PLUMAS BANCORP
Form 10-K
March 14, 2008

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

FORM 10-K

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2007

or

o **Transaction report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file number: 000-49883

PLUMAS BANCORP
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

o Yes þ No

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

o Yes þ No

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

þ Yes o No

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a smaller reporting company)	

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

o Yes þ No

As of June 30, 2007, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $60.6 million, based on the closing price reported to the Registrant on that date of $13.70 per share.

Shares of Common Stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of the affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock of the registrant outstanding as of March 10, 2008 was 4,850,712.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2008 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

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PART I

Forward-Looking Information

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

Competitive pressure in the banking industry, competition in the markets the Company operates in and changes in the legal, accounting and regulatory environment

Changes in the interest rate environment and volatility of rate sensitive assets and liabilities

Declines in the health of the economy, nationally or regionally, which could reduce the demand for loans, reduce the ability of borrowers to repay loans and/or reduce the value of real estate collateral securing most of the Company s loans

Credit quality deterioration, which could cause an increase in the provision for loan and lease losses

Devaluation of fixed income securities

Asset/liability matching risks and liquidity risks

Loss of key personnel

Operational interruptions including data processing systems failure and fraud

The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. For additional information concerning risks and uncertainties related to the Company and its operations, please refer to Item 1A of this Form 10-K entitled Risk Factors and other information in this Report.

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ITEM 1. BUSINESS

General

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

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

At December 31, 2007, the Company had consolidated assets of $453 million, deposits of $392 million, other liabilities of $24 million and shareholders equity of $37 million. The Company s liabilities include $10.3 million in junior subordinated deferrable interest debentures issued in conjunction with the trust preferred securities issued by Plumas Statutory Trust I (the Trust I) in September 2002 and Plumas Statutory Trust II (the Trust II). Both Trust I and Trust II are further discussed in the section titled Trust Preferred Securities.

References herein to the Company, we, us and our refer to Plumas Bancorp and its consolidated subsidiary, unless context indicates otherwise. Our operations are conducted at 35 South Lindan Avenue, Quincy, California. Our annual, quarterly and other reports, required under the Securities Exchange Act of 1934 and filed with the Securities and Exchange Commission, (the SEC) are posted and are available at no cost on the Company s website, *www.plumasbank.com*, as soon as reasonably practicable after the Company files such documents with the SEC. These reports are also available through the SEC s website at *www.sec.gov*.

The Bank. The Bank is a California state-chartered bank that was incorporated in July 1980 and opened for business in December 1980. The Bank s Administrative Office is also located at 35 South Lindan Avenue, Quincy, California. At December 31, 2007 the Bank had approximately $453 million in assets, $349 million in net loans and $393 million in deposits (including a deposit of $0.7 million from the Bancorp). It is currently the largest independent bank headquartered in Plumas County. The Bank s deposit accounts are insured by the Federal Deposit Insurance Corporation (the FDIC) up to maximum insurable amounts. The Bank is not a member of the Federal Reserve System. The Bank s primary service area covers the Northeastern portion of California, with Lake Tahoe to the South and the Oregon border to the North. The Bank, through its thirteen branch network, serves the seven contiguous counties of Plumas, Nevada, Sierra, Placer, Lassen, Modoc and Shasta. The branches are located in the communities of Quincy, Portola, Greenville, Westwood, Truckee, Fall River Mills, Alturas, Susanville, Chester, Tahoe City, Kings Beach, Loyalton and Redding. The Bank maintains sixteen automated teller machines (ATMs) tied in with major statewide and national networks. In addition to its branch network, the Bank operates a commercial lending office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank s primary business is servicing the banking needs of these communities. Its marketing strategy stresses its local ownership and commitment to serve the banking needs of individuals living and working in the Bank s primary service areas.

With a predominant focus on personal service, the Bank has positioned itself as a multi-community independent bank serving the financial needs of individuals and businesses within the Bank s geographic footprint. Our principal retail lending services include consumer and home equity loans. Our principal commercial lending services include term real estate, land development and construction loans. In addition, we provide commercial and industrial term, government-guaranteed and agricultural loans as well as credit lines.

The Bank s Government-guaranteed lending center, headquartered in Auburn, California with additional personnel in Truckee, provides Small Business Administration and USDA Rural Development loans to qualified borrowers throughout Northern California and Northern Nevada. During 2007 the bank was granted nationwide Preferred Lender status with the U.S. Small Business Administration and we expect government-guaranteed lending to become an important part of our overall lending operation. Also in Truckee, we have a senior commercial lender charged with the production and maintenance of a significant participation loan portfolio. Participations with commitments totaling $13.3 million and outstanding balances of $6.7 million were purchased during 2007. Total participations of $43.3 million and $41.7 million were included in the Company s loan portfolio as of December 31, 2007 and 2006.

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

As of December 31, 2007, the principal areas to which we directed our lending activities, and the percentage of our total loan portfolio comprised by each, were as follows: (i) loans secured by real estate 58.1%; (ii) commercial and industrial (including SBA) loans 11.2%; (iii) consumer loans (including residential equity lines of credit) 20.6%; and (iv) agricultural loans (including agricultural real estate loans) 10.1%.

In addition to the lending activities noted above, we offer a wide range of deposit products for the retail and commercial banking markets including checking, interest-bearing checking, business sweep, savings, time deposit and retirement accounts, as well as remote deposit, telephone banking and internet banking with bill-pay options. Interest bearing deposits include our Money Fund Plu$ checking account. This account is intended to pay rates comparable to those available on a money fund offered by a typical brokerage firm. As of December 31, 2007, the Bank had 33,882 deposit accounts with balances totaling approximately $393 million, compared to 34,304 deposit accounts with balances totaling approximately $403 million at December 31, 2006. We attract deposits through our customer-oriented product mix, competitive pricing, convenient locations, extended hours, remote deposit operations and drive-up banking, all provided with a high level of customer service

Most of our deposits are attracted from individuals, business-related sources and smaller municipal entities. This mix of deposit customers resulted in a relatively modest average deposit balance of approximately $11,500 at December 31, 2007. However, it makes us less vulnerable to adverse effects from the loss of depositors who may be seeking higher yields in other markets or who may otherwise draw down balances for cash needs. There were no brokered deposits at December 31, 2007.

We also offer a variety of other products and services to complement the lending and deposit services previously reviewed. These include cashier s checks, traveler s checks, bank-by-mail, ATMs, night depository, safe deposit boxes, direct deposit, electronic funds transfers, on-line banking, remote deposit, and other customary banking services.

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In order to provide non-deposit investment options, we have developed a strategic alliance with Financial Network Investment Corporation (FNIC). Through this arrangement, certain employees of the Bank are also registered and licensed representatives of FNIC. These employees provide our customers throughout our branch network with convenient access to annuities, insurance products, mutual funds, and a full range of investment products.

During 2007 we added Remote Deposit to our product mix. Remote Deposit allows our customers to make non-cash deposits remotely from their physical location. With this product, we have extended our service area and can now meet the deposit needs of customers who may not be located within a convenient distance of one of our branch offices.

Additionally, the Bank has devoted a substantial amount of time and capital to the improvement of existing Bank services, during the last two fiscal years, including an on balance sheet sweep product which we introduced during the first quarter of 2008. The officers and employees of the Bank are continually engaged in marketing activities, including the evaluation and development of new products and services, to enable the Bank to retain and improve its competitive position in its service area.

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

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

We offer various loan products which promote home ownership and affordable housing, fuel job growth and support community economic development. Types of loans offered range from personal and commercial loans to real estate, construction, agricultural, and government-guaranteed community infrastructure loans. Many banking decisions are made locally with the goal of maintaining customer satisfaction through the timely delivery of high quality products and services.

Recent Developments. During the fourth quarter of 2007 the Company opened a government-guaranteed lending office in Auburn, California. During the second quarter of 2007, we opened our Redding, California branch in a temporary location and have plans to relocate this branch to its permanent location during mid 2008. During the fourth quarter of 2006 we opened a commercial lending office in Reno, Nevada and during January 2008 we announced our intention to apply to state and federal regulatory authorities for permission to charter a new full-service commercial bank to be located in the Reno/Sparks area of Northern Nevada.

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

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

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

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

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

Business Concentrations. No individual or single group of related customer accounts is considered material in relation to the Banks assets or deposits, or in relation to our overall business. However, at December 31, 2007 approximately 70% of the Bank s total loan portfolio consisted of real estate-secured loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate. Moreover, our business activities are currently focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta and Sierra and Washoe County in Nevada. Consequently, our results of operations and financial condition are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in these areas of California and Nevada exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions in California and Nevada.

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

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

Currently, within the Bank s branch service area there are 34 traditional banking branch offices of competing institutions, including 21 branches of 6 major banks. As of June 30, 2007, the Federal Deposit Insurance Corporation estimated the Bank s market share of insured deposits within the communities it serves to be as follows: Chester 72%, Quincy 64%, Portola 48%, Susanville 37%, Alturas 37%, Kings Beach 33%, Truckee 20%, Fall River Mills/Burney 20%, Tahoe City 4%, Redding less than 1% and 100% in the communities of Greenville, Westwood and Loyalton. Redding is the location of our most recently opened branch, which opened its doors in June 2007.

Technological innovations have also resulted in increased competition in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously were considered traditional banking products. In addition, many customers now expect a choice of delivery systems and channels, including telephone, mail, home computer, ATMs, full-service branches, and/or in-store branches. The sources of competition in such products include traditional banks as well as savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, internet-only financial intermediaries, and mortgage banking firms.

For many years we have countered rising competition by providing our own style of community-oriented, personalized service. We rely on local promotional activity, personal contacts by our officers, directors, employees, and shareholders, automated 24-hour banking, and the individualized service that we can provide through our flexible policies. This approach appears to be well-received by our customers who appreciate a more personal and customer-oriented environment in which to conduct their financial transactions. To meet the needs of customers who prefer to bank electronically, we offer telephone banking, remote deposit, and personal computer and internet banking with bill payment capabilities. This high tech and high touch approach allows the customers to tailor their access to our services based on their particular preference.

Employees. At December 31, 2007, the Company and its subsidiary employed 197 persons. On a full-time equivalent basis, we employed 180 persons. We believe our employee relations are excellent.

Supervision and Regulation

The Company. As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended, (the BHCA), and are registered with and subject to the supervision of the Federal Reserve Bank (the FRB). It is the policy of the FRB, that each bank holding company serve as a source of financial and managerial strength to its subsidiary banks. We are required to file reports with the FRB and provide such additional information as the FRB may require. The FRB has the authority to examine us and our subsidiary, as well as any arrangements between us and our subsidiary, with the cost of any such examination to be borne by us.

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The BHCA requires us to obtain the prior approval of the FRB before acquisition of all or substantially all of the assets of any bank or ownership or control of the voting shares of any bank if, after giving effect to the acquisition, we would own or control, directly or indirectly, more than 5% of the voting shares of that bank. Amendments to the BHCA expand the circumstances under which a bank holding company may acquire control of all or substantially all of the assets of a bank located outside the State of California.

We may not engage in any business other than managing or controlling banks or furnishing services to our subsidiary, with the exception of certain activities which, in the opinion of the FRB, are so closely related to banking or to managing or controlling banks as to be incidental to banking. In addition, we are generally prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company unless that company is engaged in such authorized activities and the Federal Reserve approves the acquisition.

We and our subsidiary are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or provision of services. For example, with certain exceptions, the bank may not condition an extension of credit on a customer obtaining other services provided by us, the bank or any other subsidiary of ours, or on a promise by the customer not to obtain other services from a competitor. In addition, federal law imposes certain restrictions on transactions between the bank and its affiliates. As affiliates, the bank and we are subject, with certain exceptions, to the provisions of federal law imposing limitations on and requiring collateral for extensions of credit by the bank to any affiliate.

