SCRIPPS E W CO /DE
Form 4
February 26, 2008

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 *
SCRIPPS EDWARD W
(Last) (First) (Middle)
312 WALNUT STREET, 28TH FLOOR
(Street)
CINCINNATI, OH 45202
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SCRIPPS E W CO /DE [SSP]

3. Date of Earliest Transaction (Month/Day/Year)
02/22/2008

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

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			
Class A Common Shares, $.01 par value per share								2,000	D	
Class A Common Shares, $.01 par value per share	02/22/2008		Z		39,192,222	D	(1)	0	D	

Common Voting Shares, $.01 par value per share	02/22/2008		Z	32,080,000	D	(1)	0	D

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 (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Pri Deriv Secur (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Option	$ 24.25							05/13/2000	05/12/2009	Class A Common	4,000	
Option	$ 24.47							05/18/2001	05/17/2010	Class A Common	10,000	
Option	$ 32.16							05/10/2002	05/09/2011	Class A Common	10,000	
Option	$ 39.005							05/09/2003	05/08/2012	Class A Common	10,000	
Option	$ 39.82							04/29/2004	04/28/2013	Class A Common	10,000	
Option	$ 52.91							04/15/2005	04/14/2014	Class A Common	10,000	
Option	$ 51.26							04/14/2006	04/13/2015	Class A Common	10,000	
Option	$ 46.64							05/04/2007	05/03/2016	Class A Common	10,000	
Option	$ 43.28							04/26/2008	04/25/2017		10,000	

Class A
Common

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCRIPPS EDWARD W 312 WALNUT STREET, 28TH FLOOR CINCINNATI, OH 45202	X			

Signatures

/s/ M. Denise Kuprionis, Attorney-in-fact for Edward W. Scripps	02/26/2008
**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 reporting person retired on 2/22/08 as a member of the company's board of directors and as a Trustee of The Edward W. Scripps Trust (the "Trust"), controlling shareholder of the company. He no longer has the power to vote and dispose of the shares of the company held by the Trust.

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. Roman" SIZE="2">**45,024 9.8% $42,994 8.9%**

Minimum regulatory requirement

18,313 4.0% 19,361 4.0%

Plumas Bank

45,073 9.8% 43,262 8.9%

Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation

22,882 5.0% 24,190 5.0%

Minimum regulatory requirement

18,305 4.0% 19,352 4.0%

<u>Tier 1 Risk-Based Capital Ratio</u>

Plumas Bancorp and Subsidiary

45,024 13.7% 42,994 12.7%

Minimum regulatory requirement

13,149 4.0% 13,570 4.0%

Plumas Bank

45,073 13.7% 43,262 12.8%

Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation

19,710 6.0% 20,342 6.0%

Minimum regulatory requirement

13,140 4.0% 13,561 4.0%

Total Risk-Based Capital Ratio

Plumas Bancorp and Subsidiary

49,169 15.0% 47,274 13.9%

Minimum regulatory requirement

26,298 8.0% 27,140 8.0%

Plumas Bank

49,215 15.0% 47,539 14.0%

Minimum requirement for Well-Capitalized institution under the prompt corrective action regulation

32,850 10.0% 33,903 10.0%

Minimum regulatory requirement

26,280 8.0% 27,123 8.0%

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Management believes that the Company and the Bank currently meet their entire capital adequacy requirements including a minimum 9% Tier 1 Leverage Ratio required under the Bank s informal agreement with the FDIC and DFI.

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

Off-Balance Sheet Arrangements

Loan Commitments. In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of December 31, 2011, the Company had $79.2 million in unfunded loan commitments and $50 thousand in letters of credit. This compares to $71.6 million in unfunded loan commitments and $164 thousand in letters of credit at December 31, 2010. Of the $79.2 million in unfunded loan commitments, $35.1 million and $44.1 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2011, $36.1 million were secured by real estate, of which $8.8 million was secured by commercial real estate and $27.3 million was secured by residential real estate in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines. Since some of the commitments are expected to expire without being drawn upon the total commitment amounts do not necessarily represent future cash requirements.

Operating Leases. The Company leases one depository branch, one lending office and one loan administration office and two non branch automated teller machine locations. Total rental expenses under all operating leases, including premises, totaled $150,000 and $20,000, during the years ended December 31, 2011 and 2010, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2012 and the last such lease expiring during 2015.

The reduced level of rental expense during 2010 resulted from the purchase of our Redding branch building on March 31, 2010. Previously we had leased this building. Under the terms of the lease agreement we were provided free rent for a period of time; however, in accordance with applicable accounting standards we recognized monthly rent expense equal to the total payments required under the lease dividend by the term of the lease in months. At the time of the purchase we reversed this accrual recognizing a $184 thousand reduction in rental expense.

Liquidity

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

The Company is a member of the FHLB and can borrow up to $86,388,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $178,987,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2011, the Company held $2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the Company can borrow up to $43,466,000. There were no borrowings outstanding as of December 31, 2011. To borrow the $86,388,000 in available credit the Company would need to purchase $2,017,000 in additional FHLB stock.

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Customer deposits are the Company s primary source of funds. Total deposits were $391.1 million as of December 31, 2011, a decrease of $33.8 million, or 8%, from the December 31, 2010 balance of $424.9 million. Deposits are held in various forms with varying maturities. The Company s securities portfolio, Federal funds sold, Federal Home Loan Bank advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as cash held at the FRB, Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company s available sources of funds, including borrowings, will provide adequate liquidity for its operations in the foreseeable future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of Plumas Bancorp and subsidiary, and report of the independent registered public accounting firm are included in the Annual Report of Plumas Bancorp to its shareholders for the years ended December 31, 2011, 2010 and 2009.

	Page
Reports of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheet as of December 31, 2011 and 2010	F-3
Consolidated Statement of Operations for the years ended December 31, 2011, 2010 and 2009	F-4
Consolidated Statement of Changes in Shareholders Equity for the years ended December 31, 2011, 2010 and 2009	F-6
Consolidated Statement of Cash Flows for the years ended December 31, 2011, 2010 and 2009	F-8
Notes to Consolidated Financial Statements	F-11

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES
As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management, including the undersigned Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of December 31, 2011. In conducting its assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2011, our internal control over financial reporting was effective based on those criteria.

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

/s/ Andrew J. Ryback
Andrew J. Ryback
President and Chief Executive Officer

/s/ Richard L. Belstock
Richard L. Belstock
Senior Vice President and Chief Financial Officer
Dated March 23, 2012

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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.

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

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

3.1 Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant s Form S-4, File No. 333-84534, which is incorporated by reference herein.

3.2 Bylaws of Registrant as amended on March 16, 2011 included as exhibit 3.2 to the Registrant s Form 10-K for December 31, 2010, which is incorporated by this reference herein.

3.3 Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant s 10-Q for September 30, 2005, which is incorporated by this reference herein.

3.4 Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant s 10-Q for September 30, 2005, which is incorporated by this reference herein.

4 Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant s Form S-4, File No. 333-84534, which is incorporated by reference herein.

4.1 Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, is included as exhibit 4.1 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this 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.

10.8 Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant s 10-Q for March 31, 2007, which is incorporated by this reference herein.

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

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10.19	Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.21	Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.22	Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.24	Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.25	Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.27	Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.28	Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.33	Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.34	Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.35	Letter Agreement, dated January 30, 2009 by and between Plumas Bancorp, Inc. and the United States Department of the Treasury and Securities Purchase Agreement Standard Terms attached thereto, is included as exhibit 10.1 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this reference herein.
10.36	Form of Senior Executive Officer letter agreement, is included as exhibit 10.2 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this reference herein.
10.37	Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.40	2001 Stock Option Plan as amended is included as exhibit 99.1 of the Form S-8 filed July 23, 2002, File No. 333-96957, which is incorporated by this reference herein.
10.41	Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.42	Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.43	Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
10.46	1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.

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10.47	Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.48	Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.49	Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant s 10-Q for September 30, 2006, which is incorporated by this reference herein.
10.50	Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant s 10-K for December 31, 2008, which is incorporated by this reference herein.
10.51	First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant s 10-K for December 31, 2008, which is incorporated by this reference herein.
10.64	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Alvin Blickenstaff adopted on September 19, 2007, is included as Exhibit 10.64 to the Registrant s 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.65	First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Arthur C. Grohs adopted on September 19, 2007, is included as Exhibit 10.65 to the Registrant s 8-K filed on September 25, 2007, which is incorporated by this reference herein.
10.66	Director Retirement Agreement of Robert McClintock
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.
10.71	Consent Order issued by the FDIC and CDFI to Plumas Bank on March 18, 2011, is included as Exhibit 10.1 of the Registrant s 8-K filed on March 21, 2011, which is incorporated by this reference herein.
10.72	Stipulation and Consent to the Issuance of Consent Order among Plumas Bank and the FDIC entered into on March 16, 2011, is included as Exhibit 10.2 of the Registrant s 8-K filed on March 21, 2011, which is incorporated by this reference herein.
10.73	Written Agreement with Federal Reserve Bank of San Francisco effective July 28, 2011, is included as Exhibit 10.1 of the Registrant s 8-K filed on July 29, 2011, which is incorporated by this reference herein.
11	Computation of per share earnings appears in the attached 10-K under Item 8 Financial Statements Plumas Bancorp and Subsidiary Notes to Consolidated Financial Statements as Footnote 13 Shareholders Equity.
21.01	Plumas Bank California.
21.02	Plumas Statutory Trust I Connecticut.

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21.03 Plumas Statutory Trust II Connecticut.

