100 in insured deposits):

Initial Base Assessment Rates						
Annual Rates (in basis points)	Risk Category					
	I*					
	Minimum	Maximum	II	III	IV	Large & Highly Complex Institutions
	5	9	14	23	35	5-35

*Initial base rates that were not the minimum or maximum rates will vary between these rates.

After applying all possible adjustments, minimum and maximum total base assessment rates for each Risk Category are as follows:

Total Base Assessment Rates*					
	Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large & Highly Complex Institutions
Initial base assessment rate	5 – 9	14	23	35	5 - 35
Unsecured debt adjustment**	-4.5 – 0	-5 – 0	-5 – 0	-5 – 0	-5 – 0
Brokered deposit adjustment	N/A	0 – 10	0 – 10	0 – 10	0 – 10
Total base assessment rate	2.5 – 9	9 – 24	18 – 33	30 – 45	2.5 – 45

* Total base assessment rates do not include the depository institution debt adjustment.

** The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50% of an insured depository institution's initial base assessment rate.

The Dodd-Frank Act requires the FDIC to take such steps as necessary to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020. In setting the assessments, the FDIC is required to offset the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than \$10 billion. The Dodd-Frank Act also broadens the base for FDIC insurance assessments so that assessments will be based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC on a semi-annual or more frequent basis will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

The enactment of the Dodd-Frank Act also permanently raised the current standard maximum federal deposit insurance amount from \$100,000 to \$250,000 per qualified deposit account.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC. The termination of deposit insurance for the Bank could have a material adverse effect on our financial condition and results of operations due to the fact that the Bank's liquidity position would likely be affected by deposit withdrawal activity.

FICO Payments. The Bank also is required to make payments for the servicing of obligations of the Financing Corporation ("FICO") issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. The FICO annual assessment rate as of first quarter 2013 was 0.64 cents per \$100 of deposits and as of first quarter 2014 was 0.62 cents per \$100 of deposits.

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

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. 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 FRB and/or DBO to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital, as is the Bank. The regulatory capital guidelines as well as the actual capitalization for the Bank and Bancorp as of December 31, 2013 follow:

	Requirement for the Bank to be:		Plumas Bank	Plumas Bancorp
	Adequately Capitalized	Well Capitalized		
Tier 1 leverage capital ratio	4.0%	5.0%	9.7%	7.8%
Tier 1 risk-based capital ratio	4.0%	6.0%	13.2%	10.7%
Total risk-based capital ratio	8.0%	10.0%	14.5%	13.8%

Management believes that the Company and the Bank met all of the above capital adequacy requirements as of December 31, 2013 and 2012.

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

The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that as of December 31, 2013, the Company's capital levels would remain "well-capitalized" under the new rules.

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 nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

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, some of which are discussed below.

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 Dodd Frank, Regulation Z promulgated under 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.

Finally, 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 concern related to compliance with CRA, ECOA, TILA, FH Act, HMDA, RFPA and RESPA generally, the Company may incur additional compliance costs or be required to expend additional funds for investments in its local communities.

Recent Legislation and Other Changes. Federal and state laws affecting banking are enacted from time to time, and similarly federal and state regulations affecting banking are also adopted from time to time. The following include some of the recent laws and regulations affecting banking.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), signed into law in July, 2010, significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act created a new interagency council, the Financial System Oversight Council that is charged with identifying and monitoring the systemic risk to the U.S. economy posed by systemically significant, large financial companies, including bank holding companies and non-bank financial companies. The legislation also established a floor for capital of insured depository

institutions and directed the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act additionally created a new independent federal regulator to administer federal consumer protection laws. Among the provisions of the Dodd-Frank Act are the following:

Deposit Insurance

The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2009. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Interstate Branching

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

Limits on Derivatives

The Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the loans to one borrower limits of the state in which the bank is chartered take into consideration credit exposure to derivatives transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities securities, currencies, interest or other rates, indices or other assets.

Transactions with Affiliates and Insiders

The Dodd-Frank Act expanded the definition of “affiliate” for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act applies Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The Dodd-Frank Act also prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by disinterested directors.

Debit Card Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. The FRB has established standards for reasonable and proportional fees which take into account the costs of preventing fraud. The restrictions on interchange fees, however, do not apply to banks that, together with their affiliates, have assets of less than \$10 billion, such as the Bank.

Consumer Financial Protection Bureau

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, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement

Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. 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.

The Electronic Funds Transfer Act (EFTA) provides a basic framework for establishing the rights, liabilities, and responsibilities of consumers who use electronic funds transfer (EFT) systems. The EFTA is implemented by the Federal Reserve's Regulation E, which governs transfers initiated through ATMs, point-of-sale terminals, payroll cards, automated clearinghouse (ACH) transactions, telephone bill-payment plans, or remote banking services. Regulation E was amended in January 2010 to require consumers to opt in (affirmatively consent) to participation in the Bank's overdraft service program for ATM and one-time debit card transactions before overdraft fees may be assessed on the consumer's account. Notice of the opt-in right must be provided to all existing and new customers who are consumers, and the customer's affirmative consent must be obtained, before charges may be assessed on the consumer's account for paying such overdrafts.

The rule provides bank customers with an ongoing right to revoke consent to participation in an overdraft service program for ATM and one-time debit card transactions, as opposed to being automatically enrolled in such a program. The rule also prohibits banks from conditioning the payment of overdrafts for checks, ACH transactions, or other types of transactions that overdraw the consumer's account on the consumer's opting into an overdraft service for ATM and one-time debit card transactions. For customers who do not affirmatively consent to overdraft service for ATM and one-time debit card transactions, a bank must provide those customers with the same account terms, conditions, and features that it provides to consumers who do affirmatively consent, except for the overdraft service for ATM and one-time debit card transactions.

On June 21, 2010, the federal banking agencies issued final guidance on incentive compensation which applies to all banks. Except for the largest banking organizations, enforcement of this guidance is handled through the supervisors' regular risk-focused examination process. . The employees covered by the final guidance are senior executives and others who are responsible for oversight of the organization's firm-wide activities or material business lines; individual employees, including non-executive employees, whose activities may expose the organization to material amounts of risk; and groups of employees who are subject to the same or similar incentive compensation arrangements and who, in the aggregate, may expose the organization to material amounts of risk, even if no individual employee is likely to expose the organization to material risk. The guidance provides for three principles for safe and sound incentive compensation arrangements:

- **Balanced Risk-Taking:** Incentive compensation arrangements should balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risks;
- **Compatibility with Effective Controls and Risk-Management:** A banking organization's risk-management processes and internal controls should reinforce and support the development and maintenance of balanced incentive compensation arrangements;
- **Strong Corporate Governance:** Banking organizations should have strong and effective corporate governance to help ensure sound compensation practices, including active and effective oversight by the board of directors.

In May 2009 the Helping Families Save Their Homes Act of 2009 was enacted to help consumers avoid mortgage foreclosures on their homes through certain loss mitigation actions including special forbearance, loan modification, pre-foreclosure sale, deed in lieu of foreclosure, support for borrower housing counseling, subordinate lien resolution, and borrower relocation. This law permits the Secretary of Housing and Urban Development (HUD), for mortgages either in default or facing imminent default, to: (1) authorize the modification of such mortgages; and (2)

establish a program for payment of a partial claim to a mortgagee who agrees to apply the claim amount to payment of a mortgage on a 1- to 4-family residence. In implementing the law, the Secretary of HUD is authorized to (1) provide compensation to the mortgagee for lost income on monthly mortgage payments due to interest rate reduction; (2) reimburse the mortgagee from a guaranty fund in connection with activities that the mortgagee is required to undertake concerning repayment by the mortgagor of the amount owed to HUD; (3) make payments to the mortgagee on behalf of the borrower, under terms defined by HUD; and (4) make mortgage modification with terms extended up to 40 years from the modification date. The new law also authorizes the Secretary of HUD to: (1) reassign the mortgage to the mortgagee; (2) act as a Government National Mortgage Association (GNMA, or Ginnie Mae) issuer, or contract with an entity for such purpose, in order to pool the mortgage into a Ginnie Mae security; or (3) resell the mortgage in accordance with any program established for purchase by the federal government of insured mortgages. The law also amended the Foreclosure Prevention Act of 2008, with respect to emergency assistance for the redevelopment of abandoned and foreclosed homes (neighborhood stabilization), to authorize each state that has received certain minimum allocations and has fulfilled certain requirements, to distribute any remaining amounts to areas with homeowners at risk of foreclosure or in foreclosure without regard to the percentage of home foreclosures in such areas.

Also in May 2009, the Credit Card Act of 2009 was enacted to help consumers and ban certain practices of credit card issuers. This law allows interest rate hikes on existing balances only under limited conditions, such as when a promotional rate ends, there is a variable rate or if the cardholder makes a late payment. Interest rates on new transactions can increase only after the first year. Significant changes in terms on accounts cannot occur without 45 days' advance notice of the change. The law bans raising interest rates on customers based on their payment records with other unrelated credit issuers (such as utility companies and other creditors) for existing credit card balances, though card issuers would still be allowed to use universal default on future credit card balances if they give at least 45 days' advance notice of the change. The law allows consumers to opt out of certain significant changes in terms on their accounts. Opting out means cardholders agree to close their accounts and pay off the balance under the old terms. They have at least five years to pay the balance. Credit card issuers will be banned from issuing credit cards to anyone under 21, unless they have adult co-signers on the accounts or can show proof they have enough income to repay the card debt.

The law requires card issuers to give card account holders "a reasonable amount of time" to make payments on monthly bills. That means payments would be due at least 21 days after they are mailed or delivered. Credit card issuers would no longer be able to set early morning or other arbitrary deadlines for payments. When consumers have accounts that carry different interest rates for different types of purchases payments in excess of the minimum amount due must go to balances with higher interest rates first. Consumers must "opt in" to over-limit fees. Those who opt out would have their transactions rejected if they exceed their credit limits, thus avoiding over-limit fees. Fees charged for going over the limit must be reasonable. Finance charges on outstanding credit card balances would be computed based on purchases made in the current cycle rather than going back to the previous billing cycle to calculate interest charges. Fees on credit cards cannot exceed 25 percent of the available credit limit in the first year of the card.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted to provide stimulus to the struggling US economy. ARRA authorizes spending of \$787 billion, including about \$288 billion for tax relief, \$144 billion for state and local relief aid, and \$111 billion for infrastructure and science. In addition, ARRA includes additional executive compensation restrictions for recipients of funds from the US Treasury under the Troubled Assets Relief Program of the Emergency Economic Stimulus Act of 2008 (EESA).

EESA was amended by ARRA to provide additional incentive compensation restrictions for financial institutions receiving TARP funds and also require additional corporate governance provisions with respect to limiting golden parachutes, lavish expenditures and requiring officer certifications of compliance and clawbacks for improperly earned incentive compensation at such institutions.

In addition, EESA as amended by ARRA provides that for any TARP recipient, its annual meeting materials shall include a nonbinding shareholder approval proposal of executive compensation for shareholders to vote.

ARRA also provides \$730 million to the SBA and makes changes to the agency's lending and investment programs so that they can reach more small businesses that need help. The funding includes:

- \$375 million for temporarily eliminating fees on SBA-backed loans and raising SBA's guarantee percentage on some loans to 90 percent.
- \$255 million for a new loan program to help small businesses meet existing debt payments.
- \$30 million for expanding SBA's Microloan program, enough to finance up to \$50 million in new lending and \$24 million in technical assistance grants to microlenders.

On January 1, 2012, SB 664 (Committee on Banking and Financial Institutions, Chapter 243, Statutes of 2011) became operative. While some substantive changes were included in this legislation due to the passage of the Dodd-Frank federal legislation and some technical corrections that resulted from earlier amendments to the Code, the majority of the work involved in SB 664 was to reorder the section numbering in the Code. Among other things, the law requires a bank that establishes a branch office in this state in accordance with the National Bank Act, as amended by the Dodd-Frank Act to provide a specified notice to the Commissioner of DBO within 10 days of the establishment, relocation, or redesignation of offices.

In 2010, California SB 931 was enacted and provides that the first lien holder of a California residential loan accepts as full payment and satisfaction of such lien after the successful completion of the short sale of such residence, and furthermore such lender is prevented from pursuing a deficiency against the noncorporate borrower. In 2011, the benefits of SB 931 was extended to such borrowers with a second or subordinate lien in SB458 where such lien holder agreed to the short sale.

In California, the enactment of AB329 in 2009, the Reverse Mortgage Elder Protection Act of 2009 prohibits a lender or any other person who participates in the origination of the mortgage from participation in, being associated with, or employing any party that participates in or is associated with any other financial or insurance activity or referring a prospective borrower to anyone for the purchase of other financial or insurance products; and imposes certain disclosure requirements on the lender.

The enactment of AB1160 in 2009, requires a supervised financial institution in California that negotiates primarily in any of a number of specified languages in the course of entering into a contract or agreement for a loan or extension of credit secured by residential real property, to deliver, prior to the execution of the contract or agreement, and no later than 3 business days after receiving the written application, a specified form in that language summarizing the terms of the contract or agreement; provides for administrative penalties for violations; and requires the California Department of Corporations and the DBO to create a form for providing translations and make it available in Spanish, Chinese, Tagalog, Vietnamese and Korean.

The enactment of AB 1291 in 2009 made changes to the California Unclaimed Property Law including (among other things): allowing electronic notification to customers who have consented to electronic notice; requiring that notices contain certain information and allow the holder to provide electronic means to enable the owner to contact the holder in lieu of returning the prescribed form to declare the owner's intent; authorizing the holder to give additional notices; and requiring, beginning January 1, 2011, a banking or financial organization to provide a written notice regarding escheat at the time a new account or safe deposit box is opened.

On February 20, 2009, Governor Schwarzenegger signed ABX2 7 and SBX2 7, which established the California Foreclosure Prevention Act. The California Foreclosure Prevention Act modifies the foreclosure process to provide additional time for borrowers to work out loan modifications while providing an exemption for mortgage loan servicers that have implemented a comprehensive loan modification program. Civil Code Section 2923.52 requires an additional 90 day period beyond the period already provided before a Notice of Sale can be given in order to allow all parties to pursue a loan modification to prevent foreclosure of loans meeting certain criteria identified in that section.

A mortgage loan servicer who has implemented a comprehensive loan modification program may file an application for exemption from the provisions of Civil Code Section 2923.52. Approval of this application provides the mortgage loan servicer an exemption from the additional 90-day period before filing the Notice of Sale when foreclosing on real property covered by the law.

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 one lending office and one administrative office, and owns four administrative facilities.

Owned Properties		
35 South Lindan Avenue Quincy, California (1)	32 Central Avenue Quincy, California (1)	80 W. Main St. Quincy, California (1)
424 N. Mill Creek Quincy, California (1)	336 West Main Street Quincy, California	120 North Pine Street Portola, California
43163 Highway 299E Fall River Mills, California	121 Crescent Street Greenville, California	255 Main Street Chester, California
510 North Main Street Alturas, California	3000 Riverside Drive Susanville, California	8475 North Lake Boulevard Kings Beach, California
11638 Donner Pass Road Truckee, California	2175 Civic Center Drive Redding, California	
Leased Properties		
243 North Lake Boulevard Tahoe City, California	1755 E. Plumb Lane, Suite 270 Reno, Nevada (1)	470 Nevada St., Suite 108 Auburn, California (2)

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

(2) Commercial lending office.

Total rental expenses under all leases, including premises, totaled \$154,000, \$153,000 and \$150,000, in 2013, 2012 and 2011 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,	
2014	\$ 159,000
2015	128,000
2016	83,000
	<u>\$ 370,000</u>

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER 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, 2013, there were 4,787,739 shares of the Company's stock outstanding held by approximately 1,500 shareholders of record as of the same date. The following table shows the high and low sales prices for the common stock, for each quarter as reported by Yahoo Finance.

Quarter	Common Dividends	High	Low
4 th Quarter 2013	-	\$ 6.74	\$ 6.00
3 rd Quarter 2013	-	\$ 6.99	\$ 5.72
2 nd Quarter 2013	-	\$ 8.00	\$ 4.36
1 st Quarter 2013	-	\$ 5.96	\$ 3.24
4 th Quarter 2012	-	\$ 4.37	\$ 3.00
3 rd Quarter 2012	-	\$ 3.94	\$ 2.59
2 nd Quarter 2012	-	\$ 4.18	\$ 2.67
1 st Quarter 2012	-	\$ 4.22	\$ 1.84

Dividends paid to shareholders by the Company are subject to restrictions set forth in California General Corporation Law, which provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal to the amount of the proposed distribution. As a bank holding company without significant assets other than its equity position in the Bank, the Company's ability to pay dividends to its shareholders depends primarily upon dividends it receives from the Bank.

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, review the appropriateness of a cash dividend payment. No common cash dividends were paid in 2013 or 2012 and none are anticipated to be paid in 2014.

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, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	365,059	\$ 8.53	500,000
Equity compensation plans not approved by security holders	None	Not Applicable	None
Total	365,059	\$ 8.53	500,000

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 2013.

