MISONIX INC
Form 4
December 08, 2016

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Salerno John Joseph

(Last) (First) (Middle)

C/O MISONIX, INC., 1938 NEW HIGHWAY

(Street)

FARMINGDALE, NY 11735

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MISONIX INC [MSON]

3. Date of Earliest Transaction (Month/Day/Year)
12/06/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP-Quality & Regulatory

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. D S

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(I
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option	$ 9.525	12/06/2016	A		15,000		(1)	12/06/2026	Common Stock	15,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Salerno John Joseph C/O MISONIX, INC. 1938 NEW HIGHWAY FARMINGDALE, NY 11735			VP-Quality & Regulatory	

Signatures

/s/ John J. Salerno	12/08/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The granted options vest in 25% increments on each of 12/6/2017, 12/6/2018, 12/6/2019 and 12/6/2020.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rail.4" nowrap="true" style="width: 1%; font-family: "Times New Roman", Times, serif; font-size: 10pt; margin-left: 0pt;">

Proceeds from sale of other real estate

723,000 689,000 2,245,000

Proceeds from sale of premises and equipment

- - 42,000

Purchases of premises and equipment

(3,866,000

)

(531,000

)

(600,000

)

Net cash used in investing activities

(121,870,000

)

(66,536,000

)

(65,750,000

)

Cash flows from financing activities:

Net increase in demand, interest-bearing and savings deposits

52,982,000 83,866,000 57,738,000

Net increase (decrease) in time deposits

10,926,000 (3,562,000

)

(2,661,000

)

Net increase (decrease) in securities sold under agreements to repurchase

2,984,000 3,157,000 (124,000

)

Cash dividends paid on common stock

(1,842,000

)

(1,398,000

)

(489,000

)

Principal payment on note payable

- (2,375,000

)

(2,500,000

)

Repurchase of common stock warrant

- - (862,000

)

Proceeds from exercise of stock options

330,000 261,000 200,000

Net cash provided by financing activities

65,380,000 79,949,000 51,302,000

(Decrease) increase in cash and cash equivalents

(40,851,000

)

24,891,000 (5,549,000

)

Cash and cash equivalents at beginning of year

87,537,000 62,646,000 68,195,000

Cash and cash equivalents at end of year

$46,686,000 $87,537,000 $62,646,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2018, 2017 and 2016

	2018	**2017**	**2016**
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	$1,212,000	$1,012,000	$1,022,000
Income taxes	$4,506,000	$7,175,000	$5,206,000
Non-cash investing activities:			
Real estate acquired through foreclosure	$656,000	$1,293,000	$1,201,000
Vehicles acquired through repossession	$466,000	$325,000	$277,000
Loans provided for sales of real estate owned	$-	$480,000	$2,073,000
Non-Cash Financing Activities:			
Common stock retired in connection with the exercise of stock options	$29,000	$10,000	$-
Common stock issued in connection with the cashless exercise of stock warrant	$-	$787,000	$-

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF PLUMAS BANCORP

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

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. In December, 2015 the Bank opened a branch in Reno, Nevada; its first branch outside of California and in 2018 the Bank purchased a branch located in Carson City, Nevada. The Bank’s administrative headquarters is in Quincy, California. In addition, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California, and commercial/agricultural lending offices in Chico and Red Bluff, California and Klamath Falls, Oregon. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

Plumas Statutory Trust I and Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. The Company's investment in Trust I of $338,000 and Trust II of $174,000 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 2018. 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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one day periods. Cash held with other federally insured institutions in excess of FDIC limits as of December 31, 2018 was $10.1 million. Net cash flows are reported for customer loans and deposit transactions and repurchase agreements.

Investment Securities

Investments are classified into one of the following categories:

Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums. As of December 31, 2018 and 2017 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, 2018, and 2017 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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2018 and December 31, 2017, the Company held $3,027,000 and $2,685,000, respectively of FHLB stock. On the consolidated balance sheet, FHLB stock is included in accrued interest receivable and other assets.

Loans Held for Sale, Loan Sales and Servicing

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

As of December 31, 2018, and 2017 the Company had $1.3 million and $614 thousand, 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 $122,379,000 and $112,781,000 were being serviced for others at December 31, 2018 and 2017, respectively.

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

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

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

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

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

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

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

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

The Company may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2018 and 2017, there were no such loans being accounted for under this policy.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

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

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

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

The determination of the general reserve for loans that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment from January 1, 2008 (the beginning of the latest business cycle as determined by management) to the most current balance sheet date, internal

asset classifications, and qualitative factors to include economic trends in the Company’s service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company’s underwriting policies, the character of the loan portfolio, and probable incurred losses inherent in the portfolio taken as a whole.

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

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

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

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

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

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

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

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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

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

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

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

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors and management review the adequacy of the allowance, including consideration of

the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FDIC and the California Department of Business Oversight (the “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 $250,000 and $200,000 at December 31, 2018 and 2017, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations, which was $1,170,000 ($2,451,000 less a valuation allowance of $1,281,000) at December 31, 2018 and $1,344,000 ($2,642,000 less a valuation allowance of $1,298,000) at December 31, 2017. Of these amounts $368,000 at December 31, 2018 and $110,000 at December 31, 2017 represent foreclosed residential real estate property. There was one consumer mortgage loans with a balance of $90,000 secured by a residential real estate property for which formal foreclosure proceedings were in process at December 31, 2018. No consumer mortgage loans secured by residential real estate properties were in the process of foreclosure at December 31, 2017. Proceeds from sales of other real estate owned totaled $722,000, $689,000 and $2,245,000 for the years ended December 31, 2018, 2017 and 2016, respectively. For the years ended December 31, 2018, 2017 and 2016 the Company recorded gains on sale of other real estate owned of $47,000, $130,000 and $60,000, 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, 2018 and 2017:

	Year Ended December 31,	
	2018	2017
Beginning balance	$1,344,000	$735,000
Additions	656,000	1,292,000
Dispositions	(675,000)	(559,000)
Write-downs	(155,000)	(124,000)
Ending balance	$1,170,000	$1,344,000

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized on an accelerated basis method over ten years. The Company evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances during the periods presented.

Aggregate amortization expense was $27,000, $6,000, and $6,000 for 2018, 2017 and 2016.

The gross carrying amount of intangible assets and accumulated amortization was:

	2018 Gross Carrying Amount	Accumulated Amortization	2017 Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$1,226,000	$ 42,000	$96,000	$ 15,000

The increase in intangible assets in 2018 relates to the purchase of the Bank's Carson City branch in October 2018.