The Bank. As a California state-chartered bank that is not a member of the Federal Reserve, Plumas Bank is subject to primary supervision, examination and regulation by the FDIC, the California Department of Financial Institutions (the DFI) and is subject to applicable regulations of the FRB. The Bank s deposits are insured by the FDIC to applicable limits. As a consequence of the extensive regulation of commercial banking activities in California and the United States, banks are particularly susceptible to changes in California and federal legislation and regulations, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

Various other requirements and restrictions under the laws of the United States and the State of California affect the operations of the Bank. Federal and California statutes and regulations relate to many aspects of the Bank s operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, branching, capital requirements and disclosure obligations to depositors and borrowers. California law presently permits a bank to locate a branch office in any locality in the state. Additionally, California law exempts banks from California usury laws.

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

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

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In addition to the risk-based guidelines, the FRB and FDIC require banking organizations to maintain a minimum amount of Tier 1 capital to average total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. It is improbable, however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators ratings. For all banking organizations not rated in the highest category, the minimum leverage ratio is at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, is at least 4% or 5%.
In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the FRB and FDIC have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.
A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, we are required to maintain certain levels of capital, as is the Bank. The regulatory capital guidelines as well as the actual capitalization for the Bank and Bancorp as of December 31, 2007 follow:

	Requirement for the Bank to be:			
	Adequately Capitalized	Well Capitalized	Plumas Bank	Plumas Bancorp
Tier 1 leverage capital ratio	4.0%	5.0%	9.9%	10.0%
Tier 1 risk-based capital ratio	4.0%	6.0%	11.5%	11.6%
Total risk-based capital ratio	8.0%	10.0%	12.5%	12.7%

Prompt Corrective Action. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including those institutions that fall below one or more prescribed minimum capital ratios described above. An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions.
In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted. Additionally, a holding company s inability to serve as a source of strength to its subsidiary banking organizations could serve as an additional basis for a regulatory action against the holding company.

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Premiums for Deposit Insurance. The deposit insurance fund or DIF of the FDIC insures our customer deposits up to prescribed limits for each depositor. The Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 amended the insurance of deposits by the FDIC and collection of assessments from insured depository institutions for deposit insurance. The FDIC approved a final rule to determine risk-based assessment rates on November 2, 2006, with rates effective on January 1, 2007. An insured depository institution s assessment rate under the final rule is based on the new assessment rate schedule, its long-term debt issuer ratings or recent financial ratios and supervisory ratings. Any increase in assessments or the assessment rate could have a material adverse effect on our business, financial condition, results of operations or cash flows, depending on the amount of the increase. Furthermore, the FDIC is authorized to raise insurance premiums under certain circumstances.

The FDIC is authorized to terminate a depository institution s deposit insurance upon a finding by the FDIC that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution s regulatory agency. The termination of deposit insurance for the bank would have a material adverse effect on our business, financial condition, results of operations or cash flows.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of San Francisco (the FHLB-SF). Among other benefits, each Federal Home Loan Bank (FHLB) serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. . The FHLB-SF utilizes a single class of stock with a par value of $100 per share, which may be issued, exchanged, redeemed and repurchased only at par value. As an FHLB member, the Bank is required to own FHLB SF capital stock in an amount equal to the greater of:

- a membership stock requirement with an initial cap of $25 million (100% of membership asset value as defined), or
- an activity based stock requirement (based on percentage of outstanding advances).

The FHLB SF capital stock is redeemable on five years written notice, subject to certain conditions.

At December 31, 2007 the Bank owned 20,453 shares of the FHLB-SF capital stock.

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts and non-personal time deposits. At December 31, 2007, we were in compliance with these requirements.

Impact of Monetary Policies. The earnings and growth of the Company are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment. The earnings of the Company are affected not only by general economic conditions but also by the monetary and fiscal policies of the United States and federal agencies, particularly the FRB. The FRB can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States Government securities and by its control of the discount rates applicable to borrowings by banks from the FRB. The actions of the FRB in these areas influence the growth of bank loans and leases, investments and deposits and affect the interest rates charged on loans and leases and paid on deposits. The FRB s policies have had a significant effect on the operating results of commercial banks and are expected to continue to do so in the future. The nature and timing of any future changes in monetary policies are not predictable.

Extensions of Credit to Insiders and Transactions with Affiliates. The *Federal Reserve Act* and FRB *Regulation O* place limitations and conditions on loans or extensions of credit to:

a bank s or bank holding company s executive officers, directors and principal shareholders (*i.e.*, in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities),

any company controlled by any such executive officer, director or shareholder, or

any political or campaign committee controlled by such executive officer, director or principal shareholder.

Loans and leases extended to any of the above persons must comply with loan-to-one-borrower limits, require prior full board approval when aggregate extensions of credit to the person exceed specified amounts, must be made on substantially the same terms (including interest rates and collateral) as, and follow credit-underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with non-insiders, and must not involve more than the normal risk of repayment or present other unfavorable features. In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank s unimpaired capital and unimpaired surplus. Regulation O also prohibits a bank from paying an overdraft on an account of an executive officer or director, except pursuant to a written pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or a written pre-authorized transfer of funds from another account of the officer or director at the bank.

Consumer Protection Laws and Regulations. The banking regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Company is subject to many federal and state consumer protection and privacy statutes and regulations, some of which are discussed below.

The *Community Reinvestment Act* (the CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations**.** The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance. In its last examination for CRA compliance, as of August 2005, the Bank was rated satisfactory.

The *Equal Credit Opportunity Act* (the ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The *Truth in Lending Act* (the TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The *Fair Housing Act* (the FH Act) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

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The *Home Mortgage Disclosure Act* (the HMDA), in response to public concern over credit shortages in certain urban neighborhoods, requires public disclosure of information that shows whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

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

Finally, the *Real Estate Settlement Procedures Act* (the RESPA) requires lenders to provide noncommercial borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts.

Penalties for noncompliance or violations under the above laws may include fines, reimbursement and other penalties. Due to heightened regulatory concern related to compliance with CRA, ECOA, TILA, FH Act, HMDA, RFPA and RESPA generally, the Company may incur additional compliance costs or be required to expend additional funds for investments in its local community.

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

In September 2007, the President signed into law the College Cost Reduction Act that increases the size of Pell grants by $500 per year over the next 5 years and cut interest rates on federal student loans from 6.8 percent to 3.4 percent over the same period. To offset these costs, the law will reduce subsidies to private and nonprofit lenders by 55 and 40 basis points, respectively. The new law also cuts the special allowance payment subsidy and reduces lender insurance rates and increase loan origination fees.

The Private Student Loan Disclosure Enhancement Act (S. 1831) is being considered by Congress to prevent unfair and deceptive private educational lending practices and eliminating conflicts of interest by prohibiting gifts and revenue sharing. The proposed bill would prohibit private education lenders from directly or indirectly offering or providing any gift to a higher education institution or employee in exchange for loan volume or any other advantage. The proposed bill also prohibits institutions and employees from receiving any gifts in exchange for preferential treatment of private student loans. Institutions of higher education and lenders would also be prohibited from entering into revenue sharing agreements under the proposed bill. There would also be a co-branding prohibition in the proposed bill that prohibits private education lenders from using the name, emblem, mascot, or logo of an institution when marketing private educational loans in a way that implies that an institution endorses the private loan offered by the lender. This provision also forbids lenders from using words, pictures, or symbols readily identified with an institution. Compensation in Connection with Advisory Boards would also be limited in that the proposed bill would prohibit employees of financial aid offices that serve on a private lenders advisory board, commission, or group of lenders from receiving anything of value from the lender. As to covered student loans, the bill would prohibit lenders from imposing fees for early repayment or prepayment of educational loans and required improved detailed disclosure of loan terms and rates before consummation of the loan transaction. In addition, the bill provides a 30 day period to review the loan before accepting the loan during which the terms may not be changed. The proposed bill would provide credit for lenders (used to meet the credit needs of its community under the Community Reinvestment Act) that make low-cost private loans to low-income borrowers.

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Congress is also considering The Federal Housing Administration Modernization Act of 2007 (S. 2338): The FHA Modernization Act of 2007 seeks to help American families that have been hit hard by the current crisis in the mortgage markets by addressing problems in the mortgage market that have shut off funding for home loans and make FHA loans a more viable alternative to the subprime market by raising FHA loan limits, modifying downpayment requirements and expanding the access to FHA programs. The proposed bill also removes the current cap on the number of reverse mortgages made through the Home Equity Conversion Mortgage program and raises the current loan limit for this program to a single national loan limit. The proposed bill would also make the Home Equity Conversion Mortgage program permanent.

In December 2007, the FDIC issued a proposed rule to improve the process for determining uninsured depositors at larger institutions in the event of a failure. The measure is intended to allow the FDIC to make funds promptly available to insured deposit customers in the unlikely event that a large financial institution is closed. The proposal is broken into two parts. One section relates to so-called covered institutions, those that have at least $2 billion in domestic deposits, have more than 250,000 deposit accounts, or have total assets of more than $20 billion, regardless of the number of deposits or accounts. A covered institution would be required to adopt mechanisms that, in the event of a failure, would place provisional holds on large deposit accounts in a percentage specified by the FDIC; provide the FDIC with deposit account data in a standard format; and allow automatic removal of provisional holds once the FDIC makes an insurance determination. The second part applies to all FDIC-insured institutions, regardless of size, and governs the specific time and circumstance under which account balances will be determined in the event of a failure. The FDIC is proposing to use the end-of-day ledger balance as normally calculated by the institution. By using the end-of-day ledger, the FDIC will be able to apply a single standard across all failed banks in order to treat every transaction equally. This is also the same deposit balance used for Call Report and assessment purposes. There would be no requirements placed on open institutions as a result of this provision. The FDIC places a high priority on providing access to insured deposits promptly and, in the past, has usually been able to allow most depositors access to their deposits on the next business day. If adopted, the proposed rule would better enable the FDIC to continue this practice, especially for the larger, more complex institutions it insures.

The Federal Reserve Board in November 2007 approved final rules to implement the Basel II framework for large bank capital requirements. The new risk-based capital requirements apply to large, internationally active banking organizations in the United States. The new capital adequacy requirements were designed to align regulatory capital requirements with actual risks and are expected to strengthen banking organizations risk-management practices. Basel II would replace the current U.S. rules implementing the Basel Capital Accord of 1988 (Basel I) and be mandatory for large, internationally active banking organizations (so-called core banking organizations with at least $250 billion in total assets or at least $10 billion in foreign exposure) and optional for others. Under Basel II, core banking organizations would be required to enhance the measurement and management of their risks, including credit risk and operational risk. Core banking organizations will be required to have rigorous processes for assessing their overall capital adequacy in relation to their total risk profile and to publicly disclose information about their risk profile and capital adequacy.

The new U.S. Basel II rule is technically consistent in most respects with international approaches and includes a number of prudential safeguards as originally proposed in September 2006. These safeguards include a requirement that banking organizations satisfactorily complete a four-quarter parallel run period before operating under the Basel II framework, a requirement that an institution satisfactorily complete a series of transitional periods before operating under Basel II without floors, and a commitment by the agencies to conduct ongoing analysis of the framework to ensure Basel II is working as intended. Basel II in the United States will be implemented with retention of the leverage ratio and prompt corrective action (PCA) requirements, which will continue to bolster capital and complement risk-based measures. Following a successful parallel run period, a banking organization would have to progress through three transitional periods (each lasting at least one year), during which there would be floors on potential declines in risk-based capital requirements. Those transitional floors would limit maximum cumulative reductions of a banking organization s risk-based capital requirements to 5 percent during the first transitional floor period, 10 percent during the second transitional floor period, and 15 percent during the third transitional floor period. A banking organization would need approval from its primary federal regulator to move into each of the transitional floor periods, and at the end of the third transitional floor period to move to full Basel II.

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In October 2007, the Federal Trade Commission following the federal financial institution regulatory agencies approved the final rules on identity theft red flags requiring each financial institution and creditor that holds any consumer account, or other account for which there is a reasonably foreseeable risk of identity theft, to develop and implement an Identity Theft Prevention Program (Program) for combating identity theft in connection with new and existing accounts. The Program must include reasonable policies and procedures for detecting, preventing, and mitigating identity theft and enable a financial institution or creditor to:

Identify relevant patterns, practices, and specific forms of activity that are red flags signaling possible identity theft and incorporate those red flags into the Program;

Detect red flags that have been incorporated into the Program;

Respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and

Ensure the Program is updated periodically to reflect changes in risks from identity theft.