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,				
	2013	2012	2011	2010	2009
<u>Statement of Operations</u>	<i>(dollars in thousands except per share information)</i>				
Interest income	\$ 19,460	\$ 18,425	\$ 18,668	\$ 20,680	\$ 22,836
Interest expense	1,534	1,274	1,848	3,147	3,655
Net interest income	17,926	17,151	16,820	17,533	19,181
Provision for loan losses	1,400	2,350	3,500	5,500	14,500
Noninterest income	6,642	6,596	7,162	8,468	5,664
Noninterest expense	17,570	18,377	19,246	19,141	26,266
Provision for (benefit from) income taxes	2,167	1,070	295	389	(6,775)
Net income (loss)	\$ 3,431	\$ 1,950	\$ 941	\$ 971	\$ (9,146)
Discount on redemption of Preferred Stock	565	-	-	-	-
Preferred Stock dividends and discount accretion	347	684	684	684	628
Net income (loss) available to common shareholders	\$ 3,649	\$ 1,266	\$ 257	\$ 287	\$ (9,774)
<u>Balance sheet (end of period)</u>					
Total assets	\$ 515,725	\$ 477,802	\$ 455,349	\$ 484,480	\$ 528,117
Total loans	\$ 338,551	\$ 315,057	\$ 293,865	\$ 314,200	\$ 332,678
Allowance for loan losses	\$ 5,517	\$ 5,686	\$ 6,908	\$ 7,324	\$ 9,568
Total deposits	\$ 449,439	\$ 411,562	\$ 391,140	\$ 424,887	\$ 433,255
Total common equity	\$ 30,593	\$ 29,995	\$ 27,865	\$ 26,306	\$ 26,636
Total shareholders' equity	\$ 30,593	\$ 41,850	\$ 39,634	\$ 37,988	\$ 38,231
<u>Balance sheet (period average)</u>					
Total assets	\$ 497,711	\$ 464,609	\$ 467,354	\$ 500,082	\$ 490,000
Total loans	\$ 321,210	\$ 301,799	\$ 302,841	\$ 323,906	\$ 354,482
Total deposits	\$ 432,284	\$ 401,110	\$ 407,982	\$ 430,777	\$ 403,896
Total shareholders' equity	\$ 36,032	\$ 41,023	\$ 39,244	\$ 38,941	\$ 43,839
<u>Capital ratios</u>					
Leverage ratio	7.8%	10.3%	9.8%	8.9%	7.9%
Tier 1 risk-based capital	10.7%	13.9%	13.7%	12.7%	10.4%
Total risk-based capital	13.8%	15.1%	15.0%	13.9%	11.6%
<u>Asset quality ratios</u>					
Nonperforming loans/total loans	1.64%	4.35%	5.73%	8.07%	4.30%
Nonperforming assets/total assets	2.33%	3.98%	5.60%	7.07%	4.84%
Allowance for loan losses/total loans	1.63%	1.80%	2.35%	2.33%	2.88%
Net loan charge-offs	\$ 1,569	\$ 3,572	\$ 3,916	\$ 7,744	\$ 12,156
<u>Performance ratios</u>					
Return (loss) on average assets	0.69%	0.42%	0.20%	0.19%	(1.87)%
Return (loss) on average common equity	12.0%	4.3%	0.9%	1.1%	(29.5)%
Return (loss) on average equity	9.5%	4.8%	2.4%	2.5%	(20.9)%
Net interest margin	4.03%	4.18%	4.08%	4.24%	4.52%
Loans to deposits	75.3%	76.6%	75.1%	73.9%	76.8%
Efficiency ratio	71.5%	77.4%	80.3%	73.6%	105.7%
<u>Per share information</u>					
Basic earnings (loss)	\$ 0.76	\$ 0.26	\$ 0.05	\$ 0.06	\$ (2.05)
Diluted earnings (loss)	\$ 0.75	\$ 0.26	\$ 0.05	\$ 0.06	\$ (2.05)
Common cash dividends	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Book value per common share	\$ 6.39	\$ 6.28	\$ 5.83	\$ 5.51	\$ 5.58
Common shares outstanding at period end	4,787,739	4,776,339	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 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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013. 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 \$3.43 million for the year ended December 31, 2013, a 76% increase over net income of \$1.95 million during the year ended December 31, 2012. Pretax income increased by \$2.6 million, or 85%, from \$3.0 million in 2012 to \$5.6 million during the year ended December 31, 2013.

Net interest income increased by \$775 thousand from \$17.2 million during 2012 to \$17.9 million for the year ended December 31, 2013. This increase in net interest income resulted from an increase in interest income of \$1.0 million partially offset by an increase in interest expense of \$260 thousand. Interest on loans increased by \$747 thousand and interest on investment securities increased by \$270 thousand. A decrease of \$247 thousand in interest expense on deposits was offset by an increase in interest expense on borrowings of \$507 thousand. The provision for loan losses declined by \$950 thousand from \$2.35 million during 2012 to \$1.40 million during 2013 resulting in an increase in net interest income after provision for loan losses of \$1.7 million.

During the year ended December 31, 2013 non-interest income totaled \$6.6 million an increase of \$46 thousand from the year ended December 31, 2012. A decrease of \$403 thousand in gain on sale of securities was offset by increases in core non-interest income including \$295 thousand in service charges on deposit accounts, \$75 thousand in gain on sale of loans and \$108 thousand in loan servicing income.

We continue to achieve savings in non-interest expense resulting in a reduction in non-interest expense of \$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, \$149 thousand in occupancy and equipment, \$44 thousand in professional fees, \$421 thousand in the provision for changes in OREO, \$178 thousand in FDIC insurance, \$187 thousand in loss on sale of OREO 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. OREO represents real property acquired by the Bank either through foreclosure or through a deed in lieu thereof from the borrower.

The provision for income taxes increased from \$1.1 million in 2012 to \$2.2 million during the year ended December 31, 2013.

Net income allocable to common shareholders increased by \$2.38 million from \$1.27 million during the year ended December 31, 2012 to \$3.65 million during 2013. 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. Related to this redemption, dividends and discount amortized on the preferred stock declined by \$337 thousand from \$684 thousand during 2012 to \$347 thousand during the year ended December 31, 2013.

Total assets at December 31, 2013 were \$516 million, an increase of \$37.9 million from \$478 million at December 31, 2012. Increases included \$5.2 million in cash, \$9.4 million in investments, \$24.1 million in net loans and \$1.1 million in OREO.

Total deposits increased by \$37.9 million from \$411 million at December 31, 2012 to \$449 million at December 31, 2013. Core deposit growth remained strong in 2013 as evidenced by increases of \$19.2 million in demand deposits and \$27.3 million in savings and money market accounts. Time deposits declined by \$7.9 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 \$0.7 million.

Shareholders' equity decreased by \$11.2 million from \$41.8 million at December 31, 2012 to \$30.6 million at December 31, 2013. This decrease resulted from the redemption of the preferred stock, payment of preferred stock dividends and an increase in other comprehensive loss. These items were partially offset by earnings during the year, a \$565 discount on redemption of the preferred stock and an increase in common stock totaling \$156 thousand.

The return on average assets was 0.69% for 2013, up from 0.42% for 2012. The return on average common equity was 12.0% for 2013, up from 4.3% for 2012.

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,								
	2013			2012			2011		
	Average balance	Interest income/expense	Rates earned / paid	Average balance	Interest income/expense	Rates earned / paid	Average balance	Interest income/expense	Rates earned / paid
<i>(dollars in thousands)</i>									
Assets									
Interest bearing deposits	\$ 41,262	\$ 124	0.30%	\$ 38,783	\$ 106	0.27%	\$ 49,628	\$ 124	0.25%
Investment securities ⁽¹⁾	82,820	1,162	1.40	69,664	892	1.28	59,439	1,144	1.92
Total loans ⁽²⁾⁽³⁾	321,210	18,174	5.66	301,799	17,427	5.77	302,841	17,400	5.75
Total earning assets	445,292	19,460	4.37%	410,246	18,425	4.49%	411,908	18,668	4.53%
Cash and due from banks	14,572			14,560			13,204		
Other assets	37,847			39,803			42,242		
Total assets	\$ 497,711			\$ 464,609			\$ 467,354		
Liabilities and shareholders' equity									
Interest bearing demand deposits	\$ 83,966	90	0.11%	\$ 82,648	111	0.13%	\$ 93,925	187	0.20%
Money market deposits	48,730	82	0.17	42,957	91	0.21	40,050	115	0.29
Savings deposits	84,475	147	0.17	68,755	132	0.19	58,996	106	0.18
Time deposits	66,046	281	0.43	76,138	513	0.67	96,961	1,061	1.09
Note Payable	567	23	4.06	-	-	-	-	-	-
Subordinated debentures	5,185	541	10.43	-	-	-	-	-	-
Junior subordinated debentures	10,310	313	3.04	10,310	344	3.34	10,310	326	3.16
Other	7,298	57	0.78	6,003	83	1.38	3,188	53	1.66
Total interest bearing liabilities	306,577	1,534	0.50%	286,811	1,274	0.44%	303,430	1,848	0.61%
Noninterest bearing demand deposits	149,067			130,612			118,050		
Other liabilities	6,035			6,163			6,630		
Shareholders' equity	36,032			41,023			39,244		
Total liabilities and shareholders' equity	\$ 497,711			\$ 464,609			\$ 467,354		
Net interest income		\$17,926			\$ 17,151			\$ 16,820	
Net interest spread⁽⁴⁾			3.87%			4.05%			3.92%
Net interest margin⁽⁵⁾			4.03%			4.18%			4.08%

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

(2) Average nonaccrual loan balances of \$9.3 million for 2013, \$14.6 million for 2012 and \$20.2 million for 2011 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) fees of \$(371,000), \$(75,000) and \$49,000 for 2013, 2012 and 2011, 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:

	2013 compared to 2012				2012 compared to 2011			
	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	\$ 6	\$ 11	\$ 1	\$ 18	\$ (27)	\$ 12	\$ (3)	\$ (18)
Investment securities	169	85	16	270	197	(383)	(66)	(252)
Loans	1,121	(351)	(23)	747	(60)	87	-	27
Total interest income	1,296	(255)	(6)	1,035	110	(284)	(69)	(243)
Interest-bearing liabilities:								
Interest bearing demand deposits	2	(22)	(1)	(21)	(22)	(61)	7	(76)
Money market deposits	12	(19)	(2)	(9)	8	(30)	(2)	(24)
Savings deposits	30	(12)	(3)	15	18	7	1	26
Time deposits	(68)	(189)	25	(232)	(227)	(407)	86	(548)
Note payable	-	-	23	23	-	18	-	18
Subordinated debentures	-	-	541	541	-	-	-	-
Junior subordinated debentures	-	(31)	-	(31)	-	18	-	18
Other borrowings	18	(36)	(8)	(26)	47	(9)	(8)	30
Total interest expense	(6)	(309)	575	260	(176)	(482)	84	(574)
Net interest income	\$ 1,302	\$ 54	\$ (581)	\$ 775	\$ 286	\$ 198	\$ (153)	\$ 331

- (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.

2013 compared to 2012. Net interest income is the difference between interest income and interest expense. 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 following table compares loan balances by type at December 31, 2013 and 2012.

(dollars in thousands)	Balance at End of Period	Percent of Loans in Each Category	Balance at End of Period	Percent of Loans in Each Category
	12/31/13	12/31/13	12/31/12	12/31/12
Commercial	\$ 32,612	9.6%	\$ 29,552	9.4%
Agricultural	30,647	9.0%	35,124	11.2%
Real estate - residential	31,322	9.3%	34,666	11.0%
Real estate - commercial	155,942	46.1%	139,546	44.3%
Real estate - construction	17,793	5.3%	15,801	5.0%
Equity Lines of Credit	35,800	10.6%	36,873	11.7%
Auto	30,305	8.9%	19,283	6.1%
Other	4,130	1.2%	4,212	1.3%
Total Gross Loans	\$ 338,551	100%	\$ 315,057	100%

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 includes 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 a \$7.5 million subordinated debenture which was issued to help fund the repurchase of preferred stock. The subordinated debt bears an interest rate of 7.5% per annum, has a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant (the "Lender Warrant") to purchase up to 300,000 shares of the Bancorp's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share. The effective yield on the debenture was 10.4% which was in excess of the 7.5% rate due to amortization of a \$75 thousand commitment fee and a discount recorded on issuance of \$318 thousand.

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

Interest expense on junior subordinated debentures, which decreased by \$31 thousand from 2012, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate. In addition, as a result of deferring our interest payments under the debentures during the 2012 period we were required to pay interest on the deferred interest payments. This had the effect of increasing interest expense and effective yield on the debentures. The deferred interest on the debentures was repaid in March of 2013.

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.

2012 compared to 2011. Net interest income, on a nontax-equivalent basis, was \$17.2 million for the year ended December 31, 2012, up \$331 thousand, or 2%, from \$16.8 million for 2011. A decrease of \$243 thousand, or 1.3% in interest income, from \$18.7 million during 2011 to \$18.4 million during the current year, was offset by a decline in interest expense of \$574 thousand.

Interest and fees on loans increased by \$27 thousand; however, this was offset by a \$252 thousand decline in interest on investment securities and an \$18 thousand decline in interest on deposits. The increase in interest and fees on loans was related to an increase in yield partially offset by a decrease in average loan balances. Interest on investments securities declined related to a decrease in yield partially offset by an increase in average balance.

Interest and fees on loans was \$17.4 million for the years ended December 31, 2012 and 2011. The average loan balances were \$301.8 million for 2012, down \$1.0 million from the \$302.8 million for 2011. This decline in loans was mostly related to normal pay downs and prepayments, loan charge-offs and real estate acquired through foreclosure mostly offset by growth in our auto loan and commercial real estate loan portfolios. The average yields on loans were 5.77% for 2012 up from 5.75% for 2011.

As a result of a decrease in yield of 64 basis points from 1.92% during 2011 to 1.28% during 2012, interest on investment securities decreased by \$252 thousand. The effect of the decrease in yield on interest income was partially offset by an increase in average investment securities of \$10.2 million from \$59.4 million during 2011 to \$69.6 million during 2012. The decline in yield is primarily related to the replacement of matured and sold investment securities with new investments with market yields below those which they replaced.

Interest income on interest-bearing deposits, which totaled \$106 thousand in 2012 and \$124 thousand in 2011, mostly relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by \$622 thousand, or 42%, to \$847 thousand for the twelve months ended December 31, 2012, down from \$1.5 million in 2011. This decrease primarily relates to decreases in the average balance and rate paid on time and interest bearing demand deposits and a decline in the rate paid on money market accounts.

Interest on time deposits declined by \$548 thousand. Average time deposits declined by \$20.9 million from \$97.0 million during 2011 to \$76.1 million for the year ended December 31, 2012. The decrease in average time deposits is mostly related to a promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. During 2011 the average balance of promotional deposits was \$21.8 million; these promotional time deposits had all matured by December 31, 2011. The average rate paid on promotional deposits during 2011 was 2%. In addition, the Bank has held down the rate paid on time deposits in 2012 as it has excess liquidity and does not need to pay for deposits at above market rates. The average rate paid on time deposits decreased from 1.09% during 2011 to 0.67% 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 the higher rate promotional deposits.

Interest expense on NOW accounts declined by \$76 thousand. Rates paid on NOW accounts declined by 7 basis points from 0.20% during 2011 to 0.13% during 2012, mostly related to a decline in market rates in the Company's service area. Average balances declined by \$11.3 million from 2011. During 2011 we significantly lowered the rate paid on local public agencies NOW accounts as we determined that the previous rate did not meet our profitability targets, as a result some of these deposits moved out of the Bank. During 2012 average public NOW accounts declined by \$7.4 million from \$24.3 million during 2011 to \$16.9 million during the year ended December 31, 2012. At December 31, 2012 balances in this account type were \$11.8 million. We do not expect significant additional declines in public NOW balances during 2013.

Interest expense on money market accounts decreased by \$24 thousand related to a decrease in rate paid on these accounts of 8 basis points from 0.29% during 2011 to 0.21% during 2012. This was primarily related to a money market sweep product we offered in 2011. We no longer offer the money market sweep account having replaced it with a product that utilizes repurchase agreements during the third quarter of 2011. Average money market balances increased by \$2.9 million from \$40.0 million during 2011 to \$42.9 million in 2012.

Interest expense on junior subordinated debentures, which increased by \$18 thousand from 2011, fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate. Interest on other borrowings primarily relates to interest paid on repurchase agreements.

As a result of the changes noted above, the net interest margin for 2012 increased 10 basis points to 4.18%, from 4.08% for 2011.

Provision for Loan Losses

During the year ended December 31, 2013 we recorded a provision for loan losses of \$1.4 million, down \$950 thousand from the \$2.3 million provision recorded during 2012. 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, 2013, 2012 and 2011.

	Years Ended December 31,			Change during Year	
	2013	2012	2011	2013	2012
	<i>(dollars in thousands)</i>				
Service charges on deposit accounts	\$ 3,912	\$ 3,617	\$ 3,477	\$ 295	\$ 140
Gain on sale of loans, net	1,399	1,324	1,939	75	(615)
Gain on sale of investments	-	403	666	(403)	(263)
Earnings on bank owned life insurance policies	344	345	352	(1)	(7)
Loan servicing fees	323	215	202	108	13
Customer service fees	190	149	141	41	8
Safe deposit box and night depository income	69	65	66	4	(1)
Other income	405	478	319	(73)	159
Total non-interest income	\$ 6,642	\$ 6,596	\$ 7,162	\$ 46	\$ (566)

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. Loan servicing income is fees we generate on servicing previously sold portions of government guaranteed loans. This amount is recorded net of the amortization of the servicing fee asset recorded at the time the loans are sold. During 2013 loan servicing income totaled \$323 thousand an increase of \$108 thousand from \$215 thousand during 2012. Income from this source will continue to grow as long as loans sold exceed loan principal payments in our serving portfolio. Customer service fees increased by \$41 thousand much of which we attribute to the August 2013 change in service fee schedule.

