

2015 Annual Report
Giving Business More Reach



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ANNUAL REPORT COPIES. American River Bankshares will provide its security holders and interested parties, without charge, a copy of its 2015 Annual Report on Form 10-K, including the financial statements and schedules thereto, as filed with the Securities and Exchange Commission. To request a copy by mail, please contact American River Bankshares. To view a pdf version online, please go to our web site at www.envisionreports.com/AMRB.

2015 YEAR IN REVIEW

Dear Valued Shareholder,

In our letter to you last year, we highlighted our desire for consistent loan growth meant to drive our net interest income, while at the same time keeping our overhead expenses stable. We are happy to report that in 2015, success in these two areas was substantive and will be our ongoing focus. We believe it is also important to continue investment in the relevant technological advancements within our industry as well as the cultivation of the American River Bankshares team of professionals, our most important asset.

SHAREHOLDER VALUE. For the year ended December 31, 2015, the Company increased earnings per share by 30% to \$0.70 per share. The drivers included an increase in net interest income and a decrease in overhead expenses compounded by a significant repurchase of our common stock. Total share appreciation in 2015 was 12% and tangible book value per share grew to \$9.50 at year end.

EARNINGS PER SHARE DRIVER. The majority of our income is derived from net interest income, which increased by \$1.2 million in 2015. Low interest rates continue to put pressure on our interest income but we were successful in our loan growth, securities portfolio return and in controlling cost of deposits. Being smart with our overhead is of paramount importance and this past year we were able to reduce overhead by \$800,000. We focused on the utilization of technology to drive efficiencies while keeping our client experience top-notch. These two critical actions contributed to a 21% increase in net income in 2015. The share repurchase program results enabled us to leverage this solid income growth even further. In 2015, we repurchased 791,000 shares which helped with the 30% growth in earnings per share.

BALANCE SHEET GROWTH. Core deposits* grew by \$23 million for the year with the growth coming from noninterest-bearing deposits, which grew 22% or \$35 million. This clearly demonstrates our success within our business banking niche. Loans outstanding increased by \$31 million for the year as a result of a solid increase of 30% in loan fundings. Loan growth has been a priority and while we are pleased with the results, we are mindful of credit standards and pricing discipline.

The keys to our continued momentum are to increase net interest income while at the same time controlling overhead expense. The growth in our Company will be driven by an aggressive sales effort coupled with an extraordinary client experience provided by service-oriented employees who are given the tools and training needed to excel in this area. Staying current with, and providing for our clients' technological needs also contributes to this extraordinary client experience.

We thank you for your continued investment and for the trust and confidence you have placed in our Company.

Sincerely,



Charles D. Fite
Chairman of the Board



David T. Taber
President & CEO

*The Company considers all deposits except time deposits as core deposits.

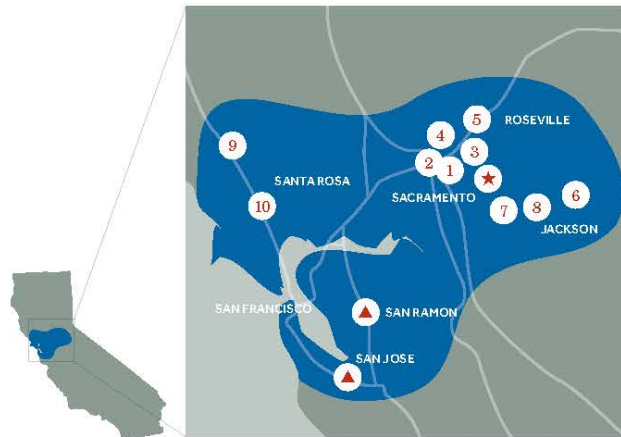
OUR LOCATIONS

American River Bankshares Headquarters

- ★ Rancho Cordova, CA

American River Bank Locations

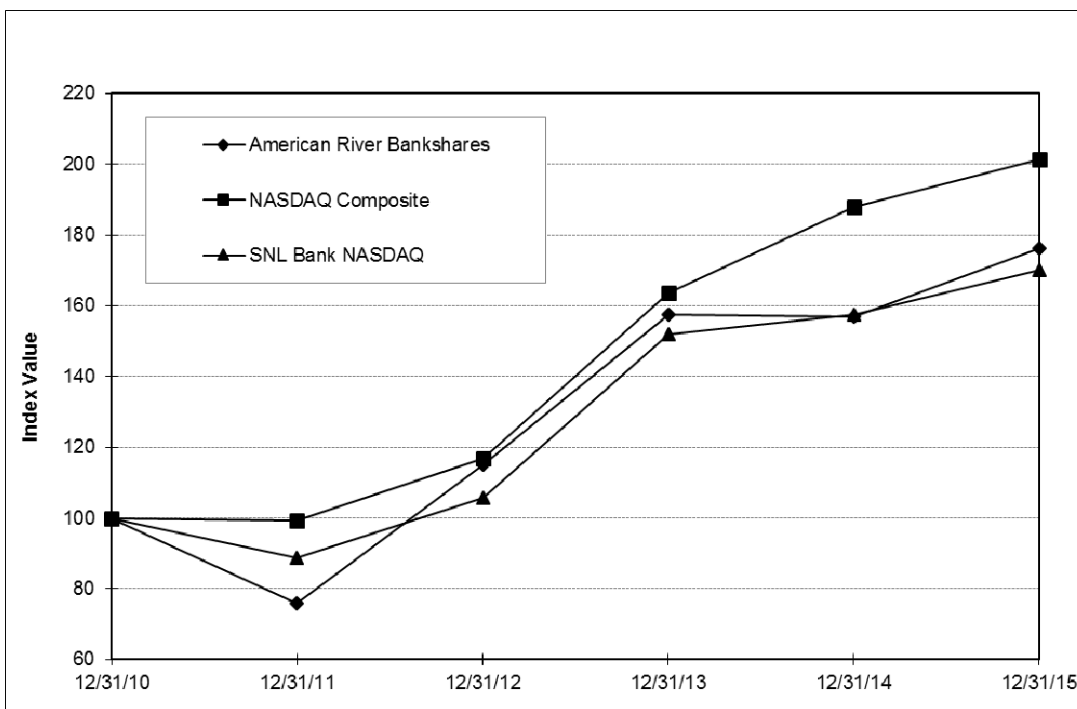
- 1 Bradshaw Plaza
- 2 Capitol Mall
- 3 Gold River
- 4 Point West
- 5 Roseville
- 6 Buckhorn
- 7 Ione
- 8 Jackson
- 9 Healdsburg
- 10 Santa Rosa
- ▲ San Jose (LPO)
- ▲ San Ramon (LPO)



Lending Area

Northern California, including the Greater Sacramento Area, Sonoma County, Amador County, South Bay, and East Bay.

TOTAL RETURN PERFORMANCE



	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
American River Bankshares	100.00	75.83	115.17	157.50	157.00	176.33
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank NASDAQ	100.00	88.73	105.75	152.00	157.42	169.94

Source: SNL Financial LC, Charlottesville, VA

OUR TEAM

AMERICAN RIVER BANK AND BANKSHARES BOARD OF DIRECTORS

Charles D. Fite
Chairman of the Board
President, Fite Development Co.

William A. Robotham, CPA
Vice-Chairman of the Board
Executive Partner, Pisenti & Brinker LLP

Stephen H. Waks, Esq.
Corporate Secretary
Attorney-at-Law and Owner, Waks Law
Corporation

Kimberly A. Box
President & CEO, Kamere, Inc.

Robert J. Fox, CPA
Retired Partner, Gallina LLP

David T. Taber
President & CEO, American River
Bankshares

Roger J. Taylor, DDS
Retired Dentist
Director, Taylor's Investment Company

Philip A. Wright
President & Owner, Wright Investments
Inc. dba Wright Realty

Michael A. Ziegler
President & CEO, PRIDE Industries

ANNUAL MEETING

The 2016 annual meeting of American River Bankshares will be held at 3:00 p.m. on May 19, 2016 at:

Rancho Cordova City Hall
American River Room North
2729 Prospect Park Drive
Rancho Cordova, CA 95670

AMERICAN RIVER BANK LEADERSHIP TEAM

David T. Taber
President & CEO

Kevin B. Bender
EVP & Chief Operating Officer

Mitchell A. Derenzo
EVP & Chief Financial Officer

Loren E. Hunter
EVP & Chief Credit Officer

Lisa R. Cisneros
SVP & Retail Banking Manager

Erica C. Fernandez
SVP & Commercial Banking Manager

STOCK LISTING

American River Bankshares trades on the NASDAQ Global Select Stock Market under the symbol "AMRB"

INVESTOR RELATIONS

American River Bankshares
3100 Zinfandel Drive, Suite 450
Rancho Cordova, CA 95670
(916) 851-0123
investor.relations@americanriverbank.com
www.AmericanRiverBank.com

TRANSFER AGENCY

Computershare Trust Company
P.O. Box 43070
Providence, RI 02940-3070
(800) 962 4284
www-us.computershare.com/Investor/

Selected Financial Data.

FINANCIAL SUMMARY—The following table presents certain consolidated financial information concerning the business of the Company and its subsidiaries. This information should be read in conjunction with the Consolidated Financial Statements, the notes thereto, and Management’s Discussion and Analysis included in this report. All per share data has been retroactively restated to reflect stock dividends and stock splits.

As of and for the Years Ended December 31,
(In thousands, except per share amounts and ratios)

	2015	2014	2013	2012	2011
Operations Data:					
Net interest income	\$ 20,007	\$ 18,797	\$ 17,391	\$ 19,405	\$ 21,591
Provision for loan and lease losses	—	(541)	200	1,365	3,625
Noninterest income	2,015	2,177	2,015	2,774	2,108
Noninterest expenses	14,080	14,862	14,891	16,747	16,301
Income before income taxes	7,942	6,653	4,315	4,067	3,773
Income tax expense	2,674	2,292	1,258	860	1,269
Net income	\$ 5,268	\$ 4,361	\$ 3,057	\$ 3,207	\$ 2,504
Share Data:					
Earnings per share – basic	\$ 0.70	\$ 0.54	\$ 0.34	\$ 0.34	\$ 0.25
Earnings per share – diluted	\$ 0.70	\$ 0.54	\$ 0.34	\$ 0.34	\$ 0.25
Cash dividends per share (1)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Book value per share	\$ 11.72	\$ 11.08	\$ 10.25	\$ 10.08	\$ 9.51
Tangible book value per share	\$ 9.50	\$ 9.06	\$ 8.33	\$ 8.33	\$ 7.85
Balance Sheet Data:					
Assets	\$ 634,640	\$ 617,754	\$ 592,753	\$ 596,389	\$ 581,518
Loans and leases, net	289,102	258,057	251,747	252,118	293,731
Deposits	530,690	510,693	483,690	478,256	462,285
Shareholders’ equity	86,075	89,647	87,020	93,994	94,099
Financial Ratios:					
Return on average equity	6.03%	4.98%	3.38%	3.42%	2.74%
Return on average tangible equity	7.42%	6.12%	4.13%	4.15%	3.35%
Return on average assets	0.85%	0.72%	0.52%	0.55%	0.43%
Efficiency ratio (2)	62.87%	69.96%	75.61%	73.69%	67.18%
Net interest margin (2) (3)	3.63%	3.54%	3.45%	3.91%	4.36%
Net loans and leases to deposits	54.48%	50.53%	52.05%	52.72%	63.54%
Net charge-offs (recoveries) to average loans & leases	0.12%	(0.20%)	0.25%	0.93%	1.29%
Non-performing loans and leases to total loans and leases (4)	0.56%	0.63%	0.77%	2.12%	4.46%
Allowance for loan and lease losses to total loans and leases	1.69%	2.01%	2.08%	2.24%	2.34%
Average equity to average assets	14.02%	14.47%	15.31%	15.97%	15.81%
Dividend payout ratio (1)	0%	0%	0%	0%	0%
Capital Ratios:					
Leverage capital ratio	10.97%	11.60%	11.88%	12.82%	13.09%
Tier 1 risk-based capital ratio	19.34%	21.60%	21.95%	23.87%	21.52%
Total risk-based capital ratio	20.59%	22.85%	23.20%	25.13%	22.78%

(1) On July 27, 2009, the Company announced that the Board of Directors suspended the payment of cash dividends, until such time that it was prudent to reestablish the payment of cash dividends.

(2) Fully taxable equivalent.

(3) Excludes the amortization of intangible assets.

(4) Non-performing loans and leases consist of loans and leases past due 90 days or more and still accruing and nonaccrual loans and leases.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report including, but not limited to, matters described herein, are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) the legislation promulgated by the United States Congress and actions taken by governmental agencies, including the United States Department of the Treasury, to deal with challenges to the U.S. financial system; (2) the risks presented by economic volatility and recession, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates; (3) variances in the actual versus projected growth in assets and return on assets; (4) potential loan and lease losses; (5) potential expenses associated with resolving non-performing assets as well as regulatory changes; (6) changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits and other borrowed funds; (7) competitive effects; (8) potential declines in fee and other noninterest income earned associated with economic factors as well as regulatory changes; (9) general economic conditions nationally, regionally, and within our operating markets could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth at historical rates and maintain the quality of our earning assets; (10) changes in the regulatory environment including increased capital and regulatory compliance requirements and further government intervention in the U.S. financial system; (11) changes in business conditions and inflation; (12) changes in securities markets, public debt markets, and other capital markets; (13) potential data processing, cybersecurity and other operational systems failures, breach or fraud; (14) potential decline in real estate values in our operating markets; (15) the effects of uncontrollable events such as terrorism, the threat of terrorism or the impact of military conflicts in connection with the conduct of the war on terrorism by the United States and its allies, negative financial and economic conditions, natural disasters, and disruption of power supplies and communications; (16) changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations; (17) projected business increases following any future strategic expansion could be lower than expected; (18) the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings; (19) the reputation of the financial services industry could experience further deterioration, which could adversely affect our ability to access markets for funding and to acquire and retain customers; and (20) the efficiencies we may expect to receive from any investments in personnel and infrastructure may not be realized. The factors set forth under "Item 1A - Risk Factors" our 2015 Form 10-K and other cautionary statements and information set forth in this report should be carefully considered and understood as being applicable to all related forward-looking statements contained in this report, when evaluating the business prospects of the Company and its subsidiaries.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. The future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the Securities and Exchange Commission (the "SEC") on Forms 10-K, 10-Q and 8-K.

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. We use historical loss data and the economic environment as factors, among others, in determining the inherent loss that may be present in our loan and lease portfolio. Actual losses could differ significantly from the factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is an estimate of probable credit losses inherent in the Company's credit portfolio that have been incurred as of the balance-sheet date. The allowance is based on two basic principles of accounting: (1) "Accounting for Contingencies," which requires that losses be accrued when it is probable that a loss has occurred at the balance sheet date and such loss can be reasonably estimated; and (2) the "Receivables" topic, which requires that losses be accrued on impaired loans based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan and lease losses is determined based upon estimates that can and do change when the actual risk, loss events, or changes in other factors, occur. The analysis of the allowance uses a historical loss view as an indicator of future losses and as a result could differ from the actual losses incurred in the future. If the allowance for loan and lease losses falls below that deemed adequate (by reason of loan and lease growth, actual losses, the effect of changes in risk factors, or some combination of these), the Company has a strategy for supplementing the allowance for loan and lease losses, over the short-term. For further information regarding our allowance for loan and lease losses, see "Allowance for Loan and Lease Losses Activity."