23.01 Independent Registered Public Accountant s Consent for audit of year ended December 31, 2011 dated March 23, 2012

23.02 Independent Registered Public Accountant s Consent for audit of years ended December 31, 2010 and December 31, 2009 dated March 23, 2012

31.1 Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated March 23, 2012

31.2 Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated March 23, 2012

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 23, 2012.

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 23, 2012.

99.1 Certification of Chief Executive Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 dated March 23, 2012.

99.2 Certification of Chief Financial Officer pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008 dated March 23, 2012.

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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 23, 2012

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

/s/ RICHARD L. BELSTOCK
Richard L. Belstock
Senior Vice President and Chief Financial Officer

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

/s/ DANIEL E. WEST Daniel E. West, *Director and Chairman of the Board*	Dated: March 23, 2012
/s/ TERRANCE J. REESON Terrance J. Reeson, *Director and Vice Chairman of the Board*	Dated: March 23, 2012
/s/ ALVIN G. BLICKENSTAFF Alvin G. Blickenstaff, *Director*	Dated: March 23, 2012
/s/ W. E. ELLIOTT William E. Elliott, *Director*	Dated: March 23, 2012
/s/ GERALD W. FLETCHER Gerald W. Fletcher, *Director*	Dated: March 23, 2012
/s/ JOHN FLOURNOY John Flournoy, *Director*	Dated: March 23, 2012
/s/ ARTHUR C. GROHS Arthur C. Grohs, *Director*	Dated: March 23, 2012
/s/ ROBERT J. MCCLINTOCK Robert J. McClintock, *Director*	Dated: March 23, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Plumas Bancorp and Subsidiary

Quincy, California

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and subsidiary (the Company) as of December 31, 2011, and the related consolidated statements of operations, changes in shareholders equity and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Sacramento, California

March 23, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Plumas Bancorp and Subsidiary

Quincy, California

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and subsidiary (the Company) as of December 31, 2010 and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the years in the two year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Plumas Bancorp and subsidiary as of December 31, 2010, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perry-Smith LLP

Sacramento, California

March 23, 2011

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

December 31, 2011 and 2010

	September 30, 2011	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 63,076,000	$ 64,628,000
Investment securities	57,917,000	63,017,000
Loans, less allowance for loan losses of $6,908,000 in 2011 and $7,324,000 in 2010	287,432,000	307,151,000
Premises and equipment, net	13,457,000	14,431,000
Bank owned life insurance	10,815,000	10,463,000
Other real estate and vehicles acquired through foreclosure	8,680,000	8,884,000
Accrued interest receivable and other assets	13,972,000	15,906,000
Total assets	$ 455,349,000	$ 484,480,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 125,931,000	$ 111,802,000
Interest bearing	265,209,000	313,085,000
Total deposits	391,140,000	424,887,000
Repurchase agreements	8,279,000	
Accrued interest payable and other liabilities	5,986,000	11,295,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
Total liabilities	415,715,000	446,492,000
Commitments and contingencies (Note 12)		
Shareholders equity:		
Serial preferred stock no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at December 31, 2011 and 2010; aggregate liquidation value of $13,069,000 at December 31, 2011	11,769,000	11,682,000
Common stock no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at December 31, 2011 and 2010	5,998,000	6,027,000
Retained earnings	21,709,000	20,331,000
Accumulated other comprehensive income (loss)	158,000	(52,000)
Total shareholders equity	39,634,000	37,988,000
Total liabilities and shareholders equity	$ 455,349,000	$ 484,480,000

The accompanying notes are an integral

part of these consolidated financial statements.

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

For the Years Ended December 31, 2011, 2010 and 2009

	September 30, 2011	September 30, 2010	September 30, 2009
Interest income:			
Interest and fees on loans	$ 17,400,000	$ 18,860,000	$ 20,658,000
Interest on investment securities:			
Taxable	1,138,000	1,649,000	1,708,000
Exempt from Federal income taxes	6,000	123,000	455,000
Other	124,000	48,000	15,000
Total interest income	18,668,000	20,680,000	22,836,000
Interest expense:			
Interest on deposits	1,469,000	2,696,000	3,169,000
Interest on borrowings		135,000	80,000
Interest on junior subordinated deferrable interest debentures	326,000	312,000	371,000
Other	53,000	4,000	35,000
Total interest expense	1,848,000	3,147,000	3,655,000
Net interest income before provision for loan losses	16,820,000	17,533,000	19,181,000
Provision for loan losses	3,500,000	5,500,000	14,500,000
Net interest income after provision for loan losses	13,320,000	12,033,000	4,681,000
Non-interest income:			
Service charges	3,477,000	3,642,000	3,796,000
Gain on sale of investments	666,000	1,160,000	10,000
Gain on sale of loans	1,939,000	1,055,000	593,000
Earnings on bank owned life insurance policies	352,000	351,000	346,000
Sale of merchant processing portfolio		1,435,000	
Other	728,000	825,000	919,000
Total non-interest income	7,162,000	8,468,000	5,664,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

CONSOLIDATED STATEMENT OF OPERATIONS

	September 30, 2011	September 30, 2010	September 30, 2009
Non-interest expenses:			
Salaries and employee benefits	$ 9,195,000	$ 9,732,000	$ 11,054,000
Occupancy and equipment	3,088,000	3,096,000	3,759,000
Provision for losses on other real estate	579,000	356,000	4,800,000
Other	6,384,000	5,957,000	6,653,000
Total non-interest expenses	19,246,000	19,141,000	26,266,000
Income (loss) before income taxes	1,236,000	1,360,000	(15,921,000)
Provision (benefit) for income taxes	295,000	389,000	(6,775,000)
Net income (loss)	941,000	971,000	(9,146,000)
Preferred stock dividends accrued and discount accretion	(684,000)	(684,000)	(628,000)
Net income (loss) available to common shareholders	$ 257,000	$ 287,000	$ (9,774,000)
Basic earnings (loss) per common share	$ 0.05	$ 0.06	$ (2.05)
Diluted earnings (loss) per common share	$ 0.05	$ 0.06	$ (2.05)
Common dividends per share	$	$	$

The accompanying notes are an integral

part of these consolidated financial statements.

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the Years Ended December 31, 2011, 2010 and 2009

	00000	00000	00000	00000	00000	00000	00000	00000
	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Shareholders	Total Comprehensive
	Shares	Amount	Shares	Amount	Earnings		Equity	Income (loss)
Balance, January 1, 2009			4,775,339	$ 5,302,000	$ 29,818,000	$ 317,000	$ 35,437,000	
Comprehensive loss:								
Net loss					(9,146,000)		(9,146,000)	$ (9,146,000)
Other comprehensive income, net of tax:								
Unrealized gains on securities transferred from held-to-maturity to available-for-sale						197,000	197,000	197,000
Net change in unrealized gains on available-for-sale investment securities						108,000	108,000	108,000
Total comprehensive loss								$ (8,841,000)
Preferred stock issued	11,949	$ 11,516,000					11,516,000	
Stock warrants issued				407,000			407,000	
Preferred stock dividends & accretion		79,000			(628,000)		(549,000)	
Stock options exercised and related tax benefit			1,000	5,000			5,000	
Stock-based compensation expense				256,000			256,000	
Balance, December 31, 2009	11,949	11,595,000	4,776,339	5,970,000	20,044,000	622,000	38,231,000	
Comprehensive Income:								
Net Income					971,000		971,000	$ 971,000
Other comprehensive loss, net of tax:								
Net change in unrealized gains on available-for-sale investment securities						(674,000)	(674,000)	(674,000)
Total comprehensive income								$ 297,000

Preferred stock dividends & accretion		87,000			(684,000)		(597,000)
Stock-based compensation expense				57,000			57,000
Balance, December 31, 2010	11,949	$ 11,682,000	4,776,339	$ 6,027,000	$ 20,331,000	$ (52,000)	$ 37,988,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	0000	0000	0000	0000	0000	0000	0000	0000
	Preferred Stock		Common Stock		Retained	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Shareholders	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount	Earnings		Equity	
Balance, December 31, 2010	11,949	$ 11,682,000	4,776,339	$ 6,027,000	$ 20,331,000	$ (52,000)	$ 37,988,000	
Comprehensive Income:								
Net Income					941,000		941,000	$ 941,000
Other comprehensive income, net of tax:								
Net change in unrealized gains on available-for-sale investment securities						210,000	210,000	210,000
Total comprehensive income								$ 1,151,000
Reverse accrued dividends on preferred stock					524,000		524,000	
Preferred stock accretion		87,000			(87,000)			
Stock-based compensation expense				(29,000)			(29,000)	
Balance, December 31, 2011	11,949	$ 11,769,000	4,776,339	$ 5,998,000	$ 21,709,000	$ 158,000	$ 39,634,000	