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. Other non-interest income declined by \$73 thousand as during the 2012 period this item was abnormally high related to a \$99 thousand adjustment to accrued life insurance.

2012 compared to 2011. During the twelve months ended December 31, 2012 non-interest income decreased by \$566 thousand to \$6.6 million from \$7.2 million during 2011. The largest component of this decrease was a decrease of \$615 thousand in gains on the sale of government guaranteed loans from \$1.9 million during 2011 to \$1.3 million during the year ended December 31, 2012. Beginning in the first quarter of 2011, related to a change in SBA requirements, guaranteed portions of SBA loans were no longer required to be sold with a 90 day premium recourse requirement. This resulted in recording gains on sales of loans during 2011 representing both loans sold during the twelve months ended December 31, 2011 and loans sold during the fourth quarter of 2010. In addition, gain on sale of loans during 2011 benefited from a government program temporarily increasing the government guarantee in order to stimulate small business lending. The remaining decrease in non-interest income was related to a decline in gains on sale of investment securities from \$666 thousand during the twelve months ended December 31, 2011 to \$403 thousand during 2012. During the 2011 period proceeds of \$29.4 million were generated on the sale of twenty-seven securities and during the 2012 proceeds of \$20.8 million were received on the sale of twenty-five securities.

Service charges on deposit accounts increased by \$140 thousand primarily related to an increase in use of overdraft protection services. During the fourth quarter of 2011 we introduced a new overdraft protection (ODP) program which we made available to a larger portion of our customer base than the prior program, resulting in an increase in service fee income. This new program has enabled us to increase income while strengthening our regulatory compliance over the ODP function. The increase in other non-interest income mostly relates to a \$99 thousand adjustment to accrued life insurance.

Non-Interest Expense

The following table sets forth the components of other non-interest expense for the years ended December 31, 2013, 2012 and 2011.

	Years Ended December 31,			Change during Year	
	2013	2012	2011	2013	2012
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 8,729	\$ 8,968	\$ 9,195	\$ (239)	\$ (227)
Occupancy and equipment	2,874	3,023	3,088	(149)	(65)
Outside service fees	1,855	1,503	1,270	352	233
Professional fees	831	875	730	(44)	145
Provision for OREO losses	486	907	579	(421)	328
FDIC insurance	435	613	1,099	(178)	(486)
OREO costs	310	187	422	123	(235)
Business development	291	268	262	23	6
Telephone and data communications	287	308	331	(21)	(23)
Advertising and promotion	281	251	236	30	15
Director compensation and retirement	232	255	229	(23)	26
Armored car and courier	228	224	225	4	(1)
Loan collection costs	212	219	261	(7)	(42)
Core deposit intangible	128	173	173	(45)	-
Stationery and supplies	113	124	140	(11)	(16)
Insurance	112	120	42	(8)	78
Postage	51	104	190	(53)	(86)
Loss (gain) on sale of OREO	(171)	16	606	(187)	(590)
Other operating expense	286	239	168	47	71
Total non-interest expense	\$ 17,570	\$ 18,377	\$ 19,246	\$ (807)	\$ (869)

2013 compared to 2012. We continue to achieve savings in many areas of non-interest expense resulting in a reduction in non-interest expense of \$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 FDIC 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 FDIC insurance expense is related to a decline in the rate charged to Plumas Bank by the FDIC. 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 provides 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.

OREO represents real property acquired by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. 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 in other income or expensed as incurred. 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.

2012 compared to 2011. During 2012 we achieved savings in many categories of non-interest expense resulting in a reduction in non-interest expense of \$869 thousand from \$19.2 million during the twelve months ended December 31, 2011 to \$18.4 million during 2012. Significant reductions in salary and benefits expense, FDIC insurance, loss on sale of OREO, OREO expense, and postage were partially offset by an increase in the provision for changes in valuation of OREO of \$328 thousand, an increase in outside service fees of \$233 thousand, an increase in professional fees of \$145 thousand and an increase in insurance expense of \$78 thousand.

Salaries and employee benefits decreased by \$227 thousand related to a decline of \$80 thousand in commission expense, \$88 thousand in medical and dental insurance expense (group insurance), \$50 thousand in workers compensation expense and an increase of \$247 thousand in deferred loan origination costs partially offset by an increase of \$92 thousand in salary continuation expense and \$131 thousand in stock compensation expense. Commission expense, which relates to government-guaranteed lending personnel, decreased by \$80 thousand consistent with the decline in government-guaranteed loan sales during the comparison periods. The decrease in group insurance was mostly related to a decline in employees enrolled in the insurance plans. The decrease in workers compensation was related to changing providers. Previously we were members of a small group plan and our premiums were adversely affected by claims within the group. We have exited this plan and have seen a considerable reduction in workers compensation premiums. Related to an increase in lending activity, the deferral of loan origination costs increased by \$247 thousand.

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 by \$195 thousand. Absent this adjustment salary continuation expense would have declined by \$103 thousand, as salary continuation expense during 2011 included a one-time adjustment to reflect the early retirement of the Company's Chief Credit officer. Employee stock compensation expense increased by \$131 thousand from a credit of \$38 thousand during 2011 to expense of \$93 thousand during the current period. The credit in stock compensation expense during the 2011 period was related to a revision in the estimated forfeiture rate.

A decline of \$486 thousand in FDIC insurance expense relates to a decline in the rate charged Plumas Bank by the FDIC. This decline in rate includes a change in the assessment base and assessment rate under new rules enacted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. These new rules changed the assessment base from total deposits to average total assets less tangible capital, but also significantly lowered the assessment rates, causing a net favorable impact on our FDIC insurance premiums.

Loss on sale of OREO totaled \$16 thousand during the twelve months ended December 31, 2012, a decrease of \$590 thousand from the \$606 thousand incurred in 2011. In the second quarter of 2011 the Bank sold its largest OREO holding which represented approximately half of its OREO holdings at that time. The Bank incurred a \$617 thousand loss on sale of this large OREO holding in 2011.

OREO expense declined by \$235 thousand from \$422 thousand during 2011 to \$187 thousand for the year ended December 31, 2012. OREO expense benefited from a decline in OREO balances in 2012. In addition, 2011 OREO expense was adversely affected by significant cleanup costs on one property and considerable legal costs related to another property. Both of these properties were sold during 2011.

Postage declined by \$86 thousand related to the outsourcing of our statement processing activities during 2012. Effective with the outsourcing, the cost of mailing statements, notices and similar documents is included in outside service costs.

The \$907 thousand in OREO provision, an increase of \$328 thousand from \$579 thousand during the twelve months ended December 31, 2011, was related to a decline in the value of twenty-one properties based on appraisals received during 2012. Of these twenty-one properties, seven have been sold and the remaining fourteen represent 61% of the Bank's OREO balance as of December 31, 2012.

The largest component of the \$233 thousand increase in outside service costs was \$112 thousand in costs related to the outsourcing of our statement processing operations in June, 2012. The Company anticipates meaningful savings, related to the statement outsourcing. 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. A large portion of the remaining increase in outside service costs relates to maintaining these advanced machines which are considerably more complicated than our previous ATMs many of which were over ten years old. The \$145 thousand increase in professional fees mostly relates to an increase in consulting costs in the Company's data processing and network administration functions. Insurance expense was abnormally low during 2011 as it included the reversal of the accrual for split dollar life insurance for the Bank's former Chief Credit Officer who forfeited his right to this insurance when he left the Bank prior to reaching the age of sixty-five.

Provision for Income Taxes. 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. During 2012 the Company recorded an income tax provision of \$1.1 million, or 35.4% of pre-tax income for the year ended December 31, 2012. The percentages for 2013 and 2012 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance, municipal loan interest, and in the 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, 2013 and 2012 will be fully realized and therefore no valuation allowance was recorded.

Financial Condition

Loan Portfolio. Net loans increased by \$24.1 million, or 8%, from \$310.3 million at December 31, 2012 to \$334.4 million at December 31, 2013. The increase in loan balances during the twelve month period ended December 31, 2013 mostly relates to growth in the Company's automobile and commercial real estate loan portfolios. The Company continues to manage the mix of its loan portfolio consistent with its identity as a community bank serving the financing needs of all sectors of the area it serves. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized commercial businesses. These commercial loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment.

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

(dollars in thousands)	Balance at End of Period	Percent of Loans in Each Category	Balance at End of Period	Percent of Loans in Each Category
	12/31/13	12/31/13	12/31/12	12/31/12
Commercial	\$ 32,612	9.6%	\$ 29,552	9.4%
Agricultural	30,647	9.0%	35,124	11.2%
Real estate - residential	31,322	9.3%	34,666	11.0%
Real estate – commercial	155,942	46.1%	139,546	44.3%
Real estate – construction	17,793	5.3%	15,801	5.0%
Equity Lines of Credit	35,800	10.6%	36,873	11.7%
Auto	30,305	8.9%	19,283	6.1%
Other	4,130	1.2%	4,212	1.3%
Total Gross Loans	\$ 338,551	100%	\$ 315,057	100%

Construction and land development loans represented 5.3% and 5.0% of the loan portfolio as of December 31, 2013 and December 31, 2012, respectively. The construction and land development portfolio component has been identified by Management as a higher-risk loan category. The quality of the construction and land development category is highly dependent on property values both in terms of the likelihood of repayment once the property is transacted by the current owner as well as the level of collateral the Company has securing the loan in the event of default. Loans in this category are characterized by the speculative nature of commercial and residential development properties and can include property in various stages of development from raw land to finished lots. The decline in these loans as a percentage of the Company's loan portfolio from over 21% at December 31, 2007 to less than 6% during the last two years reflects management's continued efforts, which began in 2009, to reduce its exposure to construction and land development loans due to the severe valuation decrease in the real estate market.

The Company's real estate related loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 76% and 78% of the total loan portfolio at December 31, 2013 and December 31, 2012, respectively. 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, 2013 and December 31, 2012, approximately 73% of the Company's loan portfolio was comprised of variable rate loans. At December 31, 2013, 40% of the variable loans were at their respective floor rate. While real estate mortgage, commercial and consumer lending remain the foundation of the Company's historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types. In addition, the Company remains committed to the agricultural industry in Northeastern California and will continue to pursue high quality agricultural loans. Agricultural loans include both commercial and commercial real estate loans. The Company's agricultural loan balances totaled \$31 million at December 31, 2013 and \$35 million at December 31, 2012.

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

	At December 31,				
	2013	2012	2011	2010	2009
	<i>(dollars in thousands)</i>				
Real estate – mortgage	\$ 187,264	\$ 174,212	\$ 158,431	\$ 162,513	\$ 161,397
Real estate – construction and land development	17,793	15,801	17,063	31,199	38,061
Commercial	32,612	29,552	30,235	33,433	37,056
Consumer (1)	70,235	60,368	49,268	48,586	54,442
Agriculture (2)	30,647	35,124	38,868	38,469	41,722
Total loans	338,551	315,057	293,865	314,200	332,678
Less:					
Deferred costs	(1,340)	(900)	(475)	(275)	(298)
Allowance for loan losses	5,517	5,686	6,908	7,324	9,568
Net loans	\$ 334,374	\$ 310,271	\$ 287,432	\$ 307,151	\$ 323,408

(1) Includes equity lines of credit

(2) Includes agriculture real estate

The following table sets forth the maturity of gross loan categories as of December 31, 2013. Also provided with respect to such loans are the amounts due after one year, classified according to sensitivity to changes in interest rates:

	Within One Year	After One Through Five Years	After Five Years	Total
	<i>(dollars in thousands)</i>			
Real estate – mortgage	\$ 15,420	\$ 49,607	\$ 122,237	\$ 187,264
Real estate – construction and land development	5,091	5,106	7,596	17,793
Commercial	15,164	9,098	8,350	32,612
Consumer	8,603	31,116	30,516	70,235
Agriculture	12,526	7,887	10,234	30,647
Total	\$ 56,804	\$ 102,814	\$ 178,933	\$ 338,551
Loans maturing after one year with:				
Fixed interest rates		\$ 43,631	\$ 33,164	\$ 76,795
Variable interest rates		59,183	145,769	204,952
Total		\$ 102,814	\$ 178,933	\$ 281,747

Analysis of Asset Quality and Allowance for Loan Losses. The Company attempts to minimize credit risk through its underwriting and credit review policies. The Company's credit review process includes internally prepared credit reviews as well as contracting with an outside firm to conduct periodic credit reviews. The Company's management and lending officers evaluate the loss exposure of classified and impaired loans on a quarterly basis, or more frequently as loan conditions change. The Management Asset Resolution Committee (MARC) reviews the asset quality of criticized and past due loans on a monthly basis and reports the findings to the full Board of Directors. The Board's Loan Committee reviews the asset quality of new loans on a monthly basis and reports the findings to the full Board of Directors. In management's opinion, this loan review system helps facilitate the early identification of potential criticized loans.

The Company has implemented MARC to develop an action plan to significantly reduce nonperforming loans. It consists of members of executive management and credit administration management, and the activities are governed by a formal written charter. The MARC meets at least monthly and reports to the Board of Directors.

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

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

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

Formula allocations are calculated by applying loss factors to outstanding loans with similar characteristics. Loss factors are based on the Company's historical loss experience as adjusted for changes in the business cycle and may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Effective for the third quarter of 2012, the Company modified its method of estimating the allowance for loan losses for non-impaired loans. This modification incorporated historical losses from the beginning of the latest business cycle. Previously we utilized historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter. This modification had the effect of increasing the required allowance by approximately \$250,000 for 2012 related to the expanded historical loss period. The Company believes that, given the recent trend in historical losses, it was prudent to increase the period examined and that a full business cycle was the appropriate period.

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,				
	2013	2012	2011	2010	2009
	<i>(dollars in thousands)</i>				
Balance at beginning of period	\$ 5,686	\$ 6,908	\$ 7,324	\$ 9,568	\$ 7,224
Charge-offs:					
Commercial and agricultural	401	1,159	539	1,219	663
Real estate mortgage	419	616	483	3,105	1,145
Real estate construction	735	1,524	2,603	3,617	10,133
Consumer	360	602	622	408	559
Total charge-offs	1,915	3,901	4,247	8,349	12,500
Recoveries:					
Commercial and agricultural	140	66	199	26	18
Real estate mortgage	109	8	18	396	8
Real estate construction	-	81	5	65	90
Consumer	97	174	109	118	228
Total recoveries	346	329	331	605	344
Net charge-offs	1,569	3,572	3,916	7,744	12,156
Provision for loan losses	1,400	2,350	3,500	5,500	14,500
Balance at end of period	\$ 5,517	\$ 5,686	\$ 6,908	\$ 7,324	\$ 9,568
Net charge-offs during the period to average loans	0.49%	1.18%	1.29%	2.39%	3.43%
Allowance for loan losses to total loans	1.63%	1.80%	2.35%	2.33%	2.88%

During the year ended December 31, 2013 we recorded a provision for loan losses of \$1.4 million down \$950 thousand from the \$2.4 million provision recorded during the year ended December 31, 2012. Net charge-offs totaled \$1.6 million during the year ended December 31, 2013 down \$2 million from \$3.6 million during 2012. Net charge-offs as a percentage of average loans decreased from 1.18% during 2012 to 0.49% during the year ended December 31, 2013.

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

(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
	2013	2013	2012	2012
Commercial and agricultural	\$ 949	18.7%	\$ 1,014	20.5%
Real estate mortgage	2,412	55.3%	2,550	55.3%
Real estate construction	944	5.3%	950	5.0%
Consumer (includes equity LOC & Auto)	1,212	20.7%	1,172	19.2%
Total	\$ 5,517	100.0%	\$ 5,686	100.0%

The allowance for loan losses totaled \$5.5 million at December 31, 2013 and \$5.7 million at December 31, 2012. Specific reserves related to impaired loans decreased from \$1.2 million at December 31, 2012 to \$629 thousand at December 31, 2013. 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 increased by \$388 thousand to \$4.9 million at December 31, 2013. Related to the decline in specific reserves, the allowance for loan losses as a percentage of total loans decreased from 1.80% at December 31, 2012 to 1.63% at December 31, 2013. The percentage of general reserves to unimpaired loans decreased slightly from 1.52% at December 31, 2012 to 1.49% at December 31, 2013 primarily related to improvement in the overall credit quality of the portfolio including reductions in historical net charge-offs and declines in the volume of classified loan balances.