Stock-Based Compensation

The Company recognizes compensation expense over the service period in an amount equal to the fair value of all share-based payments which consist of stock options and restricted stock awarded to directors and employees. The fair value of each stock option award is estimated on the date of grant and amortized over the service period using a Black-Scholes-Merton based option valuation model that requires the use of assumptions. Critical assumptions that affect the estimated fair value of each award include expected stock price volatility, dividend yields, option life and the risk-free interest rate. The fair value of each restricted award is estimated on the date of award and amortized over the service period.

Goodwill

Business combinations involving the Company's acquisition of equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at least annually. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2015, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Income Taxes

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

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company conducted an analysis to assess the need for a valuation allowance at December 31, 2015, and determined that no valuation allowance was required. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether based on the weight of such evidence, a valuation allowance on the Company's deferred tax assets was needed. A valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of a deferred tax asset will not be realized. The future realization of the deferred tax asset depends on the existence of sufficient taxable income within the carryback and carry forward periods.

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. Only tax positions that meet the more-likely-than-not recognition threshold are recognized. The election has been made to record interest expense related to tax exposures in tax expense, if applicable, and the exposure for penalties related to tax exposures in tax expense, if applicable.

Overview

The Company recorded net income in 2015 of \$5,268,000, an increase of \$907,000 (20.8%) from \$4,361,000 in 2014. Diluted earnings per share were \$0.70 for 2015 and \$0.54 for 2014. For 2015, the Company realized a return on average equity of 6.03% and a return on average assets of 0.85%, as compared to 4.98% and 0.72%, respectively, in 2014.

Net income for 2014 increased \$1,304,000 (42.7%) from \$3,057,000 in 2013. Diluted earnings per share for 2013 were \$0.34. For 2013, the Company realized a return on average equity of 3.38% and return on average assets of 0.52%. Table One below provides a summary of the components of net income for the years indicated (dollars in thousands):

Table One: Components of Net Income

	2015	2014	2013
Interest income*	\$ 21,340	\$ 20,242	\$ 19,170
Interest expense	(961)	(1,168)	(1,490)
Net interest income*	20,379	19,074	17,680
Provision for loan and lease losses	—	541	(200)
Noninterest income	2,015	2,177	2,015
Noninterest expense	(14,080)	(14,862)	(14,891)
Provision for income taxes	(2,674)	(2,292)	(1,258)
Tax equivalent adjustment	(372)	(277)	(289)
Net income	\$ 5,268	\$ 4,361	\$ 3,057
Average total assets	\$ 623,049	\$ 605,247	\$ 590,411
Net income as a percentage of average total assets	0.85%	0.72%	0.52%

* Fully taxable equivalent basis (FTE)

Under accounting principles generally accepted in the United States of America all share and per share data is adjusted for stock dividends and stock splits. There were no stock dividends or stock splits in 2015, 2014 or 2013.

During 2015, total assets of the Company increased \$16,886,000 (2.7%) from \$617,754,000 at December 31, 2014 to \$634,640,000 at December 31, 2015. At December 31, 2015, net loans totaled \$289,102,000, up \$31,045,000 (12.0%) from the ending balance of \$258,057,000 at December 31, 2014. Deposits increased \$19,997,000 or 3.9% from \$510,693,000 at December 31, 2014 to \$530,690,000 at December 31, 2015. Shareholders' equity decreased \$3,572,000 or 4.0% from \$89,647,000 at December 31, 2014 to \$86,075,000 at December 31, 2015. The Company ended 2015 with a leverage capital ratio of 11.0% and a total risk-based capital ratio of 20.6% compared to a leverage capital ratio of 11.6% and a total risk-based capital ratio of 22.9% at the end of 2014.

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans, securities, Federal funds sold and interest-bearing deposits in other banks) over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets.

The Company's fully taxable equivalent net interest margin was 3.63% in 2015, 3.54% in 2014, and 3.45% in 2013. The fully taxable equivalent net interest income was up \$1,312,000 (6.9%), from \$19,067,000 in 2014 to \$20,379,000 in 2015. The fully taxable equivalent net interest income was up \$1,387,000 (7.8%), from \$17,680,000 in 2013 to \$19,067,000 in 2014.

The fully taxable equivalent interest income component increased \$1,098,000 (5.4%) from \$20,242,000 in 2014 to \$21,340,000 in 2015. The increase in the fully taxable equivalent interest income for 2015 compared to the same period in 2014 is comprised of two components - rate (down \$285,000) and volume (up \$1,383,000). The rate decrease primarily occurred in the loan portfolio. While average loans increased by \$25,830,000 (10.2%) from \$253,898,000 during 2014 to \$279,728,000 during 2015, due to the overall lower interest rate environment, the new loans added were at lower yields than the existing loans. Yield on loans decreased from 5.37% in 2014 to 5.01% in 2015 and contributed a decrease of \$1,076,000 in loan interest income. The decrease of \$1,076,000 in interest income created from the decrease in rates on the loan balances was partially offset by an increase in rates on the investment portfolio resulting in an increase of \$790,000 related to the investments. This increase in investment income due to rates can be attributed to a slowdown in the mortgage refinance market. As mortgage refinancing slows it also reduces the principal prepayments that the Company receives on the mortgage backed securities, which reduces the premium amounts amortized on the bonds. A lower amount of amortized premium results in higher interest income. The volume increase of \$1,383,000 was primarily from the increase in average loans mentioned above (\$1,466,000) and partially offset by a decrease in investments (\$83,000). When compared to 2014, average investment securities decreased \$3,092,000 (1.1%) from \$284,436,000 in 2014 compared to \$281,344,000 in 2015.

The fully taxable equivalent interest income component increased from \$19,170,000 in 2013 to \$20,235,000 in 2014, representing a 5.6% increase. The increase in the fully taxable equivalent interest income for 2014 compared to the same period in 2013 is comprised of two components - rate (up \$591,000) and volume (up \$474,000). The rate increase primarily occurred in the investment portfolio which can be attributed to a slowdown in the mortgage refinance market. As mortgage refinancing slows it also reduces the principal prepayments that the Company receives on the mortgage backed securities, which reduces the premium amounts amortized on the bonds. A lower amount of amortized premium results in higher interest income. Investment securities added \$1,211,000 in additional interest income related to rate. The average yield on investments increased from 1.93% in 2013 to 2.32% in 2014. The increase in interest income created from the investment portfolio was partially offset by a decrease in rates on the loan balances. The average yield on loans decreased from 5.61% to 5.37% and was caused by principal reductions from normal payments and paydowns from loans being loaned out at lower market rates. The volume increase of \$474,000 was also primarily related to the investments. Average investment balances were up \$26,273,000 (10.2%) from \$258,164,000 in 2013 to \$284,436,000 in 2014. Funds received from the increase in deposit balances were primarily deployed in the investment portfolio.

Interest expense was \$207,000 (17.7%) lower in 2015 compared to 2014, decreasing from \$1,168,000 to \$961,000. The primary decrease in interest expense relates to lower rates (down \$222,000). Rates paid on interest bearing liabilities decreased 6 basis points from 0.33% to 0.27% in 2014 compared to 2015. The average balances on interest bearing liabilities were \$356,052,000 (or \$180,000 and 0.1% higher) in 2015 compared to \$355,872,000 in 2014. The higher balances had only a slight impact on the overall interest expense.

Interest expense was \$322,000 (21.6%) lower in 2014 compared to 2013, decreasing from \$1,490,000 to \$1,168,000. The average balances on interest bearing liabilities was 1.9% higher in 2014 (\$355,872,000) compared to 2013 (\$349,329,000). The slightly higher balances, however, did not increase interest expense as the increases occurred in lower cost checking and savings accounts, which were slightly offset by decreases in higher cost time deposits and other borrowings. Despite the increase in average interest bearing balances the Company experienced a decrease in interest expense of \$95,000 due to this increase in interest checking and money market balances offset by the decrease in time deposits and other borrowings. The overall decrease in interest expense was also due to lower rates, which accounted for a \$227,000 decrease in interest expense for 2014 compared to 2013. Rates paid on interest-bearing liabilities decreased 10 basis points from 0.43% in 2013 to 0.33% in 2014.

Table Two, Analysis of Net Interest Margin on Earning Assets, and Table Three, Analysis of Volume and Rate Changes on Net Interest Income and Expenses, are provided to enable the reader to understand the components and past trends of the Company's interest income and expenses. Table Two provides an analysis of net interest margin on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. Table Three sets forth a summary of the changes in interest income and interest expense from changes in average asset and liability balances (volume), computed on a daily average basis, and changes in average interest rates.

Table Two: Analysis of Net Interest Margin on Earning Assets

Year Ended December 31,	2015			2014			2013		
(Taxable Equivalent Basis) (dollars in thousands)	<u>Avg Balance</u>	<u>Interest</u>	<u>Avg Yield</u>	<u>Avg Balance</u>	<u>Interest</u>	<u>Avg Yield</u>	<u>Avg Balance</u>	<u>Interest</u>	<u>Avg Yield</u>
Assets:									
Earning assets:									
Taxable loans and leases (1)	\$ 270,267	\$ 13,547	5.01%	\$ 253,434	\$ 13,609	5.37%	\$ 252,807	\$ 14,191	5.61%
Tax-exempt loans and leases (2)	9,461	481	5.08%	464	29	6.25%	—	—	—
Taxable investment Securities	255,137	6,280	2.46%	257,308	5,528	2.15%	229,518	3,822	1.67%
Tax-exempt investment securities (2)	26,128	1,015	3.88%	27,051	1,057	3.91%	28,607	1,142	3.99%
Corporate stock	79	12	15.19%	77	15	19.48%	38	12	31.58%
Federal funds sold	—	—	—	—	—	—	—	—	—
Interest bearing deposits in other banks	994	5	0.50%	1,000	4	0.40%	898	3	0.33%
Total earning assets	<u>562,066</u>	<u>21,340</u>	3.80%	<u>539,334</u>	<u>20,242</u>	3.75%	<u>511,868</u>	<u>19,170</u>	3.75%
Cash & due from banks	26,313			28,533			37,609		
Other assets	39,941			42,924			46,703		
Allowance for loan & lease losses	<u>(5,271)</u>			<u>(5,544)</u>			<u>(5,769)</u>		
	<u>\$ 623,049</u>			<u>\$ 605,247</u>			<u>\$ 590,411</u>		
Liabilities & Shareholders' Equity:									
Interest bearing liabilities:									
NOW & MMDA	\$ 196,120	244	0.12%	\$ 201,412	420	0.21%	\$ 185,671	475	0.26%
Savings	58,910	29	0.05%	53,806	40	0.07%	51,432	67	0.13%
Time deposits	86,930	544	0.63%	89,392	561	0.63%	95,415	655	0.69%
Other borrowings	14,092	144	1.02%	11,262	147	1.31%	16,811	293	1.74%
Total interest bearing liabilities	<u>356,052</u>	<u>961</u>	0.27%	<u>355,872</u>	<u>1,168</u>	0.33%	<u>349,329</u>	<u>1,490</u>	0.43%
Demand deposits	173,130			155,537			144,710		
Other liabilities	<u>6,537</u>			<u>6,275</u>			<u>5,978</u>		
Total liabilities	<u>535,719</u>			<u>517,684</u>			<u>500,017</u>		
Shareholders' equity	<u>87,330</u>			<u>87,563</u>			<u>90,394</u>		
	<u>\$ 623,049</u>			<u>\$ 605,247</u>			<u>\$ 590,411</u>		
Net interest income & margin (3)		<u>\$ 20,379</u>	<u>3.63%</u>		<u>\$ 19,074</u>	<u>3.54%</u>		<u>\$ 17,680</u>	<u>3.45%</u>

- (1) Loan and lease interest includes loan and lease fees of \$322,000, \$307,000 and \$119,000 in 2015, 2014 and 2013, respectively.
- (2) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% in 2015, 2014 and 2013.
- (3) Net interest margin is computed by dividing net interest income by total average earning assets.

Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses

Year ended December 31, 2015 over 2014 (dollars in thousands)
 Increase (decrease) in interest income and expense
 due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Taxable net loans and leases (1)(2)	\$ 904	\$ (966)	\$ (62)
Tax-exempt net loans and leases (3)	562	(110)	452
Taxable investment securities	(47)	799	752
Tax-exempt investment securities (3)	(36)	(6)	(42)
Corporate stock	—	(3)	(3)
Federal funds sold & other	—	—	—
Interest bearing deposits in other banks	—	1	1
Total	<u>1,383</u>	<u>(285)</u>	<u>1,098</u>
Interest-bearing liabilities:			
Demand deposits	(11)	(165)	(176)
Savings deposits	4	(15)	(11)
Time deposits	(15)	(2)	(17)
Other borrowings	37	(40)	(3)
Total	<u>15</u>	<u>(222)</u>	<u>(207)</u>
Interest differential	<u>\$ 1,368</u>	<u>\$ (63)</u>	<u>\$ 1,305</u>

Year Ended December 31, 2014 over 2013 (dollars in thousands)
 Increase (decrease) in interest income and expense
 due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Net loans and leases (1)(2)	\$ 61	\$ (621)	\$ (560)
Taxable investment securities	463	1,243	1,706
Tax-exempt investment securities (3)	(62)	(23)	(85)
Corporate stock	12	(9)	3
Federal funds sold & other	—	—	—
Interest bearing deposits in other banks	—	1	1
Total	<u>474</u>	<u>591</u>	<u>1,065</u>
Interest-bearing liabilities:			
Demand deposits	40	(95)	(55)
Savings deposits	3	(30)	(27)
Time deposits	(41)	(53)	(94)
Other borrowings	(97)	(49)	(146)
Total	<u>(95)</u>	<u>(227)</u>	<u>(322)</u>
Interest differential	<u>\$ 569</u>	<u>\$ 818</u>	<u>\$ 1,387</u>

- (1) The average balance of non-accruing loans and leases is immaterial as a percentage of total loans and leases and has been included in net loans and leases.
- (2) Loan and lease fees of \$322,000, \$307,000 and \$119,000 for the years ended December 31, 2015, 2014 and 2013, respectively, have been included in the interest income computation.
- (3) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% in 2015, 2014 and 2013.
- (4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company experienced net loan and lease losses of \$326,000 or 0.12% of average loans and leases during 2015 compared to net loan and lease recoveries of \$496,000 or 0.20% of average loans and leases during 2014. As a result of the improving credit quality over the past several years and a reduction in historical loan loss rates the Company did not require any loan or lease loss provision in 2015. As a result of the recoveries in 2014, the Company reduced the allowance for loan and lease losses by recording a negative provision for loan and lease losses of \$541,000. The level of non-performing loans and leases, which began to increase during the economic cycle of 2007 through 2010, reached a high of \$22,571,000 at December 31, 2010, but has decreased to \$1,643,000 at December 31, 2015. For additional information see the “Nonaccrual, Past Due and Restructured Loans and Leases.” While the level of non-performing loans and leases has decreased, there remains a challenging economy in the Company’s market areas and in the United States, in general. This may potentially negatively impact the Company’s borrowers and as a result the Company has maintained the ALLL at a level that is higher than the long-term historical averages. For additional information see the “Allowance for Loan and Lease Losses Activity.”

