PLUMAS BANCORP
Form 10-Q
May 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED March 31, 2012

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California	**75-2987096**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
35 S. Lindan Avenue,	
Quincy, California	**95971**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 4, 2012. 4,776,339 shares

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except share data)

	March 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 68,661	$ 63,076
Investment securities available for sale	57,777	57,917
Loans, less allowance for loan losses of $6,722 at March 31, 2012 and $6,908 at December 31, 2011	287,512	287,432
Premises and equipment, net	13,296	13,457
Bank owned life insurance	10,900	10,815
Real estate and vehicles acquired through foreclosure	8,023	8,680
Accrued interest receivable and other assets	14,049	13,972
Total assets	$ 460,218	$ 455,349
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	$ 124,689	$ 125,931
Interest bearing	273,929	265,209
Total deposits	398,618	391,140
Repurchase agreements	5,283	8,279
Accrued interest payable and other liabilities	6,042	5,986
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	420,253	415,715
Commitments and contingencies (Note 6)		
Shareholders equity:		
Serial preferred stock, no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at March 31, 2012 and December 31, 2011; aggregate liquidation value of $13,219 at March 31, 2012 and $13,069 at December 31, 2011.	11,790	11,769
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at March 31, 2012 and December 31, 2011	6,064	5,998
Retained earnings	21,912	21,709
Accumulated other comprehensive income	199	158
Total shareholders equity	39,965	39,634
Total liabilities and shareholders equity	$ 460,218	$ 455,349

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31, 2012	2011
Interest Income:		
Interest and fees on loans	$ 4,228	$ 4,382
Interest on investment securities	185	355
Other	33	29
Total interest income	4,446	4,766
Interest Expense:		
Interest on deposits	240	500
Interest on repurchase agreements	6	
Interest on junior subordinated deferrable interest debentures	78	76
Other	14	10
Total interest expense	338	586
Net interest income before provision for loan losses	4,108	4,180
Provision for Loan Losses	600	1,700
Net interest income after provision for loan losses	3,508	2,480
Non-Interest Income:		
Service charges	872	828
Gain on sale of loans	234	722
Earnings on Bank owned life insurance	85	93
Gain on sale of investments	51	165
Other	185	195
Total non-interest income	1,427	2,003
Non-Interest Expenses:		
Salaries and employee benefits	2,318	2,371
Occupancy and equipment	758	805
Other	1,509	1,048
Total non-interest expenses	4,585	4,224
Income before provision for income taxes	350	259
Provision for Income Taxes	126	36
Net income	$ 224	$ 223
Preferred Stock Dividends and Discount Accretion	(171)	(171)
Net income available to common shareholders	$ 53	$ 52
Basic income per common share	$ 0.01	$ 0.01

Diluted income per common share	$	0.01	$	0.01

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2012	**2011**
Net income	$ 224	$ 223
Other comprehensive income net of tax:		
Unrealized gains on securities:		
Change in net unrealized gains, net	71	19
Less: Reclassification adjustments for net gains included in net income	(30)	(100)
Total comprehensive income	$ 265	$ 142

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 224	$ 223
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	1,700
Change in deferred loan origination costs/fees, net	(182)	(89)
Depreciation and amortization	317	371
Stock-based compensation expense	66	(83)
Amortization of investment security premiums	157	113
Gain on sale of investments	(51)	(165)
Gain on sale of loans held for sale	(234)	(722)
Loans originated for sale	(3,307)	(4,915)
Proceeds from loan sales	4,234	5,238
Provision (benefit) from change in OREO valuation	187	(400)
Earnings on bank-owned life insurance	(85)	(92)
(Increase) decrease in accrued interest receivable and other assets	(114)	135
Increase (decrease) in accrued interest payable and other liabilities	56	(590)
Net cash provided by operating activities	1,868	724
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	6,180	7,000
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	2,327	1,845
Purchases of available-for-sale securities	(12,873)	(14,185)
Proceeds from sale of available-for-sale securities	4,471	3,921
Net (increase) decrease in loans	(1,273)	5,463
Proceeds from sale of other real estate	499	334
Proceeds from sale of other vehicles	20	7
Purchase of premises and equipment	(116)	(55)
Net cash (used in) provided by investing activities	(765)	4,330

Continued on next page.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Three Months Ended March 31, 2012	2011
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, interest bearing and savings deposits	$ 9,333	$ (1,428)
Net decrease in time deposits	(1,855)	(8,534)
Net decrease in securities sold under agreements to repurchase	(2,996)	
Net cash provided by (used in) financing activities	4,482	(9,962)
Increase (decrease) in cash and cash equivalents	5,585	(4,908)
Cash and Cash Equivalents at Beginning of Year	63,076	64,628
Cash and Cash Equivalents at End of Period	$ 68,661	$ 59,720
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$ 266	$ 586
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$ 45	$ 152

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

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

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

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

2. REGULATORY MATTERS

On February 15, 2012, the Bank received notice from the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (DFI) that the Consent Order (Order) with the FDIC and the DFI which was effective on March 16, 2011 had been terminated. While the Bank is no longer subject to an Order, the Bank has entered into an informal agreement with the FDIC and DFI which, among other things, requests that the Bank continue to maintain a Tier 1 Leverage Capital Ratio of 9% which is in excess of that required for well capitalized institutions and continue to reduce its level of classified asset balances that were outstanding as of September 30, 2011 to not more than 50% of Tier 1 Capital plus the allowance for loan losses. At March 31, 2012 this ratio was 59% down from 68% at December 31, 2011 and the Bank s tier 1 leverage capital ratio was 10.1%.