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

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

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

Loans restructured and in compliance with modified terms totaled \$7.6 million, \$9.3 million, \$8.4 million, \$2.0 million and \$3.4 million at December 31, 2013, 2012, 2011, 2010 and 2009, 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,				
	2013	2012	2011	2010	2009
	<i>(dollars in thousands)</i>				
Nonaccrual loans	\$ 5,519	\$ 13,683	\$ 16,757	\$ 25,313	\$ 14,263
Loans past due 90 days or more and still accruing	17	15	72	45	28
Total nonperforming loans	5,536	13,698	16,829	25,358	14,291
Other real estate owned	6,399	5,295	8,623	8,867	11,204
Other vehicles owned	60	41	57	17	65
Total nonperforming assets	\$ 11,995	\$ 19,034	\$ 25,509	\$ 34,242	\$ 25,560
Interest income forgone on nonaccrual loans	\$ 280	\$ 646	\$ 510	\$ 1,021	\$ 568
Interest income recorded on a cash basis on nonaccrual loans	\$ 22	\$ 192	\$ 285	\$ 608	\$ 369
Nonperforming loans to total loans	1.64%	4.35%	5.73%	8.07%	4.30%
Nonperforming assets to total assets	2.33%	3.98%	5.60%	7.07%	4.84%

Nonperforming loans at December 31, 2013 were \$5.5 million, a decrease of \$8.2 million from the \$13.7 million balance at December 31, 2012. The decline of \$8.2 million includes \$3.8 million in loans transferred to OREO, charge-offs and principal repayments on nonperforming loans partially offset by \$2.0 million in additional loans placed on nonperforming status. Principal repayments on nonperforming loans include payments from the SBA related to \$2.4 million in guaranteed portions of loans on nonaccrual at December 31 2012. Included in the \$3.8 million in loans transferred to OREO was a land development loan with a principal balance of \$3.0 million. During 2013 a \$0.7 million charge-off was recorded on this loan while the remaining balance of \$2.3 million was transferred to OREO. Specific reserves on nonaccrual loans totaled \$578 thousand at December 31, 2013 and \$976 thousand at December 31, 2012, respectively. Performing loans past due thirty to eighty-nine days decreased from \$2.8 million at December 31, 2012 to \$1.5 million at December 31, 2013.

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans decreased by \$11.1 million from \$18.6 million at December 31, 2012 to \$7.5 million at December 31, 2013. Loans classified as watch decreased as well from \$6.7 million at December 31, 2012 to \$5.8 million at December 31, 2013. At December 31, 2013, \$2.9 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, 2013 and December 31, 2012, the Company's recorded investment in impaired loans totaled \$9.8 million and \$18.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled \$629 thousand and \$1.2 million at December 31, 2013 and December 31, 2012, respectively. Additionally, \$0.7 million has been charged off against the impaired loans at December 31, 2013 and \$3.0 million at December 31 2012.

It is the policy of management to make additions to the allowance for loan losses so that it remains appropriate to absorb the probable incurred losses in the portfolio. Management believes that the allowance at December 31, 2013 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. Repossessed assets and OREO are carried at fair market value, less selling costs. OREO holdings represented twenty-six properties totaling \$6.4 million at December 31, 2013 and forty properties totaling \$5.3 million at December 31, 2012. The largest property in OREO is a land development property with an OREO value of \$2.3 million representing 36% of the total OREO balance. Nonperforming assets as a percentage of total assets were 2.33% at December 31, 2013 and 3.98% at December 31, 2012.

The following table provides a summary of the change in the number and balance of OREO properties for the years ended December 31, 2013 and 2012, dollars in thousands:

	Year Ended December 31,			
	#	2013	#	2012
Beginning Balance	40	\$ 5,295	44	\$ 8,623
Additions	14	3,824	10	1,309
Dispositions	(28)	(2,234)	(14)	(3,730)
Provision from change in OREO valuation	-	(486)	-	(907)
Ending Balance	26	\$ 6,399	40	\$ 5,295

Investment Portfolio and Federal Funds Sold. Total investment securities increased by \$9.4 million from \$81.0 million as of December 31, 2012 to \$90.4 million as of December 31, 2013.

Included in the \$90.4 million at December 31, 2013 were \$89.0 million in securities of U.S. Government-sponsored agencies and six municipal securities totaling \$1.4 million. At December 31, 2012 the investment portfolio was invested entirely in U.S. Government-sponsored agencies. The Bank expects to increase its holdings of municipal securities gradually over the next twelve months. There were no Federal funds sold at December 31, 2013 and 2012; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling \$29.1 million at December 31, 2013 and \$24.5 million at December 31, 2012, respectively. 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.

Gross unrealized losses on investment securities at December 31, 2013 were \$2.0 million. Management believes the unrealized losses primarily relate to changes in interest rates and other market conditions rather than deterioration in credit quality.

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

Available-for-sale (fair value)	December 31,		
	2013	2012	2011
	<i>(dollars in thousands)</i>		
U.S. Government-sponsored agencies	\$ 27,097	\$ 38,442	\$ 32,777
U.S. Government-sponsored agency residential mortgage-backed securities	61,875	42,522	25,140
Municipal obligations	1,371	-	-
Total	\$ 90,343	\$ 80,964	\$ 57,917

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, 2013. Mortgage-backed securities are included in maturity categories based on their stated maturity date. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations.

(dollars in thousands)	Within One Year		After One Through Five Years		After Five Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-sale (Fair Value)										
U.S. Government-sponsored agencies	\$1,003	1.25%	\$26,094	0.87%	-	-%	-	-%	\$27,097	0.88%
U.S. Government-sponsored agency residential mortgage-backed securities	-	-%	-	-%	\$ 12,934	1.63%	\$48,941	1.78%	61,875	1.75%
Municipal obligations	-	-%	-	-%	1,371	3.85%	-	-%	1,371	3.85%
Total	\$1,003	1.25%	\$26,094	0.87%	\$ 14,305	1.84%	\$48,941	1.78%	\$90,343	1.52%

Deposits. During 2013 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 \$37.9 million from \$411 million at December 31, 2012 to \$449 million at December 31, 2013. The increase in deposits included \$19.2 million in demand deposits and \$27.3 million in savings and money market accounts. Time deposits declined by \$7.9 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 \$0.7 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, 2013 and 2012.

(dollars in thousands)	Balance at End of Period	Percent of Deposits in Each Category	Balance at End of Period	Percent of Deposits in Each Category
	12/31/13	12/31/13	12/31/12	12/31/12
Non-interest bearing	\$ 162,816	36.2%	\$ 143,646	34.9%
NOW	82,687	18.4%	83,384	20.3%
Money Market	47,331	10.5%	43,751	10.6%
Savings	93,922	20.9%	70,205	17.1%
Time	62,683	14.0%	70,576	17.1%
Total Deposits	\$ 449,439	100%	\$ 411,562	100%

Deposits represent the Bank's primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. In order to assist in meeting any funding demands, the Company maintains a secured borrowing arrangement with the Federal Home Loan Bank of San Francisco. There were no brokered deposits at December 31, 2013 or 2012.

The Company's time deposits of \$100,000 or more had the following schedule of maturities at December 31, 2013:

<i>(dollars in thousands)</i>	
Remaining Maturity:	Amount
Three months or less	\$ 6,822
Over three months to six months	4,922
Over six months to 12 months	5,794
Over 12 months	6,290
Total	<u>\$ 23,828</u>

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

Short-term Borrowing Arrangements. The Company is a member of the FHLB and can borrow up to \$104,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$193,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2013 and 2012, the Company held \$2,226,000 and \$1,950,000 of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2013, the Company can borrow up to \$47,400,000. To borrow the \$104,000,000 in available credit the Company would need to purchase \$2,660,000 in additional FHLB stock. There were no outstanding borrowings under this agreement at December 31, 2013 and 2012. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$11 million and \$10 million.

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, 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 year ended December 31, 2013 totaled \$23,000. Under the Note the Bank is required to maintain specified levels of capital and to meet or exceed certain capital and asset quality ratios. The Bank was in compliance with all such requirements at December 31, 2013.

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, 2013 was \$9.1 million an increase of \$1.7 million from the December 31, 2012 balance of \$7.4 million. Interest paid on this product is similar to that which is paid on the Bank's premium money market account; however, these are not deposits and are not FDIC insured.

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

The interest only payments on the subordinated debt are based on an interest rate of 7.5% per annum. Principal repayment is required at the conclusion of an 8 year term with no prepayment allowed during the first two years. Issuance of the subordinated debt was made in conjunction with an eight-year warrant (the "Lender Warrant") to purchase up to 300,000 shares of the Bancorp's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share. Under current capital guidelines the subordinated debt qualifies as Tier 2 capital. Interest expense related to the subordinated debt for the year ended December 31, 2013 totaled \$541,000.

Junior Subordinated Deferrable Interest Debentures. Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of \$298,000 and \$159,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to twenty-five percent of the Company's Tier 1 capital, as defined, on a pro forma basis. At December 31, 2013, all of the trust preferred securities that have been issued qualify as Tier 1 capital.

During 2002, Plumas Statutory Trust I issued 6,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of \$1,000 per security, for gross proceeds of \$6,000,000. During 2005, Plumas Statutory Trust II issued 4,000 Trust Preferred Securities with a liquidation value of \$1,000 per security, for gross proceeds of \$4,000,000. The entire proceeds were invested by Trust I in the amount of \$6,186,000 and Trust II in the amount of \$4,124,000 in Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of Trusts I and II.

Trust I's Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 3.65% (based on 3-month LIBOR plus 3.40%), with repricing and payments due quarterly. Trust II's Subordinated Debentures mature on September 28, 2035, bear a current interest rate of 1.72% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The interest rate of the Trust Preferred Securities issued by Trust I adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 3.40%. The Trust Preferred Securities issued by Trust II adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 1.48%. Both Trusts I and II have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures.

Interest expense recognized by the Company for the years ended December 31, 2013, 2012 and 2011 related to the junior subordinated debentures was \$313,000, \$344,000 and \$326,000, respectively.

Capital Resources

Shareholders' equity decreased by \$11.2 million from \$41.8 million at December 31, 2012 to \$30.6 million at December 31, 2013. This decrease resulted from the redemption of the preferred stock, payment of preferred stock dividends and an increase in other comprehensive loss. These items were partially offset by earnings during the year, a \$565 discount on redemption of the preferred stock and an increase in common stock totaling \$156 thousand. Preferred stock declined by \$11.8 million and during 2013 we paid \$2 million in dividends on preferred stock which includes dividends that were deferred during the period from May of 2010 until May of 2013. Other comprehensive loss relates to unrealized losses on available-for-sale investment securities, net of tax, which increased by \$1.5 million from an unrealized gain of \$329 thousand at December 31, 2012 to an unrealized loss of \$1.2 million at December 31, 2013. The increase in common stock includes \$318,000 related to the issuance of a warrant to purchase 300,000 shares of stock at \$5.25, \$34 thousand related to the exercise of stock options representing 11,400 shares and stock based compensation expense of \$38,000 partially offset by the repurchase of the outstanding warrant to purchase 237,712 shares of common stock at a cost of \$234 thousand.

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 and none are anticipated to be paid in 2014.

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.

As noted previously, the Company's junior subordinated debentures represent borrowings from its unconsolidated subsidiaries that have issued an aggregate \$10 million in trust-preferred securities. These trust-preferred securities currently qualify for inclusion as Tier 1 capital for regulatory purposes as they do not exceed 25% of total Tier 1 capital, but are classified as long-term debt in accordance with GAAP. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities (and/or related subordinated debentures) in the Tier I capital of bank holding companies.

The following 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, 2013 and 2012 (amounts in thousands except percentage amounts).

	December 31, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
<u>Tier 1 Leverage Ratio</u>				
Plumas Bancorp and Subsidiary	\$ 40,909	7.8%	\$ 49,052	10.3%
Minimum regulatory requirement	20,856	4.0%	19,040	4.0%
Plumas Bank	50,748	9.7%	49,662	10.4%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action regulation	26,026	5.0%	23,852	5.0%
Minimum regulatory requirement	20,821	4.0%	19,032	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
Plumas Bancorp and Subsidiary	40,909	10.7%	49,052	13.9%
Minimum regulatory requirement	15,332	4.0%	14,143	4.0%
Plumas Bank	50,748	13.2%	49,662	14.1%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action regulation	22,986	6.0%	21,200	6.0%
Minimum regulatory requirement	15,324	4.0%	14,133	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Plumas Bancorp and Subsidiary	53,006	13.8%	53,489	15.1%
Minimum regulatory requirement	30,664	8.0%	28,286	8.0%
Plumas Bank	55,547	14.5%	54,096	15.3%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action regulation	38,310	10.0%	35,333	10.0%
Minimum regulatory requirement	30,648	8.0%	28,266	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.

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

The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that as of December 31, 2013, the Company's capital levels would remain "well-capitalized" under the new rules.

Off-Balance Sheet Arrangements

Loan Commitments. In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of December 31, 2013, the Company had \$84.2 million in unfunded loan commitments and \$60 thousand in letters of credit. This compares to \$76.0 million in unfunded loan commitments and \$110 thousand in letters of credit at December 31, 2012. Of the \$84.2 million in unfunded loan commitments, \$42.8 million and \$41.4 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2013, \$39.0 million were secured by real estate, of which \$12.6 million was secured by commercial real estate and \$26.4 million was secured by residential real estate in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines and overdraft protection lines. Since some of the commitments are expected to expire without being drawn upon the total commitment amounts do not necessarily represent future cash requirements.

Operating Leases. The Company leases one depository branch, one lending office and one loan administration office and two non-branch automated teller machine locations. Total rental expenses under all operating leases were \$154,000 and \$153,000 during the years ended December 31, 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.

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 \$104,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$193,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2013 and 2012, the Company held \$2,226,000 and \$1,950,000 of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2013, the Company can borrow up to \$47,400,000. To borrow the \$104,000,000 in available credit the Company would need to purchase \$2,660,000 in additional FHLB stock. There were no outstanding borrowings under this agreement at December 31, 2013 and 2012. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$11 million and \$10 million.

Customer deposits are the Company's primary source of funds. Total deposits were \$449 million as of December 31, 2013, up \$37.9 million, or 9%, from the December 31, 2012 balance of \$411 million. Deposits are held in various forms with varying maturities. The Company's securities portfolio, Federal funds sold, Federal Home Loan Bank advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as cash held at the FRB, Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company's available sources of funds, including borrowings, will provide adequate liquidity for its operations in the foreseeable future.

ITEM 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, 2013, 2012 and 2011.

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-2
Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011	F-5
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	F-7
Notes to Consolidated Financial Statements	F-10

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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, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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 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 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Sacramento, California
March 20, 2014

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 49,917,000	\$ 44,675,000
Investment securities	90,343,000	80,964,000
Loans, less allowance for loan losses of \$5,517,000 in 2013 and \$5,686,000 in 2012	334,374,000	310,271,000
Premises and equipment, net	12,519,000	13,271,000
Bank owned life insurance	11,504,000	11,160,000
Other real estate and vehicles acquired through foreclosure	6,459,000	5,336,000
Accrued interest receivable and other assets	<u>10,609,000</u>	<u>12,125,000</u>
Total assets	<u>\$ 515,725,000</u>	<u>\$ 477,802,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 162,816,000	\$ 143,646,000
Interest bearing	<u>286,623,000</u>	<u>267,916,000</u>
Total deposits	449,439,000	411,562,000
Repurchase agreements	9,109,000	7,377,000
Note Payable	3,000,000	-
Subordinated debenture	7,295,000	-
Accrued interest payable and other liabilities	5,979,000	6,703,000
Junior subordinated deferrable interest debentures	<u>10,310,000</u>	<u>10,310,000</u>
Total liabilities	<u>485,132,000</u>	<u>435,952,000</u>
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Serial preferred stock - no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at December 31, 2012; aggregate liquidation value of \$13,667,000 at December 31, 2012	-	11,855,000
Common stock - no par value; 22,500,000 shares authorized; issued and outstanding – 4,787,739 at December 31, 2013 and 4,776,309 at December 31, 2012	6,249,000	6,093,000
Retained earnings	25,507,000	23,573,000
Accumulated other comprehensive (loss) income	<u>(1,163,000)</u>	<u>329,000</u>
Total shareholders' equity	<u>30,593,000</u>	<u>41,850,000</u>
Total liabilities and shareholders' equity	<u>\$ 515,725,000</u>	<u>\$ 477,802,000</u>

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

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest income:			
Interest and fees on loans	\$ 18,174,000	\$ 17,427,000	\$ 17,400,000
Interest on investment securities:			
Taxable	1,155,000	892,000	1,138,000
Exempt from Federal income taxes	7,000	-	6,000
Other	<u>124,000</u>	<u>106,000</u>	<u>124,000</u>
Total interest income	<u>19,460,000</u>	<u>18,425,000</u>	<u>18,668,000</u>
Interest expense:			
Interest on deposits	600,000	847,000	1,469,000
Interest on note payable	23,000	-	-
Interest on subordinated debentures	541,000	-	-
Interest on junior subordinated deferrable interest debentures	313,000	344,000	326,000
Other	<u>57,000</u>	<u>83,000</u>	<u>53,000</u>
Total interest expense	<u>1,534,000</u>	<u>1,274,000</u>	<u>1,848,000</u>
Net interest income before provision for loan losses	17,926,000	17,151,000	16,820,000
Provision for loan losses	<u>1,400,000</u>	<u>2,350,000</u>	<u>3,500,000</u>
Net interest income after provision for loan losses	<u>16,526,000</u>	<u>14,801,000</u>	<u>13,320,000</u>
Non-interest income:			
Service charges	3,912,000	3,617,000	3,477,000
Gain on sale of loans	1,399,000	1,324,000	1,939,000
Gain on sale of investments	-	403,000	666,000
Earnings on bank owned life insurance policies, net	344,000	345,000	352,000
Other	<u>987,000</u>	<u>907,000</u>	<u>728,000</u>
Total non-interest income	<u>6,642,000</u>	<u>6,596,000</u>	<u>7,162,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Continued)