Service Charges and Fees and Other Income

Table Four below provides a summary of the components of noninterest income for the periods indicated (dollars in thousands):

Table Four: Components of Noninterest Income

	Year Ended December 31,		
	2015	2014	2013
Service charges on deposit accounts	\$ 498	\$ 562	\$ 590
Rental income from OREO properties	335	365	316
Merchant fee income	378	413	443
Earnings on bank-owned life insurance	316	284	247
Life insurance death benefit	—	99	118
Gain on sale, impairment and call of securities	251	208	36
Other	237	246	265
	<u>\$ 2,015</u>	<u>\$ 2,177</u>	<u>\$ 2,015</u>

Noninterest income decreased \$162,000 (7.4%) to \$2,015,000 in 2015 from the 2014 level. The decrease from 2014 to 2015 was primarily related to lower fees from service charges on deposit accounts (down \$64,000 or 11.4%) and no life insurance death benefits in 2015 as compared to \$99,000 in 2014. The decrease in service charges is related to a decrease in insufficient funds income.

Noninterest income increased \$162,000 (8.0%) to \$2,177,000 in 2014 from the 2013 level. The increase from 2013 to 2014 was primarily related to income from security sales which increased from \$36,000 in 2013 to \$208,000 in 2014. In addition, rental income from OREO properties increased from \$316,000 in 2013 to \$365,000 in 2014.

Salaries and Benefits

Salaries and benefits were \$8,528,000 (down \$248,000 or 2.8%) for 2015 as compared to \$8,776,000 in 2014. The decrease in salary and benefits was due in part to lower incentive compensation expense and lower employee benefits. Incentive accruals decreased \$182,000, from \$672,000 in 2014 to \$490,000 in 2015 and other employee benefits decreased \$107,000 (7.0%) from \$1,529,000 in 2014 to \$1,422,000 in 2015. The decrease in incentive compensation was primarily due to the Company not reaching all of the incentive targets in 2015. The decrease in other employee benefits, which includes health care related benefits, 401(k) matching, and employee placement fees, was primarily related to lower employee placement fees paid in 2015.

Salaries and benefits were \$8,776,000 (up \$260,000 or 3.1%) for 2014 as compared to \$8,516,000 in 2013. The increase in salary and benefits was due in part to increased incentive compensation expense and higher employee benefits partially offset by a decrease in core salaries. Incentive accruals increased \$54,000, from \$618,000 in 2013 to \$672,000 in 2014 and other employee benefits increased \$162,000 (11.9%) from \$1,367,000 in 2013 to \$1,529,000 in 2014. Salaries decreased \$66,000 (1.1%) from \$6,048,000 in 2013 to \$5,982,000 in 2014. The increase in incentive compensation was primarily due to an increase in the Company’s net income in relationship to incentive targeted net income goals. The increase in other employee benefits, which includes health care related benefits, 401(k) matching, and employee placement fees, was primarily related to higher employee placement fees paid in 2014 to attract lending officers and a chief credit officer. The decrease in salaries is related to a lower number of employees. Average full-time equivalent employees decreased from 106 during 2013 to 102 during 2014.

Other Real Estate Owned

The total other real estate owned (“OREO”) expense in 2015 was \$322,000 (down \$42,000 or 11.5%) compared to \$364,000 in 2014. The primary reason for the decrease in OREO related expenses is due to the sale of a number of properties, including office buildings which have high operating expenses and lower property write-downs. In 2015, write-downs were \$76,000 compared to \$165,000 in 2013. This decrease is related to a fewer number of owned properties and some stability in the real estate market. Operating expenses on the properties held in 2015 totaled \$245,000 compared to \$430,000 in 2014. In 2014, the gains on sale, which offset the overall OREO expense, were higher than in 2015. Gains from properties sold in 2014 totaled \$231,000 compared to a loss of \$1,000 in 2015.

The total OREO expense in 2014 was \$364,000 (down \$572,000 or 61.1%) compared to \$936,000 in 2013. The primary reason for the decrease in OREO related expenses is due to the sale of a number of properties, including office buildings which have high operating expenses and lower write-downs due to updated property valuations. In 2014, the gains on sale, which offset the overall OREO expense, were higher than in 2013. In 2014, write-downs were \$165,000 compared to \$293,000 in 2013. This decrease is related to a fewer number of owned properties and some stability in the real estate market. Gains from properties sold in 2014 totaled \$231,000 compared to \$44,000 in 2013 and operating expenses on the properties held in 2014 totaled \$430,000 compared to \$686,000 in 2013.

Occupancy, Furniture and Equipment

Occupancy expense decreased \$5,000 (0.4%) during 2015 to \$1,183,000, compared to \$1,188,000 in 2014. Furniture and equipment expense decreased \$34,000 (4.7%) during 2015 to \$690,000 compared to \$724,000 in 2014. The decrease in the furniture and equipment expense resulted from lower depreciation on the Company’s furniture and equipment.

Occupancy expense decreased \$24,000 (2.0%) during 2014 to \$1,188,000, compared to \$1,212,000 in 2013. Furniture and equipment expense decreased \$34,000 (4.5%) during 2014 to \$724,000 compared to \$758,000 in 2013. The decrease in the furniture and equipment expense resulted from lower depreciation on the Company’s furniture and equipment.

Regulatory Assessments

Regulatory assessments include fees paid to the California Department of Business Oversight (the “DBO”) and the Federal Deposit Insurance Corporation (the “FDIC”). FDIC assessments decreased \$39,000 (10.7%) during 2015 to \$324,000, compared to \$363,000 in 2014. The majority of this decrease relates to a lower assessment rate as a result of lower nonperforming assets. The assessments paid to the DBO in 2015 were \$71,000 compared to \$70,000 in 2014.

FDIC assessments increased \$51,000 (16.3%) during 2014 to \$363,000, compared to \$312,000 in 2013. The majority of this increase relates to an adjustment to the accrual based upon an updated analysis performed in 2013 revealing that the accrual should be reduced. This adjustment occurred in 2013 and did not reoccur in 2014. The assessments paid to the DBO in 2014 were \$70,000, no change from 2013.

Other Expenses

Table Five below provides a summary of the components of the other noninterest expenses for the periods indicated (dollars in thousands):

	Year Ended December 31,		
	2015	2014	2013
Professional fees	\$ 863	\$ 1,182	\$ 933
Outsourced item processing	360	355	357
Directors’ expense	402	394	348
Telephone and postage	368	357	329
Stationery and supplies	143	193	240
Advertising and promotion	164	160	284
Other operating expenses	662	736	596
	<u>\$ 2,962</u>	<u>\$ 3,377</u>	<u>\$ 3,087</u>

Other expenses were \$2,962,000 (down \$415,000 or 12.3%) for 2015 as compared to \$3,377,000 for 2014. The decrease in other expenses occurred primarily in the professional expense category. Professional expenses, which primarily include legal, accounting and other professional services, decreased \$319,000 (27.0%), from \$1,182,000 in 2014 to \$863,000 in 2015. Legal expenses decreased \$255,000 (61.6%) from \$414,000 in 2014 to \$255,000 during 2015. This decrease is primarily related to a lower number of problem loan credits and OREO properties. The overhead efficiency ratio on a taxable equivalent basis for 2015 was 62.9% as compared to 70.0% in 2014.

Other expenses were \$3,377,000 (up \$290,000 or 9.4%) for 2014 as compared to \$3,087,000 for 2013. The increase in other expenses occurred primarily in the professional expense category. Professional expenses increased \$249,000 (26.7%), from \$933,000 in 2013 to \$1,182,000 in 2014. Legal expenses increased \$182,000 (78.4%) from \$232,000 in 2013 to \$414,000 during 2014. This increase is primarily related to problem loan credits and the resolution of issues associated with a former OREO property. The overhead efficiency ratio on a taxable equivalent basis for 2014 was 70.0% as compared to 75.6% in 2013.

Provision for Income Taxes

The effective tax rate on income was 33.7%, 34.5%, and 29.2% in 2015, 2014 and 2013, respectively. The effective tax rate differs from the federal statutory tax rate due to state tax expense (net of federal tax effect) of \$516,000, \$419,000, and \$197,000 in these years. Tax-exempt income of \$1,412,000, \$1,194,000, and \$1,213,000 from investment securities, loans, and bank-owned life insurance in these years helped to reduce the effective tax rate. The higher level of income taxes and effective tax rate in 2014 compared to 2013 resulted from the Company realizing significantly less benefits of Enterprise Zone credits on our State tax return as the program has been significantly reduced and an increase in taxable income in 2014. Taxable income increased from \$4,315,000 in 2013 to \$6,653,000 in 2014.

Balance Sheet Analysis

The Company's total assets were \$634,640,000 at December 31, 2015 as compared to \$617,754,000 at December 31, 2014, representing an increase of \$16,886,000 (2.7%). The average balances of total assets during 2015 were \$623,049,000, up \$17,802,000 or 2.9% from the 2014 total of \$605,247,000.

Investment Securities

The Company classifies its investment securities as trading, held-to-maturity or available-for-sale. 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 asset/liability management strategies as part of our contingency funding plan and in response to changes in interest rates, prepayment rates and similar factors. Table Six below summarizes the values of the Company's investment securities held on December 31 of the years indicated. The Company did not have any investment securities classified as trading in any of the years indicated below.

Table Six: Investment Securities Composition

(dollars in thousands)

Available-for-sale (at fair value)	2015	2014	2013
Debt securities:			
US Government Agencies and US Government-Sponsored Agencies	\$ 246,185	\$ 261,115	\$ 244,160
Obligations of states and political subdivisions	26,013	26,289	26,903
Corporate debt securities	1,551	1,583	1,609
Equity securities:			
Corporate stock	70	77	119
Total available-for-sale investment securities	\$ 273,819	\$ 289,064	\$ 272,791
Held-to-maturity (at amortized cost)			
Debt securities:			
US Government Agencies and US Government-Sponsored Agencies	\$ 623	\$ 862	\$ 1,185
Total held-to-maturity investment securities	\$ 623	\$ 862	\$ 1,185

See Table Fifteen, “Securities Maturities and Weighted Average Yields,” for a breakdown of the investment securities by maturity and the corresponding weighted average yields.

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. At December 31, 2015, these categories accounted for approximately 12%, 68%, 8%, 5%, 5%, 0%, 1% and 1%, respectively, of the Company’s loan portfolio. This mix was relatively unchanged compared to 10%, 73%, 5%, 3%, 5%, 1%, 1% and 2%, respectively, at December 31, 2014. Continuing focus in the Company’s market area, new borrowers developed through the Company’s marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating approximately \$80 million in new loans in 2015. This production was partially offset by normal pay downs and payoffs, but still resulted in an overall net increase in net loans and leases of \$31.0 million (12.0%) from December 31, 2014. The market in which the Company operates has begun to show demand for credit products as the continued low rate environment and expectations for economic expansion have increased refinancing as well as new loan activity. The Company reported net increases in balances for commercial loans (\$11,009,000 or 43.7%), commercial real estate (\$5,720,000 or 3.0%), multi-family real estate (\$9,327,000 or 65.8%), real estate construction (\$6,505,000 or 81.0%), and residential real estate (\$891,000 or 6.7%), and decreases in lease financing receivable (\$554,000 or 43.1), agriculture (\$451,000 or 15.6%), and consumer loans (\$1,794,000 or 36.5%). Table Seven below summarizes the composition of the loan and lease portfolio for the past five years as of December 31.

Table Seven: Loan and Lease Portfolio Composition

(dollars in thousands)	December 31,				
	2015	2014	2013	2012	2011
Commercial	\$ 36,195	\$ 25,186	\$ 24,545	\$ 30,811	\$ 42,108
Real estate:					
Commercial	199,591	193,871	184,204	180,126	204,043
Multi-family	23,494	14,167	11,085	9,155	7,580
Construction	14,533	8,028	9,633	6,918	10,356
Residential	14,200	13,309	17,703	17,701	19,695
Lease financing receivable	732	1,286	1,344	1,509	1,725
Agriculture	2,431	2,882	3,120	3,340	4,583
Consumer	3,122	4,916	5,772	8,569	10,984
	294,298	263,645	257,406	258,129	301,074
Deferred loan fees, net	(221)	(287)	(313)	(230)	(302)
Allowance for loan and lease losses	(4,975)	(5,301)	(5,346)	(5,781)	(7,041)
Total net loans and leases	\$ 289,102	\$ 258,057	\$ 251,747	\$ 252,118	\$ 293,731

A significant portion of the Company’s loans and leases are direct loans and leases made to individuals and local businesses. The Company relies substantially on local promotional activity and personal contacts by American River Bank officers, directors and employees to compete with other financial institutions. The Company makes loans and leases to borrowers whose applications include a sound purpose and a viable primary repayment source, generally supported by a secondary source of repayment.

Commercial loans consist of credit lines for operating needs and working capital and loans for equipment or vehicle purchases. Consumer loans include traditional consumer products such as secured and unsecured personal loans and loans to finance the purchase of autos, boats and recreational vehicles. Construction loans are generally comprised of commitments to customers within the Company’s service area for construction of owner-occupied commercial properties. Other real estate loans consist primarily of loans secured by first trust deeds on commercial or multi-family properties, typically with maturities from 3 to 10 years and original loan-to-value ratios generally from 65% to 75%. In general, except in the case of loans under SBA programs, the Company does not make long-term mortgage loans.

“Subprime” real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the banking industry, many of these loans were originated with adjustable interest rates that reset upward after an introductory period. These “subprime” loans coupled with declines in housing prices led to an increase in default rates resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company did not have any such “subprime” loans at December 31, 2015 and December 31, 2014.

Average loans and leases in 2015 were \$279,728,000 which represents an increase of \$25,830,000 (10.2%) compared to the average in 2014. Average loans and leases in 2014 were \$253,898,000 which represents an increase of \$1,091,000 (0.4%) compared to the average in 2013.

Risk Elements

The Company assesses and manages credit risk on an ongoing basis through a total credit culture that emphasizes excellent credit quality, extensive internal monitoring and established formal lending policies. Additionally, the Company contracts with an outside loan review consultant to periodically review the existing loan and lease portfolio. Management believes its ability to identify and assess risk and return characteristics of the Company’s loan and lease portfolio is critical for profitability and growth. Management strives to continue its emphasis on credit quality in the loan and lease approval process, through active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan and lease review and grading system that functions to continually assess the credit risk inherent in the loan and lease portfolio.

Ultimately, underlying trends in economic and business cycles influence credit quality. American River Bank’s business is concentrated in the Sacramento Metropolitan Statistical Area, which is a diversified economy, but with a large State of California government presence and employment base; in Sonoma County, which is focused on businesses within the two communities in which the Bank has offices (Santa Rosa and Healdsburg); and in Amador County, in which the Bank is primarily focused on businesses within the three communities in which it has offices (Jackson, Pioneer, and Ione). The economy of Sonoma County is diversified with professional services, manufacturing, agriculture and real estate investment and construction, while the economy of Amador County is reliant upon government, services, retail trade, manufacturing industries and Indian gaming. The Company has recently entered the Santa Clara, Contra Costa, and Alameda County markets with loan production offices in San Ramon and San Jose. The economies of Santa Clara, Contra Costa and Alameda Counties are diversified with professional services, manufacturing, technology related companies, real estate investment and construction.

The Company has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent on personal or business cash flows or the sale or refinancing of the real estate. The Company monitors the effects of current and expected market conditions and other factors on the collectability of real estate loans. The more significant factors management considers involve the following: lease rates and terms, vacancy rates, absorption and sale rates and capitalization rates; real estate values, supply and demand factors, and rates of return; operating expenses; inflation and deflation; and sufficiency of repayment sources independent of the real estate including, in some instances, personal guarantees.