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

3. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company s consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company s financial position at March 31, 2012 and the results of its operations and its cash flows for the three-month periods ended March 31, 2012 and 2011. Our condensed consolidated balance sheet at December 31, 2011 is derived from audited financial statements. Certain reclassifications have been made to prior period s balances to conform to classifications used in 2012.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2011 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month period ended March 31, 2012 may not necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

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

4. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at March 31, 2012 and December 31, 2011 consisted of the following:

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 31,364,000	$ 62,000	$ (19,000)	$ 31,407,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	26,074,000	320,000	(24,000)	26,370,000
	$ 57,438,000	$ 382,000	$ (43,000)	$ 57,777,000

Unrealized gains on available-for-sale investment securities totaling $339,000 were recorded, net of $140,000 in tax expense, as accumulated other comprehensive income within shareholders equity at March 31, 2012. During the three months ended March 31, 2012, the Company sold three available-for-sale securities for total proceeds of $4,471,000, which resulted in the recognition of a $51,000 gross gain on sale. During the three months ended March 31, 2011 the Company sold ten available-for-sale securities for total proceeds of $3,921,000, which resulted in the recognition of a $165,000 gross gain on sale. No securities were sold at a loss.

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$ 32,708,000	$ 92,000	$ (23,000)	$ 32,777,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	24,941,000	251,000	(52,000)	25,140,000
	$ 57,649,000	$ 343,000	$ (75,000)	$ 57,917,000

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

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

	Less than 12 Months	
	Fair Value	Unrealized Losses
Debt securities:		
U.S. Government-sponsored agencies	$ 8,512,000	$ 19,000
U.S. Government-sponsored agencies collateralized by mortgage obligations	8,727,000	24,000
	$ 17,239,000	$ 43,000

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

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

There were no securities in a loss position for more than one year as of March 31, 2012 and December 31, 2011.

At March 31, 2012, the Company held 48 securities of which 10 were in a loss position. Of the securities in a loss position, all were in a loss position for less than twelve months. Of the 10 securities, 5 are U.S. Government-sponsored agencies and 5 are U.S. Government-sponsored agencies collateralized by mortgage obligations. The unrealized losses primarily relate to changes in interest rates and other market conditions. All of the securities continue to pay as scheduled. When analyzing an issuer s financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company s intent and ability to hold the security to recovery. As of March 31, 2012, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company s evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of March 31, 2012 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at March 31, 2012 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Estimated Amortized Cost	Estimated Fair Value
After one year through five years	31,364,000	31,407,000
Investment securities not due at a single maturity date:		

Government-guaranteed mortgage- backed securities	26,074,000	26,370,000
	$ 57,438,000	$ 57,777,000

Investment securities with amortized costs totaling $49,991,000 and $44,878,000 and estimated fair values totaling $50,300,000 and $45,149,000 at March 31, 2012 and December 31, 2011, respectively, were pledged to secure deposits and repurchase agreements.

5. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	March 31, 2012	December 31, 2011
Commercial	$ 29,811	$ 30,235
Agricultural	38,086	38,868
Real estate residential	36,849	39,019
Real estate commercial	118,395	119,412
Real estate construction and land development	18,934	17,063
Equity lines of credit	38,058	37,581
Installment	2,761	2,515
Other	10,718	9,172
	293,612	293,865
Deferred loan costs, net	622	475
Allowance for loan losses	(6,722)	(6,908)
	$ 287,512	$ 287,432

The recorded investment in impaired loans totaled $23,654,000 and $24,402,000 at March 31, 2012 and December 31, 2011. The Company had specific allowances for loan losses of $1,907,000 on impaired loans of $12,430,000 at March 31, 2012 as compared to specific allowances for loan losses of $2,066,000 on impaired loans of $14,130,000 at December 31, 2011. The balance of impaired loans in which no specific reserves were required totaled $11,224,000 and $10,272,000 at March 31, 2012 and December 31, 2011, respectively. The average recorded investment in impaired loans for the three months ended March 31, 2012 and March 31, 2011 was $23,944,000 and $28,269,000, respectively. The Company recognized $127,000 and $154,000 in interest income on a cash basis for impaired loans during the three months ended March 31, 2012 and 2011, respectively.

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

The book balance of troubled debt restructurings at March 31, 2012 and December 31, 2011 was $12,690,000 and $12,188,000, respectively. The Company has allocated $1,047,000 and $1,164,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at March 31, 2012 and December 31, 2011.