Estimated amortization expense for each of the next five years is $263,000, $198,000, $161,000, $132,000 and $108,000.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

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

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.

Revenue from Contracts with Customers

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

results from performance obligations satisfied in previous periods.

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

Income Taxes

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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. 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, 2018 and 2017.

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. The amount reclassified out of other accumulated comprehensive income relating to realized losses on securities available for sale was $8,000, $158,000 and $32,000 for 2018, 2017 and 2016, with the related tax effect of $2,000, $65,000 and $13,000, respectively.

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

Dividend Restrictions

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

Fair Value of Financial Instruments

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

Compensation expense related to the Company’s Stock Option Plans, net of related tax benefit, recorded in 2018, 2017 and 2016 totaled $185,000, $141,000 and $103,000 or $0.04, $0.03 and $0.02 per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight-line accounting basis.

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

During 2018 and 2016 the Company granted options to purchase 76,000 and 108,000 shares of common stock, respectively. The fair value of each option was estimated on the date of grant using the following assumptions.

	2018	2016
Expected life of stock options (in years)	5.1	5.1
Risk free interest rate	2.38%	1.52%
Volatility	30.4%	53.6%
Dividend yields	1.39%	2.00%
Weighted-average fair value of options granted during the year	$6.54	$3.55

No options were granted during the year ended December 31, 2017.

Recently Adopted Accounting Pronouncements

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). ASU No. 2018-02 allows entities to elect to reclassify stranded tax effects on items within AOCI, resulting from the new tax bill signed into law on December 22, 2017, to retained earnings. The Company elected to early adopt this new standard in 2017 and recorded a reclassification from AOCI to retained earnings in the amount of $94,000.

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (continued)

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

Pending Accounting Pronouncements

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

approximately $565,000 on January 1, 2019.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU No. 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its implementation efforts by establishing an implementation team chaired by the Company's Chief Lending Officer and composed of members of the Company's credit administration and accounting departments. We have purchased software to support the CECL calculation of the allowance for loan losses under ASU No 2016-13 and have engaged the software vendor to assist in the transition to the CECL model. We expect to produce an initial CECL allowance calculation prior to June 30, 2019. The Company's preliminary evaluation indicates the provisions of ASU No. 2016-13 are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Accounting Pronouncements (continued)

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

In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements. ASU No. 2018-11 provides entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Company). The Company expects to elect both transition options. ASU 2018-11 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The update is effective for interim and annual periods in fiscal years beginning after December 15, 2019, with early adoption permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company's Consolidated Financial Statements.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS

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

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

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

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

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

The methods of determining the fair value of assets and liabilities presented in this note as of December 31, 2018 are consistent with the methods used as of December 31, 2017 except for the valuation of loans held for investment at December 31, 2018. We refined the calculation used to determine the disclosed fair value of our loans held for investment to estimate the fair value of our loan portfolio based on an exit price concept as part of adopting ASU 2016-01.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2018 are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2018 Using: Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$46,686,000	$46,686,000			$46,686,000
Investment securities	171,507,000		$171,507,000		171,507,000
Loans, net	562,498,000			$580,396,000	580,396,000
FHLB stock	3,027,000				N/A
Accrued interest receivable	3,345,000	22,000	685,000	2,638,000	3,345,000
Financial liabilities:					
Deposits	726,565,000	669,599,000	57,050,000		726,649,000
Repurchase agreements	13,058,000		13,058,000		13,058,000
Junior subordinated deferrable interest debentures	10,310,000			8,092,000	8,092,000
Accrued interest payable	88,000	11,000	52,000	25,000	88,000

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

	Carrying Value	Fair Value Measurements at December 31, 2017 Using: Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					

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

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments (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, 2018 and December 31, 2017, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018 are summarized below:

		Fair Value Measurements at December 31, 2018 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:				
	$132,678,000	$-	$132,678,000	$ -

U.S. Government-sponsored agencies collateralized by mortgage obligations-residential				
Obligations of states and political subdivisions	38,829,000		38,829,000	
	$171,507,000	$-	$171,507,000	$ -

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

		Fair Value Measurements at December 31, 2017 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 collateralized by mortgage obligations-residential	$103,788,000	$-	$103,788,000	$ -
Obligations of states and political subdivisions	33,678,000		33,678,000	
	$137,466,000	$-	$137,466,000	$ -

The fair value of securities available-for-sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities or matrix pricing. There were no changes in the valuation techniques used during 2018 or 2017. Transfers between hierarchy measurement levels are recognized by the Company as of the beginning of the reporting period. Changes in fair market value are recorded in other comprehensive income.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2018 are summarized below:

		Fair Value Measurements at December 31, 2018 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:					
Other real estate:					
Real estate – residential	$368,000			$ 368,000	-
Real estate – commercial	347,000			347,000	-
Real estate – construction and land development	455,000			455,000	(117,000)
	$1,170,000	$-	$ -	$ 1,170,000	$(117,000)

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

	Total Fair Value	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Equity lines of credit	$ 80,000	$	$	$ 80,000	$ 7,000
Total impaired loans	80,000	-	-	80,000	7,000
Other real estate:					
Real estate – residential	-			-	(3,000)
Real estate – commercial	285,000			285,000	(9,000)
Real estate – construction and land development	969,000			969,000	(112,000)
Equity lines of credit	90,000			90,000	-
Total other real estate	1,344,000	-	-	1,344,000	(124,000)
	$ 1,424,000	$ -	$ -	$ 1,424,000	$ (117,000)

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

The following methods were used to estimate fair value.

Collateral-Dependent Impaired Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances, that are based on fair value estimates of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3). Net gains of $0 and $7,000 represent impairment charges recognized during the years ended December 31, 2018 and 2017, respectively, related to the above impaired loans.