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

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2011, 2010 and 2009

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from operating activities:			
Net income (loss)	$ 941,000	$ 971,000	$ (9,146,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	3,500,000	5,500,000	14,500,000
Change in deferred loan origination costs/fees, net	(441,000)	(79,000)	(19,000)
Stock-based compensation expense	(29,000)	57,000	256,000
Depreciation and amortization	1,409,000	1,693,000	1,929,000
Amortization of investment security premiums	410,000	514,000	283,000
Accretion of investment security discounts	(32,000)	(55,000)	(53,000)
Gain on sale of investments	(666,000)	(1,160,000)	(10,000)
Gain on sale of loans held for sale	(1,939,000)	(1,055,000)	(593,000)
Loans originated for sale	(18,550,000)	(21,286,000)	(12,598,000)
Proceeds from loan sales	23,368,000	14,873,000	11,393,000
Provision for losses on other real estate	579,000	356,000	4,800,000
Proceeds from secured borrowing		4,284,000	
Net (gain) loss on sale of premises and equipment	(3,000)	4,000	(6,000)
Net loss (gain) on sale of other real estate and vehicles owned	611,000	(58,000)	198,000
Earnings on bank owned life insurance policies	(352,000)	(351,000)	(346,000)
Provision (benefit) for deferred income taxes	259,000	385,000	(3,852,000)
Decrease (increase) in accrued interest receivable and other assets	1,575,000	5,325,000	(7,021,000)
(Decrease) increase in accrued interest payable and other liabilities	(554,000)	197,000	355,000
Net cash provided by operating activities	10,086,000	10,115,000	70,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

CONSOLIDATED STATEMENT OF CASH FLOWS

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from investing activities:			
Proceeds from matured and called available-for-sale investment securities	$ 29,182,000	$ 31,895,000	$ 8,000,000
Proceeds from matured and called held-to-maturity investment securities			1,836,000
Proceeds from sale of held-to-maturity securities			943,000
Proceeds from sale of available-for-sale securities	29,404,000	40,902,000	86,000
Purchases of available-for-sale investment securities	(59,247,000)	(57,238,000)	(65,876,000)
Purchases of held-to-maturity investment securities			(1,586,000)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	6,406,000	8,927,000	7,320,000
Net decrease in loans	3,386,000	16,623,000	8,683,000
Proceeds from sale of vehicles	33,000	177,000	270,000
Proceeds from sale of other real estate	4,937,000	3,462,000	1,992,000
Purchases of premises and equipment	(271,000)	(1,210,000)	(253,000)
Net cash provided by (used in)investing activities	13,830,000	43,538,000	(38,585,000)
Cash flows from financing activities:			
Net increase (decrease) in demand, interest-bearing and savings deposits	3,534,000	(3,353,000)	37,383,000
Net (decrease) increase in time deposits	(37,281,000)	(5,015,000)	24,379,000
Net increase in securities sold under agreements to repurchase	8,279,000		
Net decrease in short-term borrowings		(20,000,000)	(14,000,000)
Proceeds from long-term debt			20,000,000
Repayment of long-term debt		(20,000,000)	
Issuance of preferred stock, net of discount			11,516,000
Payment of cash dividend on preferred stock		(150,000)	(473,000)
Issuance of common stock warrant			407,000
Proceeds from exercise of stock options			5,000
Net cash (used in) provided by financing activities	(25,468,000)	(48,518,000)	79,217,000
(Decrease) increase in cash and cash equivalents	(1,552,000)	5,135,000	40,702,000
Cash and cash equivalents at beginning of year	64,628,000	59,493,000	18,791,000
Cash and cash equivalents at end of year	$ 63,076,000	$ 64,628,000	$ 59,493,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2011, 2010 and 2009

CONSOLIDATED STATEMENT OF CASH FLOWS

	September 30, 2011		September 30, 2010		September 30, 2009	
Supplemental disclosure of cash flow information:						
Cash paid during the year for:						
Interest expense	$	1,688,000	$	3,000,000	$	3,666,000
Income taxes	$	2,000	$		$	65,000
Non-cash investing activities:						
Real estate acquired through foreclosure	$	5,710,000	$	1,391,000	$	14,053,000
Vehicles acquired through repossession	$	79,000	$	112,000	$	245,000
Investment securities transferred from held-to-maturity to available-for-sale	$		$		$	11,722,000

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. The Bank s administrative headquarters is in Quincy, California. In addition, the Bank operates a loan administrative office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank s primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000. Amendments related to the enactment of the Dodd-Frank Act provide full deposit insurance coverage for noninterest bearing deposit transaction accounts beginning December 31, 2010 for a two year period.

2. REGULATORY MATTERS

On February 15, 2012, the Bank received notice from the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI) that the Consent Order with the FDIC and the DFI which was effective on March 16, 2011 had been terminated. While the Bank is no longer subject to an Order, the Bank has entered into an informal agreement with the FDIC and DFI which, among other things, requests that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At December 31, 2011 this ratio was 68%.

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

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

Plumas Statutory Trust I and Trust II are not consolidated into the Company s consolidated financial statements and, accordingly, are accounted for under the equity method. The Company s investment in Trust I of $283,000 and Trust II of $154,000 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 2011.

Segment Information

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

Use of Estimates

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As of December 31, 2011 all cash held with other federally insured institutions was fully insured by the FDIC. 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.

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

During 2009, management determined they no longer had the positive intent to hold their held-to-maturity securities and transferred their held-to-maturity securities to available-

for-sale (see note 5). This transfer increased the Company s flexibility in managing its investment portfolio allowing the investments to be sold in implementing its asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. All transfers between categories are accounted for at fair value. There were no transfers between categories during 2011 or 2010.

As of December 31, 2011 and 2010 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)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. At December 31, 2011 and 2010, FHLB stock totaled $2,043,000 and $2,188,000, respectively. On the consolidated balance sheet, FHLB stock is included in accrued interest receivable and other assets.

Loans Held for Sale, Loan Sales and Servicing

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

At December 31, 2010, we recorded the proceeds from the sale of the guaranteed portions of SBA loans that were subject to a premium refund obligation, which totaled $4,284,000, were recorded as a secured borrowing and such secured borrowings were included in other liabilities on the balance sheet. Once the premium refund obligation elapsed the transaction was recorded as a sale with the guaranteed portions of loans and the secured borrowing removed from the balance sheet and the resulting gain on sale recorded. Included in commercial loans at December 31, 2010 is $4,284,000 in guaranteed portions of SBA loans sold subject to a 90-day premium refund obligation. In February 2011, the SBA eliminated the refund obligation period and the Company is no longer required to defer gain recognition.

As of December 31, 2011 and 2010 the Company had $3,091,000 and $5,208,000, respectively in government guaranteed loans held for sale. Loans held for sale are recorded at the lower of cost or fair vale 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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Loans Held for Sale, Loan Sales and Servicing (continued)

Government guaranteed loans with unpaid balances of $47,708,000 and $33,686,000 were being serviced for others at December 31, 2011 and 2010, respectively. The Company also services loans previously sold to the Federal National Mortgage Association (FNMA) totaling $1,932,000 and $2,185,000 as of December 31, 2011 and 2010, 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 operations. 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, the servicing asset, the interest-only (IO) strip, and the sold portion of the loan based on their fair values on the date the loan is sold. The gain on the sold portion of the loan is recognized as income at the time of sale.

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. 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 collectibility of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. A loan is moved to non-accrual status in accordance with the Company s policy, typically after 90 days of non-payment unless well secured and in the process of collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

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

The Company may acquire loans through a business combination or a purchase for which differences may exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Company acquires such loans, the yield that may be accreted (accretable yield) is limited to the 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, 2011 and 2010, there were no such loans being accounted for under this policy.

Allowance for Loan Losses

The allowance for loan losses is an estimate of credit losses inherent in the Company s loan portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are not impaired but collectively evaluated for impairment.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Allowance for Loan Losses (continued)

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 over the past eight quarters by portfolio segment, 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 losses inherent in the portfolio taken as a whole. Effective for the third quarter of 2010, the Company modified its method of estimating the allowance for loan losses for loans collectively evaluated for impairment. This modification incorporated historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter to identified pools of loans. This modification did not have a material affect on the Company s allowance for loans losses or provision for loan losses. No modifications to the allowance for loan losses methodology were made in 2011.

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Allowance for Loan Losses (continued)

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

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

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

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

Substandard A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project s lack of marketability, inadequate cash flow or

collateral support, failure to complete construction on time or the project s failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

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

The 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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Allowance for Loan Losses (continued)

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

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

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

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

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

Installment An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial 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 automobile and credit card loans and are similar in nature to installment loans.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Allowance for Loan Losses (continued)

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

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for these commitments totaled $141,000 at December 31, 2011 and 2010, respectively and is included in accrued interest payable and other liabilities in the consolidated balance sheet.

Other Real Estate

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations, which was $8,623,000 ($11,668,000 less a valuation allowance of $3,045,000) at December 31, 2011 and $8,867,000 ($13,056,000 less a valuation allowance of $4,188,000) at December 31, 2010. Proceeds from sales of other real estate owned totaled $4,937,000, $3,462,000 and $1,992,000 for the years ended December 31, 2011, 2010 and 2009, respectively. For the year ended December 31, 2011 the Company recorded a loss on sale of other real estate owned of $606,000. This compares to a gain on sale of $43,000 during 2010 and a loss on sale of $158,000 during 2009. 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 recorded in other income or expenses as incurred.

The following table provides a summary of the change in the OREO balance for the years ended December 31, 2011 and 2010:

	September 30, Year Ended December 31, 2011	September 30, 2010
Beginning balance	$ 8,867,000	$ 11,204,000
Additions	5,825,000	1,438,000
Dispositions	(5,490,000)	(3,419,000)
Write-downs	(579,000)	(356,000)
Ending balance	$ 8,623,000	$ 8,867,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Intangible assets consist of core deposit intangibles related to branch acquisitions and are amortized using the straight-line method over ten years. The Company evaluates the recoverability and remaining useful life annually to determine whether events or circumstances warrant a revision to the intangible asset or the remaining period of amortization. There were no such events or circumstances in 2011 or 2010.