The agencies also issued guidelines to assist financial institutions and creditors in developing and implementing a Program, including a supplement that provides examples of red flags. The final rules require credit and debit card issuers to develop policies and procedures to assess the validity of a request for a change of address that is followed closely by a request for an additional or replacement card. In addition, the final rules require users of consumer reports to develop reasonable policies and procedures to apply when they receive a notice of address discrepancy from a consumer reporting agency. The final rules are effective on January 1, 2008. Covered financial institutions and creditors must comply with the rules by November 1, 2008.

The federal financial regulatory agencies issued final rules in October 2007 that provide consumers with an opportunity to opt out before a financial institution uses information provided by an affiliated company to market its products and services to the consumer. The final rules on affiliate marketing implement section 214 of the Fair and Accurate Credit Transactions Act of 2003, which amends the Fair Credit Reporting Act (FCRA). The final rules generally prohibit a financial institution from using certain information received from an affiliate to make a solicitation to a consumer unless the consumer is given notice and a reasonable opportunity to opt out of such solicitations, and the consumer does not opt out. The final rules apply to information obtained from the consumer s transactions or account relationships with an affiliate, any application the consumer submitted to an affiliate, and third-party sources, such as credit reports, if the information is to be used to send marketing solicitations. Nothing in the final rules supersedes or amends a consumer s existing right to opt out of the sharing of non-transaction or experience information under section 603(d) of the FCRA. The final rules also implement the statutory exceptions to the affiliate marketing notice and opt-out requirement. The final rules are effective on January 1, 2008, and all covered entities must comply with the rules no later than October 1, 2008.

In September 2007, the SEC and Federal Reserve Board of Governors adopted final rules to implement the bank broker provisions of the Gramm-Leach-Bliley Act. The rules define the scope of securities activities that banks may conduct without registering with the SEC as a securities broker and implement the most important broker exceptions for banks adopted by the GLB Act. Specifically, the rules implement the statutory exceptions that allow a bank, subject to certain conditions, to continue to conduct securities transactions for its customers as part of the bank s trust and fiduciary, custodial and deposit sweep functions, and to refer customers to a securities broker-dealer pursuant to a networking arrangement with the broker-dealer. The rules are designed to accommodate the business practices of banks and to protect investors. The effective date for compliance is the first day of the bank s fiscal year commencing after September 30, 2008.

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Also in September 2007, the federal regulatory banking agencies issued final rules allowing well-managed insured depository institutions with less than $500 million in total assets to qualify for an extended 18 month on-site examination cycle. The final rules implement a provision of the Financial Services Regulatory Relief Act of 2006.

In June 2007, the federal banking regulatory agencies issued a final statement on Subprime Mortgage Lending to address issues relating to certain adjustable-rate mortgage (ARM) products that can cause payment shock. The statement describes the prudent safety and soundness and consumer protection standards that institutions should follow to ensure borrowers obtain loans they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower s repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for customers to refinance prior to the expiration of the initial fixed interest rate period without penalty.

The federal financial regulatory agencies in December 2006 issued a new interagency policy statement on the allowance for loan and lease losses (ALLL) along with supplemental frequently asked questions. The policy statement revises and replaces a 1993 policy statement on the ALLL. The agencies issued the revised policy statement in view of today s uncertain economic environment and the presence of concentrations in untested loan products in the loan portfolios of insured depository institutions. The policy statement has also been revised to conform with generally accepted accounting principles (GAAP) and post-1993 supervisory guidance. The 1993 policy statement described the responsibilities of the boards of directors, management, and banking examiners regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan review system, including a sound credit grading system. The policy statement reiterates that each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the ALLL and the provision for loan and lease losses and states that each institution should ensure controls are in place to consistently determine the ALLL in accordance with GAAP, the institution s stated policies and procedures, management s best judgment and relevant supervisory guidance.

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The policy statement also restates that insured depository institutions must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio, and that estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. The policy statement states that prudent, conservative, but not excessive, loan loss allowances that represent management s best estimate from within an acceptable range of estimated losses are appropriate.

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation in December 2006 issued final guidance on sound risk management practices for concentrations in commercial real estate lending. The agencies observed that the commercial real estate is an area in which some banks are becoming increasingly concentrated, especially with small- to medium- sized banks that face strong competition in their other business lines. The agencies support banks serving a vital role in their communities by supplying credit for business and real estate development. However, the agencies are concerned that rising commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets. The guidance provides supervisory criteria, including numerical indicators to assist in identifying institutions with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny, but such criteria are not limits on commercial real estate lending.

In California, a new Section 691.1 was added to the Financial Code that exempts from a bank from obtaining a securities permit for the following transactions:

- any offer (but not a sale) not involving a public offering by a bank organized under the laws of this state of its securities

- the execution and delivery of any agreement for the sale of the securities pursuant to the offer if no part of the consideration for the securities is paid to or received by the bank and none of the securities are issued until the sale of the securities is authorized by the commissioner or exempted from authorization.

- any stock split by a bank organized under the laws of this state that is effected pursuant to an amendment to its articles, an agreement of merger, or a certificate of ownership that has been approved by the commissioner, unless this exemption is withheld by order of the commissioner

- any offer or sale of securities by a bank organized under the laws of this state that is either (1) to a person actually approved by the commissioner pursuant to Section 702 of the Financial Code to acquire control of the bank if all of the material terms and conditions of the offer and sale of securities are disclosed in the application for approval specified in Section 702 and the offer and sale of securities is in accordance with the terms and subject to the conditions of the approval to acquire control or (2) in a transaction exempted from the approval requirement of Section 701 by a regulation or an order of the commissioner, unless this exemption is withheld by order of the commissioner.

In California, effective January 1, 2007, a new law Financial Code Section 854.1 recognizes the ability of mortgage brokers to obtain the benefit of non interest-bearing accounts on trust funds deposited in a commercial bank. The provision applies to real estate brokers who collect payments or provide services in connection with a loan secured by a lien on real property and permits a mortgage broker to earn interest on an interest-bearing account at a financial institution. Interest on funds received by a real estate broker who collects payments or provides services for an institutional investor in connection with a loan secured by commercial real property may inure to the broker, if agreed to in writing by the broker and the institutional investor. For purposes of this law, commercial real property means real estate improved with other than a one-to-four family residence.

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A new California law makes it easier for California banks to accept deposits from local government agencies. Under the old law, local agency deposits over $100,000 had to be secured by collateral. Pursuant to the enactment of Assembly Bill 2011, banks would be able to acquire surplus public deposits exceeding $100,000 without pledging collateral if they participate in a deposit placement service where excess amounts are placed in certificates of deposit at other institutions within a network. Such a network (of which currently there is only one available in the market) permits the entire amount of a customer s deposit to be FDIC-insured, and the bank taking the original deposit retains the benefit of the full amount of the deposit for lending or other purposes. AB 2011 clarifies that a local agency may deposit up to 30% of its surplus funds in certificates of deposit at a bank, savings association, savings bank, or credit union that participates in such a deposit-sharing network. Since the entire amount of the deposits would be FDIC-insured, a bank would not be required to pledge collateral. The bill permits agencies to make these deposits until January 1, 2012.

It is impossible to predict what effect the enactment of certain of the above-mentioned legislation will have on the Company. Moreover, it is likely that other bills affecting the business of banks may be introduced in the future by the United States Congress or California legislature.

Recent Accounting Pronouncements

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Company adopted SFAS 157 on January 1, 2008 and management does not believe its adoption will have a material impact on the Company s financial position, results of operations or cash flows.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. The entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The provisions of SFAS 159 are effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008 and management did not elect the fair value option for any of its financial instruments.

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Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

In September 2006, the FASB ratified the consensuses reached by the Task Force on Issue No. 06-4 (EITF 06-4), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-04 on January 1, 2008 and management determined that a liability of $420,000 will be recorded as of January 1, 2008, with corresponding reduction as a cumulative-effect adjustment to retained earnings.

Accounting for Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations SFAS No. 141(R)). SFAS No. 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company is required to adopt SFAS No. 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited. This standard will change the accounting treatment for business combinations on a prospective basis.

ITEM 1A. RISK FACTORS

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

No comments have been submitted to the registrant by the staff of the Securities Exchange Commission.

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ITEM 2. PROPERTIES

Of the Company s thirteen depository branches, ten are owned and three are leased. In addition the Company leases a facility that, after the completion of modifications in the first half of 2008, will become the permanent home of its Redding Branch. The Company leases two lending offices, and owns four administrative facilities including a building located in Quincy, California that, after modifications to be undertaken in 2008, will house the Company s data processing facilities.

Owned Properties

35 South Lindan Avenue Quincy, California (1)	32 Central Avenue Quincy, California (1)	80 W. Main St. Quincy, California (1)
424 N. Mill Creek Quincy, California (4)	336 West Main Street Quincy, California	120 North Pine Street Portola, California
43163 Highway 299E Fall River Mills, California	121 Crescent Street Greenville, California	315 Birch Street Westwood, California (2)
255 Main Street Chester, California	510 North Main Street Alturas, California	3000 Riverside Drive Susanville, California
8475 North Lake Boulevard Kings Beach, California	11638 Donner Pass Road Truckee, California	

Leased Properties

243 North Lake Boulevard Tahoe City, California	604 Main Street Loyalton, California	470 Nevada St., Suite 108 Auburn, California (3)
1895 Plumas Ste 2 Reno, Nevada (3)	1320 Yuba St. #104 Redding, CA (5)	2175 Civic Center Drive Redding, CA (6)

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

(2) The Westwood branch is a mortgaged property with an outstanding balance of $53,000 at December 31, 2007.

(3) Commercial lending offices.

(4) Future location of Company s data processing facilities.

(5) Temporary home of Company s Redding Branch.

(6) Future home of Company s Redding Branch.

Total rental expenses under all leases, including premises, totaled $209,000, $221,000 and $242,000, in 2007, 2006 and 2005 respectively. The expiration dates of the leases vary, with the first such lease expiring during 2009 and the last such lease expiring during 2018. Future minimum lease payments in thousands of dollars are as follows:

Year Ending December 31,	
2008	$ 285,000
2009	312,000
2010	286,000
2011	262,000
2012	262,000
Thereafter	914,000
	$ 2,321,000

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to vote of the security holders during the fourth quarter of the period covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCK- HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company s common stock is quoted on the NASDAQ Capital Market under the ticker symbol PLBC . As of December 31, 2007, there were 4,869,130 shares of the Company s stock outstanding held by approximately 2,200 shareholders of record as of the same date. The following table shows the high and low sales prices for the common stock, for each quarter as reported by Yahoo Finance.

Quarter	Dividends	High	Low
4th Quarter 2007	$0.15	$14.48	$11.50
3rd Quarter 2007		$13.82	$11.50
2nd Quarter 2007	$0.15	$16.49	$12.38
1st Quarter 2007		$17.01	$14.50
4th Quarter 2006	$0.13	$17.45	$14.50
3rd Quarter 2006		$19.00	$15.77
2nd Quarter 2006	$0.13	$19.89	$15.50
1st Quarter 2006		$23.00	$17.00

On August 17, 2005 the Company s Board of Director approved a three-for-two stock split for shareholders of record at the close of business on September 2, 2005 and effective on September 16, 2005. All share and per share data in the consolidated financial statements have been retroactively adjusted to give effect to the stock split.

Dividends paid to shareholders by the Company are subject to restrictions set forth in California General Corporation Law, which provides that a corporation may make a distribution to its shareholders if retained earnings immediately prior to the dividend payout are at least equal to the amount of the proposed distribution. As a bank holding company without significant assets other than its equity position in the Bank, the Company s ability to pay dividends to its shareholders depends primarily upon dividends it receives from the Bank. Such dividends paid by the Bank to the Company are subject to certain limitations. See Item 1 Business Supervision and Regulation Capital Standards .

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company s stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the Board). The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment. The Board by resolution shall set the amount, the record date and the payment date of any dividend after considering numerous factors, including the Company s regulatory capital requirements, earnings, financial condition and the need for capital for expanded growth and general economic conditions. Although no assurance can be given that cash or stock dividends will be paid in the future the Company s cash dividend payout ratio over the last five years has averaged approximately 27% of net income.