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

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

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2018 and 2017 (dollars in thousands):

Description	Fair Value 12/31/2018	Fair Value 12/31/2017	Valuation Technique	Significant Unobservable Input	Range (Weighted Average) 12/31/2018	Range (Weighted Average) 12/31/2017
Impaired Loans:						
Equity Lines of Credit	$ -	$ 80	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	N/A	8% (8%)
Other Real Estate:						
RE – Residential	$ 368	$ -	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% - 34% (16%)	N/A
RE – Commercial	$ 347	$ 285	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	16% - 17% (16%)	17% - 31% (22%)
Construction and Land	$ 455	$ 969	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% - 51% (24%)	10% (10%)
Equity Lines of Credit	$ -	$ 90	Third Party appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	N/A	10% (10%)

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. INVESTMENT SECURITIES

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

Available-for-Sale	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	$135,059,000	$240,000	$(2,621,000)	$132,678,000
Obligations of states and political subdivisions	39,311,000	121,000	(603,000)	38,829,000
	$174,370,000	$361,000	$(3,224,000)	$171,507,000

Unrealized loss on available-for-sale investment securities totaling $2,863,000 were recorded, net of $846,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2018. During the year ended December 31, 2018 the Company sold eighteen available-for-sale investment securities for total proceeds of $4,157,000 recording a $8,000 loss on sale. The Company realized a gain on sale from eight of these securities totaling $4,000 and a loss on sale on ten securities of $12,000.

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

Unrealized loss on available-for-sale investment securities totaling $809,000 were recorded, net of $239,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2017. During the year ended December 31, 2017 the Company sold sixteen available-for-sale investment securities for total proceeds of $9,594,000 recording a $158,000 loss on sale. The Company realized a gain on sale from four of these securities totaling $4,000 and a loss on sale on twelve securities of $162,000.

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

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

December 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies collateralized by mortgage obligations-residential	$26,478,000	$269,000	$77,476,000	$2,352,000	$103,954,000	$2,621,000
Obligations of states and political subdivisions	19,270,000	284,000	5,672,000	319,000	24,942,000	603,000
	$45,748,000	$553,000	$83,148,000	$2,671,000	$128,896,000	$3,224,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. INVESTMENT SECURITIES (Continued)

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

December 31, 2017

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies collateralized by mortgage obligations-residential	$60,070,000	$441,000	$31,213,000	$732,000	$91,283,000	$1,173,000
Obligations of states and political subdivisions	2,621,000	31,000	3,403,000	113,000	6,024,000	144,000
	$62,691,000	$472,000	$34,616,000	$845,000	$97,307,000	$1,317,000

At December 31, 2018, the Company held 215 securities of which 153 were in a loss position. Of the securities in a loss position, 63 were in a loss position for less than twelve months. Of the 215 securities 96 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 119 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, 2018, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of December 31, 2018 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2018 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may

have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
After one year through five years	$3,641,000	$3,636,000
After five years through ten years	16,692,000	16,525,000
After ten years	18,978,000	18,668,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	135,059,000	132,678,000
	$174,370,000	$171,507,000

Investment securities with amortized costs totaling $92,166,000 and $82,059,000 and estimated fair values totaling $90,122,000 and $81,006,000 at December 31, 2018 and 2017, respectively, were pledged to secure deposits and repurchase agreements.

There were no transfers of available-for-sale investment securities during the years ended December 31, 2018, 2017 or 2016. There were no securities classified as held-to-maturity at December 31, 2018 or December 31, 2017.

The Company adopted ASU No. 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities on January 1, 2018 and recorded a $209,000 gain related to adjusting the carrying value of equity securities without a readily determinable fair market to $662,000 in accordance with this standard.

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5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	December 31,	
	2018	2017
Commercial	$49,563,000	$39,620,000
Agricultural	69,160,000	58,908,000
Real estate – residential	15,900,000	16,624,000
Real estate – commercial	271,710,000	240,257,000
Real estate – construction & land development	40,161,000	25,181,000
Equity lines of credit	38,490,000	41,798,000
Auto	77,135,000	60,438,000
Other	4,080,000	3,808,000
	566,199,000	486,634,000
Deferred loan costs, net	3,257,000	2,283,000
Allowance for loan losses	(6,958,000)	(6,669,000)
Loans, net	$562,498,000	$482,248,000

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of year	$6,669,000	$6,549,000	$6,078,000
Provision charged to operations	1,000,000	600,000	800,000
Losses charged to allowance	(1,191,000)	(879,000)	(979,000)
Recoveries	480,000	399,000	650,000
Balance, end of year	$6,958,000	$6,669,000	$6,549,000

The recorded investment in impaired loans totaled $1,275,000 and $2,270,000 at December 31, 2018 and 2017, respectively. The Company had specific allowances for loan losses of $181,000 on impaired loans of $424,000 at December 31, 2018 as compared to specific allowances for loan losses of $82,000 on impaired loans of $475,000 at December 31, 2017. The balance of impaired loans in which no specific reserves were required totaled $851,000 and $1,795,000 at December 31, 2018 and 2017, respectively. The average recorded investment in impaired loans for the years ended December 31, 2018, 2017 and 2016 was $1,160,000, $1,760,000 and $5,077,000, respectively. The Company recognized $71,000, $73,000 and $149,000 in interest income on impaired loans during the years ended December 31, 2018, 2017 and 2016, respectively. Of these amounts $0, $0 and $29,000 were recognized on the cash basis, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

The carrying value of troubled debt restructurings at December 31, 2018 and December 31, 2017 was $1,080,000 and $1,111,000, respectively. The Company has allocated $53,000 and $63,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2018 and December 31, 2017, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at December 31, 2018 and December 31, 2017.

There were no new troubled debt restructurings during the twelve months ending December 31, 2018 and 2017.

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

At December 31, 2018 and 2017, nonaccrual loans totaled $1,117,000 and $1,226,000, respectively. Interest foregone on nonaccrual loans totaled $46,000, $50,000 and $164,000 for the twelve months ended December 31, 2018, 2017 and 2016, respectively. The Company recognized $0, $0 and $29,000 in interest income on nonaccrual loans during the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2017 there were three loans to one customer totaling $1.8 million that were 90 days past due and still accruing interest. These loans were well secured and in process of collection at December 31, 2017. There were no loans past due 90 days or more and on accrual status at December 31, 2018 and December 31, 2016.

Salaries and employee benefits totaling $2,520,000, $1,789,000 and $1,882,000 have been deferred as loan origination costs during the years ended December 31, 2018, 2017 and 2016, respectively.