Premises and Equipment

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

Bank Owned Life Insurance

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

Income Taxes

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

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

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Taxes

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial

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

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of operations. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the years ended December 31, 2011 and 2010.

Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing income (loss) available to common stockholders (net income or (loss) less preferred dividends) 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.

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. In addition, the Bank and the Bancorp cannot currently pay dividends without the prior approval of their primary regulators.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

Compensation expense related to the Company s Stock Option Plan, net of related tax (expense)/benefit, recorded in 2011, 2010 and 2009 totaled $(38,000), $53,000 and $237,000 or $(0.01), $0.01 and $0.05 per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

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

The fair value of each option is estimated on the date of grant using the following assumptions.

	September 30, 2011
Expected life of stock options	5.3 years
Risk free interest rate	2.26%
Volatility	46.1%
Dividend yields	3.05%
Weighted-average fair value of options granted during the year	$ 0.99

No options were granted during the years ended December 31, 2010 and 2009.

Adoption of New Accounting Standards

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor s ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods ending after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The effect of adopting this standard did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Adoption of New Accounting Standards (continued)

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on the consolidated financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment will change the presentation of the components of comprehensive income for the Company, as this presentation will no longer be included as part of the consolidated statement of shareholders equity.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The estimated fair values of the Company s financial instruments are as follows:

	September 30, December 31, 2011 Carrying Amount	September 30, December 31, 2011 Fair Value	September 30, December 31, 2010 Carrying Amount	September 30, December 31, 2010 Fair Value
Financial assets:				
Cash and cash equivalents	$ 63,076,000	$ 63,076,000	$ 64,628,000	$ 64,628,000
Investment securities	57,917,000	57,917,000	63,017,000	63,017,000
Loans, net	287,432,000	290,710,000	307,151,000	304,045,000
FHLB stock	2,043,000	N/A	2,188,000	N/A
Accrued interest receivable	1,638,000	1,638,000	1,784,000	1,784,000
Financial liabilities:				
Deposits	$ 391,140,000	$ 391,410,000	$ 424,887,000	$ 425,009,000
Repurchase agreements	8,279,000	8,279,000		
Junior subordinated deferrable interest debentures	10,310,000	3,079,000	10,310,000	2,992,000
Accrued interest payable	783,000	783,000	623,000	623,000

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

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at December 31, 2011 and December 31, 2010:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values of loans held for sale, if any, are estimated using quoted market prices for similar loans. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The fair value of loans is adjusted for the allowance for loan losses. The carrying value of accrued interest receivable approximates its fair value.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The fair value of impaired loans is based on either the estimated fair value of underlying collateral or estimated cash flows, discounted at the loan s effective rate. Assumptions regarding credit risk and cash flows are determined using available market information and specific borrower information.

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

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Repurchase agreements:

The carrying amount of securities sold under repurchase agreements is estimated based on bid quotations received from brokers.

Junior subordinated deferrable interest debentures: The fair value of junior subordinated deferrable interest debentures was determined based on the current market value for like kind instruments of a similar maturity and structure.

Commitments to extend credit and letters of credit: The fair value of commitments are estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are primarily for variable rate loans and letters of credit.

For these commitments, there is no significant difference between the committed amounts and their fair values and therefore, these items are not included in the table above.

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. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and non recurring basis as of December 31, 2011 and December 31, 2010, 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 are summarized below:

	September 30,	September 30,	September 30,	September 30,
		Fair Value Measurements at December 31, 2011 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	$ 32,777,000		$ 32,777,000	
U.S. Government-sponsored agencies collateralized by mortgage obligations	25,140,000		25,140,000	
	$ 57,917,000	$	$ 57,917,000	$

	September 30,	September 30,	September 30,	September 30,
		Fair Value Measurements at December 31, 2010 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. Treasury securities	$ 1,032,000		$ 1,032,000	
U.S. Government-sponsored agencies	40,430,000		40,430,000	
U.S. Government-sponsored agencies collateralized by mortgage obligations	21,273,000		21,273,000	
Obligations of states and political subdivisions	282,000		282,000	

$ 63,017,000	$	$ 63,017,000	$

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

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. There were no changes in the valuation techniques used during 2011 or 2010. There were no transfers between levels during the year ended December 31, 2011 or December 31, 2010. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2011 are summarized below:

	September 30,	September 30,	September 30,	September 30,	September 30,
		Fair Value Measurements at December 31, 2011 Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	$ 2,942,000			$ 2,942,000	$ (315,000)
Agricultural	245,000			245,000	(250,000)
Real estate residential	2,558,000			2,558,000	(297,000)
Real estate commercial	3,701,000			3,701,000	(52,000)
Real estate construction and land development	4,070,000			4,070,000	(402,000)
Equity lines of credit	49,000			49,000	(100,000)
Installment					(1,000)
Other					
Total impaired loans	13,565,000			13,565,000	(1,417,000)
Other real estate:					
Real estate residential	644,000			644,000	(85,000)
Real estate commercial	5,021,000			5,021,000	(54,000)
Real estate construction and land development	2,958,000			2,958,000	(440,000)
Total other real estate	8,623,000			8,623,000	(579,000)
	$22,188,000	$	$	$ 22,188,000	$ (1,996,000)

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 are summarized below:

	September 30,	**September 30,**	**September 30,**	**September 30,**	**September 30,**
		Fair Value Measurements at December 31, 2010 Using			
	Total Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Impaired loans:					
Commercial	$ 914,000			$ 914,000	$ (259,000)
Agricultural	243,000			243,000	(117,000)
Real estate residential	1,505,000			1,505,000	(213,000)
Real estate commercial	2,009,000			2,009,000	(201,000)
Real estate construction and land development	8,850,000			8,850,000	(559,000)
Equity lines of credit					(10,000)
Installment					(8,000)
Other					11,000
Total impaired loans	13,521,000			13,521,000	(1,356,000)
Other real estate:					
Real estate residential	525,000			525,000	(14,000)
Real estate commercial	2,348,000			2,348,000	(141,000)
Real estate construction and land development	5,994,000			5,994,000	(80,000)
Total other real estate	8,867,000			8,867,000	(235,000)
	$ 22,388,000	$	$	$ 22,388,000	$ (1,591,000)

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

The following methods were used to estimate the fair value of each class of assets above.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses or loans that have been subject to partial charge-offs are generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Total losses of $1,417,000 and $1,356,000 represent

impairment charges recognized during the years ended December 31, 2011 and December 31, 2010, respectively related to the above impaired loans.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2011 and 2010 consisted of the following:

	September 30,	September 30,	September 30,	September 30,
		2011		
Available-for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Debt securities:				
U.S. Government-sponsored agencies	$ 32,708,000	$ 92,000	$ (23,000)	$ 32,777,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	24,941,000	251,000	(52,000)	25,140,000
	$ 57,649,000	$ 343,000	$ (75,000)	$ 57,917,000

Net unrealized gains on available-for-sale investment securities totaling $268,000 were recorded, net of $110,000 in tax expense, as accumulated other comprehensive income within shareholders equity at December 31, 2011. During the year ended December 31, 2011 the Company sold twenty-seven available-for-sale securities for $29,404,000, recording a $666,000 gain on sale. No securities were sold at a loss.

	September 30,	September 30,	September 30,	September 30,
		2010		
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Debt securities:				
U.S. Treasury securities	$ 1,025,000	$ 7,000		$ 1,032,000
U.S. Government-sponsored agencies	40,662,000	58,000	$ (290,000)	40,430,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	21,110,000	270,000	(107,000)	21,273,000
Obligations of states and political subdivisions	308,000		(26,000)	282,000
	$ 63,105,000	$ 335,000	$ (423,000)	$ 63,017,000

Net unrealized losses on available-for-sale investment securities totaling $88,000 were recorded, net of $36,000 in tax benefit, as accumulated other comprehensive loss within shareholders equity at December 31, 2010. During the year ended December 31, 2010 the Company sold sixty-five available-for-sale securities for $40,902,000, recording a $1,160,000 gain on sale. During 2009 we sold one available-for-sale investment security for $86,000, recording a $1,000 gain on sale.

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5. INVESTMENT SECURITIES (Continued)

Held-to-Maturity

There were no securities classified as held-to-maturity at December 31, 2011 or December 31, 2010. Related to a significant deterioration in creditworthiness, during 2009 we sold five held-to maturity securities for $943,000, recording a $9,000 gain on sale. At December 31, 2009 the Company transferred all of its obligations of states and political subdivisions from held-to-maturity to available-for-sale as it was determined that management no longer had the intent to hold these investments to maturity. At the time of the transfer these securities had an amortized cost of $11,387,000 and a fair value of $11,722,000. There were no sales or transfers of held-to-maturity investment securities during the years ended December 31, 2011 or 2010.

Investment securities with unrealized losses at December 31, 2011 and 2010 are summarized and classified according to the duration of the loss period as follows:

	September 30,	September 30,
	Less than 12 Months	
December 31, 2011	**Fair Value**	**Unrealized Losses**
Debt securities:		
U.S. Government-sponsored agencies	$ 11,044,000	$ 23,000
U.S. Government- sponsored agencies collateralized by mortgage obligations	9,144,000	52,000
	$ 20,188,000	$ 75,000

	September 30,	September 30,
	Less than 12 Months	
December 31, 2010	**Fair Value**	**Unrealized Losses**
Debt securities:		
U.S. Government-sponsored agencies	$ 14,763,000	$ 290,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	13,205,000	107,000
Obligations of states and political subdivisions	282,000	26,000
	$ 28,250,000	$ 423,000

There were no securities in a loss position for more than one year as of December 31, 2011 and 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. INVESTMENT SECURITIES (Continued)

At December 31, 2011, the Company held 47 securities of which 12 were in a loss position. Of the securities in a loss position, all were in a loss position for less than twelve months. Of the 12 securities 7 are U.S. government-sponsored agencies and 5 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations. 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, 2011, 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, 2011 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2011 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.