In extending credit and commitments to borrowers, the Company generally requires collateral and/or guarantees as security. The repayment of such loans is expected to come from cash flow or from proceeds from the sale of selected assets of the borrowers. The Company’s requirement for collateral and/or guarantees is determined on a case-by-case basis in connection with management’s evaluation of the creditworthiness of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing properties, residences and other real property. The Company secures its collateral by perfecting its security interest in business assets, obtaining deeds of trust, or outright possession among other means.

In management’s judgment, a concentration exists in real estate loans which represented approximately 86% of the Company’s loan and lease portfolio at December 31, 2015 and 87% at December 31, 2014. Management believes that the residential land portion of the Company’s loan portfolio carries more than the normal credit risk, due primarily to curtailed demand for new and resale residential property, relative to pre-recession levels, a resulting oversupply of unsold residential land, and observed reductions in values throughout the Company’s market area. Management has responded by evaluating loans that it considers to carry any significant risk above the normal risk of collectability by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio.

A decline in the economy in general, or decline in real estate values in the Company's primary market areas, in particular, could have an adverse impact on the collectability of real estate loans and require an increase in the provision for loan and lease losses. This could adversely affect the Company's future prospects, results of operations, profitability and stock price. Management believes that its lending practices and underwriting standards are structured with the intent to minimize losses; however, there is no assurance that losses will not occur. The Company's loan practices and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Company's service area and originating a significant majority of its loans within that area, (2) maintaining a thorough understanding of borrowers' knowledge, capacity, and market position in their field of expertise, (3) basing real estate loan approvals not only on market demand for the project, but also on the borrowers' capacity to support the project financially in the event it does not perform to expectations (whether sale or income performance), and (4) maintaining conforming and prudent loan-to-value and loan-to-cost ratios based on independent outside appraisals and ongoing inspection and analysis by the Company's lending officers or contracted third-party professionals.

Nonaccrual, Past Due and Restructured Loans and Leases

Management places loans and leases on nonaccrual status when they become 90 days past due or if a loss is expected, unless the loan or lease is well secured and in the process of collection. Loans and leases are partially or fully charged off when, in the opinion of management, collection of such amount appears unlikely.

The recorded investments in non-performing loans and leases, which includes nonaccrual loans and leases and loans and leases that were 90 days or more past due and on accrual, totaled \$1,643,000 and \$1,653,000 at December 31, 2015 and 2014, respectively. Of the \$1,643,000 in non-performing loans and leases at December 31, 2015, there were four real estate loans totaling \$1,493,000, four consumer loans totaling \$120,000 and a single commercial loan totaling \$30,000. At December 31, 2014, the \$1,653,000 in non-performing loans consisted of three real estate loans totaling \$845,000; two commercial loans totaling \$666,000 and three consumer loans totaling \$142,000.

The net interest due on nonaccrual loans and leases but excluded from interest income was approximately \$145,000 during 2015, \$116,000 during 2014, and \$327,000 during 2013. Interest income recognized from payments received on nonaccrual loans and leases was approximately \$59,000 in 2015, \$84,000 in 2014 and \$161,000 in 2013. Table Eight below sets forth nonaccrual loans and leases and loans and leases past due 90 days or more and on accrual as of year-end for the past five years.

Table Eight: Non-Performing Loans and Leases

(dollars in thousands)	December 31,				
	2015	2014	2013	2012	2011
Past due 90 days or more and still accruing:					
Commercial	\$ —	\$ —	\$ 80	\$ —	\$ —
Real estate	—	—	—	—	—
Lease financing receivable	—	—	—	—	—
Consumer and other	—	—	—	—	—
Nonaccrual:					
Commercial	30	666	766	2,352	2,775
Real estate	1,493	845	977	2,897	9,809
Lease financing receivable	—	—	—	3	17
Consumer and other	120	142	156	222	822
Total non-performing loans and leases	\$ 1,643	\$ 1,653	\$ 1,979	\$ 5,474	\$ 13,423

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of December 31, 2015. Management is not aware of any potential problem loans, which were accruing and current at December 31, 2015, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company apart from those loans identified in the Bank's impairment analysis.

Management monitors the Company's performance metrics including the ratios related to non-performing loans and leases. From 2008 to 2010, the Company experienced an increase in non-performing loans and leases. In 2011, the focused efforts of the previous years resulted in a decrease in these levels. In 2012, 2013, 2014 and 2015, the level of non-performing loans and leases continued to decrease to a level below the amount reported at December 31, 2008. However, the variations in the amount of non-performing loans and leases does not directly impact the level of the Company's allowance for loan and lease losses as management monitors each of the loans and leases for loss potential or probability of loss on an individual basis using accounting principles generally accepted in the United States of America.

Impaired Loans and Leases

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the original contractual terms of the loan or lease agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan or lease discounted at the loan's or lease's original effective interest rate, (ii) the observable market price of the impaired loan or lease, or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans or leases that are collectively evaluated for credit risk. In assessing whether a loan or lease is impaired, the Company typically reviews loans or leases graded substandard or lower with outstanding principal balances in excess of \$100,000, as well as loans considered troubled debt restructures with outstanding principal balances in excess of \$25,000. The Company identifies troubled debt restructures by reviewing each renewal, modification, or extension of a loan with a screening document. This document is designed to identify any characteristics of such a loan that would qualify it as a troubled debt restructure. If the characteristics are not present that would qualify a loan as a troubled debt restructure, it is deemed to be a modification.

The recorded investment in loans and leases that were considered to be impaired totaled \$21,365,000 at December 31, 2015 and had a related valuation allowance of \$899,000. The average recorded investment in impaired loans and leases during 2015 was approximately \$20,818,000. As of December 31, 2014, the recorded investment in loans and leases that were considered to be impaired totaled \$25,120,000 and had a related valuation allowance of \$1,603,000. The average recorded investment in impaired loans and leases during 2014 was approximately \$24,127,000. As of December 31, 2013, the recorded investment in loans and leases that were considered to be impaired totaled \$27,034,000 and had a related valuation allowance of \$1,598,000. The average recorded investment in impaired loans and leases during 2013 was approximately \$27,975,000.

Allowance for Loan and Lease Losses Activity

The Company maintains an allowance for loan and lease losses ("ALLL") to cover probable losses inherent in the loan and lease portfolio, which is based upon management's estimate of those losses. The ALLL is established through a provision for loan and lease losses and is increased by provisions charged against current earnings and recoveries and reduced by charge-offs. Actual losses for loans and leases can vary significantly from this estimate. The methodology and assumptions used to calculate the allowance are continually reviewed as to their appropriateness given the most recent losses realized and other factors that influence the estimation process. The model assumptions and resulting allowance level are adjusted accordingly as these factors change.

The adequacy of the ALLL and the level of the related provision for loan and lease losses is determined based on management's judgment after consideration of numerous factors including, but not limited to: (i) local and regional economic conditions, (ii) the financial condition of the borrowers, (iii) loan impairment and the related level of expected charge-offs, (iv) evaluation of industry trends, (v) industry and other concentrations, (vi) loans and leases which are contractually current as to payment terms but demonstrate a higher degree of risk as identified by management, (vii) continuing evaluations of the performing loan portfolio, (viii) ongoing review and evaluation of problem loans identified as having loss potential, (ix) quarterly review by the Board of Directors, and (x) assessments by banking regulators and other third parties. Management and the Board of Directors evaluate the ALLL and determine its appropriate level considering objective and subjective measures, such as knowledge of the borrowers' business, valuation of collateral, the determination of impaired loans or leases and exposure to potential losses.

The ALLL totaled \$4,975,000 or 1.69% of total loans and leases at December 31, 2015, \$5,301,000 or 2.01% of total loans and leases at December 31, 2014, and \$5,346,000 or 2.08% at December 31, 2013. The decrease in the allowance for loan and lease losses from \$5,346,000 at December 31, 2013 to \$4,975,000 at December 31, 2015, was mainly due to a decrease in historical losses impacting the loss factor used in calculating the reserve on loans collectively valued for impairment. The Company establishes general and specific reserves in accordance with accounting principles generally accepted in the United States of America. The ALLL is composed of categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination.

The allowance for loans and leases as a percentage of non-performing loans and leases was 302.8% at December 31, 2015 and 320.7% at December 31, 2014. The allowance for loans and leases as a percentage of impaired loans and leases was 23.3% at December 31, 2015 and 21.1% at December 31, 2014. Of the total non-performing and impaired loans and leases outstanding as of December 31, 2015, there were \$4,757,000 in loans or leases that had been reduced by partial charge-offs of \$816,000.

At December 31, 2015, there was \$12,607,000 in impaired loans or leases that did not carry a specific reserve. Of this amount, \$3,900,000 were loans or leases that had previous partial charge-offs and \$8,707,000 in loans or leases that were analyzed and determined not to require a specific reserve or charge-off because the collateral value or discounted cash flow value exceeded the loan or lease balance. Prior to 2013, the Company had been operating in a market that had experienced significant decreases in real estate values of commercial, residential, land, and construction properties. As such, the Company continues to focus on monitoring collateral values for those loans considered collateral dependent. The collateral evaluations performed by the Company are updated as necessary, which is generally once every twelve months, and are reviewed by a qualified credit officer.

The Company's policy with regard to loan or lease charge-offs continues to be that a loan or lease is charged off against the ALLL when management believes that the collectability of the principal is unlikely. As previously discussed in the "Impaired Loans and Leases" section, certain loans are evaluated for impairment. Generally, if a loan is collateralized by real estate, and considered collateral dependent, the impaired portion will be charged off to the allowance for loan and lease losses unless it is in the process of collection, in which case a specific reserve may be warranted. If the collateral is other than real estate and considered impaired, a specific reserve may be warranted.

It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Formula allocations are calculated by applying historical loss factors to outstanding loans with similar characteristics. Historical loss factors are based upon the Company's loss experience. These historical loss factors are adjusted for changes in the business cycle and for significant factors that, in management's judgment, affect the collectability of the loan portfolio as of the evaluation date. 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. Based on information currently available, management believes that the allowance for loan and lease losses is prudent and adequate. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty. During the fourth quarter of 2015, the Company made a specific enhancement to its methodology for determining the general reserve component of the ALLL. The enhancement related specifically to the methodology used to calculate the qualitative factors with respect to non-impaired loans graded watch, special mention and substandard by eliminating the use of multipliers. The ALLL methodology was also revised to add an additional qualitative factor, by loan grade, in calculating the general reserve component of the ALLL. Management believes that the allocation of the ALLL to each loan risk grade, within each loan type has become more precise under the methodology enhancement. The implementation of the ALLL model revision did not have a material impact on the calculation of the required allowance for loan losses as of December 31, 2015.

Table Nine below summarizes, for the periods indicated, the activity in the ALLL.

Table Nine: Allowance for Loan and Lease Losses

(dollars in thousands)	Year Ended December 31,				
	2015	2014	2013	2012	2011
Average loans and leases outstanding	\$ 279,728	\$ 253,898	\$ 252,807	\$ 282,136	\$ 323,310
Allowance for loan & lease losses at beginning of period	\$ 5,301	\$ 5,346	\$ 5,781	\$ 7,041	\$ 7,585
Loans and leases charged off:					
Commercial	609	—	377	302	713
Real estate	—	—	534	2,038	3,765
Consumer	6	76	1	505	—
Lease financing receivable	1	—	26	9	220
Total	616	76	938	2,854	4,698
Recoveries of loans and leases previously charged off:					
Commercial	123	256	215	21	163
Real estate	165	163	88	172	346
Consumer	2	150	—	30	—
Lease financing receivable	—	3	—	6	20
Total	290	572	303	229	529
Net loans and leases (recovered) charged off (Reductions) additions to allowance (credited) charged to operating expenses	—	(541)	200	1,365	3,625
Allowance for loan and lease losses at end of period	\$ 4,975	\$ 5,301	\$ 5,346	\$ 5,781	\$ 7,041
Ratio of net charge-offs to average loans and leases outstanding	0.12%	(0.20%)	0.25%	0.93%	1.29%
Provision for loan and lease losses to average loans and leases outstanding	—	(0.21%)	0.08%	0.48%	1.12%
Allowance for loan and lease losses to total loans and leases, at end of period	1.69%	2.01%	2.08%	2.24%	2.34%
Allowance for loan and lease losses to non-performing loans and leases, at end of period	302.80%	320.69%	270.14%	105.61%	52.45%

As part of its loan review process, management has allocated the overall allowance based on specific identified problem loans and leases, qualitative factors, uncertainty inherent in the estimation process and historical loss data. A risk exists that future losses cannot be precisely quantified or attributed to particular loans or leases or classes of loans and leases. Management continues to evaluate the loan and lease portfolio and assesses current economic conditions that will affect management's conclusion as to future allowance levels. Table Ten below summarizes the allocation of the allowance for loan and lease losses for the five years ended December 31, 2015.

Table Ten: Allowance for Loan and Lease Losses by Loan Category

(dollars in thousands)

	December 31, 2015		December 31, 2014		December 31, 2013	
	Amount	Percent of loans	Amount	Percent of loans	Amount	Percent of loans
		in each category to total loans		in each category to total loans		in each category to total loans
Commercial	\$ 860	12%	\$ 1,430	10%	\$ 885	10%
Real estate	3,729	86%	3,429	86%	4,010	86%
Agriculture	77	1%	62	1%	80	1%
Consumer	78	1%	124	2%	161	2%
Lease financing receivable	1	—	2	1%	4	1%
Unallocated	230	—	254	—	206	—
Total	\$ 4,975	100%	\$ 5,301	100%	\$ 5,346	100%

	December 31, 2012		December 31, 2011	
	Amount	Percent of loans	Amount	Percent of loans
		in each category to total loans		in each category to total loans
Commercial	\$ 1,351	12%	\$ 1,536	14%
Real estate	3,835	83%	4,545	80%
Agriculture	87	1%	167	1%
Consumer	262	3%	348	4%
Lease financing receivable	3	1%	79	1%
Unallocated	243	—	366	—
Total	\$ 5,781	100%	\$ 7,041	100%

The allocation presented should not be interpreted as an indication that charges to the allowance for loan and lease losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan and lease category represents the total amounts available for charge-offs that may occur within these categories.

Other Real Estate Owned

The balance in OREO at December 31, 2015 consisted of three properties acquired through foreclosure. The balance in OREO at December 31, 2014 consisted of seven properties. During 2015, the Company received \$1,153,000 from the net proceeds of the sale of four OREO properties with net losses of \$1,000 in the aggregate recognized on these sales and, prior to sale, there was a write-down of \$156,000 to the OREO allowance and \$76,000 to expense on two of the four properties. Furthermore, there were capitalized costs of \$126,000 on a single existing property. There was \$3,551,000 in other real estate owned at December 31, 2015 with no valuation allowance and \$4,803,000 in other real estate owned at December 31, 2014 with a valuation allowance of \$156,000.

Deposits

At December 31, 2015, total deposits were \$530,690,000 representing an increase of \$19,997,000 (3.9%) from the December 31, 2014 balance of \$510,693,000. The Company's deposit growth plan for 2015 was to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and interest-bearing checking, and savings accounts, while continuing to focus on reducing overall interest expense. Due to these efforts, the Company experienced increases during 2015 in noninterest-bearing demand (\$34,850,000 or 22.4%), interest-bearing checking (\$462,000 or 0.8%), and savings (\$241,000 or 0.4%) and decreases in money market (\$12,439,000 or 8.4%) and time deposit (\$3,117,000 or 3.6%) accounts. The decrease in money market accounts is related to the plan to reduce interest expense as the Company evaluated the rate structure on some of the higher cost money market accounts and reduced the interest rates on some relationships.