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-interest expenses:			
Salaries and employee benefits	\$ 8,729,000	\$ 8,968,000	\$ 9,195,000
Occupancy and equipment	2,874,000	3,023,000	3,088,000
Provision for losses on other real estate	486,000	907,000	579,000
Other	<u>5,481,000</u>	<u>5,479,000</u>	<u>6,384,000</u>
Total non-interest expenses	<u>17,570,000</u>	<u>18,377,000</u>	<u>19,246,000</u>
Income before income taxes	5,598,000	3,020,000	1,236,000
Provision for income taxes	<u>2,167,000</u>	<u>1,070,000</u>	<u>295,000</u>
Net income	3,431,000	1,950,000	941,000
Discount on redemption of preferred stock	565,000	-	-
Preferred stock dividends and discount accretion	<u>(347,000)</u>	<u>(684,000)</u>	<u>(684,000)</u>
Net income available to common shareholders	<u>\$ 3,649,000</u>	<u>\$ 1,266,000</u>	<u>\$ 257,000</u>
Basic earnings per common share	<u>\$ 0.76</u>	<u>\$ 0.26</u>	<u>\$ 0.05</u>
Diluted earnings per common share	<u>\$ 0.75</u>	<u>\$ 0.26</u>	<u>\$ 0.05</u>
Common dividends per share	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 3,431,000	\$ 1,950,000	\$ 941,000
Other comprehensive (loss) income:			
Change in net unrealized (loss) gains	(2,540,000)	695,000	1,023,000
Less: reclassification adjustments for net gains included in net income	<u>-</u>	<u>(403,000)</u>	<u>(666,000)</u>
Net unrealized holding (loss) gains	(2,540,000)	292,000	357,000
Income tax effect	<u>1,048,000</u>	<u>(121,000)</u>	<u>(147,000)</u>
Total other comprehensive (loss) income	<u>(1,492,000)</u>	<u>171,000</u>	<u>210,000</u>
Comprehensive income	<u><u>\$ 1,939,000</u></u>	<u><u>\$ 2,121,000</u></u>	<u><u>\$ 1,151,000</u></u>

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

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2013, 2012 and 2011

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>Total</u>
						<u>Comprehensive</u>	<u>Shareholders'</u>
						<u>(Loss) Income</u>	<u>Equity</u>
						<u>(Net of Taxes)</u>	
Balance, January 1, 2011	11,949	\$ 11,682,000	4,776,339	\$ 6,027,000	\$ 20,331,000	\$ (52,000)	\$ 37,988,000
Net Income							
Other comprehensive loss					941,000		941,000
Reverse accrued dividends on preferred stock						210,000	210,000
Preferred stock accretion		87,000			524,000		524,000
Stock-based compensation expense				(29,000)	(87,000)		-
Balance, December 31, 2011	11,949	11,769,000	4,776,339	5,998,000	21,709,000	158,000	39,634,000
Net Income							
Other comprehensive income					1,950,000		1,950,000
Preferred stock accretion		86,000			(86,000)		171,000
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 Income							
Other comprehensive loss					3,431,000		3,431,000
Preferred stock accretion		94,000			(94,000)	(1,492,000)	(1,492,000)
Preferred stock dividends					(1,968,000)		-
Redemption of preferred stock	(11,949)	(11,384,000)					(1,968,000)
Discount on redemption of preferred stock		(565,000)					(11,384,000)
Exercise of stock options			11,400	34,000	565,000		-
Repurchase of common stock warrant				(234,000)			34,000
Issuance of common stock warrant				318,000			(234,000)
Stock-based compensation expense				38,000			318,000
Balance, December 31, 2013	-	\$ -	4,787,739	\$ 6,249,000	\$ 25,507,000	\$ (1,163,000)	\$ 30,593,000

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, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Net income	\$ 3,431,000	\$ 1,950,000	\$ 941,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,400,000	2,350,000	3,500,000
Change in deferred loan origination costs/fees, net	(667,000)	(629,000)	(441,000)
Stock-based compensation expense	38,000	95,000	(29,000)
Depreciation and amortization	1,408,000	1,354,000	1,409,000
Amortization of investment security premiums	445,000	525,000	410,000
Accretion of investment security discounts	(6,000)	(5,000)	(32,000)
Gain on sale of investments	-	(403,000)	(666,000)
Gain on sale of loans held for sale	(1,399,000)	(1,324,000)	(1,939,000)
Loans originated for sale	(17,609,000)	(21,154,000)	(18,550,000)
Proceeds from loan sales	21,733,000	20,084,000	23,368,000
Provision for losses on other real estate	486,000	907,000	579,000
Net (gain) loss on sale of other real estate and vehicles owned	(183,000)	9,000	611,000
Earnings on bank owned life insurance policies	(344,000)	(345,000)	(352,000)
Provision for deferred income taxes	2,085,000	1,042,000	259,000
Decrease in accrued interest receivable and other assets	613,000	632,000	1,575,000
(Decrease) increase in accrued interest payable and other liabilities	(724,000)	717,000	(557,000)
Net cash provided by operating activities	<u>10,707,000</u>	<u>5,805,000</u>	<u>10,086,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from investing activities:			
Proceeds from matured and called available-for-sale investment securities	\$ 14,000,000	\$ 23,179,000	\$ 29,182,000
Proceeds from sale of available-for-sale securities	-	20,773,000	29,404,000
Purchases of available-for-sale investment securities	(34,734,000)	(75,214,000)	(59,247,000)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	8,376,000	8,390,000	6,406,000
Net (increase) decrease in loans	(31,864,000)	(23,734,000)	3,386,000
Proceeds from sale of vehicles	148,000	81,000	33,000
Proceeds from sale of other real estate	2,404,000	3,714,000	4,937,000
Purchases of premises and equipment	(352,000)	(915,000)	(271,000)
Net cash (used in) provided by investing activities	<u>(42,022,000)</u>	<u>(43,726,000)</u>	<u>13,830,000</u>
Cash flows from financing activities:			
Net increase in demand, interest-bearing and savings deposits	45,770,000	30,221,000	3,534,000
Net decrease in time deposits	(7,893,000)	(9,799,000)	(37,281,000)
Net increase (decrease) in securities sold under agreements to repurchase	1,732,000	(902,000)	8,279,000
Issuance of subordinated debenture, net of discount	7,182,000	-	-
Issuance of common stock warrant	318,000	-	-
Issuance of note payable	3,000,000	-	-
Repurchase of common stock warrant	(234,000)	-	-
Redemption of preferred stock	(11,384,000)	-	-
Payment of cash dividend on preferred stock	(1,968,000)	-	-
Proceeds from exercise of stock options	34,000	-	-
Net cash provided by (used in) financing activities	<u>36,557,000</u>	<u>19,520,000</u>	<u>(25,468,000)</u>
Increase (decrease) in cash and cash equivalents	5,242,000	(18,401,000)	(1,552,000)
Cash and cash equivalents at beginning of year	<u>44,675,000</u>	<u>63,076,000</u>	<u>64,628,000</u>
Cash and cash equivalents at end of year	<u>\$ 49,917,000</u>	<u>\$ 44,675,000</u>	<u>\$ 63,076,000</u>

(Continued)

PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 2,438,000	\$ 942,000	\$ 1,688,000
Income taxes	\$ 30,000	\$ 2,000	\$ 2,000
Non-cash investing activities:			
Real estate acquired through foreclosure	\$ 3,824,000	\$ 1,208,000	\$ 5,710,000
Vehicles acquired through repossession	\$ 155,000	\$ 65,000	\$ 79,000

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. THE BUSINESS OF PLUMAS BANCORP

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

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. The Bank's administrative headquarters is in Quincy, California. In addition, the Bank operates a loan administrative office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. REGULATORY MATTERS

On February 15, 2012, the Bank received notice from the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions ("DFI") that the Consent Order with the FDIC and the DFI which was effective on March 16, 2011 had been terminated. Effective February 8, 2012, the Bank entered into an informal agreement with the FDIC and DFI which, among other things, requested that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At December 31, 2012 this ratio was 32% and the Bank's Tier 1 Leverage Capital Ratio was 10.4%. The FDIC and DFI terminated the informal agreement effective January 24, 2013. Effective July 1, 2013, the California Department of Corporations and the DFI merged to form the Department of Business Oversight ("DBO").

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the "FRB Agreement"). Under the terms of the FRB Agreement, Plumas Bancorp agreed to take certain actions that were designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement required prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. On April 19, 2013 the Company received notice that the FRB Agreement had been terminated.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, Plumas Bank. All significant intercompany balances and transactions have been eliminated.

Plumas Statutory Trust I and Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. The Company's investment in Trust I of \$298,000 and Trust II of \$159,000 are included in accrued interest receivable and other assets on the consolidated balance sheet. The junior subordinated deferrable interest debentures issued and guaranteed by the Company and held by Trust I and Trust II are reflected as debt on the consolidated balance sheet.

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

Reclassifications

Certain reclassifications have been made to prior years' balances to conform to the classifications used in 2013. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash and cash equivalents.

Segment Information

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

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC limits as of December 31, 2013 was \$7.3 million. Net cash flows are reported for customer loans and deposit transactions and repurchase agreements.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Investments are classified into one of the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums. As of December 31, 2013 and 2012 the Company did not have any investment securities classified as held-to-maturity.

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

As of December 31, 2013 and 2012 the Company did not have any investment securities classified as trading and gains or losses on the sale of securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums accounted for by the level yield method with no pre-payment anticipated.

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2013 and 2012, FHLB stock totaled \$2,226,000 and \$1,950,000, respectively. On the consolidated balance sheet, FHLB stock is included in accrued interest receivable and other assets.

Loans Held for Sale, Loan Sales and Servicing

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

As of December 31, 2013 and 2012 the Company had \$2,800,000 and \$3,367,000, respectively in government guaranteed loans held for sale. Loans held for sale are recorded at the lower of cost or fair value and therefore may be reported at fair value on a non-recurring basis. The fair values for loans held for sale are based on either observable transactions of similar instruments or formally committed loan sale prices.

Government guaranteed loans with unpaid balances of \$70,212,000 and \$58,696,000 were being serviced for others at December 31, 2013 and 2012, respectively.

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale, Loan Sales and Servicing (continued)

The Company's investment in the loan is allocated between the retained portion of the loan, the servicing asset, the interest-only (IO) strip, and the sold portion of the loan based on their fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale.

The carrying value of the retained portion of the loan is discounted based on the estimated value of a comparable non-guaranteed loan. The servicing asset is recognized and amortized over the estimated life of the related loan. Assets (accounted for as IO strips) are recorded at the fair value of the difference between note rates and rates paid to purchasers (the interest spread) and contractual servicing fees, if applicable. IO strips are carried at fair value with gains or losses recorded as a component of shareholders' equity, similar to available-for-sale investment securities. Significant future prepayments of these loans will result in the recognition of additional amortization of related servicing assets and an adjustment to the carrying value of related IO strips.

Loans

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

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (continued)

excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2013 and 2012, there were no such loans being accounted for under this policy.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable incurred credit losses inherent in the Company's loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. 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 not impaired but collectively evaluated for impairment.

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment from January 1, 2008 (the beginning of the latest business cycle as determined by management) to the most current balance sheet date, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable incurred losses inherent in the portfolio taken as a whole. During 2012, the Company modified its method of estimating the allowance for loan losses for non-impaired loans. This modification incorporated historical losses from the beginning of the latest business cycle. Previously we utilized historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter. This modification had the effect of increasing the required allowance related to the expanded historical loss period by \$250,000. The Company believes that, given the recent trend in historical losses, it was prudent to increase the period examined and that a full business cycle was the appropriate period.

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

The Company assigns a risk rating to all loans, 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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

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

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

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

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for these commitments totaled \$141,000 at December 31, 2013 and 2012, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

Other Real Estate

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations, which was \$6,399,000 (\$9,065,000 less a valuation allowance of \$2,666,000) at December 31, 2013 and \$5,295,000 (\$8,517,000 less a valuation allowance of \$3,222,000) at December 31, 2012. Proceeds from sales of other real estate owned totaled \$2,404,000, \$3,714,000 and \$4,937,000 for the years ended December 31, 2013, 2012 and 2011, respectively. For the year ended December 31, 2013 the Company recorded a gain on sale of other real estate owned of \$171,000. For the years ended December 31, 2012 and 2011 the Company recorded a loss on sale of other real estate owned of \$16,000 and \$606,000, respectively. Other real estate owned is initially recorded at fair value less cost to sell when acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair value of the property less costs to sell is charged against the allowance for loan losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from permanent impairment are also recorded in other expenses as incurred.

The following table provides a summary of the change in the OREO balance for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
Beginning balance	\$ 5,295,000	\$ 8,623,000
Additions	3,824,000	1,309,000
Dispositions	(2,234,000)	(3,730,000)
Write-downs	(486,000)	(907,000)
Ending balance	<u>\$ 6,399,000</u>	<u>\$ 5,295,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. These assets were fully amortized as of December 31, 2013. The Company evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances in 2013 or 2012.

Premises and Equipment

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

Bank Owned Life Insurance

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

Income Taxes

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Taxes

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

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated income statement. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2013 and 2012.

Earnings Per Share

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

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity. There were no sales of available for sale investment securities during the year ended December 31, 2013. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was \$403,000 and \$666,000 for 2012 and 2011, with the related tax effect of \$167,000 and \$276,000 respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend Restrictions

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

Fair Value of Financial Instruments

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

Stock-Based Compensation

Compensation expense related to the Company's Stock Option Plan, net of related tax (expense)/benefit, recorded in 2013, 2012 and 2011 totaled \$37,000, \$93,000 and \$(38,000) or \$0.01, \$0.02 and \$(0.01) per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

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

During 2011 the Company granted options to purchase 248,000 shares of common stock. The fair value of each option was estimated on the date of grant using the following assumptions.

	2011
Expected life of stock options	5.3 years
Risk free interest rate	2.26%
Volatility	46.1%
Dividend yields	3.05%
Weighted-average fair value of options granted during the year	\$ 0.99

No options were granted during the years ended December 31, 2013 and 2012.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

In February 2013, the FASB issued an accounting standards update to finalize the reporting requirements for reclassifications of amounts out of accumulated other comprehensive income ("AOCI"). Items reclassified out of AOCI to net income in their entirety must have the effect of the reclassification disclosed according to the respective income statement line item. This information must be provided either on the face of the financial statements by income statement line item, or in a footnote. For public companies, the amendments in the update became effective for interim and annual periods beginning on or after December 15, 2012. As of December 31, 2013, the impact of this update on the Company's disclosures was minimal as the only changes to AOCI were changes in market values related to available for sale securities.

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). Current GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The adoption of ASU 2013-11 will require an unrecognized tax benefit, or a portion of an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, unless an exception applies. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. The Company is currently evaluating the effect that the provisions of ASU 2013-11 will have on its financial statements.

4. FAIR VALUE MEASUREMENTS

The Company measures fair value under the fair value hierarchy described below.

Level 1: Quoted prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices (unadjusted) for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Model based techniques that use one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2013 and December 31, 2012 are as follows:

Fair Value Measurements at December 31, 2013 Using:					
Financial assets:	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$49,917,000	\$49,917,000			\$49,917,000
Investment securities	90,343,000		\$90,343,000		90,343,000
Loans, net	334,374,000			\$337,392,000	337,392,000
FHLB stock	2,226,000				N/A
Accrued interest receivable	1,691,000		260,000	1,431,000	1,691,000
Financial liabilities:					
Deposits	449,439,000	386,757,000	62,743,000		449,500,000
Repurchase Agreements	9,109,000		9,109,000		9,109,000
Note Payable	3,000,000			3,000,000	3,000,000
Subordinated debenture	7,295,000			7,121,000	7,121,000
Junior subordinated deferrable interest debentures	10,310,000			7,193,000	7,193,000
Accrued interest payable	98,000	6,000	58,000	34,000	98,000
Fair Value Measurements at December 31, 2012 Using:					
Financial assets:	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$44,675,000	\$44,675,000			\$44,675,000
Investment securities	80,964,000		\$80,964,000		80,964,000
Loans, net	310,271,000			\$313,929,000	313,929,000
FHLB stock	1,950,000				N/A
Accrued interest receivable	1,677,000		248,000	1,429,000	1,677,000
Financial liabilities:					
Deposits	411,562,000	340,986,000	70,696,000		411,682,000
Repurchase Agreements	7,377,000		7,377,000		7,377,000
Junior subordinated deferrable interest debentures	10,310,000			3,191,000	3,191,000
Accrued interest payable	1,115,000	6,000	90,000	1,019,000	1,115,000

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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

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

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

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

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

FHLB stock: It was not practicable to determine the fair value of the FHLB stock due to restrictions placed on its transferability.