	September 30, Amortized Cost	September 30, Estimated Fair Value
After one year through five years	$ 32,708,000	32,777,000
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	24,941,000	25,140,000
	$ 57,649,000	$ 57,917,000

Investment securities with amortized costs totaling $44,878,000 and $36,828,000 and estimated fair values totaling $45,149,000 and $36,814,000 at December 31, 2011 and 2010, respectively, were pledged to secure deposits and repurchase agreements.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below:

	September 30, December 31, 2011	September 30, 2010
Commercial	$ 30,235,000	$ 33,433,000
Agricultural	38,868,000	38,469,000
Real estate residential	39,019,000	43,291,000
Real estate commercial	119,412,000	119,222,000
Real estate construction and land development	17,063,000	31,199,000
Equity lines of credit	37,581,000	36,946,000
Installment	2,515,000	2,879,000
Other	9,172,000	8,761,000
	293,865,000	314,200,000
Deferred loan costs, net	475,000	275,000
Allowance for loan losses	(6,908,000)	(7,324,000)
	$ 287,432,000	$ 307,151,000

Changes in the allowance for loan losses were as follows:

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009
Balance, beginning of year	$ 7,324,000	$ 9,568,000	$ 7,224,000
Provision charged to operations	3,500,000	5,500,000	14,500,000
Losses charged to allowance	(4,247,000)	(8,349,000)	(12,500,000)
Recoveries	331,000	605,000	344,000
Balance, end of year	$ 6,908,000	$ 7,324,000	$ 9,568,000

The recorded investment in impaired loans totaled $24,402,000 and $28,755,000 at December 31, 2011 and 2010, respectively. The Company had specific allowances for loan losses of $2,066,000 on impaired loans of $14,130,000 at December 31, 2011 as compared to specific allowances for loan losses of $1,903,000 on impaired loans of $11,292,000 at December 31, 2010. The balance of impaired loans in which no specific reserves were required totaled $10,272,000 and $17,463,000 at December 31, 2011 and 2010, respectively. The average recorded investment in impaired loans for the years ended December 31, 2011, 2010 and 2009 was $25,536,000, $20,833,000 and $25,092,000,

respectively. The Company recognized $666,000, $608,000 and $369,000 in interest income on a cash basis for impaired loans during the years ended December 31, 2011, 2010 and 2009, 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, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date.

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

The Company has allocated $1,164,000 and $271,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2011 and December 31, 2010. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at December 31, 2011 and December 31, 2010.

During the year ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included 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.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 2 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ending December 31, 2011:

	September 30, Number of Loans	September 30, Pre-Modification Outstanding Recorded Investment	September 30, Post-Modification Recorded Investment
Troubled Debt Restructurings:			
Commercial	2	$ 129,000	$ 129,000
Agricultural	4	996,000	996,000
Real Estate:			
Construction and land development	5	4,977,000	4,977,000
Equity LOC	1	787,000	787,000
Other	19	179,000	179,000
Total	31	$ 7,068,000	$ 7,068,000

The troubled debt restructurings described above increased the allowance for loan losses by $132,000 during the year ending December 31, 2011. The troubled debt restructurings described above did not result in charge offs during the year ending December 31, 2011.

PLUMAS BANCORP AND SUBSIDIARY

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(Continued)

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

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2011

	September 30, Number of Loans	September 30, Recorded Investment
Troubled Debt Restructurings:		
Agricultural		
Real Estate:	3	$ 630,000
Construction and land development	2	139,000
Equity LOC	1	787,000
Total	6	$ 1,556,000

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above increased the allowance for loan losses by $81,000 and resulted in charge offs of $51,000 during the year ending December 31, 2011.

The terms of certain other loans were modified during the year ending December 31, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011 of $13.5 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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.

Certain loans which were modified during the period ending December 31, 2011 and did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 30 days to 2 months.

At December 31, 2011 and 2010, nonaccrual loans totaled $16,757,000 and $25,313,000, respectively. Interest foregone on nonaccrual loans totaled $510,000, $1,021,000 and $568,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Loans past due 90 days or more and on accrual status were $72,000 and $45,000 at December 31, 2011 and 2010, respectively.

Salaries and employee benefits totaling $706,000, $638,000 and $708,000 have been deferred as loan origination costs during the years ended December 31, 2011, 2010 and 2009, respectively.

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PLUMAS BANCORP AND SUBSIDIARY

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(Continued)

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

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

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
December 31, 2011	**Commercial**	**Agricultural**	**Real Estate-Residential**	**Real Estate-Commercial**	**Real Estate-Construction**	**Equity LOC**	**Total**
Grade:							
Pass	$ 26,077	$ 34,882	$ 34,049	$ 101,395	$ 11,383	$ 34,296	$ 242,082
Watch	1,562	1,595	629	5,575	50	1,300	10,711
Substandard	2,433	2,391	4,327	12,442	5,630	1,974	29,197
Doubtful	163		14			11	188
Total	$ 30,235	$ 38,868	$ 39,019	$ 119,412	$ 17,063	$ 37,581	$ 282,178

	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
December 31, 2010	**Commercial**	**Agricultural**	**Real Estate-Residential**	**Real Estate-Commercial**	**Real Estate-Construction**	**Equity LOC**	**Total**
Grade:							
Pass	$ 28,923	$ 34,081	$ 39,194	$ 96,527	$ 15,987	$ 34,787	$ 249,499
Watch	904	646	1,738	8,192	2,165	585	14,230
Substandard	3,606	3,742	2,295	14,503	12,982	1,502	38,630
Doubtful			64		65	72	201
Total	$ 33,433	$ 38,469	$ 43,291	$ 119,222	$ 31,199	$ 36,946	$ 302,560

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2011			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2010		
	Installment	**Other**	**Total**	**Installment**	**Other**	**Total**
Grade:						
Performing	$ 2,465	$ 9,024	$ 11,489	$ 2,830	$ 8,643	$ 11,473
Non-performing	50	148	198	49	118	167
Total	$ 2,515	$ 9,172	$ 11,687	$ 2,879	$ 8,761	$ 11,640

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

12/31/11:	September 30, Commercial	September 30, Agricultural	September 30, Real Estate-Residential	September 30, Real Estate-Commercial	September 30, Real Estate-Construction	September 30, Equity LOC	September 30, Installment	September 30, Other	Septe T
for Loan									
balance	$ 760	$ 184	$ 632	$ 1,819	$ 3,011	$ 652	$ 66	$ 200	$
fs	(446)	(93)	(147)	(336)	(2,603)	(311)	(174)	(137)	
s	93	106	1	17	5	2	13	94	
	618	133	212	425	1,593	292	212	15	
ance	$ 1,025	$ 330	$ 698	$ 1,925	$ 2,006	$ 635	$ 117	$ 172	$
31,									
for Loan									
ance: y for t	$ 310	$ 250	$ 355	$ 148	$ 901	$ 101	$ 1	$	$
ance: y for t	$ 715	$ 80	$ 343	$ 1,777	$ 1,105	$ 534	$ 116	$ 172	$
ance	$ 30,235	$ 38,868	$ 39,019	$ 119,412	$ 17,063	$ 37,581	$ 2,515	$ 9,172	$
ance: y for t	$ 4,946	$ 1,268	$ 4,257	$ 5,557	$ 6,754	$ 1,494	$ 50	$ 76	$
ance: y for	$ 25,289	$ 37,600	$ 34,762	$ 113,855	$ 10,309	$ 36,087	$ 2,465	$ 9,096	$

t

31,

for Loan

ance	$ 760	$ 184	$ 632	$ 1,819	$ 3,011	$ 652	$ 66	$ 200	$
ance: y for t	$ 22	$	$ 121	$ 201	$ 1,479	$ 72	$ 8	$	$
ance: y for t	$ 738	$ 184	$ 511	$ 1,618	$ 1,532	$ 580	$ 58	$ 200	$
ance	$ 33,433	$ 38,469	$ 43,291	$ 119,222	$ 31,199	$ 36,946	$ 2,879	$ 8,761	$
ance: y for t	$ 2,706	$ 868	$ 3,870	$ 8,204	$ 11,501	$ 1,382	$ 106	$ 118	$
ance: y for t	$ 30,727	$ 37,601	$ 39,421	$ 111,018	$ 19,698	$ 35,564	$ 2,773	$ 8,643	$

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PLUMAS BANCORP AND SUBSIDIARY

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

The following table shows an aging analysis of the loan portfolio by the time past due at the dates indicated (amounts in thousands):

December 31, 2011	September 30, 30-89 Days Past Due	September 30, 90 Days and Still Accruing	September 30, Nonaccrual	September 30, Total Past Due	September 30, Current	September 30, Total
Commercial:						
Commercial	$ 456	$	$ 4,819	$ 5,275	$ 24,960	$ 30,235
Agricultural			999	999	37,869	38,868
Real estate construction	1,113		634	1,747	15,316	17,063
Real estate	1,939		5,557	7,496	111,916	119,412
Residential:						
Real estate	461		3,141	3,602	35,417	39,019
Equity LOC	775		1,481	2,256	35,325	37,581
Consumer:						
Installment	31		50	81	2,434	2,515
Other	351	72	76	499	8,673	9,172
Total	$ 5,126	$ 72	$ 16,757	$ 21,955	$ 271,910	$ 293,865