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(Continued)

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

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

December 31, 2018	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Total
Grade:							
Pass	$48,905	$ 68,910	$ 15,621	$ 268,159	$ 40,069	$38,304	$479,968
Special Mention	481	250	124	3,420	-	-	4,275
Substandard	177	-	155	131	92	186	741
Doubtful	-	-	-	-	-	-	-
Total	$49,563	$ 69,160	$ 15,900	$ 271,710	$ 40,161	$38,490	$484,984

December 31, 2017	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Total
Grade:							
Pass	$38,851	$ 56,859	$ 16,218	$ 239,944	$ 25,081	$41,636	$418,589
Special Mention	238	253	125	26	-	-	642
Substandard	531	1,796	281	287	100	162	3,157
Doubtful	-	-	-	-	-	-	-
Total	$39,620	$ 58,908	$ 16,624	$ 240,257	$ 25,181	$41,798	$422,388

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2018			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2017		
	Auto	Other	Total	Auto	Other	Total
Grade:						
Performing	$76,734	$4,071	$80,805	$60,060	$3,788	$63,848
Non-performing	401	9	410	378	20	398
Total	$77,135	$4,080	$81,215	$60,438	$3,808	$64,246

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Auto	Other	Total
Year ended 12/31/18:									
Allowance for Loan Losses									
Beginning balance	$ 725	$ 623	$ 231	$ 2,729	$ 783	$ 533	$ 946	$ 99	$ 6,669
Charge-offs	(325)	-	(25)	-	-	-	(801)	(40)	(1,191)
Recoveries	83	-	93	21	3	5	256	19	480
Provision	431	(85)	(85)	(64)	(28)	(74)	888	17	1,000
Ending balance	$ 914	$ 538	$ 214	$ 2,686	$ 758	$ 464	$ 1,289	$ 95	$ 6,958
Year ended 12/31/17:									
Allowance for Loan Losses									
Beginning balance	$ 655	$ 466	$ 280	$ 2,740	$ 927	$ 575	$ 815	$ 91	$ 6,549
Charge-offs	(202)	-	-	(48)	-	(121)	(450)	(58)	(879)
Recoveries	89	-	3	115	-	4	173	15	399
Provision	183	157	(52)	(78)	(144)	75	408	51	600
Ending balance	$ 725	$ 623	$ 231	$ 2,729	$ 783	$ 533	$ 946	$ 99	$ 6,669
Year ended 12/31/16:									
Allowance for Loan Losses									
	$ 639	$ 294	$ 341	$ 2,525	$ 874	$ 528	$ 784	$ 93	$ 6,078

Beginning balance									
Charge-offs	(268)	-	(39)	(253)	(5)	(23)	(319)	(72)	(979)
Recoveries	53	-	42	3	389	2	131	30	650
Provision	231	172	(64)	465	(331)	68	219	40	800
Ending balance	$ 655	$ 466	$ 280	$ 2,740	$ 927	$ 575	$ 815	$ 91	$ 6,549
December 31, 2018:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ 128	$ -	41	$ -	$ 12	$ -	$ -	$ -	$ 181
Ending balance: collectively evaluated for impairment	$ 786	$ 538	$ 173	$ 2,686	$ 746	$ 464	$ 1,289	$ 95	$ 6,777
Loans									
Ending balance	$ 49,563	$ 69,160	$ 15,900	$ 271,710	$ 40,161	$ 38,490	$ 77,135	$ 4,080	$ 566,199
Ending balance: individually evaluated for impairment	$ 128	$ 250	$ 649	$ 131	$ 117	$ -	$ -	$ -	$ 1,275
Ending balance: collectively evaluated for impairment	$ 49,435	$ 68,910	$ 15,251	$ 271,579	$ 40,044	$ 38,490	$ 77,135	$ 4,080	$ 564,924
December 31, 2017:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ 2	$ -	48	$ -	$ 32	$ -	$ -	$ -	$ 82
Ending balance: collectively evaluated for impairment	$ 723	$ 623	$ 183	$ 2,729	$ 751	$ 533	$ 946	$ 99	$ 6,587
Loans									
Ending balance	$ 39,620	$ 58,908	$ 16,624	$ 240,257	$ 25,181	$ 41,798	$ 60,438	$ 3,808	$ 486,634
	$ 14	$ 253	$ 934	$ 287	$ 224	$ 162	$ 377	$ 19	$ 2,270

Ending balance: individually evaluated for impairment									
Ending balance: collectively evaluated for impairment	$ 39,606	$ 58,655	$ 15,690	$ 239,970	$ 24,957	$ 41,636	$ 60,061	$ 3,789	$ 484,364

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

December 31, 2018	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial	$11	$ -	$ 144	$ 155	$49,408	$49,563
Agricultural	-	-	-	-	69,160	69,160
Real estate - residential	154	-	155	309	15,591	15,900
Real estate - commercial	-	-	131	131	271,579	271,710
Real estate – construction & land	-	-	92	92	40,069	40,161
Equity Lines of Credit	596	-	186	782	37,708	38,490
Auto	1,725	-	401	2,126	75,009	77,135
Other	85	-	8	93	3,987	4,080
Total	$2,571	$ -	$ 1,117	$ 3,688	$562,511	$566,199

December 31, 2017	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Commercial	$1,869	$ -	$ -	$ 1,869	$37,751	$39,620
Agricultural	-	1,796	-	1,796	57,112	58,908
Real estate - residential	130	-	281	411	16,213	16,624
Real estate - commercial	-	-	287	287	239,970	240,257
Real estate – construction & land	38	-	100	138	25,043	25,181
Equity Lines of Credit	345	-	162	507	41,291	41,798

Auto	1,047	-	377	1,424	59,014	60,438
Other	20	-	19	39	3,769	3,808
Total	$3,449	$ 1,796	$ 1,226	$ 6,471	$480,163	$486,634

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

As of December 31, 2018:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -		$ -	$ -
Agricultural	250	250		252	19
Real estate – residential	470	481		470	38
Real estate – commercial	131	144		136	-
Real estate – construction & land	-	-		-	-
Equity Lines of Credit	-	-		-	-
Auto	-	-		-	-
Other	-	-		-	-
With an allowance recorded:					
Commercial	$ 128	$ 128	$ 128	$ 1	$ -
Agricultural	-	-	-	-	-
Real estate – residential	179	179	41	181	7
Real estate – commercial	-	-	-	-	-
Real estate – construction & land	117	117	12	120	7
Equity Lines of Credit	-	-	-	-	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	$ 128	$ 128	$ 128	$ 1	$ -
Agricultural	250	250	-	252	19
Real estate – residential	649	660	41	651	45
Real estate – commercial	131	144	-	136	-
Real estate – construction & land	117	117	12	120	7
Equity Lines of Credit	-	-	-	-	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total	$ 1,275	$ 1,299	$ 181	$ 1,160	$ 71