On January 22, 2007 the Company announced that the Board authorized a common stock repurchase plan for the year ending December 31, 2007. The plan authorized the repurchase of up to 250,000 shares, or approximately 5%, of the Company s shares outstanding as of January 22, 2007. A total of 168,737 common shares were repurchased under this plan during 2007. On December 20, 2007 the Company announced that for 2008 the Board authorized a common stock repurchase plan for up to 244,000 shares, or 5% of the Company s shares outstanding on December 20, 2007. The repurchases will be made from time

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to time by the Company in the open market or privately negotiated transactions as conditions allow. All such transactions will be structured to comply with Securities and Exchange Commission Rule 10b-18 and all shares repurchased under this plan will be retired. The number, price and timing of the repurchases shall be at the Company s sole discretion and the plan may be re-evaluated depending on market conditions, liquidity needs or other factors. The Board, based on such re-evaluations, may suspend, terminate, modify or cancel the plan at any time without notice.

Securities Authorized for Issuance under Equity Compensation Plans. The following table sets forth securities authorized for issuance under equity compensation plans as for December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	395,772	$ 13.37	490,889
Equity compensation plans not approved by security holders	None	Not Applicable	None
Total	395,772	$ 13.37	490,889

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

Issuer Purchases of Equity Securities. The following table sets forth purchases of Plumas Bancorp common stock by the Company during the fourth quarter of 2007.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share (1)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)**	**Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3)**
October 1, 2007 to October 31, 2007	7,500	$ 13.33	7,500	144,770
November 1, 2007 to November 30, 2007	38,813	$ 13.15	37,133	107,637
December 1, 2007 to December 31, 2007	26,374	$ 13.66	26,374	0(4)
Total	72,687	$ 13.35	71,007	

(1) Includes commissions.

(2) The difference between total number of shares purchased and the total number of shares purchased as part of publicly announced programs is due to repurchases of common stock from employees in connection with their exercise of stock options.

(3) On January 22, 2007 the Company announced that its Board of Directors authorized a common stock repurchase plan. The plan called for the repurchase of up to 250,000 shares, or approximately 5%, of the Company s shares outstanding as of January 22, 2007. The shares included in this column represent shares available under this plan which expired on December 31, 2007

(4) The 2007 stock repurchase plan terminated on December 31, 2007. On December 20, 2007 the Company announced that for 2008 the Board authorized a common stock repurchase plan for up to 244,000 shares, or 5% of the Company s shares outstanding on December 20, 2007.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents a summary of selected financial data and should be read in conjunction with the Company s consolidated financial statements and notes thereto included under Item 8 Financial Statements and Supplementary Data.

	At or for the year ended December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands except per share information)				
Statement of Income					
Interest income	$ 30,284	$ 29,483	$ 25,497	$ 20,110	$ 18,549
Interest expense	8,536	6,954	4,793	2,914	3,013
Net interest income	21,748	22,529	20,704	17,196	15,536
Provision for loan losses	800	1,000	1,100	750	750
Noninterest income	5,448	5,159	5,073	5,099	3,639
Noninterest expense	19,671	18,290	17,549	15,898	13,126
Provision for income taxes	2,502	3,196	2,600	2,001	2,018
Net income	$ 4,223	$ 5,202	$ 4,528	$ 3,646	$ 3,281
Balance sheet (end of period)					
Total assets	$ 453,115	$ 473,239	$ 472,803	$ 417,346	$ 390,262
Total loans	$ 352,949	$ 354,712	$ 321,646	$ 266,913	$ 217,957
Allowance for loan losses	$ 4,211	$ 3,917	$ 3,256	$ 2,722	$ 2,524
Total deposits	$ 391,940	$ 402,176	$ 426,560	$ 378,567	$ 355,842
Total shareholders equity	$ 37,139	$ 35,852	$ 31,137	$ 27,891	$ 25,749
Balance sheet (period average)					
Total assets	$ 464,974	$ 468,988	$ 452,225	$ 409,335	$ 339,160
Total loans	$ 353,384	$ 335,226	$ 302,596	$ 233,759	$ 214,736
Total deposits	$ 403,772	$ 415,700	$ 403,818	$ 373,267	$ 304,840
Total shareholders equity	$ 37,041	$ 33,682	$ 29,548	$ 26,829	$ 24,558
Capital ratios					
Leverage ratio	10.0%	9.5%	8.5%	7.6%	8.4%
Tier 1 risk-based capital	11.6%	10.9%	10.3%	10.1%	10.4%
Total risk-based capital	12.7%	11.8%	11.1%	10.9%	11.3%
Asset quality ratios					
Nonperforming loans/total loans	0.75%	0.29%	0.52%	0.45%	0.40%
Nonperforming assets/total assets	0.70%	0.22%	0.36%	0.30%	0.22%
Allowance for loan losses/total loans	1.19%	1.10%	1.01%	1.02%	1.16%
Net loan charge-offs	$ 506	$ 339	$ 566	$ 552	$ 657
Performance ratios					
Return on average assets	0.91%	1.11%	1.00%	0.89%	0.97%
Return on average equity	11.4%	15.4%	15.2%	13.5%	13.3%
Net interest margin	5.18%	5.32%	5.06%	4.77%	5.20%

Loans to Deposits		90.1%		88.2%		75.4%		70.5%		61.3%
Efficiency ratio		72.3%		66.1%		68.1%		71.3%		68.5%
Per share information										
Basic earnings	$	0.85	$	1.04	$	0.92	$	0.75	$	0.68
Diluted earnings	$	0.84	$	1.02	$	0.89	$	0.73	$	0.66
Cash dividends	$	0.30	$	0.26	$	0.22	$	0.19	$	0.16
Dividend payout ratio		35.3%		25.0%		23.9%		25.1%		23.7%
Book value	$	7.63	$	7.14	$	6.26	$	5.69	$	5.29
Common shares outstanding at period end		4,869,130		5,023,205		4,976,654		4,901,197		4,863,040

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We are a bank holding company for Plumas Bank, a California state-chartered commercial bank. We derive our income primarily from interest received on real estate related, commercial and consumer loans and, to a lesser extent, interest on investment securities, fees received in connection with servicing deposit and loan customers and fees from the sale or referral of loans. Our major operating expenses are the interest we pay on deposits and borrowings and general operating expenses. We rely on locally-generated deposits to provide us with funds for making loans.

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

One of our strategic objectives is to expand our banking service activities to adjacent communities. In October, 2006 we opened a new Bank owned branch in Truckee, California. This replaced a much smaller leased facility. During the fourth quarter of 2006 we opened a commercial real estate loan office in Reno, Nevada. During the second quarter of 2007 we opened a branch in Redding, California and during the fourth quarter of 2007 we opened a government guaranteed lending office in Auburn, California.

Critical Accounting Policies

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

Allowance for Loan Losses. The allowance for loan losses represents our best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries.

We evaluate our allowance for loan losses quarterly. We believe that the allowance for loan losses is a critical accounting estimate because it is based upon management s assessment of various factors affecting the collectibility of the loans, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans.

We determine the appropriate level of the allowance for loan losses, primarily on an analysis of the various components of the loan portfolio, including all significant credits on an individual basis. We segment the loan portfolio into as many components as practical. Each component has similar characteristics, such as risk classification, past due status, type of loan or lease, industry or collateral.

We cannot provide you with any assurance that economic difficulties or other circumstances which would adversely affect our borrowers and their ability to repay outstanding loans will not occur which would be reflected in increased losses in our loan portfolio, which could result in actual losses that exceed reserves previously established.

Available for Sale Securities. Available-for-sale securities are required to be carried at fair value. We believe this is a critical accounting estimate in that the fair value of a security is based on quoted market prices or if quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments. Adjustments to the available-for-sale securities fair value impact the consolidated financial statements by increasing or decreasing assets and shareholders equity.

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Income Taxes. The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity s proportionate share of the consolidated provision for income taxes.

Deferred income taxes reflect the estimated future tax effects of temporary differences between the reported amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. We use an estimate of future earnings to support our position that the benefit of our deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced.

The provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) have been applied to all tax positions of the Company as of January 1, 2007. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. 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.

Impairment of Core Deposit Intangible. The core deposit intangible represents the excess of the premiums paid over the fair value of the assets and liabilities acquired in the branch acquisitions. The core deposit intangible is required to be amortized over its expected useful life and required to be evaluated for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the fair value of the asset is determined to be less than the carrying amount, the core deposit intangible will be written down through a charge to operations.

Stock-Based Compensation. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment* (SFAS 123 (R)). Under SFAS 123(R), compensation cost is recognized for all awards that vest subsequent to the date of adoption based on the grant-date fair value estimated in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* and SFAS 123(R). We believe this is a critical accounting estimate since the grant-date fair value is estimated using the Black-Scholes option-pricing formula, which involves making estimates of the assumptions used, including the expected term of the option, expected volatility over the option term, expected dividend yield over the option term and risk-free interest rate. In addition, when determining the compensation expense to amortize over the vesting period, management makes estimates about the expected forfeiture rate of options.

The following discussion is designed to provide a better understanding of significant trends related to the Company s financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It pertains to the Company s financial condition, changes in financial condition and results of operations as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007. The discussion should be read in conjunction with the Company s audited consolidated financial statements and notes thereto and the other financial information appearing elsewhere herein.

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Overview

Our company posted solid results this year, but the recent economic slowdown impacted our ability to repeat the record earnings of 2006. The Company s net income decreased $979,000, or 18.8%, to $4,223,000 for the year ended December 31, 2007 from $5,202,000 for the same period in 2006. Net income was $4,528,000 for the year ended December 31, 2005. During 2007 an increase in interest expense from increased levels of and rates paid on our time deposits resulted in a decrease in our net interest margin and a decrease in net interest income of $781,000. Additionally, as a result of a decrease in the deferral of loan origination costs, an increase in retirement costs and the costs related to our expansion efforts in Redding, California and Reno, Nevada; non-interest expense increased by $1,381,000. Partially offsetting these reductions in income in 2007 was an increase of $289,000 in non-interest income, a reduction of $200,000 in the provision for loan losses, and a decrease of $694,000 in the provision for income taxes.

Total assets at December 31, 2007 decreased $20.1 million, or 4.3% to $453 million. This decrease was primarily related to a reduction in investment securities of $19.5 million or 26.1%. At December 31, 2007 investments securities totaled $55 million compared to $75 million at December 31, 2006. Net loans declined by $2.7 million, or 0.8% to $349 million at December 31, 2007, compared to $352 million at December 31, 2006.

Deposits declined by $10 million, or 2.5%, to $392 million at December 31, 2007 from $402 million at December 31, 2006. Competition for deposit dollars throughout the Company s service area, both from bank and non-bank sources and a lack of deposit growth in the Company s service area have contributed to this decline in deposits. In addition, the deposit mix changed with time deposits increasing by $27.6 million from $100.8 million during the year ended December 31, 2006 to $128.4 million at December 31, 2007, while other interest-bearing deposits declined $27.7 million and non-interest bearing deposits declined by $10.2 million.

The return on average assets was 0.91% for 2007, down from 1.11% for 2006. The return on average equity was 11.4% for 2007, down from 15.4% for 2006.