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

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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

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

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

Commitments to extend credit and letters of credit: The fair value of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not presented. Commitments to extend credit are primarily for variable rate loans and letters of credit.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Those estimates that are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision are included in Level 3. Changes in assumptions could significantly affect the fair values presented.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

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

Fair Value Measurements at December 31, 2013 Using				
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government-sponsored agencies	\$ 27,097,000		\$ 27,097,000	
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	61,875,000		61,875,000	
Obligations of states and political subdivisions	1,371,000		1,371,000	
	<u>\$ 90,343,000</u>	<u>\$ -</u>	<u>\$ 90,343,000</u>	<u>\$ -</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2012 are summarized below:

Fair Value Measurements at December 31, 2012 Using

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
U.S. Government- sponsored agencies	\$ 38,442,000		\$ 38,442,000	
U.S. Government- sponsored agencies collateralized by mortgage obligations- residential	<u>42,522,000</u>		<u>42,522,000</u>	
	<u>\$ 80,964,000</u>	<u>\$ -</u>	<u>\$ 80,964,000</u>	<u>\$ -</u>

The fair value of securities available-for-sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities or matrix pricing. There were no changes in the valuation techniques used during 2013 or 2012. Transfers between hierarchy measurement levels are recognized by the Company as of the beginning of the reporting period. Changes in fair market value are recorded in other comprehensive income.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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

Fair Value Measurements at December 31, 2013 Using					
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	\$ 767,000	\$ -	\$ -	\$ 767,000	\$ (16,000)
Agricultural	-			-	-
Real estate – residential	28,000			28,000	(38,000)
Real estate – commercial	1,377,000			1,377,000	(28,000)
Real estate – construction and land development	-			-	(28,000)
Equity lines of credit	360,000			360,000	86,000
Auto	-			-	-
Other	-			-	-
Total impaired loans	<u>2,532,000</u>	<u>-</u>	<u>-</u>	<u>2,532,000</u>	<u>(24,000)</u>
Other real estate:					
Real estate – residential	873,000			873,000	(101,000)
Real estate – commercial	983,000			983,000	(9,000)
Real estate – construction and land development	4,289,000			4,289,000	(376,000)
Equity lines of credit	254,000			254,000	-
Total other real estate	<u>6,399,000</u>	<u>-</u>	<u>-</u>	<u>6,399,000</u>	<u>(486,000)</u>
	<u>\$ 8,931,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,931,000</u>	<u>\$ (511,000)</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2012 are summarized below:

Fair Value Measurements at December 31, 2012 Using					
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	\$ 2,933,000	\$ -	\$ -	\$ 2,933,000	\$ (346,000)
Agricultural	379,000			379,000	(1,000)
Real estate – residential	1,140,000			1,140,000	(308,000)
Real estate – commercial	3,303,000			3,303,000	(283,000)
Real estate – construction and land development	3,055,000			3,055,000	(712,000)
Equity lines of credit	690,000			690,000	(392,000)
Auto	-			-	-
Other	-			-	(2,000)
Total impaired loans	<u>11,500,000</u>	<u>-</u>	<u>-</u>	<u>11,500,000</u>	<u>(2,044,000)</u>
Other real estate:					
Real estate – residential	818,000			818,000	(85,000)
Real estate – commercial	1,953,000			1,953,000	(287,000)
Real estate – construction and land development	2,407,000			2,407,000	(535,000)
Equity lines of credit	117,000			117,000	-
Total other real estate	<u>5,295,000</u>	<u>-</u>	<u>-</u>	<u>5,295,000</u>	<u>(907,000)</u>
	<u>\$ 16,795,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,795,000</u>	<u>\$ (2,951,000)</u>

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

The following methods were used to estimate fair value.

Impaired Loans: The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan losses or loans that have been subject to partial charge-offs are generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Total losses of \$24,000 and \$2,044,000 represent impairment charges recognized during the years ended December 31, 2013 and 2012, respectively, related to the above impaired loans.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach.

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013 and 2012 (dollars in thousands):

Description	Fair Value 12/31/2013	Fair Value 12/31/2012	Valuation Technique	Significant Unobservable Input	Range (Weighted Average) 12/31/2013	Range (Weighted Average) 12/31/2012
<u>Impaired Loans:</u>						
Commercial	\$ 767	\$ 2,933	Sales Comparison	Adjustment for differences between comparable sales	0% (0%)	0% - 28% (10%)
Agricultural	\$ -	\$ 379	Sales Comparison	Adjustment for differences between comparable sales	N/A	1% - 11% (7%)
RE – Residential	\$ 28	\$ 1,140	Sales Comparison	Adjustment for differences between comparable sales	8% (8%)	8% - 10% (8%)
RE – Commercial	\$ 1,377	\$ 3,303	Sales Comparison	Adjustment for differences between comparable sales	10% - 12% (11%)	8% - 11% (9%)
Land and Construction	\$ -	\$ 3,055	Sales Comparison	Adjustment for differences between comparable sales	N/A	8% - 12% (11%)
Equity Lines of Credit	\$ 360	\$ 690	Sales Comparison	Adjustment for differences between comparable sales	8% (8%)	8% (8%)
<u>Other Real Estate:</u>						
RE – Residential	\$ 873	\$ 818	Sales Comparison	Adjustment for differences between comparable sales	10% (10%)	10% (10%)
Land and Construction	\$ 4,289	\$ 2,407	Sales Comparison	Adjustment for differences between comparable sales	10% (10%)	10% (10%)
RE – Commercial	\$ 983	\$ 1,953	Sales Comparison	Adjustment for differences between comparable sales	10% (10%)	10% (10%)
Equity Lines of Credit	\$ 254	\$ 117	Sales Comparison	Adjustment for differences between comparable sales	10% (10%)	10% (10%)

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2013 and 2012 consisted of the following:

<u>Available-for-Sale</u>	<u>2013</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Debt securities:				
U.S. Government-sponsored agencies	\$ 27,132,000	\$ 40,000	\$ (75,000)	\$ 27,097,000
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	63,807,000	22,000	(1,954,000)	61,875,000
Obligations of states and political subdivisions	<u>1,384,000</u>	<u>4,000</u>	<u>(17,000)</u>	<u>1,371,000</u>
	<u>\$ 92,323,000</u>	<u>\$ 66,000</u>	<u>\$ (2,046,000)</u>	<u>\$ 90,343,000</u>

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

<u>Available-for-Sale</u>	<u>2012</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Debt securities:				
U.S. Government-sponsored agencies	\$ 38,291,000	\$ 154,000	\$ (3,000)	\$ 38,442,000
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	<u>42,112,000</u>	<u>434,000</u>	<u>(24,000)</u>	<u>42,522,000</u>
	<u>\$ 80,403,000</u>	<u>\$ 588,000</u>	<u>\$ (27,000)</u>	<u>\$ 80,964,000</u>

Net unrealized gains on available-for-sale investment securities totaling \$561,000 were recorded, net of \$232,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2012. During the year ended December 31, 2012, the Company sold twenty-five available-for-sale investment securities for \$20,773,000, recording a \$403,000 gain on sale. No securities were sold at a loss.

Net unrealized gains on available-for-sale investment securities totaling \$268,000 were recorded, net of \$110,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2011. During the year ended December 31, 2011 the Company sold twenty-seven available-for-sale investment securities for total proceeds of \$29,404,000. The Company realized a gain on sale from twenty-five of these securities totaling \$690,000 and a loss on sale on two securities of \$24,000 resulting in the recognition of a \$666,000 net gain on sale.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES (Continued)

There were no transfers of available-for-sale investment securities during the years ended December 31, 2013, 2012 or 2011. There were no securities classified as held-to-maturity at December 31, 2013 or December 31, 2012.

Investment securities with unrealized losses at December 31, 2013 and 2012 are summarized and classified according to the duration of the loss period as follows:

December 31, 2013

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Debt securities:						
U.S. Government-sponsored agencies	\$ 5,930,000	\$ 75,000			\$ 5,930,000	\$ 75,000
U.S. Government agencies collateralized by mortgage obligations-residential	53,603,000	1,700,000	\$ 4,317,000	\$ 254,000	57,920,000	1,954,000
Obligations of states and political subdivisions	<u>928,000</u>	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>928,000</u>	<u>17,000</u>
	<u>\$60,461,000</u>	<u>\$ 1,792,000</u>	<u>\$4,317,000</u>	<u>\$ 254,000</u>	<u>\$ 64,778,000</u>	<u>\$ 2,046,000</u>

December 31, 2012

	<u>Less than 12 Months</u>	
	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>
Debt securities:		
U.S. Government-sponsored agencies	\$ 2,004,000	\$ 3,000
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	<u>7,002,000</u>	<u>24,000</u>
	<u>\$ 9,006,000</u>	<u>\$ 27,000</u>

There were no securities in a loss position for more than one year as of December 31, 2012.

At December 31, 2013, the Company held 77 securities of which 56 were in a loss position. Of the securities in a loss position, all but 4 were in a loss position for less than twelve months. Of the 56 securities 6 are U.S. Government-sponsored agencies 46 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 4 were Obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. As of December 31, 2013, 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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES (Continued)

relevant factors, the Company does not believe the securities that are in an unrealized loss position as of December 31, 2013 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	\$ 1,000,000	1,003,000
After one year through five years	26,132,000	26,094,000
After five years through ten years	1,384,000	1,371,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	63,807,000	61,875,000
	<u>\$ 92,323,000</u>	<u>\$ 90,343,000</u>

Investment securities with amortized costs totaling \$54,373,000 and \$44,305,000 and estimated fair values totaling \$53,493,000 and \$44,535,000 at December 31, 2013 and 2012, respectively, were pledged to secure deposits and repurchase agreements.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	December 31,	
	2013	2012
Commercial	\$ 32,612,000	\$ 29,552,000
Agricultural	30,647,000	35,124,000
Real estate - residential	31,322,000	34,666,000
Real estate – commercial	155,942,000	139,546,000
Real estate – construction and land development	17,793,000	15,801,000
Equity lines of credit	35,800,000	36,873,000
Auto	30,305,000	19,283,000
Other	<u>4,130,000</u>	<u>4,212,000</u>
	338,551,000	315,057,000
Deferred loan costs, net	1,340,000	900,000
Allowance for loan losses	<u>(5,517,000)</u>	<u>(5,686,000)</u>
	<u>\$ 334,374,000</u>	<u>\$ 310,271,000</u>

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,		
	2013	2012	2011
Balance, beginning of year	\$ 5,686,000	\$ 6,908,000	\$ 7,324,000
Provision charged to operations	1,400,000	2,350,000	3,500,000
Losses charged to allowance	(1,915,000)	(3,901,000)	(4,247,000)
Recoveries	<u>346,000</u>	<u>329,000</u>	<u>331,000</u>
Balance, end of year	<u>\$ 5,517,000</u>	<u>\$ 5,686,000</u>	<u>\$ 6,908,000</u>

The recorded investment in impaired loans totaled \$9,815,000 and \$18,850,000 at December 31, 2013 and 2012, respectively. The Company had specific allowances for loan losses of \$629,000 on impaired loans of \$2,322,000 at December 31, 2013 as compared to specific allowances for loan losses of \$1,186,000 on impaired loans of \$14,334,000 at December 31, 2012. The balance of impaired loans in which no specific reserves were required totaled \$7,493,000 and \$4,516,000 at December 31, 2013 and 2012, respectively. The average recorded investment in impaired loans for the years ended December 31, 2013, 2012 and 2011 was \$10,182,000 \$19,816,000 and \$25,536,000, respectively. The Company recognized \$298,000, \$597,000 and \$666,000 in interest income on impaired loans during the years ended December 31, 2013, 2012 and 2011, respectively.

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

The carrying value of troubled debt restructurings at December 31, 2013 and December 31, 2012 was \$7,616,000 and \$12,296,000, respectively. The Company has allocated \$284,000 and \$348,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2013 and December 31, 2012, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at December 31, 2013 and December 31, 2012.

During the twelve month period ended December 31, 2013, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan was for periods ranging from 1 month to 10 years. During the twelve month period ended December 31, 2012, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan was for periods ranging from 1 month to 10 years. For the periods described above, modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ending December 31, 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
Troubled Debt Restructurings:			
Auto	1	\$ 8,000	\$ 7,000
Other	1	9,000	9,000
Total	<u>2</u>	<u>\$ 17,000</u>	<u>\$ 16,000</u>

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ending December 31, 2012:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Recorded Investment</u>
Troubled Debt Restructurings:			
Commercial	1	\$ 24,000	\$ 24,000
Real Estate:			
Residential	2	819,000	800,000
Construction and land development	3	289,000	289,000
Commercial	3	2,497,000	2,491,000
Auto	2	11,000	11,000
Total	<u>11</u>	<u>\$ 3,640,000</u>	<u>\$ 3,615,000</u>

The troubled debt restructurings described above decreased the allowance for loan losses by \$118,000 during the year ending December 31, 2012. The troubled debt restructurings described above did not result in charge offs during the year ending December 31, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended December 31, 2013.

	<u>Number of Loans</u>	<u>Recorded Investment</u>
Troubled Debt Restructurings:		
Real estate – construction and land development	<u>1</u>	<u>\$ 837,000</u>
Total	<u>1</u>	<u>\$ 837,000</u>

The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by \$158,000 and resulted in no charge-offs during the year ending December 31, 2013.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended December 31, 2012.

	<u>Number of Loans</u>	<u>Recorded Investment</u>
Troubled Debt Restructurings:		
Real estate – construction and land development	<u>1</u>	<u>\$ 2,978,000</u>
Total	<u>1</u>	<u>\$ 2,978,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

The troubled debt restructurings that subsequently defaulted described above decreased the allowance for loan losses by \$757,000 and resulted in charge-offs of \$1,426,000 during the year ending December 31, 2012.

The terms of certain other loans were modified during the years ending December 31, 2013 and 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2013 and 2012 of \$14 million and \$9 million, respectively.

These loans which were modified during the years ended December 31, 2013 and 2012 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment ranging from 30 days to 3 months that was considered to be insignificant or the borrower was not considered to be experiencing financial difficulties.

At December 31, 2013 and 2012, nonaccrual loans totaled \$5,519,000 and \$13,683,000, respectively. Interest foregone on nonaccrual loans totaled \$280,000, \$646,000 and \$510,000 for the twelve months ended December 31, 2013, 2012 and 2011, respectively. Loans past due 90 days or more and on accrual status totaled \$17,000 and \$15,000 at December 31, 2013 and 2012, respectively.

Salaries and employee benefits totaling \$1,337,000, \$953,000 and \$706,000 have been deferred as loan origination costs during the years ended December 31, 2013, 2012 and 2011, respectively.

PLUMAS BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

December 31, 2013

Grade:	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction
Pass	\$ 30,477	\$ 30,213	\$ 30,007	\$ 147,605	\$ 17,733
Watch	1,420	345	346	3,484	-
Substandard	665	89	969	4,853	60
Doubtful	50	-	-	-	-
Total	\$ 32,612	\$ 30,647	\$ 31,322	\$ 155,942	\$ 17,793
					Equity LOC
					\$ 34,742
					157
					890
					11
					\$ 35,800
					\$ 290,777
					5,752
					7,526
					61
					\$ 304,116

December 31, 2012

Grade:	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction
Pass	\$ 27,260	\$ 33,801	\$ 31,239	\$ 128,919	\$ 10,863
Watch	1,145	466	751	3,237	149
Substandard	1,138	857	2,676	7,390	4,789
Doubtful	9	-	-	-	-
Total	\$ 29,552	\$ 35,124	\$ 34,666	\$ 139,546	\$ 15,801
					Equity LOC
					\$ 34,142
					965
					1,766
					-
					\$ 36,873
					\$ 266,224
					6,713
					18,616
					9
					\$ 291,562

Grade:	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2013			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2012		
	Auto	Other	Total	Auto	Other	Total
Performing	\$ 30,228	\$ 4,113	\$ 34,341	\$ 19,239	\$ 4,193	\$ 23,432
Non-performing	77	17	94	44	19	63
Total	\$ 30,305	\$ 4,130	\$ 34,435	\$ 19,283	\$ 4,212	\$ 23,495

PLUMAS BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

Year ended 12/31/13:	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Auto	Other	Total
<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 855	\$ 159	\$ 894	\$ 1,656	\$ 950	\$ 736	\$ 289	\$ 147	\$ 5,686
Charge-offs	(401)	-	(257)	(162)	(735)	(92)	(134)	(134)	(1,915)
Recoveries	140	-	94	15	-	1	55	41	346
Provision	191	5	(93)	265	729	(32)	239	96	1,400
Ending balance	<u>\$ 785</u>	<u>\$ 164</u>	<u>\$ 638</u>	<u>\$ 1,774</u>	<u>\$ 944</u>	<u>\$ 613</u>	<u>\$ 449</u>	<u>\$ 150</u>	<u>\$ 5,517</u>

Year ended 12/31/12:

<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 1,025	\$ 330	\$ 698	\$ 1,925	\$ 2,006	\$ 635	\$ 95	\$ 194	\$ 6,908
Charge-offs	(909)	(250)	(358)	(258)	(1,524)	(377)	(72)	(153)	(3,901)
Recoveries	66	-	1	7	81	46	51	77	329
Provision	673	79	553	(18)	387	432	215	29	2,350
Ending balance	<u>\$ 855</u>	<u>\$ 159</u>	<u>\$ 894</u>	<u>\$ 1,656</u>	<u>\$ 950</u>	<u>\$ 736</u>	<u>\$ 289</u>	<u>\$ 147</u>	<u>\$ 5,686</u>

Year ended 12/31/11:

<u>Allowance for Loan Losses</u>									
Beginning balance	\$ 760	\$ 184	\$ 632	\$ 1,819	\$ 3,011	\$ 652	\$ 112	\$ 154	\$ 7,324
Charge-offs	(446)	(93)	(147)	(336)	(2,603)	(311)	(64)	(247)	(4,247)
Recoveries	93	106	1	17	5	2	82	25	331
Provision	618	133	212	425	1,593	292	(35)	262	3,500
Ending balance	<u>\$ 1,025</u>	<u>\$ 330</u>	<u>\$ 698</u>	<u>\$ 1,925</u>	<u>\$ 2,006</u>	<u>\$ 635</u>	<u>\$ 95</u>	<u>\$ 194</u>	<u>\$ 6,908</u>