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(Continued)

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

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

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

Total	$ 2,270	$ 2,281	$ 82	$ 1,760	$ 73

As of December 31, 2016:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -		$ -	$ -
Agricultural	258	258		259	19
Real estate – residential	1,373	1,385		1,291	77
Real estate – commercial	1,789	2,227		1,589	33
Real estate – construction & land	198	198		210	-
Equity Lines of Credit	219	219		121	-
Auto	69	69		46	-
Other	2	2		-	-
With an allowance recorded:					
Commercial	$ 16	$ 16	$ 2	$ 16	$ 1
Agricultural	-	-	-	-	-
Real estate – residential	242	242	53	243	11
Real estate – commercial	534	742	81	534	-
Real estate – construction & land	635	635	206	658	8
Equity Lines of Credit	107	107	24	110	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	$ 16	$ 16	$ 2	$ 16	$ 1
Agricultural	258	258	-	259	19
Real estate – residential	1,615	1,627	53	1,534	88
Real estate – commercial	2,323	2,969	81	2,123	33
Real estate – construction & land	833	833	206	868	8
Equity Lines of Credit	326	326	24	231	-
Auto	69	69	-	46	-
Other	2	2	-	-	-
Total	$ 5,442	$ 6,100	$ 366	$ 5,077	$ 149

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6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2018	2017
Land	$4,179,000	$2,863,000
Premises	18,747,000	16,133,000
Furniture, equipment and leasehold improvements	6,895,000	7,153,000
	29,821,000	26,149,000
Less accumulated depreciation and amortization	(15,534,000)	(14,803,000)
Premises and equipment, net	$14,287,000	$11,346,000

Depreciation and amortization included in occupancy and equipment expense totaled $925,000, $953,000 and $1,024,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

7. DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31, 2018	2017
Interest-bearing demand deposits	$105,107,000	$99,195,000
Money market	82,743,000	60,757,000
Savings	177,710,000	174,426,000

Time, $250,000 or more	5,755,000	3,199,000
Other time	51,211,000	42,841,000
Interest-bearing deposits	$422,526,000	$380,418,000

At December 31, 2018, the scheduled maturities of time deposits were as follows:

Year Ending December 31,	
2019	$46,063,000
2020	7,810,000
2021	1,795,000
2022	1,061,000
2023	237,000
thereafter	-
	$56,966,000

Deposit overdrafts reclassified as loan balances were $512,000 and $240,000 at December 31, 2018 and 2017, respectively.

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8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaling $13,058,000 and $10,074,000 at December 31, 2018, and 2017, respectively are secured by U.S. Government agency securities with a carrying amount of $21,764,000 and $16,769,000 at December 31, 2018 and 2017, 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 2018 and 2017 is summarized as follows:

	2018		2017	
Average daily balance during the year	$9,123,000		$7,421,000	
Average interest rate during the year	0.09	%	0.08	%
Maximum month-end balance during the year	$13,706,000		$10,074,000	
Weighted average interest rate at year-end	0.11	%	0.09	%

9. BORROWING ARRANGEMENTS

The Company is a member of the FHLB and can borrow up to $207,000,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $340,000,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2018 and December 31, 2017, the Company held $3,027,000 and $2,685,000, respectively of FHLB stock which is recorded as a component of other assets. Based on this level of stock holdings at December 31, 2018, the Company can borrow up to $112,096,000. To borrow the $207,000,000 in available credit the Company would need to purchase $2,565,000 in additional FHLB stock. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with three of its correspondent banks in the amounts of $20 million, $11 million and $10 million. There were no outstanding borrowings to the FHLB or the correspondent banks under these agreements at December 31, 2018 and 2017.

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

On October 1, 2018 the Company renewed its line of credit, for a one-year term, with the same lender (the “Note”). The maximum amount outstanding at any one time on the Note cannot exceed $5 million. There were no borrowings on the Note during 2018 or 2017. The Note bears interest at a rate of the U.S. "Prime Rate" plus one-quarter percent per annum and is secured by 100 shares of Plumas Bank stock representing the Company's 100% ownership interest in Plumas Bank. Under the Note, the Bank is subject to several negative and affirmative covenants including, but not limited to providing timely financial information, maintaining specified levels of capital, restrictions on additional borrowings, and meeting or exceeding certain capital and asset quality ratios. The Bank was in compliance with all such covenants related to the Note at December 31, 2018 and December 31, 2017. Interest expense related to the Term Loan for the years ended December 31, 2018, 2017 and 2016 totaled $0, $28 thousand and $133 thousand, respectively.

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10. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Plumas Statutory Trust I and II are business trusts formed by the Company with capital of $338,000 and $174,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company.

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

Trust I’s Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 6.22% (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 4.27% (based on 3-month LIBOR plus 1.48%), with repricing and payments due quarterly. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Board of Governors, on any quarterly anniversary date on or after the 5-year anniversary date of the issuance. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The Trust Preferred Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on September 26, 2032 for Trust I and September 28, 2035 for Trust II.

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

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

Interest expense recognized by the Company for the years ended December 31, 2018, 2017 and 2016 related to the subordinated debentures was $510,000, $401,000 and $348,000, respectively.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. COMMITMENTS AND CONTINGENCIES

Leases

The Company has commitments for leasing premises under the terms of noncancelable operating leases expiring from 2019 to 2022. Future minimum lease payments for operating leases having initial or remining noncancelable lease terms in excess of one year are as follows:

Year Ending December 31,	
2019	$248,000
2020	163,000
2021	63,000
2022	59,000
2023	-
	$533,000

Rental expense included in occupancy and equipment expense totaled $340,000, $308,000 and $276,000 for the years ended December 31, 2018, 2017 and 2016, 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,	
	2018	2017
Commitments to extend credit	$126,885,000	$107,366,000
Letters of credit	$417,000	$477,000

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

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to these letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2018 and 2017. The Company recognizes these fees as revenues over the term of the commitment or when the commitment is used.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. COMMITMENTS AND CONTINGENCIES (Continued)

At December 31, 2018, consumer loan commitments represent approximately 8% of total commitments and are generally unsecured. Commercial and agricultural loan commitments represent approximately 34% 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 58% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company’s commitments have variable interest rates.

Concentrations of Credit Risk

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

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

Contingencies

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

12. SHAREHOLDERS' EQUITY

Dividend Restrictions

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

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank's retained earnings or the Bank's net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the DBO, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2018, the maximum amount available for dividend distribution under this restriction was approximately $21,407,000. In addition, the Company's ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trusts (see Note 10 for additional information related to the Trust Preferred Securities).