December 31, 2010	September 30, 30-89 Days Past Due	September 30, 90 Days and Still Accruing	September 30, Nonaccrual	September 30, Total Past Due	September 30, Current	September 30, Total
Commercial:						
Commercial	$ 352	$	$ 2,706	$ 3,058	$ 30,375	$ 33,433
Agricultural	272		868	1,140	37,329	38,469
Real estate construction	136		9,797	9,933	21,266	31,199
Real estate	802		8,204	9,006	110,216	119,222
Residential:						
Real estate	400		2,189	2,589	40,702	43,291
Equity LOC	494		1,382	1,876	35,070	36,946
Consumer:						
Installment	56		49	105	2,774	2,879
Other	348	45	118	511	8,250	8,761
Total	$ 2,860	$ 45	$ 25,313	$ 28,218	$ 285,982	$ 314,200

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(Continued)

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

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

As of December 31, 2011:	September 30, Recorded Investment	September 30, Unpaid Principal Balance	September 30, Related Allowance	September 30, Average Recorded Investment	September 30, Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 2,506	$ 2,882		$ 2,458	$ 56
Agricultural	923	1,153		931	62
Real estate construction	1,955	2,210		6,911	117
Real estate commercial	1,707	1,707		4,751	70
Real estate residential	1,711	1,739		2,069	106
Equity Lines of Credit	1,345	1,345		1,285	22
Installment	49	49		91	2
Other	76	76		102	10
With an allowance recorded:					
Commercial	$ 2,440	$ 2,440	$ 310	1,349	25
Agricultural	345	345	250	345	
Real estate construction	4,799	4,850	901	2,521	186
Real estate commercial	3,850	3,850	148	1,664	
Real estate residential	2,546	2,546	355	1,005	9
Equity Lines of Credit	149	149	101	53	1
Installment	1	1	1	1	
Other					
Total:					
Commercial	$ 4,946	$ 5,322	$ 310	$ 3,807	$ 81
Agricultural	1,268	1,498	250	1,276	62
Real estate construction	6,754	7,060	901	9,432	303
Real estate commercial	5,557	5,557	148	6,415	70
Real estate residential	4,257	4,285	355	3,074	115
Equity Lines of Credit	1,494	1,494	101	1,338	23
Installment	50	50	1	92	2
Other	76	76		102	10
Total	$ 24,402	$ 25,342	$ 2,066	$ 25,536	$ 666

As of December 31, 2010:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					

Commercial	$ 2,680	$ 3,018		$ 1,892	7
Agricultural	868	1,109		1,454	102
Real estate construction	4,151	5,169		3,586	61
Real estate commercial	5,994	5,994		6,964	257
Real estate residential	2,244	2,245		660	83
Equity Lines of Credit	1,310	1,310		556	
Installment	98	98		44	2
Other	118	118		140	11
With an allowance recorded:					
Commercial	26	26	$ 22	32	4
Agricultural					
Real estate construction	$ 7,350	$ 8,770	1,479	4,854	39
Real estate commercial	2,210	2,210	201	552	4
Real estate residential	1,626	1,743	121	819	38
Equity Lines of Credit	72	72	72	9	
Installment	8	8	8		
Other					
Total:					
Commercial	$ 2,706	$ 3,044	$ 22	$ 1,924	$ 11
Agricultural	868	1,109		1,454	102
Real estate construction	11,501	13,939	1,479	8,440	100
Real estate commercial	8,204	8,204	201	7,516	261
Real estate residential	3,870	3,988	121	1,479	121
Equity Lines of Credit	1,382	1,382	72	565	
Installment	106	106	8	44	2
Other	118	118		140	11
Total	$ 28,755	$ 31,890	$ 1,903	$ 21,562	$ 608

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7. PREMISES AND EQUIPMENT
Premises and equipment consisted of the following:

	September 30, December 31, 2011	September 30, 2010
Land	$ 2,628,000	$ 2,628,000
Premises	15,412,000	15,394,000
Furniture, equipment and leasehold improvements	9,874,000	9,810,000
	27,914,000	27,832,000
Less accumulated depreciation and amortization	(14,457,000)	(13,401,000)
	$ 13,457,000	$ 14,431,000

Depreciation and amortization included in occupancy and equipment expense totaled $1,233,000, $1,521,000 and $1,756,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

8. DEPOSITS
Interest-bearing deposits consisted of the following:

	September 30, December 31, 2011	September 30, 2010
Interest-bearing demand deposits	$ 82,025,000	$ 100,000,000
Money market	38,840,000	42,279,000
Savings	63,969,000	53,150,000
Time, $100,000 or more	31,624,000	52,104,000
Other time	48,751,000	65,552,000
	$ 265,209,000	$ 313,085,000

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PLUMAS BANCORP AND SUBSIDIARY

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8. DEPOSITS (Continued)

At December 31, 2011, the scheduled maturities of time deposits were as follows:

Year Ending December 31,	September 30,
2012	$ 64,986,000
2013	9,565,000
2014	2,886,000
2015	2,136,000
2016	802,000
	$ 80,375,000

At December 31, 2011, the contractual maturities of time deposits with a denomination of $100,000 and over were as follows: $7,566,000 in 3 months or less, $5,519,000 over 3 months through 6 months, $11,093,000 over 6 months through 12 months, and $7,446,000 over 12 months.

Deposit overdrafts reclassified as loan balances were $331,000 and $314,000 at December 31, 2011 and 2010, respectively.

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE
Securities sold under agreements to repurchase are secured by U.S. Government agency securities with a carrying amount of $8,279,000 at year-end 2011. There were no securities sold under agreements to repurchase during 2010 or 2009.

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 2011 is summarized as follows:

	September 30,
Average daily balance during the year	$ 3,124,000
Average interest rate during the year	0.42%
Maximum month-end balance during the year	$ 8,300,000
Weighted average interest rate at year-end	0.41%

10. BORROWING ARRANGEMENTS
The Company is a member of the FHLB and can borrow up to $86,388,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $178,987,000. The Company is required to hold FHLB stock as a condition of membership. At December 31, 2011, the Company held $2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the

Company can borrow up to $43,466,000. To borrow the $86,388,000 in available credit the Company would need to purchase $2,017,000 in additional FHLB stock. There were no outstanding borrowings under this agreement at December 31, 2011 and 2010.

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(Continued)

11 JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Plumas Statutory Trust I and II are Connecticut business trusts formed by the Company with capital of $283,000 and $154,000, respectively, for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to twenty-five percent of the Company s Tier 1 capital, as defined, on a pro forma basis. At December 31, 2011, all of the trust preferred securities that have been issued qualify as Tier 1 capital.

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

Trust I s Subordinated Debentures mature on September 26, 2032, bear a current interest rate of 3.97% (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 2.03% (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. Since the second quarter of 2010, the Company has deferred regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities and has given notice of deferral each quarterly payment period.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES (Continued)

While the Company has accrued for this obligation, it is currently deferring the interest payments on the junior subordinated debentures as permitted by the agreements. As of December 31, 2011 and 2010, the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities was $569,000 and $243,000, respectively.

Interest expense recognized by the Company for the years ended December 31, 2011, 2010 and 2009 related to the subordinated debentures was $326,000, $312,000 and $371,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company has commitments for leasing premises under the terms of noncancelable operating leases expiring from 2012 to 2015. Future minimum lease payments are as follows:

Year Ending December 31,	September 30,
2012	$ 147,000
2013	75,000
2014	51,000
2015	51,000
	$ 324,000

Rental expense included in occupancy and equipment expense totaled $150,000, $20,000 and $317,000 for the years ended December 31, 2011, 2010 and 2009, 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:

	September 30, December 31, 2011	September 30, 2010
Commitments to extend credit	$ 79,164,000	$ 71,605,000
Letters of credit	$ 50,000	$ 164,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

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, 2011 and 2010. The Company recognizes these fees as revenues over the term of the commitment or when the commitment is used.

At December 31, 2011, consumer loan commitments represent approximately 21% of total commitments and are generally unsecured. Commercial and agricultural loan commitments represent approximately 33% of total commitments and are generally secured by various assets of the borrower. Real estate loan commitments, including consumer home equity lines of credit, represent the remaining 46% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. In addition, the majority of the Company s commitments have variable interest rates.

Concentrations of Credit Risk

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

Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. A continued substantial decline in the economy in general, or a continued decline in real estate values in the Company s primary market areas in particular, could have an adverse impact on the collectibility 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.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS EQUITY

Dividend Restrictions

The Company s ability to pay cash dividends is dependent on dividends paid to it by the Bank and limited by California corporation law. Under California law, the holders of common stock of the Company are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available, subject to certain restrictions. The California general corporation law prohibits the Company from paying dividends on its common stock unless: (i) its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (ii) immediately after giving effect to the dividend, the sum of the Company s assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank s retained earnings or the Bank s net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the DFI, 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, 2011, the Bank was restricted, without prior approval from the DFI, from paying cash dividends to the Company. In addition the Company s ability to pay dividends is subject to certain covenants contained in the indentures relating to the Trust Preferred Securities issued by the business trusts (see Note 11 for additional information related to the Trust Preferred Securities).

As described below, dividends on common stock are also limited related to the Company s participation in the Capital Purchase Program. Additionally, Plumas Bancorp is required by the Federal Reserve Bank of San Francisco (FRB) to obtain the FRB s prior written consent before paying any dividends on its common stock or its Series A Preferred Stock, or making any payments on its trust preferred securities.