December 31, 2013:

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

PLUMAS BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

The following table shows the allocation of the allowance for loan losses at the date indicated, in thousands:

<u>Year ended 12/31/12:</u>	<u>Commercial</u>	<u>Agricultural</u>	<u>Real Estate- Residential</u>	<u>Real Estate- Commercial</u>	<u>Real Estate- Construction</u>	<u>Equity LOC</u>	<u>Auto</u>	<u>Other</u>	<u>Total</u>
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	\$ 192	\$ 1	\$ 459	\$ 284	\$ 68	\$ 180	\$ -	\$ 2	\$ 1,186
Ending balance: collectively evaluated for impairment	\$ 663	\$ 158	\$ 435	\$ 1,372	\$ 882	\$ 556	\$ 289	\$ 145	\$ 4,500
<u>Loans</u>									
Ending balance	\$ 29,552	\$ 35,124	\$ 34,666	\$ 139,546	\$ 15,801	\$ 36,873	\$ 19,283	\$ 4,212	\$ 315,057
Ending balance: individually evaluated for impairment	\$ 3,478	\$ 647	\$ 3,598	\$ 4,528	\$ 5,191	\$ 1,360	\$ 44	\$ 4	\$ 18,850
Ending balance: collectively evaluated for impairment	\$ 26,074	\$ 34,477	\$ 31,068	\$ 135,018	\$ 10,610	\$ 35,513	\$ 19,239	\$ 4,208	\$ 296,207

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

<u>December 31, 2013</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Still Accruing</u>	<u>Nonaccrual</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total</u>
Commercial:						
Commercial	\$ 129	\$ -	\$ 1,295	\$ 1,424	\$ 31,188	\$ 32,612
Agricultural	-	-	-	-	30,647	30,647
Real estate – construction	25	-	18	43	17,750	17,793
Real estate	304	-	2,369	2,673	153,269	155,942
Residential:						
Real estate	695	-	899	1,594	29,728	31,322
Equity LOC	72	-	861	933	34,867	35,800
Consumer:						
Auto	244	-	77	321	29,984	30,305
Other	63	17	-	80	4,050	4,130
Total	\$ 1,532	\$ 17	\$ 5,519	\$ 7,068	\$ 331,483	\$ 338,551
<u>December 31, 2012</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Still Accruing</u>	<u>Nonaccrual</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total</u>
Commercial:						
Commercial	\$ 329	\$ -	\$ 3,303	\$ 3,632	\$ 25,920	\$ 29,552
Agricultural	-	-	380	380	34,744	35,124
Real estate – construction	156	-	3,314	3,470	12,331	15,801
Real estate	1,271	-	3,378	4,649	134,897	139,546
Residential:						
Real estate	242	-	1,911	2,153	32,513	34,666
Equity LOC	527	-	1,349	1,876	34,997	36,873
Consumer:						
Auto	151	11	44	206	19,077	19,283
Other	102	4	4	110	4,102	4,212
Total	\$ 2,778	\$ 15	\$ 13,683	\$ 16,476	\$ 298,581	\$ 315,057

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

<u>As of December 31, 2013:</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 1,224	\$ 1,493		\$ 1,239	\$ 3
Agricultural	267	267		267	20
Real estate – construction	1,325	1,325		1,384	79
Real estate – commercial	2,237	2,675		2,489	53
Real estate – residential	2,024	2,035		2,057	89
Equity Lines of Credit	339	339		294	9
Auto	77	77		20	3
Other	-	-		-	-
With an allowance recorded:					
Commercial	\$ 100	\$ 100	\$ 79	\$ 58	\$ -
Agricultural	-	-	-	-	-
Real estate – construction	412	412	13	417	25
Real estate – commercial	837	837	232	994	-
Real estate – residential	451	451	200	452	10
Equity Lines of Credit	522	522	105	511	7
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	\$ 1,324	\$ 1,593	\$ 79	\$ 1,297	\$ 3
Agricultural	267	267	-	267	20
Real estate – construction	1,737	1,737	13	1,801	104
Real estate – commercial	3,074	3,512	232	3,483	53
Real estate – residential	2,475	2,486	200	2,509	99
Equity Lines of Credit	861	861	105	805	16
Auto	77	77	-	20	3
Other	-	-	-	-	-
Total	<u>\$ 9,815</u>	<u>\$ 10,533</u>	<u>\$ 629</u>	<u>\$ 10,182</u>	<u>\$ 298</u>
<u>As of December 31, 2012:</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 1,022	\$ 1,398		\$ 1,597	\$ 16
Agricultural	245	725		573	39
Real estate – construction	1,429	1,503		1,106	98
Real estate – commercial	941	1,013		1,997	96
Real estate – residential	343	354		1,336	28
Equity Lines of Credit	490	490		613	22
Auto	44	44		60	5
Other	2	2		45	6
With an allowance recorded:					
Commercial	\$ 2,456	\$ 2,849	\$ 192	\$ 2,765	\$ 20
Agricultural	402	402	1	403	20
Real estate – construction	3,762	5,187	68	2,056	35
Real estate – commercial	3,587	3,588	284	3,473	102
Real estate – residential	3,255	3,255	459	2,818	105
Equity Lines of Credit	870	1,082	180	974	5
Auto	-	-	-	-	-
Other	2	2	2	-	-
Total:					
Commercial	\$ 3,478	\$ 4,247	\$ 192	\$ 4,362	\$ 36
Agricultural	647	1,127	1	976	59
Real estate – construction	5,191	6,690	68	3,162	133
Real estate – commercial	4,528	4,601	284	5,470	198
Real estate – residential	3,598	3,609	459	4,154	133
Equity Lines of Credit	1,360	1,572	180	1,587	27
Auto	44	44	-	60	5
Other	4	4	2	45	6
Total	<u>\$ 18,850</u>	<u>\$ 21,894</u>	<u>\$ 1,186</u>	<u>\$ 19,816</u>	<u>\$ 597</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

The following table shows information related to impaired loans at the date indicated, in thousands:

<u>As of December 31, 2011:</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 2,506	\$ 2,882		\$ 2,458	\$ 56
Agricultural	923	1,153		931	62
Real estate – construction	1,955	2,210		6,911	117
Real estate – commercial	1,707	1,707		4,751	70
Real estate – residential	1,711	1,739		2,069	106
Equity Lines of Credit	1,345	1,345		1,285	22
Auto	76	76		102	10
Other	49	49		91	2
With an allowance recorded:					
Commercial	\$ 2,440	\$ 2,440	\$ 310	\$ 1,349	\$ 25
Agricultural	345	345	250	345	-
Real estate – construction	4,799	4,850	901	2,521	186
Real estate – commercial	3,850	3,850	148	1,664	-
Real estate – residential	2,546	2,546	355	1,005	9
Equity Lines of Credit	149	149	101	53	1
Auto	-	-	-	-	-
Other	1	1	1	1	-
Total:					
Commercial	\$ 4,946	\$ 5,322	\$ 310	\$ 3,807	\$ 81
Agricultural	1,268	1,498	250	1,276	62
Real estate – construction	6,754	7,060	901	9,432	303
Real estate – commercial	5,557	5,557	148	6,415	70
Real estate – residential	4,257	4,285	355	3,074	115
Equity Lines of Credit	1,494	1,494	101	1,338	23
Auto	76	76	-	102	10
Other	50	50	1	92	2
Total	<u>\$ 24,402</u>	<u>\$ 25,342</u>	<u>\$ 2,066</u>	<u>\$ 25,536</u>	<u>\$ 666</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 2,628,000	\$ 2,628,000
Premises	15,793,000	15,417,000
Furniture, equipment and leasehold improvements	<u>9,643,000</u>	<u>10,179,000</u>
	28,064,000	28,224,000
Less accumulated depreciation and amortization	<u>(15,545,000)</u>	<u>(14,953,000)</u>
	<u><u>\$ 12,519,000</u></u>	<u><u>\$ 13,271,000</u></u>

Depreciation and amortization included in occupancy and equipment expense totaled \$1,166,000, \$1,181,000 and \$1,233,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

8. DEPOSITS

Interest-bearing deposits consisted of the following:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Interest-bearing demand deposits	\$ 82,687,000	\$ 83,384,000
Money market	47,331,000	43,751,000
Savings	93,922,000	70,205,000
Time, \$100,000 or more	23,828,000	27,886,000
Other time	<u>38,855,000</u>	<u>42,690,000</u>
	<u><u>\$ 286,623,000</u></u>	<u><u>\$ 267,916,000</u></u>

At December 31, 2013, the scheduled maturities of time deposits were as follows:

<u>Year Ending</u> <u>December 31,</u>	
2014	\$ 49,504,000
2015	9,863,000
2016	2,505,000
2017	446,000
2018	327,000
thereafter	<u>38,000</u>
	<u><u>\$ 62,683,000</u></u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8. DEPOSITS (Continued)

At December 31, 2013, the contractual maturities of time deposits with a denomination of \$100,000 and over were as follows: \$6,822,000 in 3 months or less, \$4,922,000 over 3 months through 6 months, \$5,794,000 over 6 months through 12 months, and \$6,290,000 over 12 months.

Deposit overdrafts reclassified as loan balances were \$357,000 and \$392,000 at December 31, 2013 and 2012, respectively.

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured by U.S. Government agency securities with a carrying amount of \$9,109,000 and \$7,377,000 at December 31, 2013 and 2012, respectively.

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase during 2013 and 2012 is summarized as follows:

	<u>2013</u>
Average daily balance during the year	\$7,285,000
Average interest rate during the year	0.18%
Maximum month-end balance during the year	\$9,109,000
Weighted average interest rate at year-end	0.09%
	<u>2012</u>
Average daily balance during the year	\$5,982,000
Average interest rate during the year	0.27%
Maximum month-end balance during the year	\$8,041,000
Weighted average interest rate at year-end	0.25%

10. BORROWING ARRANGEMENTS

The Company is a member of the FHLB and can borrow up to \$104,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$193,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2013 and 2012, the Company held \$2,226,000 and \$1,950,000 of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2013, the Company can borrow up to \$47,400,000. To borrow the \$104,000,000 in available credit the Company would need to purchase \$2,660,000 in additional FHLB stock. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$11 million and \$10 million. There were no outstanding borrowings under these agreements at December 31, 2013 and 2012.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. BORROWING ARRANGEMENTS (Continued)

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, 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 year ended December 31, 2013 totaled \$23,000. Under the Note the Bank is required to maintain specified levels of capital and to meet or exceed certain capital and asset quality ratios. The Bank was in compliance with all such requirements at December 31, 2013.

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

The interest only payments on the subordinated debt are based on an interest rate of 7.5% per annum. Principal repayment is required at the conclusion of an 8 year term with no prepayment allowed during the first two years. Issuance of the subordinated debt was made in conjunction with an eight-year warrant (the "Lender Warrant") to purchase up to 300,000 shares of the Bancorp's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share. Under current capital guidelines the subordinated debt qualifies as Tier 2 capital subject to a 20% reduction per year beginning in 2017 and which accumulates by 20% per year through maturity in 2021. Interest expense related to the subordinated debt for the year ended December 31, 2013 totaled \$541,000.

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.

Proceeds from the Note and the subordinated debt were used to partially fund the repurchase of preferred stock. (see Note 13 - Shareholders' Equity for additional information related to the repurchase, during 2013, of the Bancorp's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock").

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of \$298,000 and \$159,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

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, 2013, all of the trust preferred securities that have been issued qualify as Tier 1 capital.

During 2002, Plumas Statutory Trust I issued 6,000 Floating Rate Capital Trust Pass-Through Securities ("Trust Preferred Securities"), with a liquidation value of \$1,000 per security, for gross proceeds of \$6,000,000. During 2005, Plumas Statutory Trust II issued 4,000 Trust Preferred Securities with a liquidation value of \$1,000 per security, for gross proceeds of \$4,000,000. The entire proceeds were invested by Trust I in the amount of \$6,186,000 and Trust II in the amount of \$4,124,000 in Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the Trust Preferred Securities. The Subordinated Debentures represent the sole assets of Trusts I and II.

Trust I's Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 3.65% (based on 3-month LIBOR plus 3.40%), with repricing and payments due quarterly. Trust II's Subordinated Debentures mature on September 28, 2035, bear a current interest rate of 1.72% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any quarterly anniversary date on or after the 5-year anniversary date of the issuance. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 26, 2032 for Trust I and September 28, 2035 for Trust II.

Holders of the Trust Preferred Securities are entitled to a cumulative cash distribution on the liquidation amount of \$1,000 per security. The interest rate of the Trust Preferred Securities issued by Trust I adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 3.40%. The Trust Preferred Securities issued by Trust II adjust on each quarterly anniversary date to equal the 3-month LIBOR plus 1.48%. Both Trusts I and II have the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The Trust Preferred Securities were sold and issued in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Trust Preferred Securities. Beginning in the second quarter of 2010 and continuing until March 15, 2013, the Company had deferred regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities and had given notice of deferral each quarterly payment period.

While the Company had accrued for this obligation, it had been deferring the interest payments on the junior subordinated debentures as permitted by the agreements. As of December 31, 2012 and 2011, the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities was \$906,000 and \$569,000, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

On March 15, 2013, with the approval of the Federal Reserve Bank of San Francisco (FRB), the Company made all current and deferred interest payments on its trust preferred securities and all subsequent payments have been made when due.

Interest expense recognized by the Company for the years ended December 31, 2013, 2012 and 2011 related to the subordinated debentures was \$313,000, \$344,000 and \$326,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company has commitments for leasing premises under the terms of noncancelable operating leases expiring from 2015 to 2016. Future minimum lease payments are as follows:

Year Ending December 31,	
2014	\$ 159,000
2015	128,000
2016	83,000
	<u>\$ 370,000</u>

Rental expense included in occupancy and equipment expense totaled \$154,000, \$153,000 and \$150,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

Financial Instruments With Off-Balance-Sheet Risk

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

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

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

	December 31,	
	2013	2012
Commitments to extend credit	\$ 84,229,000	\$ 76,030,000
Letters of credit	\$ 60,000	\$ 110,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, crops, inventory, equipment, income-producing commercial properties, farm land and residential properties.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2013 and 2012. The Company recognizes these fees as revenues over the term of the commitment or when the commitment is used.

At December 31, 2013, consumer loan commitments represent approximately 18% of total commitments and are generally unsecured. Commercial and agricultural loan commitments represent approximately 36% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments, including consumer home equity lines of credit, represent the remaining 46% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company's commitments have variable interest rates.

Concentrations of Credit Risk

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

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

Contingencies

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY

Dividend Restrictions

The Company's ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law 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, 2013, the maximum amount available for dividend distribution under this restriction was approximately \$3,200,000. In addition the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trusts (see Note 11 for additional information related to the Trust Preferred Securities).

Preferred Stock

On January 30, 2009 the Bancorp entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Bancorp issued and sold (i) 11,949 shares Series A Preferred Stock and (ii) a warrant (the "Warrant") to purchase 237,712 shares of the Bancorp'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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Preferred Stock (continued)

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. The Company paid \$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.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted earnings per share.

(In thousands, except per share data)	For the Year Ended December 31,		
	2013	2012	2011
Net Income:			
Net income	\$ 3,431	\$ 1,950	\$ 941
Discount on redemption of preferred shares	565	-	-
Dividends and accretion on preferred shares	(347)	(684)	(684)
Net income available to common shareholders	<u>\$ 3,649</u>	<u>\$ 1,266</u>	<u>\$ 257</u>
Earnings Per Share:			
Basic earnings per share	\$ 0.76	\$ 0.26	\$ 0.05
Diluted earnings per share	\$ 0.75	\$ 0.26	\$ 0.05
Weighted Average Number of Shares Outstanding:			
Basic shares	4,780	4,776	4,776
Diluted shares	4,883	4,782	4,776

Shares of common stock issuable under stock options and warrants for which the exercise prices were greater than the average market prices were not included in the computation of diluted earnings per share due to their antidilutive effect. Stock options and warrants not included in the computation of diluted earnings per share, due to shares not being in the-money and having an antidilutive effect, were 172,000, 632,000 and 721,000 for the years ended December 31, 2013, 2012 and 2011, respectively. At December 31, 2013 one stock warrant was outstanding to purchase up to 300,000 shares of the Bancorp's common stock at an exercise price, subject to anti-dilution adjustments, of \$5.25 per share. At December 31, 2012 and 2011 one stock warrant was outstanding to purchase up to 237,712 shares of the Bancorp's common stock at an exercise price, subject to anti-dilution adjustments, of \$7.54 per share.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Options

In 2001, the Company established a Stock Option Plan for which 365,059 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of December 31, 2013.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Options outstanding at January 1, 2011	312,030	\$ 13.41		
Options granted	248,000	2.95		
Options cancelled	(77,250)	9.05		
Options outstanding at December 31, 2011	482,780	\$ 8.74		
Options cancelled	(62,974)	9.17		
Options outstanding at December 31, 2012	419,806	\$ 8.67		
Options cancelled	(43,347)	11.34		
Options exercised	(11,400)	2.95		
Options outstanding at December 31, 2013	365,059	\$ 8.53	3.4	\$ 631,110
Options exercisable at December 31, 2013	265,266	\$ 10.63	2.8	\$ 304,764
Expected to vest after December 31, 2013	83,893	\$ 2.95	5.2	\$ 274,329

As of December 31, 2013, there was \$49,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.2 years.