On October 20, 2016 the Company announced that its Board of Directors approved the reinstatement of a semi-annual cash dividend. The dividend in the amount of $0.10 per share was paid on November 21, 2016. On May 15, 2017 and November 15, 2017, the Company paid semi-annual cash dividends each of which totaled $0.14 per share. On May 15, 2018 and November 15, 2018, the Company paid semi-annual cash dividends each of which totaled $0.18 per share.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Earnings Per Share

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

	For the Year Ended December 31,		
(In thousands, except per share data)	2018	2017	2016
Net Income:			
Net income	$13,992	$8,189	$7,474
Earnings Per Share:			
Basic earnings per share	$2.74	$1.64	$1.54
Diluted earnings per share	$2.68	$1.58	$1.47
Weighted Average Number of Shares Outstanding:			
Basic shares	5,108	5,005	4,864
Diluted shares	5,219	5,185	5,098

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 71,100, 0 and 63,000 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2016 one stock warrant was outstanding to purchase up to 150,000 shares of the Bancorp’s common stock at an exercise price, subject to anti-dilution adjustments, of $5.25 per share.

Warrant

On April 15, 2013 the Company issued a $7.5 million subordinated debenture (“subordinated debt”). The subordinated debt was issued to an unrelated third-party pursuant to a subordinated debenture purchase agreement, subordinated debenture note, and stock purchase warrant. On April 16, 2015 the Company paid off the subordinated debt. The subordinated debt had an interest rate of 7.5% per annum and a term of 8 years with no prepayment allowed during the first two years and was made in conjunction with an eight-year warrant to purchase up to 300,000 shares of the Bancorp’s common stock, no par value at an exercise price, subject to anti-dilution adjustments, of $5.25 per share. In May of 2016 the Company repurchased a portion of the warrant, representing the right to purchase 150,000 shares of the registrant’s common stock at a cost of $862 thousand. The remaining warrant represented the right to purchase 150,000 shares of Plumas Bancorp common stock at an exercise price of $5.25 per share was scheduled to expire on April 15, 2021. In May 2017 the warrant was exercised in a cashless exercise resulting in the issuance of 108,112 common shares.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS' EQUITY (Continued)

Stock Options

In 2001, the Company established a Stock Option Plan for which 6,193 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of December 31, 2018.

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

A summary of the activity within the 2001 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value
Options outstanding at January 1, 2016	192,893	5.75		
Options cancelled	(55,800)	12.61		
Options exercised	(55,200)	2.95		
Options outstanding at December 31, 2016	81,893	2.95		
Options exercised	(35,600)	2.95		

Options outstanding at December 31, 2017	46,293	$ 2.95		
Options exercised	(40,100)	2.95		
Options outstanding at December 31, 2018	6,193	$ 2.95	0.2	$122,000
Options exercisable at December 31, 2018	6,193	$ 2.95	0.2	$122,000
Expected to vest after December 31, 2018	-			

In May 2013, the Company established the 2013 Stock Option Plan for which 432,600 shares of common stock are reserved and 236,100 shares are available for future grants as of December 31, 2018. The 2013 Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash, with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months, in options of the Optionee that are fully vested and exercisable or in any combination of the foregoing. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. During the year ended December 31, 2018, 76,000 options were granted and during the year ended December 31, 2016 108,000 options were granted. No options were granted during the year ended December 31, 2017.

As of December 31, 2018, there was $457,000 of total unrecognized compensation cost related to non-vested, share-based compensation arrangements granted under the 2013 Plan. That cost is expected to be recognized over a weighted average period of 2.5 years.

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PLUMAS BANCORP AND SUBSIDIARY

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12. SHAREHOLDERS' EQUITY (Continued)

Stock Options (continued)

A summary of the activity within the 2013 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value
Options outstanding at January 1, 2016	102,400	6.32		
Option granted	108,000	8.75		
Options cancelled	(9,600)	7.94		
Options exercised	(8,000)	6.32		
Options outstanding at December 31, 2016	192,800	7.60		
Options cancelled	(7,200)	8.14		
Options exercised	(25,000)	6.65		
Options outstanding at December 31, 2017	160,600	7.72		
Option granted	76,000	24.40		
Options cancelled	(6,500)	20.55		
Options exercised	(33,600)	7.19		
Options outstanding at December 31, 2018	196,500	$ 13.84	5.4	$1,863,000
Options exercisable at December 31, 2018	79,800	$ 7.33	4.1	$1,227,000
Expected to vest after December 31, 2018	103,583	$ 18.28	6.4	$565,000

The following information relates to the two plans.

Compensation cost related to stock options recognized in operating results under the was $199,000, $152,000 and $116,000 for the years ended December 31, 2018, 2017 and 2016, respectively. The associated future income tax benefit recognized was $14,000, $11,000, $13,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

The total fair value of options vested was $150,000 and $161,000 for the years ended December 31, 2018 and 2017, respectively. The total intrinsic value of options at time of exercise was $1,504,000 and $894,000 for the years ended December 31, 2018 and 2017, respectively.

Cash received from option exercises for the years ended December 31, 2018, 2017 and 2016 was $330,000, $261,000 and $200,000, respectively. The tax benefit realized for the tax deductions from option exercise totaled $134,000, $112,000 and $12,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

Regulatory Capital

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (continued)

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

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

Plumas Bancorp qualifies for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) (the "Policy Statement") and is thereby not subject to consolidated capital rules at the bank holding company level. On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Relief Act") was signed into law. The Relief Act included a provision to increase the threshold for qualifying for the Policy Statement from $1 billion to $3 billion in total assets. The Bank; however, is subject to the new capital rules.

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

	Actual		Minimum Amount of Capital Required			
			For Capital Adequacy Purposes[1]		To be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Common Equity Tier 1 Ratio	$76,545	11.8 %	$29,071	4.5 %	$41,991	6.5 %
Tier 1 Leverage Ratio	76,545	9.3 %	32,765	4.0 %	40,956	5.0 %
Tier 1 Risk-Based Capital Ratio	76,545	11.8 %	38,761	6.0 %	51,681	8.0 %
Total Risk-Based Capital Ratio	83,753	13.0 %	51,681	8.0 %	64,602	10.0 %
December 31, 2017						
Common Equity Tier 1 Ratio	$65,085	12.0 %	$24,453	4.5 %	$35,321	6.5 %
Tier 1 Leverage Ratio	65,085	8.8 %	29,663	4.0 %	37,079	5.0 %
Tier 1 Risk-Based Capital Ratio	65,085	12.0 %	32,604	6.0 %	43,472	8.0 %
Total Risk-Based Capital Ratio	71,878	13.2 %	43,472	8.0 %	53,340	10.0 %

1 – Does not include amounts required under the capital conservation buffer discussed above.