During the three month period ended March 31, 2012 and December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 2 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2012, dollars in thousands:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	1	$ 24	$ 24
Real estate residential	2	819	800
Real estate commercial	2	1,274	1,274
Total	5	$ 2,117	$ 2,098

The troubled debt restructurings described above increased the allowance for loan losses by $4,000 and resulted in no charge offs during the three months ended March 31, 2012.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2012.

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

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

The troubled debt restructurings described above increased the allowance for loan losses by $132,000 and resulted in no charge offs during the year ending December 31, 2011.

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

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

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

The terms of certain other loans were modified during the three months ending March 31, 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of March 31, 2012 of $2.4 million. The terms of certain other loans were modified during the year ending December 31, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011 of $13.5 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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

Certain loans which were modified during the three months ended March 31, 2012 and twelve months ended December 31, 2011 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment ranging from 30 days to 3 months that was considered to be insignificant.

At March 31, 2012 and December 31, 2011, nonaccrual loans totaled $15,949,000 and $16,757,000, respectively. Interest foregone on nonaccrual loans totaled $200,000 and $466,000 for the three months ended March 31, 2012 and 2011, respectively. Loans past due 90 days or more and on accrual status totaled $55,000 and $72,000 at March 31, 2012 and December 31, 2011, respectively.

Salaries and employee benefits totaling $195,000 and $141,000 have been deferred as loan origination costs during the three months ended March 31, 2012 and 2011, respectively.

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

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

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

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

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

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

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

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

March 31, 2012	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$ 26,245	$ 34,815	$ 32,285	$ 101,621	$ 13,651	$ 34,654	$ 243,271
Watch	1,289	1,197	712	5,884	49	1,249	10,380
Substandard	2,111	2,074	3,852	10,890	5,234	2,122	26,283
Doubtful	166					33	199
Total	$ 29,811	$ 38,086	$ 36,849	$ 118,395	$ 18,934	$ 38,058	$ 280,133

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

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity March 31, 2012			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2011		
	Installment	Other	Total	Installment	Other	Total
Grade:						
Performing	$ 2,712	$ 10,604	$ 13,316	$ 2,465	$ 9,024	$ 11,489
Non-performing	49	114	163	50	148	198
Total	$ 2,761	$ 10,718	$ 13,479	$ 2,515	$ 9,172	$ 11,687

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

Allowance for Loan Losses

Three months ended

	Commercial	Agricultural	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Equity LOC	Installment	Other	Total
March 31, 2012:									
Beginning balance	$ 1,025	$ 330	$ 698	$ 1,925	$ 2,006	$ 635	$ 117	$ 172	$ 6,908
Charge-offs	(252)	(250)	(39)	(97)	(122)		(29)	(55)	(844)
Recoveries	10			2		3	32	11	58
Provision	320	136	(125)	9	126	95	(19)	58	600
Ending balance	$ 1,103	$ 216	$ 534	$ 1,839	$ 2,010	$ 733	$ 101	$ 186	$ 6,722
March 31, 2011:									
Beginning balance	$ 760	$ 184	$ 632	$ 1,819	$ 3,011	$ 652	$ 66	$ 200	$ 7,324
Charge-offs	(79)	(94)	(48)			(71)	(52)	(57)	(401)
Recoveries	6	102					4	24	136
Provision	257	(22)	107	221	983	67	81	6	1,700
Ending balance	$ 944	$ 170	$ 691	$ 2,040	$ 3,994	$ 648	$ 99	$ 173	$ 8,759
March 31, 2012:									
Allowance for Loan Losses									
Ending balance	$ 1,103	$ 216	$ 534	$ 1,839	$ 2,010	$ 733	$ 101	$ 186	$ 6,722
Ending balance: individually evaluated for impairment	$ 446	$	$ 164	$ 215	$ 855	$ 227	$	$	$ 1,907
Ending balance: collectively evaluated for impairment	$ 657	$ 216	$ 370	$ 1,624	$ 1,155	$ 506	$ 101	$ 186	$ 4,815
Loans									
Ending balance	$ 29,811	$ 38,086	$ 36,849	$ 118,395	$ 18,934	$ 38,058	$ 2,761	$ 10,718	$ 293,612
Ending balance: individually evaluated for impairment	$ 4,902	$ 1,021	$ 3,771	$ 5,464	$ 6,588	$ 1,800	$ 49	$ 59	$ 23,654
Ending balance: collectively evaluated for impairment	$ 24,909	$ 37,065	$ 33,078	$ 112,931	$ 12,346	$ 36,258	$ 2,712	$ 10,659	$ 269,958
December 31, 2011:									
Allowance for Loan Losses									
Ending balance	$ 1,025	$ 330	$ 698	$ 1,925	$ 2,006	$ 635	$ 117	$ 172	$ 6,908
Ending balance: individually evaluated for impairment	$ 310	$ 250	$ 355	$ 148	$ 901	$ 101	$ 1	$	$ 2,066
Ending balance: collectively evaluated for impairment	$ 715	$ 80	$ 343	$ 1,777	$ 1,105	$ 534	$ 116	$ 172	$ 4,842
Loans									
Ending balance	$ 30,235								