Other Borrowed Funds

Other borrowings outstanding as of December 31, 2015 consist of advances from the Federal Home Loan Bank (the “FHLB”). The following table summarizes these borrowings (dollars in thousands):

	2015		2014		2013	
	Amount	Rate	Amount	Rate	Amount	Rate
Short-term borrowings:						
FHLB advances	\$ 3,500	1.28%	\$ 3,500	0.92%	\$ 8,000	2.15%
Long-term borrowings:						
FHLB advances	\$ 7,500	1.24%	\$ 7,500	1.39%	\$ 8,000	1.47%

The maximum amount of short-term borrowings at any month-end during 2015, 2014 and 2013, was \$11,500,000, \$3,500,000, and \$8,000,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

	Short-term	Long-term
Amount	\$ 3,500	\$ 7,500
Maturity	2016	2017 to 2019
Average rates	1.28%	1.24%

The Company has the ability to enter into letters of credit with the FHLB. There were no letters of credit outstanding as of December 31, 2015 or 2014. There were no draws upon any letter of credit in 2015 or 2014 and management does not expect to draw upon these sources of liquidity in the foreseeable future.

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by management. The Company’s capital position represents the level of capital available to support continuing operations and expansion.

On January 17, 2014, the Company approved and authorized a stock repurchase program for 2014 (the “2014 Program”). The 2014 Program authorized the repurchase during 2014 of up to 5% of the outstanding shares of the Company’s common stock. During 2014, the Company repurchased 424,462 shares of its common stock at an average price of \$9.77 per share. On January 21, 2015, the Company approved and authorized a stock repurchase program for 2015 (the “2015 Program”). The 2015 Program authorized the repurchase during 2015 of up to 5% of the outstanding shares of the Company’s common stock. In addition, on July 15, 2015, the Company approved and authorized an additional amount of 5% to be purchased under the 2015 Program. During 2015, the Company repurchased 790,989 shares of its common stock at an average price of \$9.92 per share. On January 20, 2016, the Company approved and authorized a stock repurchase program for 2016 (the “2016 Program”). The 2016 Program authorized the repurchase during 2016 of up to 5% of the outstanding shares of the Company’s common stock, or approximately 367,182 shares based on the 7,343,649 shares outstanding as of December 31, 2015. Any repurchases under the 2016 Program will be made from time to time by the Company in the open market as conditions allow. All such transactions will be structured to comply with Commission Rule 10b-18 and all shares repurchased under the 2016 Program will be retired. The number, price and timing of the repurchases will be at the Company’s sole discretion and the 2016 Program may be re-evaluated depending on market conditions, capital and liquidity needs or other factors. Based on such re-evaluation, the Board of Directors may suspend, terminate, modify or cancel the 2016 Program at any time without notice.

The Company did not repurchase any shares in 2011 or 2010 and repurchased 575,389 shares in 2012 and 849,404 shares in 2013. Share amounts have been adjusted for stock dividends and/or splits.

The Company and American River Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s and American River Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of December 31, 2015 and 2014, the most recent regulatory notification categorized American River Bank as well capitalized under the regulatory framework for prompt corrective action plan. There are no conditions or events since that notification that management believes have changed the Bank’s categories.

At December 31, 2015, shareholders' equity was \$86,075,000, representing a decrease of \$3,572,000 (5.1%) from \$89,647,000 at December 31, 2014. The decrease resulted from a decrease in other comprehensive income of \$1,268,000 as a result of the decrease in the unrealized gain on securities due to an increase in interest rates, additions from net income of \$5,269,000 for the period and the stock based compensation of \$271,000, offset by repurchases of common stock of \$7,843,000. In 2014, shareholders' equity increased \$2,627,000 (3.0%) from \$87,020,000 at December 31, 2013. The increase resulted from the additions from net income for the period, an increase in other comprehensive income, and an increase in stock based compensation exceeding the repurchases of common stock.

Table Eleven below lists the Company's actual capital ratios at December 31, 2015 and 2014, as well as the minimum capital ratios for capital adequacy.

Table Eleven: Capital Ratios

Capital to Risk-Adjusted Assets	At December 31,		Minimum Regulatory
	2015	2015	Capital Requirements
Leverage ratio	11.0%	11.6%	4.00%
Tier 1 Risk-Based Capital	19.3%	21.6%	6.00%
Total Risk-Based Capital	20.6%	22.9%	8.00%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. At December 31, 2015, American River Bank's ratios were in excess of the regulatory definition of "well capitalized." Management believes that the Company's capital is adequate to support current operations and anticipated growth and currently foreseeable future capital requirements of the Company and its subsidiaries.

In July 2013, the federal bank regulatory agencies issued interim final rules that revised and replaced the then current risk-based capital requirements in order to implement the "Basel III" regulatory capital reforms released by the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Basel III reforms reflected in the final rules included an increase in the risk-based capital requirements and certain changes to capital components and the calculation of risk-weighted assets.

Effective January 1, 2015, bank holding companies with consolidated assets of \$1 Billion or more and banks like American River Bank were required to comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019, which would consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6% (increased from 4%); (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets ("leverage") ratio of 4%.

In addition, a "capital conservation buffer," is established which when fully phased-in will require maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer will increase the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new buffer requirement will be phased-in between January 1, 2016 and January 1, 2019. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

Market Risk Management

Overview. Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its loan, investment and deposit functions. The goal for managing the assets and liabilities of the Company is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Company to undue interest rate risk. The Board of Directors has overall responsibility for the interest rate risk management policies. The Company has an Enterprise Risk Management Committee, made up of Company management that establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

Asset/Liability Management. Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits and investing in securities. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. The Company uses simulation models to forecast earnings, net interest margin and market value of equity.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer-modeling techniques, with specialized software built for this specific purpose for financial institutions, the Company is able to estimate the potential impact of changing interest rates on earnings, net interest margin and market value of equity. A balance sheet is prepared using detailed inputs of actual loans, securities and interest-bearing liabilities (i.e. deposits/borrowings). The balance sheet is processed using multiple interest rate scenarios. The scenarios include a rising rate forecast, a flat rate forecast and a falling rate forecast which take place within a one-year time frame. The net interest income is measured over a one and a two year periods assuming a gradual change in rates over the twelve-month horizon. The simulation modeling attempts to estimate changes in the Company's net interest income utilizing a detailed current balance sheet.

After a review of the model results as of December 31, 2015, the Company does not consider the fluctuations from the base case, to have a material impact on the Company's projected results and are within the tolerance levels outlined in the Company's interest rate risk policies. The simulations of earnings do not incorporate any management actions, which might moderate the negative consequences of interest rate deviations. Therefore, they do not reflect likely actual results, but serve as reasonable estimates of interest rate risk.

Interest Rate Sensitivity Analysis

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps. A positive cumulative gap may be equated to an asset sensitive position. An asset sensitive position in a rising interest rate environment will cause a bank's interest rate margin to expand. This results as floating or variable rate loans reprice more rapidly than fixed rate certificates of deposit that reprice as they mature over time. Conversely, a declining interest rate environment will cause the opposite effect. A negative cumulative gap may be equated to a liability sensitive position. A liability sensitive position in a rising interest rate environment will cause a bank's interest rate margin to contract, while a declining interest rate environment will have the opposite effect.

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing, or other commercial concerns, primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand, and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a material effect upon the results of operations of the Company during the years ended December 31, 2015, 2014 and 2013.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, short-term investments and securities, and loan and lease repayments contribute to liquidity, along with deposit increases, while loan and lease funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding standby letters of credit at December 31, 2015 were approximately \$26,730,000 and \$238,000, respectively. Such loan commitments relate primarily to revolving lines of credit and other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale. On December 31, 2015, consolidated liquid assets totaled \$229.7 million or 36.2% of total assets compared to \$234.7 million or 38.0% of total assets on December 31, 2014. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of \$17,000,000 with two of its correspondent banks. At December 31, 2015, the Company had \$17,000,000 available under these credit lines. Additionally, American River Bank is a member of the FHLB. At December 31, 2015, American River Bank could have arranged for up to \$89,326,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At December 31, 2015, the Company had \$78,326,000 available under these secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank. The borrowing can be secured by pledging selected loans and investment securities. Based on the amount of assets pledged at the Federal Reserve Bank at December 31, 2015, the Company's borrowing capacity was \$11,371,000.

The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets to volatile and cyclical deposits.

Liquidity is also affected by portfolio maturities and the effect of interest rate fluctuations on the marketability of both assets and liabilities. The Company can sell any of its unpledged securities held in the available-for-sale category to meet liquidity needs. These securities are also available to pledge as collateral for borrowings if the need should arise. American River Bank can also pledge additional securities to borrow from the Federal Reserve Bank and the FHLB.

The maturity distribution of certificates of deposit is set forth in Table Thirteen below for the period presented. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available.

Table Thirteen: Certificates of Deposit Maturities

December 31, 2015		
(dollars in thousands)	Less than \$250,000	Over \$250,000
Three months or less	\$ 8,971	\$ 28,205
Over three months through six months	6,555	5,312
Over six months through twelve months	6,561	4,135
Over twelve months	15,657	9,175
Total	\$ 37,744	\$ 46,827

Loan and lease demand also affects the Company's liquidity position. Table Fourteen below presents the maturities of loans and leases for the period indicated.

Table Fourteen: Loan and Lease Maturities (Gross Loans and Leases)

December 31, 2015

(dollars in thousands)	One year or less	One year through five years	Over five years	Total
Commercial	\$ 4,197	\$ 18,722	\$ 13,276	\$ 36,195
Real estate	23,277	62,065	166,476	251,818
Agriculture	103	2,328	—	2,431
Consumer	807	1,957	358	4,122
Leases	99	633	—	732
Total	\$ 28,483	\$ 85,705	\$ 180,110	\$ 294,298

Loans and leases shown above with maturities greater than one year include \$169,728,000 of variable interest rate loans and \$96,087,000 of fixed interest rate loans and leases.

The carrying amount, maturity distribution and weighted average yield of the Company's investment securities available-for-sale and held-to-maturity portfolios are presented in Table Fifteen below. The yields on tax-exempt obligations have been computed on a tax equivalent basis. Yields may not represent actual future income to be recorded. Timing of principal prepayments on mortgage-backed securities may increase or decrease depending on market factors and the borrowers' ability to make unscheduled principal payments. Fast prepayments on bonds that were purchased with a premium will result in a lower yield and slower prepayments on premium bonds will result in a higher yield, the opposite would be true for bonds purchased at a discount. Table Fifteen does not include FHLB Stock, which does not have stated maturity dates or readily available market values. The balance in FHLB Stock at December 31, 2015, 2014 and 2013 was \$3,779,000, \$3,686,000 and \$3,248,000, respectively.

Table Fifteen: Securities Maturities and Weighted Average Yields

(Taxable Equivalent Basis)

December 31,

(dollars in thousands)	2015		2014		2013	
	Carrying Amount	Weighted Average Yield	Carrying Amount	Weighted Average Yield	Carrying Amount	Weighted Average Yield
Available-for-sale securities:						
State and political subdivisions						
Maturing within 1 year	\$ 494	2.40%	\$ 176	7.14%	\$ 346	7.54%
Maturing after 1 year but within 5 years	3,746	5.93%	2,401	5.10%	2,357	4.98%
Maturing after 5 years but within 10 years	15,543	4.29%	12,608	4.46%	12,067	4.72%
Maturing after 10 years	6,230	4.29%	11,104	4.04%	12,133	4.14%
U.S. Government Agencies and						
U.S.-Sponsored Agencies	246,185	2.11%	261,115	2.12%	244,160	2.09%
Other						
Maturing after 1 year but within 5 years	1,551	4.88%	1,583	4.88%	1,609	4.88%
Non-maturing	70	0.00%	77	0.00%	119	0.00%
Total investment securities	\$ 273,819	2.35%	\$ 289,064	2.34%	\$ 272,791	2.34%
Held-to-maturity securities:						
U.S. Government Agencies and						
U.S.-Sponsored Agencies	\$ 623	4.68%	\$ 862	4.60%	\$ 1,185	4.54%
Total investment securities	\$ 623	4.68%	\$ 862	4.60%	\$ 1,185	4.57%

The carrying values of available-for-sale securities include net unrealized gains of \$3,504,000, \$5,618,000 and \$1,872,000 at December 31, 2015, 2014 and 2013, respectively. The carrying values of held-to-maturity securities do not include unrealized gains or losses; however, the net unrecognized gains at December 31, 2015, 2014 and 2013 were \$46,000, \$60,000 and \$78,000, respectively.

Off-Balance Sheet Arrangements

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

As of December 31, 2015, commitments to extend credit and letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. At origination, real estate commitments are generally secured by property with a loan-to-value ratio of 55% to 75%. In addition, the majority of the Company's commitments have variable interest rates. The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2015	2014
Commitments to extend credit (dollars in thousands):		
Revolving lines of credit secured by 1-4 family residences	\$ 727	\$ 1,447
Commercial real estate, construction and land development commitments secured by real estate	13,999	16,206
Other unused commitments, principally commercial loans	12,004	14,986
	<u>\$ 26,730</u>	<u>\$ 32,639</u>
Letters of credit	<u>\$ 238</u>	<u>\$ 356</u>

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

Certain financial institutions have elected to use special purpose vehicles ("SPV") to dispose of problem assets. The SPV is typically a subsidiary company with an asset and liability structure and legal status that makes its obligations secure even if the parent corporation goes bankrupt. Under certain circumstances, these financial institutions may exclude the problem assets from their reported impaired and non-performing assets. The Company does not use those vehicles or any other structures to dispose of problem assets.

Contractual Obligations

The Company leases certain facilities at which it conducts its operations. Future minimum lease commitments under non-cancelable operating leases are noted in Table Sixteen below. Table Sixteen below presents certain of the Company's contractual obligations as of December 31, 2015. Included in the table are amounts payable under the Company's Deferred Compensation Plan, Deferred Fees Plan and salary continuation agreements listed in the "Other Long-Term Liabilities..." category. At December 31, 2015, these amounts represented \$4,089,000 most of which is anticipated to be primarily payable at least five years in the future.

Table Sixteen: Contractual Obligations

(dollars in thousands)

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	\$ 11,000	\$ 3,500	\$ 5,500	\$ 2,000	\$ —
Capital Lease Obligations	—	—	—	—	—
Operating Leases	2,208	767	709	303	429
Purchase Obligations	—	—	—	—	—
Certificates of Deposit	84,571	59,739	17,579	7,239	14
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under GAAP	4,089	173	192	91	3,633
Total	\$ 101,868	\$ 64,179	\$ 23,980	\$ 9,633	\$ 4,076

Report of Management on Internal Control Over Financial Reporting

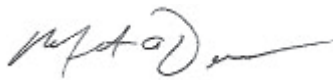
Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, presented in conformity with accounting principles generally accepted in the United States of America. In making this assessment, management used the criteria applicable to the Company as set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control—Integrated Framework*. Based upon such assessment, management believes that, as of December 31, 2015, the Company's internal control over financial reporting is effective based upon those criteria.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.



David T. Taber
President and Chief Executive Officer



Mitchell A. Derenzo
Executive Vice President and
Chief Financial Officer



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
American River Bankshares
Rancho Cordova, California

We have audited the accompanying consolidated balance sheets of American River Bankshares and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American River Bankshares and subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Crowe Horwath LLP".