Preferred Stock

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

The Warrant has a 10-year term and is exercisable, with an exercise price, subject to antidilution adjustments, equal to $7.54 per share of the Common Stock. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. SHAREHOLDERS EQUITY (Continued)

The Company allocated the proceeds received on January 30, 2009 between the Series A Preferred Stock and the Warrant based on the estimated relative fair value of each. The fair value of the Warrant was estimated based on a Black-Scholes-Merton model and totaled $320,000. The discount recorded on the Series A Preferred Stock was based on a discount rate of 12% and will be amortized by the level-yield method over 5 years. Discount accretion for the years ended December 31, 2011, 2010, and 2009 totaled $87,000, $87,000 and $79,000, respectively.

The Series A Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Company may redeem the Series A Preferred Stock at its liquidation preference ($1,000 per share) plus accrued and unpaid dividends under the American Recovery and Reinvestment Act of 2009, subject to the Treasury s consultation with the Company s appropriate federal regulator.

With respect to dividends on the Company s common stock, Treasury s consent shall be required for any increase in common dividends per share until the third anniversary of the date of its investment unless prior to such third anniversary the Series A Preferred Stock is redeemed in whole or the Treasury has transferred all of the Senior Preferred Series A Preferred Stock to third parties. Furthermore, with respect to dividends on certain other series of preferred stock, restrictions from Treasury may apply. The Company does not have any outstanding preferred stock other than the Series A Preferred Stock discussed above.

During the second quarter of 2010, Plumas Bancorp, as required by the FRB, suspended the declaration and payment of future quarterly cash dividends on its Series A Preferred Stock. Plumas Bancorp is in arrears in the amount of $1,046,000 and $449,000 with the dividend payments on the Series A Preferred Stock as of December 31, 2011 and 2010, respectively.

Earnings Per Share

Basic earnings per share is computed by dividing income (loss) 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.

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PLUMAS BANCORP AND SUBSIDIARY

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(Continued)

13. SHAREHOLDERS EQUITY (Continued)

	September 30,	September 30,	September 30,
	For the Year Ended December 31,		
(In thousands, except per share data)	**2011**	**2010**	**2009**
Net Income (loss):			
Net income (loss)	$ 941	$ 971	$ (9,146)
Dividends on preferred shares	(684)	(684)	(628)
Net income (loss) available to common shareholders	$ 257	$ 287	$ (9,774)
Earnings (loss) Per Share:			
Basic earnings (loss) per share	$ 0.05	$ 0.06	$ (2.05)
Diluted earnings (loss) per share	$ 0.05	$ 0.06	$ (2.05)
Weighted Average Number of Shares Outstanding:			
Basic shares	4,776	4,776	4,776
Diluted shares	4,776	4,776	4,776

Shares of common stock issuable under stock options 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. When a net loss occurs, no difference in earnings per share is calculated because the conversion of potential common stock is anti-dilutive. Stock options not included in the computation of diluted earnings per share, due to shares not being in the-money and having an antidilutive effect, were 483,000 and 312,000 for the years ended December 31, 2011 and 2010, respectively.

PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS EQUITY (Continued)

Stock Options

In 2001, the Company established a Stock Option Plan for which 482,780 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of December 31, 2011. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The Plan does not provide for the settlement of awards in cash and new shares are issued upon option exercise. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Upon grant, options vest ratably over a three to five year period. A summary of the activity within the Plan follows:

	September 30, Shares	September 30, Weighted Average Exercise Price	September 30, Weighted Average Remaining Contractual Term	September 30, Intrinsic Value
Options outstanding at January 1, 2009	466,956	$ 13.38		
Options exercised	(1,000)	5.43		
Options cancelled	(61,990)	12.38		
Options outstanding at December 31, 2009	403,966	$ 13.56		
Options cancelled	(91,936)	14.05		
Options outstanding at December 31, 2010	312,030	$ 13.41		
Options granted	248,000	2.95		
Options cancelled	(77,250)	9.05		
Options outstanding at December 31, 2011	482,780	$ 8.74	4.9	$
Options exercisable at December 31, 2011	243,512	$ 13.89	2.8	$
Expected to vest after December 31, 2011	196,944	$ 3.49	7.0	$

As of December 31, 2011, there was $126,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.1 years.

The total fair value of options vested was $153,000 for the year ended December 31, 2011.

The total intrinsic value of options at time of exercise was $1,000 for the year ended December 31, 2009. Cash received from options exercised for the year ended December 31, 2009 was $5,000. There was no tax benefit realized from options exercised in 2009.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. SHAREHOLDERS EQUITY (Continued)

Regulatory Capital

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

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

The Bank is also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table on the following page and cannot be subject to a written agreement, order or capital directive issued by the FDIC. In addition, under the Consent Order that was in place until February 15, 2012 the Bank was subject to a minimum 10% Tier 1 leverage ratio and a minimum 13% total risk-based capital ratio at December 31, 2011. Currently under an informal agreement with the FDIC and DFI the Bank has agreed to maintain its Tier 1 leverage ratio at or above 9%.

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS EQUITY (Continued)
Regulatory Capital (continued)

	September 30, 2011 Amount	September 30, 2011 Ratio	December 31, 2010 Amount	December 31, 2010 Ratio
Leverage Ratio				
Plumas Bancorp and Subsidiary	$ 45,024,000	9.8%	$ 42,994,000	8.9%
Minimum regulatory requirement	$ 18,313,000	4.0%	$ 19,361,000	4.0%
Plumas Bank	$ 45,073,000	9.8%	$ 43,262,000	8.9%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	$ 22,882,000	5.0%	$ 24,190,000	5.0%
Minimum regulatory requirement	$ 18,305,000	4.0%	$ 19,352,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	$ 45,024,000	13.7%	$ 42,994,000	12.7%
Minimum regulatory requirement	$ 13,149,000	4.0%	$ 13,570,000	4.0%
Plumas Bank	$ 45,073,000	13.7%	$ 43,262,000	12.8%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	$ 19,710,000	6.0%	$ 20,342,000	6.0%
Minimum regulatory requirement	$ 13,140,000	4.0%	$ 13,561,000	4.0%
Total Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	$ 49,169,000	15.0%	$ 47,274,000	13.9%
Minimum regulatory requirement	$ 26,298,000	8.0%	$ 27,140,000	8.0%
Plumas Bank	$ 49,215,000	15.0%	$ 47,539,000	14.0%
Minimum requirement for Well-Capitalized institution under the prompt corrective action	$ 32,850,000	10.0%	$ 33,903,000	10.0%
Minimum regulatory requirement	$ 26,280,000	8.0%	$ 27,123,000	8.0%

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. OTHER EXPENSES

Other expenses consisted of the following:

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	2010	2009
Outside service fees	$ 1,270,000	$ 1,212,000	$ 990,000
FDIC Insurance	1,099,000	1,009,000	1,125,000
Professional fees	730,000	587,000	789,000
Loss (gain) on sale of other real estate	606,000	(43,000)	158,000
OREO expenses	422,000	573,000	370,000
Telephone and data communications	331,000	338,000	392,000
Business development	262,000	250,000	333,000
Loan collection expenses	261,000	261,000	399,000
Advertising and promotion	236,000	252,000	327,000
Director compensation and retirement	229,000	233,000	293,000
Armored car and courier	225,000	239,000	281,000
Postage	190,000	207,000	207,000
Core deposit intangible amortization	173,000	173,000	173,000
Stationery and supplies	140,000	145,000	183,000
Insurance	42,000	125,000	54,000
Other operating expenses	168,000	396,000	579,000
	$ 6,384,000	$ 5,957,000	$ 6,653,000

15. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2011, 2010 and 2009 consisted of the following:

2011	September 30, Federal	September 30, State	September 30, Total
Current	$ 34,000	$ 2,000	$ 36,000
Deferred	228,000	31,000	259,000
Provision for income taxes	$ 262,000	$ 33,000	$ 295,000

2010	Federal	State	Total
Current		$ 4,000	$ 4,000

Deferred	$ 277,000	108,000	385,000
Benefit from income taxes	$ 277,000	$ 112,000	$ 389,000

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PLUMAS BANCORP AND SUBSIDIARY

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(Continued)

15. INCOME TAXES (Continued)

2009	September 30, Federal	September 30, State	September 30, Total
Current	$ (2,803,000)	$ (120,000)	$ (2,923,000)
Deferred	(2,122,000)	(1,730,000)	(3,852,000)
Benefit from provision for Income taxes	$ (4,925,000)	$ (1,850,000)	$ (6,775,000)

Deferred tax assets (liabilities) consisted of the following:

	September 30, December 31, 2011	September 30, 2010
Deferred tax assets:		
Allowance for loan losses	$ 1,183,000	$ 1,490,000
Net operating loss carryovers	2,867,000	2,418,000
Deferred compensation	1,661,000	1,614,000
Core deposit premium	245,000	255,000
OREO valuation allowance	1,253,000	1,723,000
Other	607,000	521,000
Total deferred tax assets	7,816,000	8,021,000
Deferred tax liabilities:		
Prepaid costs	(167,000)	(104,000)
Deferred loan costs	(779,000)	(739,000)
Unrealized gain on available-for-sale investment securities	(110,000)	
Other	(162,000)	(174,000)
Total deferred tax liabilities	(1,218,000)	(1,017,000)
Net deferred tax assets	$ 6,598,000	$ 7,004,000

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. INCOME TAXES (Continued)

As part of its analysis, the Company considered the following positive evidence:

The Company s 2009 net loss was largely attributable to losses on its Construction and Land Development portfolio that represented approximately 80% of net charge-offs during the year ended December 31, 2009. This portfolio has decreased from $74 million at December 31, 2008 to $17 million at December 31 2011.