The current and projected capital positions of the Company and the Bank and the impact of capital plans and long-term strategies are reviewed regularly by management. The Company policy is to maintain the Bank’s ratios above the prescribed well-capitalized ratios at all times. Management believes that the Bank currently meets all its capital adequacy requirements.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
Outside service fees	$2,376,000	$2,234,000	$2,105,000
Professional fees	925,000	612,000	608,000
Telephone and data communications	528,000	561,000	450,000
Business development	439,000	389,000	344,000
Advertising and promotion	433,000	372,000	366,000
Armored car and courier	329,000	278,000	248,000
Director compensation and retirement	267,000	336,000	348,000
Deposit insurance	237,000	248,000	285,000
Loan collection expenses	216,000	194,000	166,000
Provision from change in OREO valuation	155,000	124,000	37,000
Stationery and supplies	118,000	118,000	119,000
OREO expenses	76,000	73,000	(34,000)
Insurance	53,000	75,000	78,000
Postage	51,000	49,000	40,000
Gain on sale of other real estate	(47,000)	(130,000)	(60,000)
Other operating expenses	585,000	233,000	309,000
Other non-interest expense	$6,741,000	$5,766,000	$5,409,000

14. INCOME TAXES

The provision for income taxes for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

2018	Federal	State	Total

Current	$3,124,000	$1,650,000	$4,774,000
Deferred	211,000	149,000	360,000
Provision for income taxes	$3,335,000	$1,799,000	$5,134,000

2017	Federal	State	Total
Current	$5,170,000	$1,643,000	$6,813,000
Deferred tax asset adjustment for enacted change in tax rate	1,419,000	-	1,419,000
Deferred	(738,000)	(178,000)	(916,000)
Provision for income taxes	$5,851,000	$1,465,000	$7,316,000

2016	Federal	State	Total
Current	$4,156,000	$1,263,000	$5,419,000
Deferred	(575,000)	(85,000)	(660,000)
Provision for income taxes	$3,581,000	$1,178,000	$4,759,000

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2018	2017
Deferred tax assets:		
Allowance for loan losses	$1,978,000	$1,927,000
Deferred compensation	1,047,000	1,114,000
OREO valuation allowance	385,000	391,000
Premises and equipment	349,000	422,000
Unrealized loss on available-for-sale investment securities	846,000	239,000
Other	719,000	646,000
Total deferred tax assets	5,324,000	4,739,000
Deferred tax liabilities:		
Deferred loan costs	(1,587,000)	(1,266,000)
Other	(202,000)	(184,000)
Total deferred tax liabilities	(1,789,000)	(1,450,000)
Net deferred tax assets	$3,535,000	$3,289,000

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

At December 31, 2018 total deferred tax assets were approximately $5,324,000 and total deferred tax liabilities were approximately $1,789,000 for a net deferred tax asset of $3,535,000. The Company’s deferred tax assets primarily relate timing differences in the tax deductibility of impairment charges on other real estate owned, deprecation on premises and equipment, the provision for loan losses and deferred compensation. Based upon our analysis of available evidence, management of the Company determined that it is "more likely than not" that all of our deferred income tax assets as of December 31, 2018 and 2017 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.

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(Continued)

14. INCOME TAXES (Continued)

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

	2018	2017	2016
Federal income tax, at statutory rate	21.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	7.4 %	6.2 %	6.9 %
Interest on obligations of states and political subdivisions	(0.9)%	(1.5)%	(1.5)%
Net increase in cash surrender value of bank owned life insurance	(0.4)%	(0.7)%	(0.9)%
Deferred tax Federal rate adjustment	- %	9.2 %	- %
Other	(0.3)%	- %	0.4 %
Effective tax rate	26.8%	47.2%	38.9%

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

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2015, and by state and local taxing authorities for years ended before December 31, 2014.

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, 2018 and 2017 were not significant. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2018:

Balance, January 1, 2018	$5,520,000
Disbursements	3,439,000
Amounts repaid	(3,839,000)
Balance, December 31, 2018	$5,120,000
Undisbursed commitments to related parties, December 31, 2018	$3,128,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Plumas Bank Profit Sharing Plan commenced April 1, 1988 and is available to employees meeting certain service requirements. Under the Plan, employees are able to defer a selected percentage of their annual compensation. Included under the Plan's investment options is the option to invest in Company stock. During 2018 and 2017, the Company’s contribution totaled $176,000 and $150,000, respectively consisting of a matching amount of 30% of the employee’s contribution up to a total of 2.4% of the employee’s compensation. During 2016 the Company’s contribution consisted of a matching amount of 25% of the employee’s contribution up to a total of 2% of the employee’s compensation totaling $114,000.

Salary Continuation and Retirement Agreements

Salary continuation and retirement agreements are in place for the Company’s president, its three of its current executive vice presidents, five members of the Board of Directors as well as five former executives and four former directors. Under these agreements, the directors and executives will receive monthly payments for periods ranging from ten to fifteen years, after retirement. The estimated present value of these future benefits is accrued over the period from the effective dates of the agreements until the participants' expected retirement dates. The expense recognized under these plans for the years ended December 31, 2018, 2017 and 2016 totaled $185,000, $307,000 and $269,000, respectively. Accrued compensation payable under these plans totaled $3,682,000 and $3,855,000 at December 31, 2018 and 2017, respectively.