Sacramento, California
February 25, 2016

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and due from banks	\$ 23,727	\$ 22,449
Interest-bearing deposits in banks	750	1,000
Investment securities (Note 5):		
Available-for-sale, at fair value	273,819	289,064
Held-to-maturity, at amortized cost	623	862
Loans and leases, less allowance for loan and lease losses of \$4,975 in 2015 and \$5,301 in 2014 (Notes 6, 7, 12 and 17)	289,102	258,057
Premises and equipment, net (Note 8)	1,407	1,518
Federal Home Loan Bank of San Francisco stock	3,779	3,686
Other real estate owned, net	3,551	4,647
Goodwill (Note 4)	16,321	16,321
Bank-owned life insurance (Note 16)	14,483	14,167
Accrued interest receivable and other assets (Notes 11 and 16)	7,078	5,983
	<u>\$ 634,640</u>	<u>\$ 617,754</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 190,548	\$ 155,698
Interest-bearing (Note 9)	340,142	354,995
Total deposits	530,690	510,693
Short-term borrowings (Note 10)	3,500	3,500
Long-term borrowings (Note 10)	7,500	7,500
Accrued interest payable and other liabilities (Note 16)	6,875	6,414
Total liabilities	548,565	528,107
Commitments and contingencies (Note 12)		
Shareholders' equity (Notes 13 and 14):		
Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 7,343,649 shares in 2015 and 8,089,615 shares in 2014	49,554	57,126
Retained earnings	34,418	29,150
Accumulated other comprehensive income, net of taxes (Note 5)	2,103	3,371
Total shareholders' equity	86,075	89,647
	<u>\$ 634,640</u>	<u>\$ 617,754</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands, except per share data)

	2015	2014	2013
Interest income:			
Interest and fees on loans and leases:			
Taxable	\$ 13,547	\$ 13,609	\$ 14,191
Exempt from Federal income taxes	364	22	—
Interest on deposits in banks	5	4	3
Interest and dividends on investment securities:			
Taxable	6,292	5,528	3,822
Exempt from Federal income taxes	760	802	865
Total interest income	<u>20,968</u>	<u>19,965</u>	<u>18,881</u>
Interest expense:			
Interest on deposits (Note 9)	817	1,021	1,197
Interest on borrowings	144	147	293
Total interest expense	<u>961</u>	<u>1,168</u>	<u>1,490</u>
Net interest income	20,007	18,797	17,391
Provision for loan and lease losses (Note 7)	<u>—</u>	<u>(541)</u>	<u>200</u>
Net interest income after provision for loan and lease losses	<u>20,007</u>	<u>19,338</u>	<u>17,191</u>
Noninterest income:			
Service charges	498	562	590
Gain on sale and call of investment securities (Note 5)	251	208	36
Income from other real estate owned properties	335	365	316
Other income (Note 15)	931	1,042	1,073
Total noninterest income	<u>2,015</u>	<u>2,177</u>	<u>2,015</u>
Noninterest expense:			
Salaries and employee benefits (Notes 6 and 16)	8,528	8,776	8,516
Other real estate expense	322	364	936
Occupancy (Notes 8, 12 and 17)	1,183	1,188	1,212
Furniture and equipment (Notes 8 and 12)	690	724	758
Regulatory assessments	395	433	382
Other expense (Notes 4 and 15)	2,962	3,377	3,087
Total noninterest expense	<u>14,080</u>	<u>14,862</u>	<u>14,891</u>
Income before provision for income taxes	7,942	6,653	4,315
Provision for income taxes (Note 11)	<u>2,674</u>	<u>2,292</u>	<u>1,258</u>
Net income	<u>\$ 5,268</u>	<u>\$ 4,361</u>	<u>\$ 3,057</u>
Basic earnings per share (Note 13)	<u>\$ 0.70</u>	<u>\$ 0.54</u>	<u>\$ 0.34</u>
Diluted earnings per share (Note 13)	<u>\$ 0.70</u>	<u>\$ 0.54</u>	<u>\$ 0.34</u>
Cash dividends per share of issued and outstanding common stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income	\$ 5,268	\$ 4,361	\$ 3,057
Other comprehensive income (loss):			
(Decrease) increase in net unrealized gains on investment securities	(1,863)	3,954	(5,234)
Deferred tax benefit (expense)	745	(1,581)	2,094
(Decrease) increase in net unrealized gains on investment securities, net of tax	<u>(1,118)</u>	<u>2,373</u>	<u>(3,140)</u>
Reclassification adjustment for realized gains included in net income	(251)	(208)	(36)
Tax effect	101	83	14
Realized gains, net of tax	<u>(150)</u>	<u>(125)</u>	<u>(22)</u>
Total other comprehensive (loss) income	<u>(1,268)</u>	<u>2,248</u>	<u>(3,162)</u>
Comprehensive income (loss)	<u>\$ 4,000</u>	<u>\$ 6,609</u>	<u>\$ (105)</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>Share holders'</u>
				<u>Income</u>	<u>Equity</u>
				<u>(Net of Taxes)</u>	
Balance, January 1, 2013	9,327,203	\$ 67,977	\$ 21,732	\$ 4,285	\$ 93,994
Net income	—	—	3,057	—	3,057
Other comprehensive loss, net of tax:					
Net change in unrealized gains on available-for-sale investment securities (Note 5)	—	—	—	(3,162)	(3,162)
Retirement of common stock (Note 13)	(849,404)	(7,000)	—	—	(7,000)
Net restricted stock award activity and related compensation expense	11,448	111	—	—	111
Stock option compensation expense	—	20	—	—	20
Balance, December 31, 2013	8,489,247	61,108	24,789	1,123	87,020
Net income	—	—	4,361	—	4,361
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities (Note 5)	—	—	—	2,248	2,248
Retirement of common stock (Note 13)	(424,462)	(4,148)	—	—	(4,148)
Net restricted stock award activity and related compensation expense	24,830	147	—	—	147
Stock option compensation expense	—	19	—	—	19
Balance, December 31, 2014	8,089,615	57,126	29,150	3,371	89,647
Net income	—	—	5,268	—	5,268
Other comprehensive loss, net of tax:					
Net change in unrealized gains on available-for-sale investment securities (Note 5)	—	—	—	(1,268)	(1,268)
Retirement of common stock (Note 13)	(790,989)	(7,843)	—	—	(7,843)
Net restricted stock award activity and related compensation expense	45,023	236	—	—	236
Stock option compensation expense	—	35	—	—	35
Balance, December 31, 2015	<u>7,343,649</u>	<u>\$ 49,554</u>	<u>\$ 34,418</u>	<u>\$ 2,103</u>	<u>\$ 86,075</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:			
Net income	\$ 5,268	\$ 4,361	\$ 3,057
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	—	(541)	200
(Decrease) increase in deferred loan and lease origination fees, net	(66)	(26)	83
Depreciation and amortization	430	438	518
Amortization of investment security premiums and discounts, net	3,160	4,647	5,774
Gain on sale and call of investment securities	(251)	(208)	(36)
Increase in cash surrender value of life insurance policies	(316)	(284)	(247)
Gain on life insurance death benefit	—	(99)	(118)
Deferred income tax expense (benefit)	473	(74)	244
Stock-based compensation expense	271	166	131
Loss (gain) on sale or write-down of other real estate owned	70	(66)	116
(Increase) decrease in accrued interest receivable and other assets	(723)	298	1,821
Increase (decrease) in accrued interest payable and other liabilities	461	371	(96)
Net cash provided by operating activities	<u>8,777</u>	<u>8,983</u>	<u>11,447</u>
Cash flows from investing activities:			
Proceeds from the sale of available-for-sale investment securities	23,764	23,804	8,851
Proceeds from called available-for-sale investment securities	—	1,160	590
Proceeds from matured available-for-sale investment securities	175	105	905
Purchases of available-for-sale investment securities	(62,958)	(83,049)	(119,972)
Proceeds from principal repayments for available-for-sale mortgage-backed securities	49,242	41,014	57,664
Proceeds from principal repayments for held-to-maturity mortgage-backed securities	239	324	934
Purchases of bank owned life insurance	—	(1,350)	—
Net decrease (increase) in interest-bearing deposits in banks	250	—	(250)
Net increase in loans and leases	(30,979)	(5,932)	(1,741)
Net proceeds from sale of other real estate owned	1,153	2,283	7,516
Death benefit from life insurance policy	—	252	419
Capitalized additions to other real estate	(127)	(54)	(186)
Purchases of equipment	(319)	(456)	(130)
Net (increase) decrease in FHLB stock	(93)	(438)	6
Net cash used in investing activities	<u>(19,653)</u>	<u>(22,337)</u>	<u>(45,394)</u>

(Continued)

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2015, 2014 and 2013

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash flows from financing activities:			
Net increase in demand, interest-bearing and savings deposits	\$ 23,114	\$ 31,545	\$ 10,185
Net decrease in time deposits	(3,117)	(4,542)	(4,751)
Cash paid to repurchase common stock	(7,843)	(4,148)	(7,000)
Decrease in long-term borrowings	—	(500)	(8,000)
(Decrease) increase in short-term borrowings	—	(4,500)	6,000
Net cash provided by (used in) financing activities	<u>12,154</u>	<u>17,855</u>	<u>(3,566)</u>
 Increase (decrease) in cash and cash equivalents	 1,278	 4,501	 (37,513)
Cash and cash equivalents at beginning of year	<u>22,449</u>	<u>17,948</u>	<u>55,461</u>
 Cash and cash equivalents at end of year	 <u>\$ 23,727</u>	 <u>\$ 22,449</u>	 <u>\$ 17,948</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 961	\$ 1,234	\$ 1,527
Income taxes	\$ 2,495	\$ 2,415	\$ 1,575
Non-cash investing activities:			
Real estate acquired through foreclosure	\$ —	\$ 189	\$ 1,829

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF THE COMPANY

American River Bankshares (the “Company”) was incorporated under the laws of the State of California in 1995 under the name of American River Holdings and changed its name in 2004 to American River Bankshares. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. As a community oriented regional bank holding company, the principal communities served are located in Sacramento, Placer, Yolo, El Dorado, Amador, and Sonoma counties. In addition, the Company has loan production offices in San Jose and San Ramon, which serve Santa Clara, Alameda and Contra Costa counties.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank (“ARB” or the “Bank”). ARB was incorporated in 1983. ARB accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and term loans and offers other customary banking services. ARB operates four full-service banking offices in Sacramento County, one full-service banking office in Placer County, two full-service banking offices in Sonoma County, and three full-service banking offices in Amador County. The Company also owns one inactive subsidiary, American River Financial.

ARB does not offer trust services or international banking services and does not plan to do so in the near future. The deposits of ARB are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to applicable legal limits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accounting and reporting policies of the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Reclassifications

Certain reclassifications have been made to prior years’ balances to conform to classifications used in 2015. Reclassifications had no effect on prior year net income or shareholders’ equity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and accounts among the Company and its subsidiaries have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one-day periods.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers during the years ended December 31, 2015 and 2014.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

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

Federal Home Loan Bank Stock

Investments in Federal Home Loan Bank of San Francisco (the "FHLB") stock are carried at cost and are redeemable at par with certain restrictions. Investments in FHLB stock are necessary to participate in FHLB programs.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Leases

Loans and leases that management has both the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amounts outstanding, adjusted for unearned income, deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan and lease losses. Loan and lease origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans and leases.

For all classes of loans and leases, the accrual of interest is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payment requirements within an acceptable time frame relative to the terms stated in the loan agreement. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan or lease is well secured and in the process of collection. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

Loan Sales and Servicing

Included in the loan and lease portfolio are Small Business Administration ("SBA") loans and Farm Service Agency guaranteed loans that may be sold in the secondary market. At the time the loan is sold, the related right to service the loan is either retained, with the Company earning future servicing income, or released in exchange for a one-time servicing-released premium. Loans subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. There were no loans held for sale at December 31, 2015 and 2014.

SBA and Farm Service Agency loans with unpaid balances of \$202,000 and \$233,000 were being serviced for others as of December 31, 2015 and 2014, respectively. The Company also serviced loans that are participated with other financial institutions totaling \$7,942,000 and \$8,136,000 as of December 31, 2015 and 2014, respectively.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are initially recorded at fair value and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes at December 31, 2015 and 2014.

Allowance for Loan and Lease Losses

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

For all classes of the portfolio, a loan or lease is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principle and interest payments when due. Impaired loans are individually evaluated to determine the extent of impairment, if any, except for smaller-balance loans that are collectively evaluated for credit risk. When a loan or lease is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the credit's original interest rate, except that as a practical expedient, it may measure impairment based on a credit's observable market price, or the fair value of the collateral if the credit is collateral dependent. A loan or lease is collateral dependent if the repayment of the credit is expected to be provided solely by the sale or operation of the underlying collateral.

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

For all portfolio segments, the determination of the general reserve for loans and leases that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the credit portfolio, and probable losses inherent in the portfolio taken as a whole.

During the fourth quarter of 2015, the Company made a specific enhancement to its methodology for determining the general reserve component of the ALLL. The enhancement related specifically to the methodology used to calculate the qualitative factors with respect to non-impaired loans graded watch, special mention and substandard by eliminating the use of multipliers. The ALLL methodology was also revised to add an additional qualitative factor, by loan grade, in calculating the general reserve component of the ALLL. Management believes that the allocation of the ALLL to each loan risk grade, within each loan type has become more precise under the methodology enhancement. The implementation of the ALLL model revision did not have a material impact on the calculation of the required allowance for loan losses as of December 31, 2015.

The Company determines a separate allowance for each portfolio segment. These portfolio segments include commercial, real estate construction (including land and development loans), residential real estate, multi-family real estate, commercial real estate, leases, agriculture, and consumer loans. The allowance for loan and lease losses attributable to each portfolio segment, which includes both impaired credits and credits that are not impaired, is combined to determine the Company's overall allowance, which is included as a component of loans and leases on the consolidated balance sheet and available for all loss exposures.

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold 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 the 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 credit. The risk ratings can be grouped into six 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.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

Watch – A watch credit is a loan or lease that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local market or industry, adverse changes in local or regional employer, management changes (including illness, disability, and death), and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

Special Mention – A special mention credit is a loan or lease that 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 credit or in the Company's position at some future date. Special Mention credits are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard credit is a loan or lease that is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Credits classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include inadequate cash flow or collateral support, a project's lack of marketability, failure to complete construction on time or a 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 – Credits classified as doubtful are loans or leases that 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 – Credits classified as loss are loans or leases considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan and lease losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

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

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

Real Estate- Multi-family – Multi-family loans are non-construction term mortgages for the acquisition, refinance, or improvement of residential rental properties with generally more than 4 dwelling units. Underwriting is generally based on borrower creditworthiness, sufficiency of net operating income to service the bank loan payment, and a prudent loan-to-value ratio, among other factors.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

Real Estate- Residential – Residential loans are generally loans to purchase or refinance 1-4 unit single-family residences, either owner-occupied or investor-owned. Some residential loans are short term to match their intended source of repayment through sale or refinance. The remainder are fixed or floating-rate term first mortgages with an original maturity between 2 and 10 years, generally with payments based on a 25-30 year amortization.

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

Lease Financing Receivable – Leases originated by the bank are non-consumer finance leases (as contrasted with operating leases) for the acquisition of titled and non-titled business equipment. Leases are generally amortized over a period from 36 to 84 months, depending on the useful life of the equipment acquired. Residual (balloon) payments at lease end range from 0-20% of original cost, and are a non-optional obligation of the lessee. Lessees are contractually responsible for all costs, expenses, taxes, and liability associated with the leased equipment.