The Company s 2009 net loss was also attributable to significant write-downs on foreclosed construction and land development real estate properties which represented the majority of its provision for losses on other real estate during 2009. During 2010 other real estate write-downs decreased by $4.4 million from $4.8 million during the year ended December 31, 2009 to $356 thousand during 2010. Write-downs on construction and land development real estate owned during 2011 totaled $440 thousand.

The Company has a long history of earnings and profitability.

The Company was profitable in 2011 and 2010 and is projecting future taxable and book income will be generated by operations.

The size of loans in the Company s pipeline of potential problem loans has significantly decreased.

The Company does not have a history of net operating losses carry forwards or tax credits expiring unused.

As part of its analysis, the Company also considered the following negative evidence:

The Company recorded a large net loss in 2009 and is in a cumulative loss position for the current and preceding two years.

Based upon the analysis of available evidence, management has determined that it is more likely than not that all deferred income tax assets as of December 31, 2011 and 2010 will be fully realized and therefore no valuation allowance was recorded.

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:

	September 30, 2011	**September 30, 2010**	**September 30, 2009**

Federal income tax, at statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	4.4%	5.5%	7.0%
Interest on obligations of states and political subdivisions	(2.7)%	(4.4)%	1.3%
Net increase in cash surrender value of bank owned life insurance	(9.7)%	(8.8)%	0.8%
Other	(2.1)%	2.3%	(0.5)%
Effective tax rate	23.9%	28.6%	42.6%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. INCOME TAXES (Continued)

At year end 2011, the Company had federal operating loss carry-forwards of approximately $5,431,000 which expire at various dates from 2029 to 2031. In addition, at year end 2011, the Company had state operating loss carry-forwards of approximately $14,262,000 which expire at various dates from 2029 to 2031. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized.

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

With few exceptions, the Company is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2008, and by state and local taxing authorities for years ended before December 31, 2007.

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, 2011 and 2010 were not significant. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

16. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2011:

		September 30,
Balance, January 1, 2011	$	1,015,000
Disbursements		12,000
Amounts repaid		(432,000)
Balance, December 31, 2011	$	595,000
Undisbursed commitments to related parties, December 31, 2011	$	657,000

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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17. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Plumas Bank Profit Sharing Plan commenced April 1, 1988 and is available to employees meeting certain service requirements. Under the Plan, employees are able to defer a selected percentage of their annual compensation. Included under the Plan s investment options is the option to invest in Company stock. The Company s contribution consists of the following:

For the year ended December 31, 2009 and the three months ended March 31, 2010 a contribution which matches the participant s contribution, up to a maximum

of 3% of the employee s compensation. No contribution was made for the year ended December 31, 2011 or the nine months ended December 31, 2010.

An additional discretionary contribution. No discretionary contribution was made for the years ended December 31, 2011, 2010 and 2009.

During the years ended December 31, 2011, 2010 and 2009, the Company s contribution totaled $0, $41,000 and $213,000, respectively.

Salary Continuation and Retirement Agreements

Salary continuation and retirement agreements are in place for three key executives and seven members of the Board of Directors. Under these agreements, the directors and executives will receive monthly payments for twelve to fifteen years, respectively, after retirement. The estimated present value of these future benefits is accrued over the period from the effective dates of the agreements until the participants expected retirement dates. The expense recognized under these plans for the years ended December 31, 2011, 2010 and 2009 totaled $385,000, $342,000 and $330,000, respectively. Accrued compensation payable under these plans totaled $3,784,000 and $3,613,000 at December 31, 2011 and 2010, respectively.

In connection with these agreements, the Bank purchased single premium life insurance policies with cash surrender values totaling $10,815,000 and $10,463,000 at December 31, 2011 and 2010, respectively. Income earned on these policies, net of expenses, totaled $352,000, $351,000 and $346,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

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PLUMAS BANCORP AND SUBSIDIARY

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(Continued)

18. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income for all periods presented. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. The unrealized gains and losses on the Company s available-for-sale investment securities are included in other comprehensive income (loss). Total comprehensive income (loss) and the components of accumulated other comprehensive income (loss) are presented in the consolidated statement of changes in shareholders equity.

At December 31, 2011, 2010 and 2009, the Company held securities classified as available-for-sale which had unrealized gains as follows:

	September 30, Before Tax	September 30, Tax Benefit (Expense)	September 30, After Tax
For the Year Ended December 31, 2011			
Total other comprehensive income:			
Unrealized holding gains	$ 1,023,000	$ (422,000)	$ 601,000
Reclassification adjustment for gains included in net income	(666,000)	275,000	(391,000)
Total other comprehensive income	$ 357,000	$ (147,000)	$ 210,000

	September 30, Before Tax	September 30, Tax Benefit (Expense)	September 30, After Tax
For the Year Ended December 31, 2010			
Total other comprehensive loss:			
Unrealized holding gains	$ 12,000	$ (5,000)	$ 7,000
Reclassification adjustment for gains included in net income	(1,160,000)	479,000	(681,000)
Total other comprehensive loss	$ (1,148,000)	$ 474,000	$ (674,000)
For the Year Ended December 31, 2009			
Total other comprehensive income:			
Unrealized gains on securities transferred from held-to-maturity to available for-sale	$ 335,000	$ (138,000)	$ 197,000
Unrealized holding gains	184,000	(75,000)	109,000
Reclassification adjustment for gains included in net loss	(10,000)		(10,000)
Total other comprehensive income	$ 509,000	$ (213,000)	$ 296,000

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19. INTANGIBLE ASSETS

During 2003, the Company acquired certain assets and liabilities of five branches from another bank. Upon acquisition, premises and equipment were valued at fair value and a core deposit premium was recorded as an intangible asset. This core deposit premium is amortized using the straight-line method over ten years. Annually, the intangible asset is analyzed for impairment.

At December 31, 2011, 2010 and 2009, no impairment of the intangible asset has been recognized in the consolidated financial statements. Amortization expense totaled $173,000 for each of the years ended December 31, 2011, 2010 and 2009.

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

	September 30,	September 30,	September 30,	September 30,
	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	$ 1,709,000	$ 1,407,000	$ 1,709,000	$ 1,234,000

The estimated remaining intangible amortization is as follows:

Year Ending December 31,	September 30,
2012	$ 173,000
2013	129,000
	$ 302,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEET

December 31, 2011 and 2010

	September 30, 2011	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 660,000	$ 626,000
Investment in bank subsidiary	48,822,000	47,399,000
Other assets	1,086,000	1,071,000
Total assets	$ 50,568,000	$ 49,096,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Other liabilities	$ 624,000	$ 798,000
Junior subordinated deferrable interest debentures	10,310,000	10,310,000
Total liabilities	10,934,000	11,108,000
Shareholders equity:		
Preferred stock	11,769,000	11,682,000
Common stock	5,998,000	6,027,000
Retained earnings	21,709,000	20,331,000
Accumulated other comprehensive income (loss)	158,000	(52,000)
Total shareholders equity	39,634,000	37,988,000
Total liabilities and shareholders equity	$ 50,568,000	$ 49,096,000

CONDENSED STATEMENT OF OPERATIONS

For the Years Ended December 31, 2011, 2010 and 2009

	September 30,	September 30,	September 30,

	2011	2010	2009
Income:			
Earnings from investment in Plumas Statutory Trusts I and II	10,000	9,000	11,000
Expenses:			
Interest on junior subordinated deferrable interest debentures	326,000	312,000	371,000
Other expenses	199,000	242,000	808,000
Total expenses	525,000	554,000	1,179,000
Loss before equity in undistributed income of subsidiary	(515,000)	(545,000)	(1,168,000)
Equity in undistributed income (loss) of subsidiary	1,244,000	1,292,000	(8,452,000)
Income (loss) before income taxes	729,000	747,000	(9,620,000)
Income tax benefit	212,000	224,000	474,000
Net income (loss)	$ 941,000	$ 971,000	$ (9,146,000)

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PLUMAS BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

20. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2011, 2010 and 2009

	September 30, 2011	September 30, 2010	September 30, 2009
Cash flows from operating activities:			
Net income (loss)	$ 941,000	$ 971,000	$ (9,146,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Undistributed (income) loss of subsidiary	(1,244,000)	(1,292,000)	8,452,000
Stock-based compensation expense	2,000	10,000	47,000
(Increase) decrease in other assets	(15,000)	(619,000)	124,000
Increase in other liabilities	350,000	(4,000)	115,000
Net cash provided by (used in) operating activities	34,000	(934,000)	(408,000)
Cash flows from investing activities:			
Investment in bank subsidiary		(2,000,000)	(8,000,000)
Net cash used in investing activities		(2,000,000)	(8,000,000)
Cash flows from financing activities:			
Payment of cash dividends on preferred stock		(150,000)	(473,000)
Issuance of preferred stock, net of discount			11,517,000
Issuance of common stock warrant			407,000
Proceeds from the exercise of stock options			5,000
Net cash (used in) provided by financing activities		(150,000)	11,456,000
Increase (decrease) in cash and cash equivalents	34,000	(3,084,000)	3,048,000
Cash and cash equivalents at beginning of year	626,000	3,710,000	662,000
Cash and cash equivalents at end of year	$ 660,000	$ 626,000	$ 3,710,000