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Results of Operations

Net Interest Income

The following table presents for the years indicated the distribution of consolidated average assets, liabilities and shareholders equity. Average balances are based on average daily balances. It also presents the amounts of interest income from interest-earning assets and the resultant yields expressed in both dollars and yield percentages, as well as the amounts of interest expense on interest-bearing liabilities and the resultant cost expressed in both dollars and rate percentages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

	Year ended December 31,								
	2007			2006			2005		
	Average balance	Interest income/ expense	Rates earned/ paid	Average balance	Interest income/ expense	Rates earned/ paid	Average balance	Interest income/ expense	Rates earned/ paid
	(dollars in thousands)								
Assets									
Federal funds sold	$ 3,517	$ 171	4.86%	$ 3,616	$ 164	4.54%	$ 5,930	$ 218	3.68%
Investment securities(1)	62,690	2,404	3.83	84,794	3,047	3.59	100,633	3,324	3.30
Total loans (2)(3)	353,384	27,709	7.84	335,226	26,272	7.84	302,596	21,955	7.26
Total earning assets	419,591	30,284	7.22%	423,636	29,483	6.96%	409,159	25,497	6.23%
Cash and due from banks	12,850			13,547			15,953		
Other assets	32,533			31,805			27,357		
Total assets	$ 464,974			$ 468,988			$ 452,469		
Liabilities and shareholders equity									
Interest bearing demand deposits	$ 77,254	1,335	1.73%	$ 80,685	1,489	1.85%	$ 48,577	196	0.40%
Money market deposits	39,431	327	0.83	56,496	661	1.17	64,025	747	1.17
Savings deposits	50,448	245	0.49	59,802	423	0.71	67,702	445	0.66
Time deposits	121,808	5,304	4.35	93,515	3,314	3.54	98,946	2,704	2.73
Short-term borrowings	8,735	467	5.35	4,446	237	5.33	6,921	210	3.03
Junior subordinated debentures	10,310	835	8.10	10,310	810	7.86	7,259	479	6.60
Other	303	23	7.59	285	20	7.02	245	12	4.90
	308,289	8,536	2.77%	305,539	6,954	2.28%	293,675	4,793	1.63%

Total interest bearing liabilities								
Noninterest bearing demand deposits	114,831			125,202			124,568	
Other liabilities	4,813			4,565			4,434	
Shareholders equity	37,041			33,682			29,792	
Total liabilities and shareholders equity	$ 464,974			$ 468,988			$ 452,469	
Net interest income		$ 21,748			$ 22,529			$ 20,704
Net interest spread (4)			4.45%			4.68%		4.60%
Net interest margin (5)			5.18%			5.32%		5.06%

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

(2) Average nonaccrual loan balances of $1.7 million for 2007, $1.2 million for 2006 and $1.3 million for 2005 are included in average loan balances for computational purposes.

(3) Loan origination fees and costs are included in interest income as adjustments of the loan

yields over the life of the loan using the interest method. Loan interest income includes net loan costs of $360,000 and $407,000 for 2007 and 2006, respectively and net loan fees of $94,000 for 2005.

(4) Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(5) Net interest margin is computed by dividing net interest income by total average earning assets.

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The following table sets forth changes in interest income and interest expense, for the years indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

	2007 compared to 2006 Increase (decrease) due to change in:				2006 compared to 2005 Increase (decrease) due to change in:			
	Average Volume(1)	Average Rate(2)	Mix(3)	Total	Average Volume(1)	Average Rate(2)	Mix(3)	Total
	(dollars in thousands)							
Interest-earning assets:								
Federal funds sold	$ (4)	$ 12	$ (1)	$ 7	$ (85)	$ 51	$ (20)	$ (54)
Investment securities	(794)	205	(54)	(643)	(523)	292	(46)	(277)
Loans	1,423	13	1	1,437	2,367	1,760	190	4,317
Total interest income	625	230	(54)	801	1,759	2,103	124	3,986
Interest-bearing liabilities:								
Interest bearing demand deposits	(63)	(95)	4	(154)	130	700	463	1,293
Money market deposits	(200)	(192)	58	(334)	(88)	2		(86)
Savings deposits	(66)	(133)	21	(178)	(52)	34	(4)	(22)
Time deposits	1,003	758	229	1,990	(148)	802	(44)	610
Short-term borrowings	228	1	1	230	(75)	159	(57)	27
Junior subordinated debentures:		25		25	201	91	39	331
Other borrowings	1	2		3	2	5	1	8
Total interest expense	903	366	313	1,582	(30)	1,793	398	2,161
Net interest income	$ (278)	$(136)	$(367)	$ (781)	$1,789	$ 310	$(274)	$1,825

(1) The volume change in net interest income represents the change in average balance multiplied by

the previous year s rate.

(2) The rate change in net interest income represents the change in rate multiplied by the previous year s average balance.

(3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

2007 compared to 2006. Net interest income is the difference between interest income and interest expense. Net interest income, on a nontax-equivalent basis, was $21.7 million for the year ended December 31, 2007, a decline of $0.8 million, or 3.5%, from $22.5 million for 2006. An increase in loan interest income related to an increase in average loans outstanding was offset by a decrease in average investment securities outstanding and an increase in both the rates paid on and average balances of time deposits. The increase in interest expense on time deposits was somewhat offset by decrease in the average balance outstanding and the rate paid on other interest bearing deposits. Interest expense on short-term borrowings increased as a result of an increase in the average balance outstanding.

Interest income increased $0.8 million, or 2.7%, to $30.3 million for the year ended December 31, 2007. Interest and fees on loans increased by $1.4 million from $26.3 million for the year ended December 31, 2006 to $27.7 million for 2007. The average loan balances were $353.4 million for 2007, up $18.2 million, or 5%, from the $335.2 million for 2006. The average yields on loans were 7.84% for 2007 and 2006.

Interest on investment securities decreased by $643 thousand, as an increase in yield of 24 basis points was offset by a decline in average investment securities of $22.1 million.

Interest expense increased $1.6 million to $8.5 million for the year ended December 31, 2007, up from $6.9 million for 2006. The increase in interest expense was primarily attributed to rate and volume increases on time deposits and in the level of short-term borrowings. The Company has experienced increases in the average balance of its time deposits but declines in non-interest bearing demand deposit accounts, interest- bearing demand deposits, savings and money market accounts. We continue to experience significant competition for deposits from both banking and non-banking sources. Rather than increasing the rates paid on our lower yielding interest bearing transaction, money market and savings accounts to attract deposits and thereby increasing the rate paid on the entire balance of these accounts, the Company has chosen to increase its level of short-term time deposits and to a lesser extent to increase average short-term borrowings. This has resulted in an increase in both the volume and rate components of time deposit interest expense and the volume variance of short-term borrowings.

For the year ended December 31, 2007 compared to 2006, the Company s average rate paid on time deposits increased 81 basis points to 4.35% from 3.54%. This increase includes an increase in market rates in the Company s service area and the effect of a promotional certificate of deposit program introduced during the fourth quarter of 2006. The average rate paid on promotional certificate of deposits for the year ended December 31, 2007 was 5.10% and the average balance was $45.1 million. This product provides a higher rate of return for our more interest rate sensitive customers, whose deposits we may have otherwise lost to competition, while providing a highly competitive rate to attract new deposits.

Interest expense on interest-bearing demand, money market and savings accounts declined by $666 thousand related to both a decline in the average rate paid on these accounts and a decline in the average balance. Interest on short-term borrowings increased primarily as a result of an increase in average borrowings. Interest expense paid on junior subordinated debentures, which fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate, increased by $25 thousand during 2007 as a result of an increase in the LIBOR rate.

Net interest margin is net interest income expressed as a percentage of average interest-earning assets. As a result of the changes noted above, the net interest margin for 2007 decreased 14 basis points to 5.18%, down from 5.32% for 2006.

2006 compared to 2005. Net interest income, on a nontax-equivalent basis, was $22.5 million for the year ended December 31, 2006, an increase of $1.8 million, or 9%, from $20.7 million for 2005. The increase in net interest income was primarily attributed to volume and rate increases in the Company s average loan balances partially offset by increases in the rates paid on interest bearing deposit account balances and the level of and rates paid on the junior subordinated debentures.

Interest income increased $4.0 million, or 16%, to $29.5 million for the year ended December 31, 2006. Interest and fees on loans increased by $4.3 million from $22.0 million for the year ended December 31, 2005 to $26.3 million during the 2006. The average loan balances were $335.2 million for 2006, up $32.6 million, or 11%, from the $302.6 million for 2005. The average yields on loans were 7.84% for 2006 up 58 basis points from 7.26% for 2005. The increase in yield is consistent with market conditions in the Company s service area.

Interest on investment securities decreased by $277 thousand, as an increase in yield of 29 basis points was offset by a decline in average investment securities of $15.8 million. Interest earned on federal funds sold decreased by $54 thousand. This item benefited from an increase in yield of 86 basis points but was offset by a decline in average balances outstanding of $2.3 million.

Interest expense increased $2.2 million to $7.0 million for the year ended December 31, 2006, up from $4.8 million for 2005. The increase in interest expense was primarily attributed to rate increases on time deposits and interest-bearing demand deposits and the increase in the level of and rates paid on the junior subordinated debentures. For the year ended December 31, 2006 compared to 2005, the Company s average rate paid on time deposits increased 81 basis points to 3.54% from 2.73%. This increase is consistent with market conditions in the Company s service area and reflects the rising interest rate environment which began in 2004 and continued into 2006. The average rate paid on interest-bearing demand deposits increased 145 basis points to 1.85% for the year ended December 31, 2006 from 0.40% for 2005 primarily as a result of the introduction of the Money Fund Plu$ account in September 2005. Money Fund Plu$ is a high interest bearing checking account designed to pay rates comparable to those available on a typical brokerage account. There was significant growth in the total Money Fund Plu$ balances during 2006. The average balance of these deposits during 2006 was $40.2 million and total balances as of December 31, 2006 were $42.9 million. The average rate paid on Money Fund Plu$ accounts during 2006 was 3.51%.

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Adding to interest expense was an increase in the average balance of the junior subordinated debentures of $3.1 million to $10.3 million and in the average rate paid of 126 basis points from 6.60% to 7.86%.

As a result of the changes noted above, the net interest margin for 2006 increased 26 basis points to 5.32%, up from 5.06% for 2005.

Provision for Loan Losses

The allowance for loan losses is maintained at a level that management believes will be adequate to absorb inherent losses on existing loans based on an evaluation of the collectibility of the loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower s ability to pay. The allowance for loan losses is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. See the sections titled Asset Quality and Analysis of Allowance for Loan Losses for further discussion of loan quality trends and the provision for loan losses.

The Company recorded $800 thousand in provision for loan losses for 2007, $1.0 million for 2006 and $1.1 million for 2005. The Company has experienced a higher level of net loan charge-offs and nonperforming loans in 2007 compared to 2006 related to a general economic slow down in the Company s service area. In response the Company has increased its level of allowance for loan losses to total loans from 1.10% to 1.19% and has increased its allowance for loan losses to $4.2 million at December 31, 2007 from $3.9 million at December 31, 2006. Net charge-offs as a percentage of average loans increased to 0.14% for 2007 from 0.10% for 2006, but decreased from the 2005 level of 0.19%. Nonperforming loans increased from $1.0 million at December 31, 2006 to $2.6 million at December 31, 2007. Nonperforming loans are predominately well secured and the Company does not anticipate any significant losses associated with these loans as of December 31, 2007. Based on information currently available, management believes that the allowance for loan losses is adequate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period. The Company s loan portfolio composition and non-performing assets are further discussed under the financial condition section that begins on page 36.

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Non-Interest Income

The following table sets forth the components of non-interest income for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31,			Change during Year	
	2007	2006	2005	2007	2006
			(dollars in thousands)		
Service charges on deposit accounts	$3,806	$3,676	$3,458	$130	$ 218
Earnings on bank owned life insurance policies	415	393	355	22	38
Merchant processing	282	318	338	(36)	(20)
Investment services	162	104	189	58	(85)
Official check fees	157	170	118	(13)	52
Loan commission and servicing fees	140	14	171	126	(157)
Customer service fees	119	113	111	6	2
Federal Home Loan Bank Dividends	109	104	82	5	22
Safe deposit box and night depository income	67	69	69	(2)	
Gain on sale of loans, net	47	42	45	5	(3)
Other income	144	156	137	(12)	19
Total non-interest income	$5,448	$5,159	$5,073	$289	$ 86

2007 compared to 2006. During 2007, total non-interest income increased by $289 thousand or 6%, to $5.4 million, up from $5.1 million from the comparable period in 2006. This increase was primarily related to an increase in service charges on deposit accounts of $130 thousand and an increase in loan commission and servicing fees of $126 thousand. The increase in service charges on deposits accounts relates to an increase in the fees charged for these services and an increase of $98 thousand in ATM income. The increase in ATM income was partially offset by an increase of $53 thousand in ATM expense, which is included in non-interest expense under the category outside service fees. Loan commission and serving income was lower in the 2006 period mostly related to an increase in the amortization of servicing assets and I/O strips receivable.