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

Consumer – The consumer loan portfolio is comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Also included in the consumer loan portfolio are home equity lines of credit. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates probable incurred losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheet.

Other Real Estate Owned (OREO)

Other real estate owned includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property less estimated selling costs is charged against the allowance for loan and lease losses. A valuation allowance for losses on other real estate may be maintained to provide for temporary declines in value. The valuation allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred. During 2015, the Company received \$1,153,000 in net proceeds from the sale of other real estate owned with net losses of \$1,000 recognized on the sale. During 2014, the Company received \$2,283,000 in net proceeds from the sale of other real estate owned with net gains of \$231,000 recognized on the sale. The recorded investment in other real estate owned totaled \$3,551,000 and \$4,647,000 at December 31, 2015 and 2014, respectively, and had related valuation allowances of zero and \$156,000, respectively.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is not depreciated. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful life of the building and improvements is forty years. The useful lives of furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Impairment of long-lived assets is evaluated by management based upon an event or changes in circumstances surrounding the underlying assets which indicate long-lived assets may be impaired.

Goodwill and Intangible Assets

Business combinations involving the Company's acquisition of equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at least annually. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2015, the Company had one reporting unit and that reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Bank-Owned Life Insurance

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes.

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The deferred provision for income taxes is the result of the net change in the deferred tax asset and deferred tax liability balances during the year. This amount combined with the current taxes payable or refundable, results in the income tax expense for the current year. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon the Company's analysis of available evidence, the Company determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2015 and 2014 will be fully realized and therefore no valuation allowance was recorded.

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income.

Comprehensive Income

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income consists of net income and other comprehensive income. Unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss), adjusted for realized gains or losses included in net income. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Earnings Per Share

Basic earnings per share ("EPS"), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock that share in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options and restricted stock in computing diluted EPS. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements. There were no stock splits or stock dividends in 2015, 2014 or 2013.

Stock-Based Compensation

At December 31, 2015, the Company had two stock-based compensation plans, which are described more fully in Note 13. Compensation expense, net of related tax benefits, recorded in 2015, 2014 and 2013 totaled

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (Continued)

\$176,000, \$107,000 and \$84,000, or \$0.02, \$0.01 and \$0.01 per diluted share, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton based option valuation model that uses the assumptions noted in the following table. Because Black-Scholes-Merton based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate the dividend yield, option life and forfeiture rate within the valuation model. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free rate for the period representing the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2015	2014
Dividend yield	0.0%	0.0%
Expected volatility	28.1%	20.7%
Risk-free interest rate	1.92%	2.10%
Expected option life in years	7	7
Weighted average fair value of options granted during the year	\$ 3.24	\$ 2.44

There were no options granted in 2013 under either stock-based compensation plans.

Restricted stock awards are grants of shares of the Company's common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or service and/or achieving specified performance goals. During the period of restriction, Plan participants holding restricted share awards have voting and cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement. Upon the vesting of each restricted stock award, the Company issues the associated common shares from its inventory of authorized common shares. All outstanding awards under the Plan immediately vest in the event of a change of control of the Company. The shares associated with any awards that fail to vest become available for re-issuance under the Plan.

The following is a summary of stock-based compensation information as of or for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
	(Dollars in thousands)		
Total intrinsic value of options exercised	\$ —	\$ —	\$ —
Aggregate cash received for option exercises	\$ —	\$ —	\$ —
Total fair value of options vested	\$ 24	\$ 14	\$ 40
Total compensation cost, options and restricted stock	\$ 271	\$ 166	\$ 131
Tax benefit recognized	\$ 94	\$ 59	\$ 47
Net compensation cost, options and restricted stock	\$ 176	\$ 107	\$ 84
Total compensation cost for nonvested option awards not yet recognized	\$ 165	\$ 104	\$ 38
Weighted average years for compensation cost for nonvested options to be recognized	2.0	2.1	1.1
Total compensation cost for restricted stock not yet recognized	\$ 530	\$ 273	\$ 173
Weighted average years for compensation cost for restricted stock to be recognized	1.6	1.2	1.0

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Recently Issued Financial Accounting Pronouncements

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure--In January 2014, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update (the "Update") 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*. Under this Update, FASB amended existing guidance to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either:

- (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or
- (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

The amendments in this Update were effective for annual reporting periods beginning after December 15, 2014, including interim periods within that reporting period. The effects of adopting this Update did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Revenue from Contracts with Customers (Topic 606)--In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The amendments within this update are effective for the quarter ending March 31, 2018. The Company is currently in the process of evaluating the impact of the adoption of this update, but does not expect a material impact on its consolidated financial position, results of operations or cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)--In January 2016, the FASB issued Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Under this Update, FASB enhanced the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This Update contains several provisions, including but not limited to 1) require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminated the requirement to disclose the method(s) and significant assumptions used to estimate fair value; and 4) require separate presentation of financial assets and liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The Update is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact that this Update will have on its consolidated financial position, results of operations or cash flows.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2015 and December 31, 2014. They indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows (dollars in thousands):

December 31, 2015	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 23,727	\$ 23,727	\$ —	\$ —	\$ 23,727
Interest-bearing deposits in banks	750	—	752	—	752
Available-for-sale securities	273,819	24	273,795	—	273,819
Held-to-maturity securities	623	—	669	—	689
FHLB stock	3,779	N/A	N/A	N/A	N/A
Loans and leases, net	289,102	—	—	292,444	292,444
Accrued interest receivable	1,885	—	1,077	808	1,885
Financial liabilities:					
Deposits:					
Noninterest-bearing	\$ 190,548	\$ 190,548	\$ —	\$ —	\$ 190,548
Savings	59,061	59,061	—	—	59,061
Money market	135,186	135,186	—	—	135,186
NOW accounts	61,324	61,324	—	—	61,324
Time Deposits	84,571	—	85,165	—	85,165
Short-term borrowings	3,500	3,500	—	—	3,500
Long-term borrowings	7,500	—	7,502	—	7,502
Accrued interest payable	60	—	60	—	60

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

December 31, 2014	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 22,449	\$ 22,449	\$ —	\$ —	\$ 22,449
Interest-bearing deposits in banks	1,000	—	1,002	—	1,002
Available-for-sale securities	289,064	28	289,036	—	289,064
Held-to-maturity securities	862	—	922	—	922
FHLB stock	3,686	N/A	N/A	N/A	N/A
Loans and leases, net	258,057	—	—	261,421	261,421
Accrued interest receivable	1,858	—	1,150	708	1,858
Financial liabilities:					
Deposits:					
Noninterest-bearing	\$ 155,698	\$ 155,698	\$ —	\$ —	\$ 155,698
Savings	58,820	58,820	—	—	58,820
Money market	147,625	147,625	—	—	147,625
NOW accounts	60,862	60,862	—	—	60,862
Time, \$100,000 or more	87,688	—	88,485	—	88,485
Short-term borrowings	3,500	3,500	—	—	3,500
Long-term borrowings	7,500	—	7,567	—	7,567
Accrued interest payable	59	—	59	—	59

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

The following methods and assumptions were used by the Company to estimate the fair values of its financial instruments at December 31, 2015 and December 31, 2014:

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

Interest-bearing deposits in banks: The fair values of interest-bearing deposits in banks are estimated by discounting their future cash flows using rates at each reporting date for instruments with similar remaining maturities offered by comparable financial institutions and are classified as Level 2.

Investment securities: For investment securities, fair values are based on quoted market prices, where available, and are classified as Level 1. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers and are classified as Level 2.

FHLB stock: FHLB stock is not publically traded, as such, it is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

Deposits: The fair values disclosed for demand deposits (e.g. interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amount) resulting in a Level 1 classification. For time deposits, the fair values for fixed rate certificates of deposit are estimated using a discounted cash flow methodology that applies market interest rates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Short-term and long-term borrowings: The fair value of short-term borrowings is estimated to be the carrying amount and is classified as Level 1. The fair value of long-term borrowings is estimated using a discounted cash flow analysis using interest rates currently available for similar debt instruments and are classified as Level 2.

Accrued interest receivable and payable: The carrying amount of accrued interest receivable and accrued interest payable approximates fair value resulting in a Level 2 or 3 classification consistent with the asset or liability with which it is associated.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments was not material at December 31, 2015 and December 31, 2014. They are excluded from the following tables.

Assets and liabilities measured at fair value on a recurring and non-recurring basis are presented in the following table:

(Dollars in thousands)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
December 31, 2015					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
U.S. Government Agencies and Sponsored Agencies	\$ 246,185	\$ —	\$ 246,185	\$ —	\$ —
Corporate Debt Securities	1,551	—	1,551	—	—
Obligations of states and political subdivisions	26,013	—	26,013	—	—
Corporate stock	70	24	46	—	—
Total recurring	\$ 273,819	\$ 24	\$ 273,795	\$ —	\$ —

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

(Dollars in thousands)

December 31, 2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Real estate:					
Commercial	3,900	—	—	3,900	(334)
Other real estate owned:					
Commercial	2,522	—	—	2,522	—
Land	1,029	—	—	1,029	—
Total nonrecurring	<u>\$ 7,451</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,451</u>	<u>\$ (334)</u>

(Dollars in thousands)

December 31, 2014	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
U.S. Government Agencies and Sponsored Agencies	\$ 261,115	\$ —	\$ 261,115	\$ —	\$ —
Corporate Debt Securities	1,583	—	1,583	—	—
Obligations of states and political subdivisions	26,289	—	26,289	—	—
Corporate stock	77	28	49	—	—
Total recurring	<u>\$ 289,064</u>	<u>\$ 28</u>	<u>\$ 289,036</u>	<u>\$ —</u>	<u>\$ —</u>

Assets and liabilities measured on a nonrecurring basis:

Impaired loans:					
Commercial	\$ 666	\$ —	\$ —	\$ 666	\$ 14
Real estate:					
Commercial	286	—	—	286	—
Other real estate owned:					
Commercial	243	—	—	243	—
Land	2,252	—	—	2,252	(60)
Total nonrecurring	<u>\$ 3,447</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,447</u>	<u>\$ (46)</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

U.S. Government Agencies and Sponsored Agencies consist predominately of residential mortgage-backed securities. There were no transfers between Levels 1 and 2 during the years ended December 31, 2015 or December 31, 2014.

The following methods were used to estimate the fair value of each class of financial instrument above:

Available-for-sale securities – Fair values for investment securities are based on quoted market prices, if available, and are considered Level 1, or evaluated using pricing models that vary by asset class and incorporate available trade, bid and other market information and are considered Level 2. Pricing applications apply available information, as applicable, through processes such as benchmark curves, benchmarking to like securities, sector groupings and matrix pricing.

Impaired loans – The fair value of collateral dependent impaired loans adjusted for specific allocations of the allowance for loan losses is generally based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may utilize a single valuation approach or a combination of approaches including comparable sales, cost and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income and other available data. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for all Level 3 nonrecurring impaired loans is the sales comparison approach less a reserve for past dues taxes and selling costs ranging from 8% to 10%.

Other real estate owned – Certain commercial and residential real estate properties classified as OREO are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may use a single valuation approach or a combination of approaches including comparable sales, cost and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income and other available data. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for all Level 3 nonrecurring OREO is the sales comparison approach less selling costs ranging from 8% to 10%.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2015 and 2014, goodwill totaled \$16,321,000. Goodwill is evaluated annually for impairment and was most recently evaluated in December 2011 under the provisions of the codification Topic 350, *Goodwill and Other Intangibles*. Management determined that no impairment recognition was required for the years ended December 31, 2015, 2014 and 2013.

At December 31, 2015 and 2014, the Company did not have other intangible assets.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2015 and 2014 consisted of the following (dollars in thousands):

Available-for-Sale

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 244,056	\$ 3,059	\$ (930)	\$ 246,185
Obligations of states and political subdivisions	24,706	1,307	—	26,013
Corporate Debt Securities	1,502	49	—	1,551
Equity securities:				
Corporate stock	51	19	—	70
	<u>\$ 270,315</u>	<u>\$ 4,434</u>	<u>\$ (930)</u>	<u>\$ 273,819</u>
	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 257,002	\$ 4,715	\$ (602)	\$ 261,115
Obligations of states and political subdivisions	24,886	1,423	(20)	26,289
Corporate Debt Securities	1,504	79	—	1,583
Equity securities:				
Corporate stock	54	23	—	77
	<u>\$ 283,446</u>	<u>\$ 6,240</u>	<u>\$ (622)</u>	<u>\$ 289,064</u>

U.S. Government Agencies and U.S. Government-sponsored Agencies consist predominately of residential mortgage-backed securities. Net unrealized gains on available-for-sale investment securities totaling \$3,504,000 were recorded, net of \$1,401,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2015. Proceeds and gross realized gains from the sale, impairment and call of available-for-sale investment securities for the year ended December 31, 2015 totaled \$23,764,000 and \$251,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2015.

Net unrealized gains on available-for-sale investment securities totaling \$5,618,000 were recorded, net of \$2,247,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2014. Proceeds and gross realized gains from the sale, impairment and call of available-for-sale investment securities for the year ended December 31, 2014 totaled \$24,964,000 and \$208,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2014.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES (Continued)

Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the year ended December 31, 2013 totaled \$9,441,000 and \$36,000, respectively.

Held-to-Maturity

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 623	\$ 46	\$ —	\$ 669
<hr/>				
	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 862	\$ 60	\$ —	\$ 922

There were no sales or transfers of held-to-maturity investment securities for the years ended December 31, 2015, 2014 and 2013.

The amortized cost and estimated fair value of investment securities at December 31, 2015 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 490	\$ 494		
After one year through five years	5,140	5,298		
After five years through ten years	14,621	15,542		
After ten years	5,957	6,230		
Investment securities not due at a single maturity date:				
U.S. Government Agencies and Sponsored Agencies	244,056	246,185	\$ 623	\$ 669
Corporate stock	51	70	—	—
	<u>\$ 270,315</u>	<u>\$ 273,819</u>	<u>\$ 623</u>	<u>\$ 669</u>

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.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES (Continued)

Investment securities with amortized costs totaling \$56,836,000 and \$65,732,000 and estimated fair values totaling \$57,665,000 and \$67,039,000 were pledged to secure State Treasury funds on deposit, public agency and bankruptcy trustee deposits and borrowing arrangements (see Note 10) at December 31, 2015 and 2014, respectively.

Investment securities with unrealized losses at December 31, 2015 and 2014 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	\$ 93,265	\$ (813)	\$ 5,251	\$ (117)	\$ 98,516	\$ (930)
Obligations of states and political subdivisions	—	—	—	—	—	—
	<u>\$ 93,265</u>	<u>\$ (813)</u>	<u>\$ 5,251</u>	<u>\$ (117)</u>	<u>\$ 98,516</u>	<u>\$ (930)</u>
	2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	\$ 57,145	\$ (503)	\$ 10,006	\$ (99)	\$ 67,151	\$ (602)
Obligations of states and political subdivisions	—	—	649	(20)	649	(20)
	<u>\$ 57,145</u>	<u>\$ (503)</u>	<u>\$ 10,655</u>	<u>\$ (119)</u>	<u>\$ 67,800</u>	<u>\$ (622)</u>

At December 31, 2015, the Company held 223 securities of which 45 were in a loss position for less than twelve months and three were in a loss position for twelve months or more. Of these securities, all are mortgage-backed securities.