The total fair value of options vested was \$52,000 and \$89,000 for the year ended December 31, 2013 and 2012, respectively. The total intrinsic value of options at time of exercise was \$34,000 for the year ended December 31, 2013.

Cash received from option exercise for the years ended December 31, 2013 was \$34,000. There was no tax benefit realized for the tax deduction from options exercised in 2013.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital

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

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

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

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (continued)

	December 31,			
	2013		2012	
	Amount	Ratio	Amount	Ratio
<u>Leverage Ratio</u>				
Plumas Bancorp and Subsidiary	\$ 40,909,000	7.8%	\$ 49,052,000	10.3%
Minimum regulatory requirement	\$ 20,856,000	4.0%	\$ 19,040,000	4.0%
Plumas Bank	\$ 50,748,000	9.7%	\$ 49,662,000	10.4%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action	\$ 26,026,000	5.0%	\$ 23,852,000	5.0%
Minimum regulatory requirement	\$ 20,821,000	4.0%	\$ 19,032,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
Plumas Bancorp and Subsidiary	\$ 40,909,000	10.7%	\$ 49,052,000	13.9%
Minimum regulatory requirement	\$ 15,332,000	4.0%	\$ 14,143,000	4.0%
Plumas Bank	\$ 50,748,000	13.2%	\$ 49,662,000	14.1%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action	\$ 22,986,000	6.0%	\$ 21,200,000	6.0%
Minimum regulatory requirement	\$ 15,324,000	4.0%	\$ 14,133,000	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Plumas Bancorp and Subsidiary	\$ 53,006,000	13.8%	\$ 53,489,000	15.1%
Minimum regulatory requirement	\$ 30,664,000	8.0%	\$ 28,286,000	8.0%
Plumas Bank	\$ 55,547,000	14.5%	\$ 54,096,000	15.3%
Minimum requirement for "Well-Capitalized" institution under the prompt corrective action	\$ 38,310,000	10.0%	\$ 35,333,000	10.0%
Minimum regulatory requirement	\$ 30,648,000	8.0%	\$ 28,266,000	8.0%

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Outside service fees	\$ 1,855,000	\$ 1,503,000	\$ 1,270,000
Professional fees	831,000	875,000	730,000
FDIC Insurance	435,000	613,000	1,099,000
OREO expenses	310,000	187,000	422,000
Business development	291,000	268,000	262,000
Telephone and data communications	287,000	308,000	331,000
Advertising and promotion	281,000	251,000	236,000
Director compensation and retirement	232,000	255,000	229,000
Armored car and courier	228,000	224,000	225,000
Loan collection expenses	212,000	219,000	261,000
Core deposit intangible amortization	128,000	173,000	173,000
Stationery and supplies	113,000	124,000	140,000
Insurance	112,000	120,000	42,000
Postage	51,000	104,000	190,000
(Gain) loss on sale of other real estate	(171,000)	16,000	606,000
Other operating expenses	286,000	239,000	168,000
	<u>\$ 5,481,000</u>	<u>\$ 5,479,000</u>	<u>\$ 6,384,000</u>

15. INCOME TAXES

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2013</u>			
Current	\$ 60,000	\$ 22,000	\$ 82,000
Deferred	<u>1,578,000</u>	<u>507,000</u>	<u>2,085,000</u>
Provision for income taxes	<u>\$ 1,638,000</u>	<u>\$ 529,000</u>	<u>\$ 2,167,000</u>

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2012</u>			
Current	\$ 25,000	\$ 3,000	\$ 28,000
Deferred	<u>812,000</u>	<u>230,000</u>	<u>1,042,000</u>
Provision for income taxes	<u>\$ 837,000</u>	<u>\$ 233,000</u>	<u>\$ 1,070,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. INCOME TAXES (Continued)

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2011</u>			
Current	\$ 34,000	\$ 2,000	\$ 36,000
Deferred	<u>228,000</u>	<u>31,000</u>	<u>259,000</u>
Provision for income taxes	<u>\$ 262,000</u>	<u>\$ 33,000</u>	<u>\$ 295,000</u>

Deferred tax assets (liabilities) consisted of the following:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Allowance for loan losses	\$ 29,000	\$ 327,000
Net operating loss carryovers	1,069,000	2,636,000
Deferred compensation	1,757,000	1,739,000
OREO valuation allowance	1,097,000	1,326,000
Unrealized loss on available-for-sale investment securities	817,000	-
Other	<u>1,049,000</u>	<u>855,000</u>
Total deferred tax assets	<u>5,818,000</u>	<u>6,883,000</u>
Deferred tax liabilities:		
Deferred loan costs	(1,187,000)	(960,000)
Unrealized gain on available-for-sale investment securities	-	(232,000)
Other	<u>(233,000)</u>	<u>(257,000)</u>
Total deferred tax liabilities	<u>(1,420,000)</u>	<u>(1,449,000)</u>
Net deferred tax assets	<u>\$ 4,398,000</u>	<u>\$ 5,434,000</u>

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.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. INCOME TAXES (Continued)

At December 31, 2013 total deferred tax assets were approximately \$5,818,000 and total deferred tax liabilities were approximately \$1,420,000 for a net deferred tax asset of \$4,398,000. The Company's deferred tax assets primarily relate to net operating loss carry-forwards, tax benefits related to unrealized losses on available-for-sale investment securities and timing differences in the tax deductibility of impairment charges on other real estate owned and deferred compensation. Based upon our analysis of available evidence, management of the Company determined that it is "more likely than not" that all of our deferred income tax assets as of December 31, 2013 and 2012 will be fully realized and therefore no valuation allowance was recorded. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the year ended December 31, 2013.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Federal income tax, at statutory rate	34.0 %	34.0 %	34.0 %
State franchise tax, net of Federal tax effect	6.0 %	5.7 %	4.4 %
Interest on obligations of states and political subdivisions	(0.1)%	(0.3)%	(2.7)%
Net increase in cash surrender value of bank owned life insurance	(2.1)%	(3.9)%	(9.7)%
Other	<u>0.9 %</u>	<u>(0.1)%</u>	<u>(2.1)%</u>
Effective tax rate	<u><u>38.7 %</u></u>	<u><u>35.4 %</u></u>	<u><u>23.9 %</u></u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. INCOME TAXES (Continued)

At year-end 2013, the Company had federal operating loss carry-forwards of approximately \$903,000 which expire at various dates from 2029 to 2031. In addition, at year end 2013, the Company had state operating loss carry-forwards of approximately \$10,645,000 which expire at various dates from 2029 to 2031. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized.

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

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2010, and by state and local taxing authorities for years ended before December 31, 2009.

The unrecognized tax benefits and changes therein and the interest and penalties accrued by the Company as of or during the years ended December 31, 2013 and 2012 were not significant. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

16. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2013:

Balance, January 1, 2013	\$ 473,000
Disbursements	1,076,000
Amounts repaid	<u>(136,000)</u>
Balance, December 31, 2013	<u>\$ 1,413,000</u>
Undisbursed commitments to related parties, December 31, 2013	<u>\$ 1,970,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Plumas Bank Profit Sharing Plan commenced April 1, 1988 and is available to employees meeting certain service requirements. Under the Plan, employees are able to defer a selected percentage of their annual compensation. Included under the Plan's investment options is the option to invest in Company stock. No contribution was made for the years ended December 31, 2013, 2012 and 2011.

Salary Continuation and Retirement Agreements

Salary continuation and retirement agreements are in place for two key executives and seven members of the Board of Directors as well as four former executives and four former directors. Under these agreements, the directors and executives will receive monthly payments for twelve to fifteen years, respectively, after retirement. The estimated present value of these future benefits is accrued over the period from the effective dates of the agreements until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2013, 2012 and 2011 totaled \$286,000, \$507,000 and \$385,000, respectively. Accrued compensation payable under these plans totaled \$4,009,000 and \$4,002,000 at December 31, 2013 and 2012, respectively.

In connection with these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling \$11,504,000 and \$11,160,000 at December 31, 2013 and 2012, respectively. Income earned on these policies, net of expenses, totaled \$344,000, \$345,000 and \$352,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 598,000	\$ 477,000
Investment in bank subsidiary	49,585,000	51,372,000
Other assets	<u>1,048,000</u>	<u>1,334,000</u>
Total assets	<u>\$ 51,231,000</u>	<u>\$ 53,183,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	\$ 33,000	\$ 1,023,000
Note Payable	3,000,000	-
Subordinated debentures	7,295,000	-
Junior subordinated deferrable interest debentures	<u>10,310,000</u>	<u>10,310,000</u>
Total liabilities	<u>20,638,000</u>	<u>11,333,000</u>
Shareholders' equity:		
Preferred stock	-	11,855,000
Common stock	6,249,000	6,093,000
Retained earnings	25,507,000	23,573,000
Accumulated other comprehensive (loss) income	<u>(1,163,000)</u>	<u>329,000</u>
Total shareholders' equity	<u>30,593,000</u>	<u>41,850,000</u>
Total liabilities and shareholders' equity	<u>\$ 51,231,000</u>	<u>\$ 53,183,000</u>

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Income:			
Dividends declared by bank subsidiary	\$ 4,500,000	\$ -	\$ -
Earnings from investment in Plumas Statutory Trusts I and II	<u>9,000</u>	<u>10,000</u>	<u>10,000</u>
Total income	<u>4,509,000</u>	<u>10,000</u>	<u>10,000</u>
Expenses:			
Interest on note payable	23,000	-	-
Interest on subordinated debentures	541,000	-	-
Interest on junior subordinated deferrable interest debentures	313,000	344,000	326,000
Other expenses	<u>309,000</u>	<u>242,000</u>	<u>199,000</u>
Total expenses	<u>1,186,000</u>	<u>586,000</u>	<u>525,000</u>
Income (loss) before equity in undistributed income of subsidiary	3,323,000	(576,000)	(515,000)
Equity in undistributed (loss) income of subsidiary	<u>(330,000)</u>	<u>2,289,000</u>	<u>1,244,000</u>
Income before income taxes	2,993,000	1,713,000	729,000
Income tax benefit	<u>438,000</u>	<u>237,000</u>	<u>212,000</u>
Net income	<u>\$ 3,431,000</u>	<u>\$ 1,950,000</u>	<u>\$ 941,000</u>
Total comprehensive income	<u>\$ 1,939,000</u>	<u>\$ 2,121,000</u>	<u>\$ 1,151,000</u>

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Net income	\$ 3,431,000	\$ 1,950,000	\$ 941,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed loss (income) of subsidiary	330,000	(2,289,000)	(1,244,000)
Amortization of discount on debentures	113,000	-	-
Stock-based compensation expense	4,000	5,000	2,000
Decrease (increase) in other assets	285,000	(248,000)	(15,000)
(Decrease) increase in other liabilities	<u>(990,000)</u>	<u>399,000</u>	<u>350,000</u>
Net cash provided by (used in) operating activities	<u>3,173,000</u>	<u>(183,000)</u>	<u>34,000</u>
Cash flows from financing activities:			
Issuance of subordinated debt, net of discount	7,182,000	-	-
Issuance of common stock warrant	318,000	-	-
Issuance of note payable	3,000,000	-	-
Repurchase of common stock warrant	(234,000)	-	-
Redemption of preferred stock	(11,384,000)	-	-
Proceeds from exercise of stock options	34,000	-	-
Payment of cash dividends on preferred stock	<u>(1,968,000)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(3,052,000)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	121,000	(183,000)	34,000
Cash and cash equivalents at beginning of year	<u>477,000</u>	<u>660,000</u>	<u>626,000</u>
Cash and cash equivalents at end of year	<u>\$ 598,000</u>	<u>\$ 477,000</u>	<u>\$ 660,000</u>

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Plumas Bancorp and subsidiary (the “Company”), is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Management, including the undersigned Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of December 31, 2013. In conducting its assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (1992). Based on this assessment, management concluded that, as of December 31, 2013, our internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ Andrew J. Ryback

Andrew J. Ryback

President and Chief Executive Officer

/s/ Richard L. Belstock

Richard L. Belstock

Executive Vice President and Chief Financial Officer

Dated March 20, 2014

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

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

- 3.1 Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 3.2 Bylaws of Registrant as amended on March 16, 2011 included as exhibit 3.2 to the Registrant's Form 10-K for December 31, 2010, which is incorporated by this reference herein.
- 3.3 Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 3.4 Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 4 Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 10.1 Executive Salary Continuation Agreement of Andrew J. Ryback dated December 17, 2008, is included as exhibit 10.1 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.2 Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.
- 10.3 Subordinated Debenture dated April 15, 2013, is included as Exhibit 10.3 to the Registrant's 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
- 10.4 Stock Purchase Warrant dated April 15, 2013, is included as Exhibit 10.4 to the Registrant's 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
- 10.5 Subordinated Debenture Purchase Agreement dated April 15, 2013, is included as Exhibit 10.5 to the Registrant's 10-Q filed on November 7, 2013, which is incorporated by this reference herein.
- 10.6 Promissory Note Dated October 24, 2013, is included as Exhibit 10.6 to the Registrant's 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
- 10.8 Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant's 10-Q for March 31, 2007, which is incorporated by this reference herein.
- 10.18 Amended and Restated Director Retirement Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.18 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.21 Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

- 10.22 Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.24 Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.25 Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.27 Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.28 Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.33 Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.34 Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.37 Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.41 Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.42 Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.43 Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
- 10.47 2013 Stock Option Plan is included as exhibit 99.1 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
- 10.48 Specimen Form of Incentive Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.2 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
- 10.49 Specimen Form of Nonqualified Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.3 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
- 10.50 Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.51 First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.64 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Alvin Blickenstaff adopted on September 19, 2007, is included as Exhibit 10.64 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.

- 10.65 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Arthur C. Grohs adopted on September 19, 2007, is included as Exhibit 10.65 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.66 Director Retirement Agreement of Robert McClintock, is included as Exhibit 10.66 to the Registrant's 10-K filed on March 23, 2012, which is incorporated by this reference herein.
- 10.67 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Terrance J. Reeson adopted on September 19, 2007, is included as Exhibit 10.67 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.69 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.70 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein.
- 11 Computation of per share earnings appears in the attached 10-K under Item 8 Financial Statements Plumas Bancorp and Subsidiary Notes to Consolidated Financial Statements as Footnote 13 – Shareholders' Equity.
- 21.01 Plumas Bank – California.
- 21.02 Plumas Statutory Trust I – Connecticut.
- 21.03 Plumas Statutory Trust II – Connecticut.
- 23.01* Independent Registered Public Accountant's Consent for audit of years ended December 31, 2013 and December 31, 2012 dated March 20, 2014.
- 31.1* Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated March 20, 2014.
- 31.2* Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated March 20, 2014.
- 32.1* Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 20, 2014.
- 32.2* Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 20, 2014.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Schema.
- 101.CAL* XBRL Taxonomy Calculation Linkbase.
- 101.DEF* XBRL Taxonomy Definition Linkbase.
- 101.LAB* XBRL Taxonomy Label Linkbase.
- 101.PRE* XBRL Taxonomy Presentation Linkbase.

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLUMAS BANCORP
(Registrant)

Date: March 20, 2014

/s/ ANDREW J. RYBACK

Andrew J. Ryback
President and Chief Executive Officer

/s/ RICHARD L. BELSTOCK

Richard L. Belstock
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ DANIEL E. WEST

Dated: March 20, 2014

Daniel E. West, *Director and Chairman of the Board*

/s/ TERRANCE J. REESON

Dated: March 20, 2014

Terrance J. Reeson, *Director and Vice Chairman of the Board*

/s/ ALVIN G. BLICKENSTAFF

Dated: March 20, 2014

Alvin G. Blickenstaff, *Director*

/s/ STEVEN M. COLDANI

Dated: March 20, 2014

Steven M. Coldani, *Director*

/s/ W. E. ELLIOTT

Dated: March 20, 2014

William E. Elliott, *Director*

/s/ GERALD W. FLETCHER

Dated: March 20, 2014

Gerald W. Fletcher, *Director*

/s/ JOHN FLOURNOY

Dated: March 20, 2014

John Flournoy, *Director*

/s/ ARTHUR C. GROHS

Dated: March 20, 2014

Arthur C. Grohs, *Director*

/s/ ROBERT J. MCCLINTOCK

Dated: March 20, 2014

Robert J. McClintock, *Director*



PLUMAS BANCORP



Corporate Information

Annual Meeting

May 21, 2014 at 9:30 a.m.
Plumas Bancorp Credit Administration Office
32 Central Avenue, Quincy, CA 95971

Corporate Headquarters & Mailing Address

Plumas Bancorp & Plumas Bank
35 S. Lindan Avenue, Quincy, CA 95971
530.283.7305

Corporate Website

www.plumasbank.com

Transfer Agent & Registrar

Computershare
330 N. Brand Blvd. Suite 701
Glendale, CA 91203-2149
818.254.3160

Market Makers

<u>Raymond James Financial, Inc.</u>	<u>KCG Americas LLC</u>	<u>UBS Securities LLC</u>
One Embarcadero Center Suite 650 San Francisco, CA 94111	545 Washington Blvd. Jersey City, NJ 07130	1285 Avenue of the Americas New York, NY 10019
Erin Hinner erin.hinner@raymondjames.com	Collin Devlin cdevlin@kcg.com	Richard Ryan richard.ryan@ubs.com
415.616.8937 888.317.8986	800.544.7508	203.719.4213

Stock Market

Listed on NASDAQ
Symbol: PLBC

SEC Reports & Additional Information

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