Investment services income increased by $58 thousand from 2006 primarily related to an increase in staff dedicated to this product, with the increase in income offset by an increase in salary dollars supporting this product. A decline in merchant processing income of $36 thousand resulted from a reduction of merchant accounts. During the fourth quarter of 2007 the Company changed it merchant processor in order to better service our merchant customers.

2006 compared to 2005. During 2006, total non-interest income increased slightly by $86 thousand, or 2%, to $5.2 million, up from $5.1 million from the comparable period in 2005. This increase was primarily related to an increase in service charges on deposit accounts of $218 thousand from the previous year. This increase primarily relates to fees from increased customer usage of deposit account overdrafts privileges, the collection of fees resulting from those overdrafts and from an increase in the rate charged.

Loan commissions and servicing fees declined by $157 thousand from 2005. This decline primarily relates to an increase in the amortization of servicing assets and I/O strips receivable. Declines of $85 thousand in investment services income and $20 thousand in merchant processing income were mostly offset by increases of $38 thousand in earnings on life insurance policies and $52 thousand in official check fees.

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Non-Interest Expense

The following table sets forth the components of other non-interest expense for the years ended December 31, 2007, 2006 and 2005.

	Years Ended December 31,			Change during Year	
	2007	2006	2005	2007	2006
			(dollars in thousands)		
Salaries and employee benefits	$11,200	$10,043	$ 9,514	$1,157	$ 529
Occupancy and equipment	3,552	3,323	3,070	229	253
Professional fees	738	780	865	(42)	(85)
Outside service fees	671	591	700	80	(109)
Business development	530	555	494	(25)	61
Advertising and promotion	520	552	467	(32)	85
Telephone and data communications	362	374	366	(12)	8
Director compensation and retirement	349	370	288	(21)	82
Core deposit intangible Amortization	301	301	301		
Armored car and courier	279	270	337	9	(67)
Stationery and supplies	278	282	336	(4)	(54)
Postage	242	249	258	(7)	(9)
Loan expenses	192	139	114	53	25
Insurance	177	173	206	4	(33)
Other operating expense	280	288	233	(8)	55
Total non-interest expense	$19,671	$18,290	$17,549	$1,381	$ 741

2007 compared to 2006. During 2007, total non-interest expense increased $1,381 thousand, or 8%, to $19.7 million, up from $18.3 million for the comparable period in 2006. The increase in non-interest expense was primarily the result of increases in salaries and employee benefits, occupancy and equipment costs and outside service fees.

Salaries and employee benefits increased $1,157 thousand, or 12%, over the year ended December 31, 2006. Salaries costs increased by $685 thousand which included annual merit increases as well as additional officer level employees primarily related to the Company s Reno, Nevada commercial real estate loan office and its recently opened Redding, California branch. The increase in salaries was mostly offset by a decrease in bonus expense.

During the fourth quarter of 2006 we opened our newly constructed branch in Truckee, California. This replaced a much smaller leased facility. Also in the fourth quarter of 2006 we opened a commercial real estate loan office in Reno, Nevada. During the second quarter of 2007 we opened a new Bank branch in Redding, California in a temporary location. The increase in salary expense included an increase of $468 thousand related to the recently opened Reno loan office and Redding branch. In addition salary expense increased by $73 thousand at our Truckee branch.

Another significant component of the increase in salaries and employee benefits was a $575 thousand reduction in the deferral of loan origination costs. The largest component of this decrease was related to a reduction in the origination volume of consumer loans including auto loans. From 2004 through most of 2006 the Company had been aggressive in seeking out dealer auto loans. Beginning in late 2006 and continuing into 2007 we began to deemphasize our auto lending activities. In April 2007 the head of the Company s auto lending department resigned and shortly thereafter the Company discontinued new dealer-lending activity.

The Company provides retirement benefits to its executive officers in the form of salary continuation plans and split dollar life insurance agreements. The purpose of these agreements is to provide a special incentive to the experienced executive officer to continue employment with the Company on a long-term basis. Costs included in salary and benefit expense related to these plans increased by $263 thousand during 2007 which primarily relates to costs required to reflect the announced early retirement of our Chief Information/Technology officer.

Stock-based compensation expense, included in salary and employee benefits, increased by $107 thousand from $126 thousand during 2006 to $233 thousand during 2007. This increase was related to option grants during 2007.

The Company determines the fair value of the stock options on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life, expected stock volatility and the risk-free interest rate.

These increases in salary and employee benefit expense were partially offset by a decrease in bonus expense of $496 thousand primarily due to the decrease in net income during 2007. A large portion of the Company s bonus plan is based on the level of net income and items directly influenced by the level of net income including return on average equity, return on average assets and earnings per share.

Occupancy and equipment costs increased by $229 thousand, or 7% from $3,323 thousand for the year ended December 31, 2006 to $3,552 thousand for 2007. This increase includes an increase in operating expenses of $118 thousand related to the new Truckee branch, a $44 thousand increase in costs at our new Reno lending office and costs of $56 thousand related to the new Redding branch.

Outside services increased by $80 thousand primarily related to increases in ATM processing costs of $53 thousand which were offset by an increase in ATM income.

2006 compared to 2005. During 2006, total non-interest expense increased $741 thousand, or 4%, to $18.3 million, up from $17.5 million for the comparable period in 2005. Similarly to the change in 2007, the increase in non-interest expense was primarily the result of increases in salaries and employee benefits and occupancy and equipment costs.

Salaries and other employee benefits increased $529 thousand, or 6%, over 2005. Salaries increased $504 thousand as a result of staffing additions including increases in loan production, accounting and customer service staff as well as general salary merit increases. Employee bonuses increased $287 thousand and stock based compensation expenses increased $126 thousand. These increases were offset by reductions in workers compensation costs of $67 thousand, salary continuation costs of $268 thousand and an increase in capitalized salary costs of $131 thousand related to increased loan origination activities. The increase in bonus expense includes the effect of the increase in salary expense and revisions to the Company s bonus plans for 2006. The decrease in salary continuation expense relates to non-recurring accruals for the Company s former President and Chief Executive Officer who retired in December 2005.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (R), *Share Based Payment* (SFAS 123 (R)), using the modified prospective application transition method to record stock based compensation. As a result of adopting SFAS 123 (R), the Company recorded $126 thousand of employee stock based compensation expense and $48 thousand of director stock based compensation expense during 2006.

Prior to January 1, 2006, the Company accounted for the stock options under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based compensation cost was recorded prior to January 1, 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

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Occupancy and equipment expense increased by $253 thousand, or 8%, over 2005. Occupancy expense increased by $206 thousand which included depreciation, taxes and insurance associated with the Company s new Truckee, California branch facility. In addition the Company experienced higher levels of janitorial, utilities and other operating costs during 2006. A decrease in equipment deprecation was offset by increases in software costs, as the Company continues to expand and upgrade its computer software applications, resulting in an increase in equipment costs of $47 thousand.

Professional fees declined by $85 thousand in 2006 to $780 thousand from $865 thousand during 2005. This decline primarily relates to a lower level of consulting fees which were high in 2005 as a result of the implementation costs associated with the regulatory requirements of the Sarbanes-Oxley Act. The Company also benefited from lower outside service fees during 2006. A decline of $109 thousand in outside service fees to $591 thousand during 2006 from $700 thousand during 2005 was primarily related to lower ATM processing fees. An increase of $61 thousand in business development costs relates to increased education and training costs. The Company expanded its education and training budget during 2006. The increase in advertising and promotion costs of $85 thousand, or 18%, includes costs associated with the Company s newly built Truckee, California branch, an increase in customer incentive programs, and an increase in the overall marketing budget. Armored car and courier costs decreased $67 thousand, or 20%, as compared to 2005. Courier savings were realized as a result of the Bank s implementation of Check 21 . Check 21 is a federal law promoting the transmission of checks electronically between institutions rather than physically transporting the items.

Provision for income taxes. The provision for income taxes was $2.5 million, or 37.2% of pre-tax income for 2007. This compares to $3.2 million or 38.1% of pre-tax income during 2006 and $2.6 million or 36.5% of pre-tax income during 2005. The decrease in provision as a percentage of pre-tax income for 2007 relates to an increase in tax exempt income as a percentage of pretax income during 2007 as compared to 2006. This includes increases in earnings on Bank owned life insurance policies, a $63 thousand death benefit on Bank owned life insurance during the fourth quarter of 2007 and increases in municipal loan interest. The increase in provision as a percentage of pre-tax income for 2006 over 2005 reflects the effect of employee stock based compensation expense which is included in expense during 2006, but excluded from the calculation of the provision for income taxes and a reduction in the percentage of tax exempt income as a percentage of pre-tax income.

Financial Condition

Loan Portfolio. The Company continues to manage the mix of its loan portfolio consistent with its identity as a community bank serving the financing needs of all sectors of the area it serves. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized commercial businesses. These commercial loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment.

The Company s largest lending categories are real estate mortgage loans, consumer and real estate construction loans. These categories accounted for approximately 36.4%, 20.6% and 21.7%, respectively of the Company s total loan portfolio at December 31, 2007, and approximately 32.8%, 25.6% and 21.4%, respectively of the Company s total loan portfolio at December 31, 2006. In addition, the Company s real estate-related loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 70% and 67% of the total loan portfolio at December 31, 2007 and 2006. Moreover, the business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, and Sierra and beginning in the fourth quarter of 2006 in Washoe County in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company s operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

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The rates of interest charged on variable rate loans are set at specific increments in relation to the Company s published lending rate and vary as the Company s lending rate changes. At December 31, 2007 and 2006, approximately 63% and 61%, respectively, of the Company s loan portfolio was compromised of variable rate loans. While real estate mortgage, commercial and consumer lending remain the foundation of the Company s historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types. In addition, the Company remains committed to the agricultural industry in Northeastern California and will continue to pursue high quality agricultural loans. Agricultural loans include both commercial and commercial real estate loans. The Company s agricultural loan balances totaled $36 million at December 31, 2007 and 2006.

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

	At December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(dollars in thousands)				
Real estate mortgage	$128,357	$116,329	$110,686	$102,125	$ 67,532
Real estate construction	76,478	75,930	56,370	31,964	26,194
Commercial	39,584	36,182	42,252	42,689	51,073
Consumer	72,768	90,694	81,320	59,068	46,621
Agriculture	35,762	35,577	31,018	31,067	26,537
Total loans	352,949	354,712	321,646	266,913	217,957
Less:					
Deferred (costs) fees	(564)	(1,182)	(766)	260	530
Allowance for loan losses	4,211	3,917	3,256	2,722	2,524
Net loans	$349,302	$351,977	$319,156	$263,931	$214,903

The following table sets forth the maturity of gross loan categories as of December 31, 2007. Also provided with respect to such loans are the amounts due after one year, classified according to sensitivity to changes in interest rates:

	Within One Year	**After One Through Five Years**	**After Five Years**	**Total**
	(dollars in thousands)			
Real estate mortgage	$ 12,285	$ 31,097	$ 84,975	$128,357
Real estate construction	47,319	17,990	11,169	76,478
Commercial	12,696	13,982	12,906	39,584
Consumer	13,678	36,388	22,702	72,768
Agriculture	17,351	12,176	6,235	35,762
Total	$103,329	$111,633	$137,987	$352,949
Loans maturing after one year with:				
Fixed interest rates		$ 58,277	$ 47,081	$105,358
Variable interest rates		53,356	90,906	144,262
Total		$111,633	$137,987	$249,620

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

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Net charge-offs during the year ended December 31, 2007 totaled $506 thousand, or 0.14% of total loans, compared to $339 thousand, or 0.10% of total loans for 2006 and $566 thousand, or 0.18% of total loans for 2005. The allowance for loan losses stood at 1.19% of total loans as of December 31, 2007, versus 1.10% of total loans as of December 31, 2006.

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

The federal financial regulatory agencies in December 2006 issued a new interagency policy statement on the allowance for loan and lease losses along with supplemental frequently asked questions. When determining the adequacy of the allowance for loan losses, the Company follows these guidelines. The policy statement revises and replaces a 1993 policy statement on the allowance for loan and lease losses. The agencies issued the revised policy statement in view of today s uncertain economic environment and the presence of concentrations in untested loan products in the loan portfolios of insured depository institutions. The policy statement has also been revised to conform with accounting principles generally accepted in the United States of America (GAAP) and post-1993 supervisory guidance. The policy statement reiterates that each institution has a responsibility for developing, maintaining and documenting a comprehensive, systematic, and consistently applied process appropriate to its size and the nature, scope, and risk of its lending activities for determining the amounts of the allowance for loan and lease losses and the provision for loan and lease losses and states that each institution should ensure controls are in place to consistently determine the allowance for loan and lease losses in accordance with GAAP, the institution s stated policies and procedures, management s best judgment and relevant supervisory guidance.