In connection with some of these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling $12,856,000 and $12,866,000 at December 31, 2018 and 2017, respectively. Income earned on these policies, net of expenses, totaled $328,000, $338,000 and $341,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$507,000	$383,000
Investment in bank subsidiary	76,173,000	64,989,000
Other assets	602,000	653,000
Total assets	$77,282,000	$66,025,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	$40,000	$15,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
Total liabilities	10,350,000	10,325,000
Shareholders' equity:		
Common stock	6,944,000	6,415,000
Retained earnings	62,005,000	49,855,000
Accumulated other comprehensive loss	(2,017,000)	(570,000)
Total shareholders' equity	66,932,000	55,700,000
Total liabilities and shareholders' equity	$77,282,000	$66,025,000

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Income:			
Dividends declared by bank subsidiary	$2,000,000	$4,000,000	$3,500,000
Earnings from investment in Plumas Statutory Trusts I and II	15,000	12,000	10,000
Total income	2,015,000	4,012,000	3,510,000
Expenses:			
Interest on junior subordinated deferrable interest debentures	510,000	401,000	348,000
Interest on note payable	-	28,000	133,000
Other expenses	326,000	251,000	235,000
Total expenses	836,000	680,000	716,000
Income before equity in undistributed income of subsidiary	1,179,000	3,332,000	2,794,000
Equity in undistributed income of subsidiary	12,479,000	4,538,000	4,390,000
Income before income taxes	13,658,000	7,870,000	7,184,000
Income tax benefit	334,000	319,000	290,000
Net income	$13,992,000	$8,189,000	$7,474,000
Total comprehensive income	$12,545,000	$8,685,000	$6,544,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

17. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Cash flows from operating activities:			
Net income	$13,992,000	$8,189,000	$7,474,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(12,479,000)	(4,538,000)	(4,390,000)
Stock-based compensation expense	47,000	37,000	32,000
Decrease (increase) in other assets	51,000	(76,000)	(31,000)
Increase (decrease) in other liabilities	25,000	2,000	(2,000)
Net cash provided by operating activities	1,636,000	3,614,000	3,083,000
Cash flows from financing activities:			
Cash dividends paid on common stock	(1,842,000)	(1,398,000)	(489,000)
Repurchase of common stock warrant	-	-	(862,000)
Payment on note payable	-	(2,375,000)	(2,500,000)
Proceeds from exercise of stock options	330,000	261,000	200,000
Net cash used in financing activities	(1,512,000)	(3,512,000)	(3,651,000)
Increase (decrease) in cash and cash equivalents	124,000	102,000	(568,000)
Cash and cash equivalents at beginning of year	383,000	281,000	849,000
Cash and cash equivalents at end of year	$507,000	$383,000	$281,000

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting. During the fourth quarter of 2018, no change in the Company's internal control over financial reporting was identified in connection with this evaluation that has materially affected or is reasonably likely to materially affect internal control over financial reporting.

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

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

3.1	Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
3.2	Bylaws of Registrant as amended on March 16, 2011 included as exhibit 3.2 to the Registrant's Form 10-K for December 31, 2010, which is incorporated by this reference herein.
3.3	Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
3.4	Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
4	Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
10.1	Executive Salary Continuation Agreement of Andrew J. Ryback dated December 17, 2008, is included as exhibit 10.1 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
10.2	Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.
10.4	Stock Purchase Warrant dated April 15, 2013, is included as Exhibit 10.4 to the Registrant's 10-Q filed on May 10, 2013, which is incorporated by this reference herein.
10.6	Promissory Note Dated October 24, 2013, is included as Exhibit 10.6 to the Registrant's 10-Q filed on November 7, 2013, which is incorporated by this reference herein.
10.8	Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant's 10-Q for March 31, 2007, which is incorporated by this reference herein.
10.9	Amendment to Salary Continuation Agreement of Andrew J. Ryback dated April 1, 2016, is included as Exhibit 10.1 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.

10.10 Salary Continuation Agreement of Richard L. Belstock dated April 1, 2016, is included as Exhibit 10.2 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.

10.11 Salary Continuation Agreement of Kerry D. Wilson dated April 1, 2016, is included as Exhibit 10.3 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.

10.12 Salary Continuation Agreement of BJ North dated April 1, 2016, is included as Exhibit 10.4 to the Registrant's 8-K filed on April 4, 2016, which is incorporated by this reference herein.

10.13 Director Retirement Agreement of Steven M. Coldani dated December 21, 2016, is included as Exhibit 10.13 to the Registrant's 10-K filed on March 17, 2017, which is incorporated by this reference herein.

10.18 Amended and Restated Director Retirement Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.18 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

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10.24	Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.25	Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.33	Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.34	Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.41	Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.42	Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.47	2013 Stock Option Plan is included as exhibit 99.1 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
10.48	Specimen Form of Incentive Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.2 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
10.49	Specimen Form of Nonqualified Stock Option Agreement under the 2013 Stock Option Plan is included as exhibit 99.3 of the Form S-8 filed September 12, 2013, which is incorporated by this reference herein.
10.51	First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
10.66	Director Retirement Agreement of Robert McClintock, is included as Exhibit 10.66 to the Registrant's 10-K filed on March 23, 2012, which is incorporated by this reference herein.
10.67	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Terrance J. Reeson adopted on September 19, 2007, is included as Exhibit 10.67 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.69	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.70	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein.

Computation of per share earnings appears in the attached 10-K under Item 8 Financial Statements Plumas Bancorp and Subsidiary Notes to Consolidated Financial Statements as Footnote 12 – Shareholders' Equity.

21.01 Plumas Bank – California.

21.02 Plumas Statutory Trust I – Connecticut.

21.03 Plumas Statutory Trust II – Delaware.

23.01* Independent Registered Public Accountant's Consent dated March 7, 2019.

31.1* Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated March 7, 2019.

31.2* Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated March 7, 2019.

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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 7, 2019.
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 7, 2019.
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

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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 7, 2019

/s/ ANDREW J. RYBACK
Andrew J. Ryback,
President, Chief Executive Officer and Director

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/ ANDREW J. RYBACK Andrew J. Ryback, *President, Chief Executive Officer and Director*	Dated: March 7, 2019
/s/ RICHARD L. BELSTOCK Richard L. Belstock, *Executive Vice President and Chief Financial Officer*	Dated: March 7, 2019
/s/ DANIEL E. WEST Daniel E. West, *Director and Chairman of the Board*	Dated: March 7, 2019
/s/ TERRANCE J. REESON Terrance J. Reeson, *Director and Vice Chairman of the Board*	Dated: March 7, 2019
Michonne R. Ascuaga, *Director*	
/s/ STEVEN M. COLDANI Steven M. Coldani, *Director*	Dated: March 7, 2019
/s/ W. E. ELLIOTT	Dated: March 7, 2019

William E. Elliott, *Director*

Gerald W. Fletcher, *Director*

/s/ RICHARD F. KENNY Dated: March 7, 2019
Richard F. Kenny, Director

/s/ ROBERT J. MCCLINTOCK Dated: March 7, 2019
Robert J. McClintock, *Director*

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