The policy statement also restates that insured depository institutions must maintain an allowance for loan and lease losses at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio, and that estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. The policy statement states that prudent, conservative, but not excessive, loan loss allowances that represent management s best estimate from within an acceptable range of estimated losses are appropriate. In addition, the Company incorporates the Securities and Exchange Commission Staff Accounting Bulletin No. 102, which represents the SEC staff s view related to methodologies and supporting documentation for the Allowance for Loan and Lease Losses that should be observed by all public companies in complying with the federal securities laws and the Commission s interpretations.

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The Company s methodology for assessing the adequacy of the allowance for loan losses consists of several key elements, which include but are not limited to:

- specific allocation for problem graded loans (classified loans),
- general or formula allocation,
- and discretionary allocation based on loan portfolio segmentation.

The Company s methodology incorporates the following accounting pronouncements in determining the adequacy of the allowance for loan losses:

- Statement of Financial Accounting Standards (SFAS) No. 5 Accounting for Contingencies ,
- SFAS No.114 Accounting by Creditors for Impairment of a Loan and
- SFAS 118 Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures.

Specific allocations are established based on management s periodic evaluation of loss exposure inherent in classified, impaired, and other loans in which management believes that the collection of principal and interest under the original terms of the loan agreement are in question. For purposes of this analysis, classified loans are grouped by internal risk classifications which are special mention , substandard , doubtful , and loss . Special mention loans are currently performing but are potentially weak, as the borrower has begun to exhibit deteriorating trends, which if not corrected, could jeopardize repayment of the loan and result in further downgrade. Substandard loans have well-defined weaknesses which, if not corrected, could jeopardize the full satisfaction of the debt. A loan classified as doubtful has critical weaknesses that make full collection of the obligation improbable. Classified loans, as defined by the Company, include loans categorized as substandard and doubtful. Loans classified as loss are immediately charged off.

Formula allocations are calculated by applying loss factors to outstanding loans with similar characteristics. Loss factors are based on the Company s historical loss experience as adjusted for changes in the business cycle and on the internal risk grade of those loans and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date. The formula allocation analysis incorporates loan losses over the past seven years adjusted for changes in the business cycle. Loss factors are adjusted to recognize and quantify the estimated loss exposure resulting from changes in market conditions and trends in the Company s loan portfolio.

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

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The following table provides certain information for the years indicated with respect to the Company s allowance for loan losses as well as charge-off and recovery activity.

	At December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Balance at beginning of period	$3,917	$3,256	$2,722	$2,524	$2,431
Charge-offs:					
Commercial and agricultural	83	126	297	103	295
Real estate mortgage					26
Real estate construction	46				6
Consumer	657	519	442	600	520
Total charge-offs	786	645	739	703	847
Recoveries:					
Commercial and agricultural	53	46	21	15	45
Real estate mortgage					
Real estate construction					
Consumer	227	260	152	136	145
Total recoveries	280	306	173	151	190
Net charge-offs	506	339	566	552	657
Provision for loan losses	800	1,000	1,100	750	750
Balance at end of period	$4,211	$3,917	$3,256	$2,722	$2,524
Net charge-offs during the period to average loans	0.14%	0.10%	0.19%	0.24%	0.31%
Allowance for loan losses to total loans	1.19%	1.10%	1.01%	1.02%	1.16%

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

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

The following table sets forth the amount of the Company s nonperforming assets as of the dates indicated. None of the Company s loans were troubled debt restructurings.

	At December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Nonaccrual loans	$2,618	$ 972	$1,661	$1,171	$ 847
Loans past due 90 days or more and still accruing	14	41		36	29
Total nonperforming loans	2,632	1,013	1,661	1,207	876
Other real estate owned	402				
Other vehicles owned	135	47	40	33	
Total nonperforming assets	$3,169	$1,060	$1,701	$1,240	$ 876
Interest income forgone on nonaccrual loans	$ 161	$ 53	$ 39	$ 25	$ 51
Interest income recorded on a cash basis on nonaccrual loans	$ 118	$ 116	$ 16	$ 63	$ 143
Nonperforming loans to total loans	0.75%	0.29%	0.52%	0.45%	0.40%
Nonperforming assets to total assets	0.70%	0.22%	0.36%	0.30%	0.22%
Allowance for loan losses to nonperforming loans	160%	387%	196%	226%	288%

At December 31, 2007 and 2006, the Company s recorded investment in loans for which impairment has been recognized totaled $2.6 million and $1.0 million, respectively. The specific allowance for loan losses related to impaired loans was $143 thousand and $66 thousand at December 31, 2007 and 2006, respectively. The average recorded investment in impaired loans was $1.7 million, $1.2 million and $1.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. In most cases, the Company uses the cash basis method of income recognition for impaired loans. For the years ended December 31, 2007, 2006 and 2005, the Company recognized $118 thousand, $116 thousand and $16 thousand, respectively, of income on such loans.

It is the policy of management to make additions to the allowance for loan losses so that it remains adequate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at December 31, 2007 is adequate. However, the determination of the amount of the allowance is judgmental and subject to economic conditions which cannot be predicted with certainty. Accordingly, the Company cannot predict whether charge-offs of loans in excess of the allowance may occur in future periods.

Investment Portfolio and Federal Funds Sold. Total investment securities decreased $19.5 million, or 26%, to $55.3 million as of December 31, 2007, down from $74.8 million at December 31, 2006. There were no Federal funds sold at December 31, 2007 or 2006. During 2007 the Company utilized the proceeds from the maturities and calls of investment securities to provide liquidity for lending and to reduce the levels of short-term borrowings as deposits declined. The Company increased its yield on interest earning assets as the average balances of lower yielding investments has decreased and the average balance of higher yielding loans has increased.

The composition of the portfolio as of the end of 2007 was fairly consistent with the composition of the portfolio as of the end of 2006. The investment portfolio balances in U.S. Treasuries, U.S. Government agencies, corporate debt securities and municipal obligations comprised 6%, 62%, 7% and 25%, respectively, at December 31, 2007 versus 7%, 64%, 10% and 19%, respectively, at December 31, 2006. The increase in municipal obligations as a percentage of the investment portfolio relates to the decrease in shorter maturity investment securities such as corporate debt securities and U.S. agency securities. As these securities mature the proceeds where used primarily to reduce short-term borrowings. During 2007 the Company purchased $11.0 million of U.S. Government agency securities. This was offset by declines in investment securities related to maturities and principal repayments totaling $31.4 million.

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The Company s investments in mortgage-backed securities of U.S. Government agencies achieve both an increase in interest income and provide cash flows for liquidity and reinvestment opportunities. At December 31, 2007, total balances in these mortgage-backed securities amounted to $14.7 million down from $17.4 million at December 31, 2006. Although these pass-through securities typically have final maturities of between ten and fifteen years, the pass-through nature of the monthly principal and interest payments is expected to significantly reduce the average life of these securities.

Obligations of states and political subdivisions (municipal securities) provide attractive tax equivalent yields for the Company. Since the majority of the interest earnings on these securities are not taxable for Federal purposes the investment in municipal securities results in a reduction in the effective tax rate of the Company.

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company s intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities classified as available-for-sale may be sold to implement the Company s asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors.

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

		December 31,	
Available-for-sale (fair value)	2007	2006	2005
		(dollars in thousands)	
U.S. Treasuries	$ 3,481	$ 5,344	$ 9,823
U.S. Government agencies	19,662	30,063	43,756
Corporate debt securities	3,923	7,868	9,231
U.S. Government agency mortgage-backed Securities	14,738	17,440	20,951
Total	$41,804	$60,715	$83,761

		December 31,	
Held-to-maturity (amortized cost)	2007	2006	2005
		(dollars in thousands)	
U.S. Government agencies			$ 6
Municipal obligations	$13,488	$14,080	14,077
Total	$13,488	$14,080	$14,083

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The following table summarizes the maturities of the Company s securities at their carrying value and their weighted average yields at December 31, 2007.

(dollars in thousands)	One Year or Less		After One Through Five Years		After Five Through Ten Years		After Ten Years		Total	
Available-for-sale (Fair Value)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasuries	$ 1,993	2.94%	$ 1,488	3.13%	$	%	$	%	$ 3,481	3.02%
U.S. Government agencies	8,469	2.87%	11,193	5.16%		%		%	19,662	4.16%
Corporate debt securities	1,954	3.47%	1,969	3.68%		%		%	3,923	3.57%
U.S. Government agency mortgage-backed securities		%	4,909	3.67%	3,462	3.85%	6,367	4.78%	14,738	4.19%
Total	$12,416	2.98%	$19,559	4.47%	$ 3,462	3.85%	$6,367	4.78%	$41,804	4.02%
Held-to-maturity (Amortized Cost)										
Municipal obligations	$ 923	6.07%	$ 813	4.64%	$10,183	5.65%	$1,569	6.51%	$13,488	5.72%

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Deposits. Total deposits were $391.9 million as of December 31, 2007, a decrease of $10.3 million, or 3%, from the December 31, 2006 balance of $402.2 million. Competition for deposit dollars throughout the Company s service area, both from bank and non-bank sources and a lack of deposit growth in the Company s service area have contributed to this decline in deposits. Rather than increasing the rate paid on our lower yielding interest bearing transaction, money market and savings accounts to attract deposits and thereby impact the entire balance of these accounts, the Company has chosen to increase its level of short-term time deposits and to a lesser extent utilize short-term borrowings as a source of funds. As of December 31, 2007, non-interest bearing demand deposits and interest checking deposits decreased to 47.5% of total deposits versus 50.3% at December 31, 2006. Money market and savings deposits decreased to 19.8% of total deposits as of December 31, 2007 compared to 24.6% as of December 31, 2006. Time deposits increased to 32.7% of total deposits as of December 31, 2007 compared to 25.1% at December 31, 2006. While the Company has experienced an overall decline in deposits, its Money Fund Plu$ checking account, introduced in September 2005, has been successful in generating interest bearing checking deposits. This account is intended to pay rates comparable to those available on a typical brokerage account. Money Fund Plu$ average balances totaled $41.2 million in 2007 and $40.2 million in 2006

Deposits represent the Bank s primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. In order to assist in meeting any funding demands, the Company maintains unsecured borrowing arrangements with several correspondent banks in addition to a secured borrowing arrangement with the Federal Home Loan Bank for longer more permanent funding needs. The Company did not hold brokered deposits during the years ended December 31, 2007, 2006 or 2005.

The following chart sets forth the distribution of the Company s average daily deposits for the periods indicated.

	2007		2006		2005	
	Average Balance	Rate %	Average Balance	Rate %	Average Balance	Rate %
			(dollars in thousands)			
Non-interest-bearing deposits	$ 114,831		$ 125,202		$ 124,568	
Interest-bearing deposits:						
Interest bearing demand deposits	77,254	1.73%	80,685	1.85%	48,577	0.40%
Money market accounts	39,431	0.83%	56,496	1.17%	64,025	1.17%
Savings	50,448	0.49%	59,802	0.71%	67,702	0.66%
Time deposits	121,808	4.35%	93,515	3.54%	93,946	2.73%
Total interest bearing deposits	288,941	2.50%	290,498	2.03%	274,250	1.49%
Total deposits	$ 403,772	1.79%	$ 415,700	1.42%	$ 398,818	1.03%

The Company s time deposits of $100,000 or more had the following schedule of maturities at December 31, 2007:

Amount

		(dollars in thousands)
Remaining Maturity:		
Three months or less	$	29,369
Over three months to six months		12,001
Over six months to 12 months		7,206
Over 12 months		3,012
Total	$	51,588

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

Capital Resources

Shareholders Equity. Shareholders equity as of December 31, 2007 increased $1.3 million, or 4%, to $37.1 million up from $35.8 million as of December 31, 2006. This increase was the result of earnings during 2007 of $4.2 million, $288 thousand in stock-based compensation expense, the net funds received from key employees and directors exercising their stock options totaling $82 thousand and a decrease in the unrealized loss on available-for-sale investment securities of $585 thousand, offset by $2.4 million of repurchased Plumas Bancorp stock under the Company s stock buy back plan and cash dividends of $1.5 million.

On January 22, 2007 the Company announced that its Board of Directors authorized a common stock repurchase plan. The plan called for the repurchase of up to 250,000 shares, or approximately 5%, of the Company s shares outstanding as of January 22, 2007. During the year ended December 31, 2007 the Company repurchased 168,737 shares at an average cost, including commission, of $14.22 per share. On December 20, 2007 the Company announced that for 2008 the Board authorized a common stock repurchase plan for up to 244,000 shares, or 5% of the Company s shares outstanding on December 20, 2007.

On May 14, 2007 and November 16, 2007 the Company paid semi-annual cash dividends of $0.15 per share for a total dividend of $0.30 per share during 2007 compared to $0.26 per share during 2006.

Capital Standards. An increase in the Company s risk-based capital ratios during 2007 was attributed to increase in shareholders equity described above and a decline in the level of risk weighted assets.

The Company uses a variety of measures to evaluate its capital adequacy, with risk-based capital ratios calculated separately for the Company and the Bank. Management reviews these capital measurements on a monthly basis and takes appropriate action to ensure that they are within established internal and external guidelines. The Company s current capital position exceeds minimum thresholds established by industry regulators, and by current regulatory definitions the Bank is well capitalized, the highest rating of the categories defined under Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. The FDIC has promulgated risk-based capital guidelines for all state non-member banks such as the Bank. These guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. There are two categories of capital under the guidelines: Tier 1 capital includes common stockholders equity, and qualifying trust-preferred securities (including notes payable to unconsolidated special purpose entities that issue trust-preferred securities), less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available for sale investment securities carried at fair market value; Tier 2 capital can include qualifying subordinated debt and the allowance for loan and lease losses, subject to certain limitations.

As noted previously, the Company s junior subordinated debentures represent borrowings from its unconsolidated subsidiaries that have issued an aggregate $10 million in trust-preferred securities. These trust-preferred securities currently qualify for inclusion as Tier 1 capital for regulatory purposes as they do not exceed 25% of total Tier 1 capital, but are classified as long-term debt in accordance with GAAP. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities (and/or related subordinated debentures) in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period goodwill must be deducted from Tier I capital prior to calculating the 25% limitation. Generally, the amount of junior subordinated debentures in excess of the 25% Tier 1 limitation is included in Tier 2 capital.

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The following tables present the capital ratios for the Company and the Bank compared to the standards for bank holding companies and the regulatory minimum requirements for depository institutions as of December 31, 2007 and 2006 (amounts in thousands except percentage amounts).

	December 31, 2007		December 31, 2006	
	Amount	**Ratio**	**Amount**	**Ratio**
Tier 1 Leverage Ratio				
Plumas Bancorp and Subsidiary	**$46,209**	**10.0%**	**$45,206**	**9.5%**
Minimum regulatory requirement	18,439	4.0%	18,955	4.0%
Plumas Bank	**45,415**	**9.9%**	**44,094**	**9.3%**
Minimum requirement for Well-Capitalized institution	23,024	5.0%	23,669	5.0%
Minimum regulatory requirement	18,419	4.0%	18,935	4.0%
Tier 1 Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**46,209**	**11.6%**	**45,206**	**10.9%**
Minimum regulatory requirement	15,881	4.0%	16,610	4.0%
Plumas Bank	**45,415**	**11.5%**	**44,094**	**10.6%**
Minimum requirement for Well-Capitalized institution	23,790	6.0%	24,885	6.0%
Minimum regulatory requirement	15,860	4.0%	16,590	4.0%
Total Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**50,475**	**12.7%**	**49,123**	**11.8%**
Minimum regulatory requirement	31,763	8.0%	33,221	8.0%
Plumas Bank	**49,681**	**12.5%**	**48,011**	**11.6%**
Minimum requirement for Well-Capitalized institution	39,651	10.0%	41,475	10.0%
Minimum regulatory requirement	31,720	8.0%	33,180	8.0%

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, 2007, the Company had $96.9 million in unfunded loan commitments and $655 thousand in letters of credit. This compares to $101.8 million in unfunded commitments and $564 thousand in letters of credit at December 31, 2006. Of the $96.9 million in unfunded loan commitments, $60.4 million and $36.5 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at December 31, 2007, $53.5 million were secured by real estate, of which $28.0 million was secured by commercial real estate and $25.5 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 necessary represent future cash requirements.

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Operating Leases. The Company leases three depository branches as well as two lending offices and five automated teller machine locations used in the normal course of business throughout the Company s service area.

Total rental expenses under all operating leases, including premises, totaled $209 thousand, $221 thousand and $242 thousand, in 2007, 2006 and 2005 respectively. The expiration dates of the leases vary, with the first such lease expiring during 2009 and the last such lease expiring during 2018.

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 Federal Funds sold, the Company maintains an investment portfolio containing U.S. Government and agency securities that are classified as available-for-sale. On the liability side, liquidity needs are managed by changing competitive offering rates on deposit products and the use of established lines of credit from other financial institutions and the Federal Home Loan Bank.

The Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of $10 million and $5 million. In addition, the Company can borrow up to $96.9 million from the Federal Home Loan Bank secured by commercial and residential mortgage loans. Short-term borrowings at December 31, 2007 and 2006 consisted of $7,500,000 and $20,000,000, respectively, in Federal Home Loan Bank advances which are normally purchased for one day periods. There were no short-term borrowings outstanding at December 31, 2005.

Customer deposits are the Company s primary source of funds. Total deposits were $391.9 million as of December 31, 2007, a decrease of $10.3 million, or 3%, from the December 31, 2006 balance of $402.2 million. Those funds are held in various forms with varying maturities. The Company does not have any brokered deposits. 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 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 short-term borrowings, will provide adequate liquidity for its operations in the foreseeable future.

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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 independent auditor s report included in the Annual Report of Plumas Bancorp to its shareholders for the years ended December 31, 2007, 2006 and 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
Plumas Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheet of Plumas Bancorp and subsidiary (the Company) as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. 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 audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Plumas Bancorp and subsidiary as of December 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Plumas Bancorp and subsidiary s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on the effectiveness of Plumas Bancorp and subsidiary s internal control over financial reporting.

/s/ PERRY-SMITH LLP
Sacramento, California
March 14, 2008

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PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and due from banks	$ 13,207,000	$ 11,293,000
Federal funds sold		
Cash and cash equivalents	13,207,000	11,293,000
Investment securities (Note 3)	55,292,000	74,795,000
Loans, less allowance for loan losses of $4,211,000 in 2007 and $3,917,000 in 2006 (Notes 4, 7, 9 and 13)	349,302,000	351,977,000
Premises and equipment, net (Note 5)	14,666,000	15,190,000
Intangible assets, net (Note 17)	1,037,000	1,337,000
Bank owned life insurance (Note 14)	9,428,000	9,449,000
Accrued interest receivable and other assets (Note 12)	10,183,000	9,198,000
Total assets	$ 453,115,000	$ 473,239,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 111,240,000	$ 121,464,000
Interest bearing (Note 6)	280,700,000	280,712,000
Total deposits	391,940,000	402,176,000
Short-term borrowings (Note 7)	7,500,000	20,000,000
Accrued interest payable and other liabilities	6,226,000	4,901,000
Junior subordinated deferrable interest debentures (Note 8)	10,310,000	10,310,000
Total liabilities	415,976,000	437,387,000
Commitments and contingencies (Note 9)		
Shareholders equity (Note 10):		
Serial preferred stock no par value; 10,000,000 shares authorized; none issued		

Common stock no par value; 22,500,000 shares authorized; issued and outstanding 4,869,130 shares in 2007 and 5,023,205 shares in 2006	5,042,000	4,828,000
Retained earnings	32,204,000	31,716,000
Accumulated other comprehensive loss (Notes 3 and 15)	(107,000)	(692,000)
Total shareholders equity	37,139,000	35,852,000
Total liabilities and shareholders equity	$ 453,115,000	$ 473,239,000

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

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PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
For the Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Interest income:			
Interest and fees on loans	$ 27,709,000	$ 26,272,000	$ 21,955,000
Interest on investment securities:			
Taxable	1,900,000	2,516,000	2,787,000
Exempt from Federal income taxes	504,000	531,000	537,000
Interest on Federal funds sold	171,000	164,000	218,000
Total interest income	30,284,000	29,483,000	25,497,000
Interest expense:			
Interest on deposits	7,211,000	5,887,000	4,092,000
Interest on short-term borrowings (Note 7)	490,000	257,000	222,000
Interest on junior subordinated deferrable interest debentures (Note 8)	835,000	810,000	479,000
Total interest expense	8,536,000	6,954,000	4,793,000
Net interest income before provision for loan losses	21,748,000	22,529,000	20,704,000
Provision for loan losses (Note 4)	800,000	1,000,000	1,100,000
Net interest income after provision for loan losses	20,948,000	21,529,000	19,604,000
Non-interest income:			
Service charges	3,806,000	3,676,000	3,458,000
Gain on sale of loans	47,000	42,000	45,000
Loss on sale of available-for- sale investment securities, net (Notes 3 and 15)			(8,000)
Earnings on Bank owned life insurance policies (Note 14)	415,000	393,000	355,000
Other	1,180,000	1,048,000	1,223,000
Total non-interest income	5,448,000	5,159,000	5,073,000

(Continued)

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PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(Continued)
For the Years Ended December 31, 2007, 2006 and 2005

	2007	**2006**	**2005**
Non-interest expenses:			
Salaries and employee benefits (Notes 4 and 14)	$ 11,200,000	$ 10,043,000	$ 9,514,000
Occupancy and equipment (Notes 5 and 9)	3,552,000	3,323,000	3,070,000
Other (Note 11)	4,919,000	4,924,000	4,965,000
Total non-interest expenses	19,671,000	18,290,000	17,549,000
Income before provision for income taxes	6,725,000	8,398,000	7,128,000
Provision for income taxes (Note 12)	2,502,000	3,196,000	2,600,000
Net income	$ 4,223,000	$ 5,202,000	$ 4,528,000
Basic earnings per share (Note 10)	$ 0.85	$ 1.04	$ 0.92
Diluted earnings per share (Note 10)	$ 0.84	$ 1.02	$ 0.89
Cash dividends per share (Note 10)	$ 0.30	$ 0.26	$ 0.22

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

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
For the Years Ended December 31, 2007, 2006 and 2005

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income
Balance, January 1, 2005	4,901,197	4,013,000	24,370,000	(492,000)	27,891,000	
Comprehensive income (Note 15):						
Net income			4,528,000		4,528,000	$ 4,528,000
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities (Note 3)				(599,000)	(599,000)	(599,000)
Total comprehensive income						$ 3,929,000
Cash dividends $0.22 per share			(1,082,000)		(1,082,000)	
Retirement of common stock in connection with the exercise of stock options (Note 10)	(6,904)	(105,000)			(105,000)	
Stock options exercised and related tax benefit (Note 10)	82,608	512,000			512,000	
Fractional shares repurchased as a result of three-for-two stock split	(247)	(8,000)			(8,000)	
Balance, December 31, 2005	4,976,654	4,412,000	27,816,000	(1,091,000)	31,137,000	

Comprehensive income (Note 15):						
Net income			5,202,000		5,202,000	$ 5,202,000
Other comprehensive income, net of tax:						
Net change in unrealized losses on available-for-sale investment securities (Note 3)				399,000	399,000	399,000
Total comprehensive income						$ 5,601,000
Cash dividends $0.26 per share			(1,302,000)		(1,302,000)	
Retirement of common stock in connection with the exercise of stock options (Note 10)	(21,255)	(417,000)			(417,000)	
Stock options exercised and related tax benefit (Note 10)	67,806	659,000			659,000	
Stock-based compensation expense		174,000			174,000	
Balance, December 31, 2006	5,023,205	4,828,000	31,716,000	(692,000)	35,852,000	