The unrealized loss on the Company's investments in securities is primarily driven by interest rates. Because the decline in market value is attributable to a change in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, management does not consider these investments to be other-than-temporarily impaired.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. LOANS AND LEASES

Outstanding loans and leases are summarized as follows (dollars in thousands):

	December 31,	
	2015	2014
Real estate – commercial	\$ 199,591	\$ 193,871
Real estate – construction	14,533	8,028
Real estate – multi-family	23,494	14,167
Real estate – residential	14,200	13,309
Commercial	36,195	25,186
Lease financing receivable	732	1,286
Agriculture	2,431	2,882
Consumer	3,122	4,916
	294,298	263,645
Deferred loan and lease origination fees, net	(221)	(287)
Allowance for loan and lease losses	(4,975)	(5,301)
	\$ 289,102	\$ 258,057

Certain loans are pledged as collateral for available borrowings with the FHLB and the Federal Reserve Bank of San Francisco (the “FRB”). Pledged loans totaled \$160,626,000 and \$147,254,000 at December 31, 2015 and 2014, respectively (see Note 10).

The components of the Company’s lease financing receivable are summarized as follows (dollars in thousands):

	December 31,	
	2015	2014
Future lease payments receivable	\$ 774	\$ 1,358
Residual interests	—	13
Unearned income	(42)	(85)
Net lease financing receivable	\$ 732	\$ 1,286

Future lease payments receivable are as follows (dollars in thousands):

Year Ending December 31,	
2016	\$ 352
2017	211
2018	178
2019	33
2020	—
Total lease payments receivable	\$ 774

Salaries and employee benefits totaling \$257,000, \$244,000 and \$315,000 have been deferred as loan and lease origination costs for the years ended December 31, 2015, 2014 and 2013, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following tables show the activity in the allowance for loan and lease losses for the years ended December 31, 2015, 2014 and 2013 and the allocation of the allowance for loan and lease losses as of December 31, 2015, 2014 and 2013 by portfolio segment and by impairment methodology (dollars in thousands):

	December 31, 2015									
	Commercial	Commercial	Real Estate Multi-Family	Real Estate Construction	Residential	Leases	Other Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance	\$ 1,430	\$ 2,317	\$ 130	\$ 583	\$ 399	\$ 2	\$ 62	\$ 124	\$ 254	\$ 5,301
Provision for loan losses	(84)	—	98	230	(193)	—	15	(42)	(24)	—
Loans charged-off	(609)	—	—	—	—	(1)	—	(6)	—	(616)
Recoveries	123	52	—	—	113	—	—	2	—	290
Ending balance allocated to portfolio segments	<u>\$ 860</u>	<u>\$ 2,369</u>	<u>\$ 228</u>	<u>\$ 813</u>	<u>\$ 319</u>	<u>\$ 1</u>	<u>\$ 77</u>	<u>\$ 78</u>	<u>\$ 230</u>	<u>\$ 4,975</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 25</u>	<u>\$ 598</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 204</u>	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ 29</u>	<u>\$ —</u>	<u>\$ 899</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 835</u>	<u>\$ 1,771</u>	<u>\$ 223</u>	<u>\$ 813</u>	<u>\$ 115</u>	<u>\$ 1</u>	<u>\$ 39</u>	<u>\$ 49</u>	<u>\$ 230</u>	<u>\$ 4,076</u>
Loans										
Ending balance	<u>\$ 36,195</u>	<u>\$ 199,591</u>	<u>\$ 23,494</u>	<u>\$ 14,533</u>	<u>\$ 14,200</u>	<u>\$ 732</u>	<u>\$ 2,431</u>	<u>\$ 3,122</u>	<u>\$ —</u>	<u>\$294,298</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 121</u>	<u>\$ 17,866</u>	<u>\$ 488</u>	<u>\$ —</u>	<u>\$ 2,452</u>	<u>\$ —</u>	<u>\$ 370</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 21,365</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 36,074</u>	<u>\$ 181,725</u>	<u>\$ 23,006</u>	<u>\$ 14,533</u>	<u>\$ 11,748</u>	<u>\$ 732</u>	<u>\$ 2,061</u>	<u>\$ 3,054</u>	<u>\$ —</u>	<u>\$272,933</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

December 31, 2014

	Commercial	Real Estate			Residential	Leases	Other		Unallocated	Total
		Commercial	Multi-Family	Construction			Agriculture	Consumer		
Allowance for Loan and Lease Losses										
Beginning balance	\$ 885	\$ 2,401	\$ 242	\$ 542	\$ 825	\$ 4	\$ 80	\$ 161	\$ 206	\$ 5,346
Provision for loan losses	289	(135)	(205)	39	(443)	(5)	(18)	(111)	48	(541)
Loans charged-off	—	—	—	—	—	—	—	(76)	—	(76)
Recoveries	256	51	93	2	17	3	—	150	—	572
Ending balance allocated to portfolio segments	<u>\$ 1,430</u>	<u>\$ 2,317</u>	<u>\$ 130</u>	<u>\$ 583</u>	<u>\$ 399</u>	<u>\$ 2</u>	<u>\$ 62</u>	<u>\$ 124</u>	<u>\$ 254</u>	<u>\$ 5,301</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 344</u>	<u>\$ 949</u>	<u>\$ 38</u>	<u>\$ —</u>	<u>\$ 237</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 1,603</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 1,086</u>	<u>\$ 1,368</u>	<u>\$ 92</u>	<u>\$ 583</u>	<u>\$ 162</u>	<u>\$ 2</u>	<u>\$ 49</u>	<u>\$ 102</u>	<u>\$ 254</u>	<u>\$ 3,698</u>
Loans										
Ending balance	<u>\$ 25,186</u>	<u>\$ 193,871</u>	<u>\$ 14,167</u>	<u>\$ 8,028</u>	<u>\$ 13,309</u>	<u>\$1,286</u>	<u>\$ 2,882</u>	<u>\$ 4,916</u>	<u>\$ —</u>	<u>\$263,645</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 769</u>	<u>\$ 20,457</u>	<u>\$ 496</u>	<u>\$ —</u>	<u>\$ 2,862</u>	<u>\$ —</u>	<u>\$ 381</u>	<u>\$ 155</u>	<u>\$ —</u>	<u>\$ 25,120</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 24,417</u>	<u>\$ 173,414</u>	<u>\$ 13,671</u>	<u>\$ 8,028</u>	<u>\$ 10,447</u>	<u>\$1,286</u>	<u>\$ 2,501</u>	<u>\$ 4,761</u>	<u>\$ —</u>	<u>\$238,525</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

December 31, 2013

	Commercial	Real Estate			Residential	Leases	Other		Unallocated	Total
		Commercial	Multi-Family	Construction			Agriculture	Consumer		
Allowance for Loan and Lease Losses										
Beginning balance	\$ 1,351	\$ 2,526	\$ 238	\$ 594	\$ 477	\$ 3	\$ 87	\$ 262	\$ 243	\$ 5,781
Provision for loan losses	(304)	327	4	(73)	363	2	(7)	(75)	(37)	200
Loans charged-off	(377)	(476)	—	—	(58)	(1)	—	(26)	—	(938)
Recoveries	215	24	—	21	43	—	—	—	—	303
Ending balance allocated to portfolio segments	<u>\$ 885</u>	<u>\$ 2,401</u>	<u>\$ 242</u>	<u>\$ 542</u>	<u>\$ 825</u>	<u>\$ 4</u>	<u>\$ 80</u>	<u>\$ 161</u>	<u>\$ 206</u>	<u>\$ 5,346</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 392</u>	<u>\$ 792</u>	<u>\$ 108</u>	<u>\$ —</u>	<u>\$ 276</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 1,598</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 493</u>	<u>\$ 1,609</u>	<u>\$ 134</u>	<u>\$ 542</u>	<u>\$ 549</u>	<u>\$ 4</u>	<u>\$ 80</u>	<u>\$ 131</u>	<u>\$ 206</u>	<u>\$ 3,748</u>
Loans										
Ending balance	<u>\$ 24,545</u>	<u>\$ 184,204</u>	<u>\$ 11,085</u>	<u>\$ 9,633</u>	<u>\$ 17,703</u>	<u>\$1,344</u>	<u>\$ 3,120</u>	<u>\$ 5,772</u>	<u>\$ —</u>	<u>\$257,406</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 1,736</u>	<u>\$ 19,919</u>	<u>\$ 1,650</u>	<u>\$ 248</u>	<u>\$ 3,316</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 165</u>	<u>\$ —</u>	<u>\$ 27,034</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 22,809</u>	<u>\$ 164,285</u>	<u>\$ 9,435</u>	<u>\$ 9,385</u>	<u>\$ 14,387</u>	<u>\$1,344</u>	<u>\$ 3,120</u>	<u>\$ 5,607</u>	<u>\$ —</u>	<u>\$230,372</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings as of December 31, 2015 and 2014 (dollars in thousands):

December 31, 2015

Credit Risk Profile by Internally Assigned Grade

Grade:	Real Estate					Other Credit Exposure			Total
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	
Pass	\$ 32,216	\$ 172,755	\$ 23,001	\$ 6,371	\$ 10,593	\$ 732	\$ 2,061	\$ 2,136	\$249,865
Watch	1,073	17,318	493	8,162	2,099	—	370	378	29,893
Special mention	—	8,363	—	—	697	—	—	433	9,493
Substandard	2,906	1,155	—	—	811	—	—	175	5,047
Doubtful	—	—	—	—	—	—	—	—	—
Total	\$ 36,195	\$ 199,591	\$ 23,494	\$ 14,533	\$ 14,200	\$ 732	\$ 2,431	\$ 3,122	\$294,298

December 31, 2014

Credit Risk Profile by Internally Assigned Grade

Grade:	Real Estate					Other Credit Exposure			Total
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	
Pass	\$ 20,179	\$ 163,091	\$ 13,663	\$ 3,327	\$ 9,364	\$1,286	\$ 2,501	\$ 3,424	\$216,835
Watch	1,280	13,724	504	4,372	2,504	—	—	1,041	23,425
Special mention	101	13,583	—	329	603	—	381	268	15,265
Substandard	3,626	3,473	—	—	838	—	—	183	8,120
Doubtful	—	—	—	—	—	—	—	—	—
Total	\$ 25,186	\$ 193,871	\$ 14,167	\$ 8,028	\$ 13,309	\$1,286	\$ 2,882	\$ 4,916	\$263,645

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show an aging analysis of the loan portfolio at December 31, 2015 and 2014 (dollars in thousands):

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	\$ —	\$ —	\$ 30	\$ 30	\$ 36,165	\$ 36,195	\$ —	\$ 30
Real estate:								
Commercial	—	359	499	858	198,733	199,591	—	1,155
Multi-family	—	—	—	—	23,494	23,494	—	—
Construction	—	—	—	—	14,533	14,533	—	—
Residential	—	—	338	338	13,862	14,200	—	338
Other:								
Leases	—	—	—	—	732	732	—	—
Agriculture	—	—	—	—	2,431	2,431	—	—
Consumer	367	—	—	367	2,755	3,122	—	120
Total	\$ 367	\$ 359	\$ 867	\$ 1,593	\$292,705	\$ 294,298	\$ —	\$ 1,643

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2014							
	Greater 30-59 Days Past Due	60-89 Days Past Due	Past Due Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	\$ 513	\$ —	\$ 666	\$ 1,179	\$ 24,007	\$ 25,186	\$ —	\$ 666
Real estate:								
Commercial	507	—	507	1,014	192,857	193,871	—	507
Multi-family	—	—	—	—	14,167	14,167	—	—
Construction	—	—	—	—	8,028	8,028	—	—
Residential	—	—	338	338	12,971	13,309	—	338
Other:								
Leases	—	—	—	—	1,286	1,286	—	—
Agriculture	—	—	—	—	2,882	2,882	—	—
Consumer	135	—	—	135	4,781	4,916	—	142
Total	<u>\$ 1,155</u>	<u>\$ —</u>	<u>\$ 1,511</u>	<u>\$ 2,666</u>	<u>\$260,979</u>	<u>\$ 263,645</u>	<u>\$ —</u>	<u>\$ 1,653</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show information related to impaired loans as of and for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	December 31, 2015				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Commercial	12,269	12,902	—	12,345	595
Residential	338	338	—	338	—
Other:					
Consumer	—	—	—	—	—
	<u>\$ 12,607</u>	<u>\$ 13,240</u>	<u>\$ —</u>	<u>\$ 12,683</u>	<u>\$ 595</u>
With an allowance recorded:					
Commercial	\$ 121	\$ 121	\$ 25	\$ 99	\$ 9
Real estate:					
Commercial	5,597	5,693	598	4,953	320
Multi-family	488	488	5	492	29
Residential	2,114	2,201	204	2,140	91
Other:					
Agriculture	370	370	38	375	18
Consumer	68	68	29	76	—
	<u>\$ 8,758</u>	<u>\$ 8,941</u>	<u>\$ 899</u>	<u>\$ 8,135</u>	<u>\$ 467</u>
Total:					
Commercial	\$ 121	\$ 121	\$ 25	\$ 99	\$ 9
Real estate:					
Commercial	17,866	18,595	598	17,298	915
Multi-family	488	488	5	492	29
Residential	2,452	2,539	204	2,478	91
Other:					
Agriculture	370	370	38	375	18
Consumer	68	68	29	76	—
	<u>\$ 21,365</u>	<u>\$ 22,181</u>	<u>\$ 899</u>	<u>\$ 20,818</u>	<u>\$ 1,062</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2014				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 3
Real estate:					
Commercial	10,684	10,882	—	10,512	518
Residential	338	338	—	340	7
Other:					
Consumer	37	37	—	37	2
	<u>\$ 11,059</u>	<u>\$ 11,257</u>	<u>\$ —</u>	<u>\$ 10,889</u>	<u>\$ 530</u>
With an allowance recorded:					
Commercial	\$ 769	\$ 769	\$ 344	\$ 758	\$ 4
Real estate:					
Commercial	9,773	9,773	949	8,917	562
Multi-family	496	496	38	501	20
Residential	2,524	2,524	237	2,553	114
Other:					
Agriculture	381	381	13	386	21
Consumer	118	118	22	123	2
	<u>\$ 14,061</u>	<u>\$ 14,061</u>	<u>\$ 1,603</u>	<u>\$ 13,238</u>	<u>\$ 723</u>
Total:					
Commercial	\$ 769	\$ 769	\$ 344	\$ 758	\$ 7
Real estate:					
Commercial	20,457	20,655	949	19,429	1,080
Multi-family	496	496	38	501	20
Residential	2,862	2,862	237	2,893	121
Other:					
Agriculture	381	381	13	386	21
Consumer	155	155	22	160	4
	<u>\$ 25,120</u>	<u>\$ 25,318</u>	<u>\$ 1,603</u>	<u>\$ 24,127</u>	<u>\$ 1,253</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2013				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 577	\$ 577	\$ —	\$ 665	\$ 11
Real estate:					
Commercial	10,921	11,119	—	11,614	11
Construction	248	248	—	256	—
Other:					
Consumer	37	37	—	37	1
	<u>\$ 11,783</u>	<u>\$ 11,981</u>	<u>\$ —</u>	<u>\$ 12,572</u>	<u>\$ 23</u>
With an allowance recorded:					
Commercial	\$ 1,159	\$ 1,159	\$ 392	\$ 1,240	\$ 10
Real estate:					
Commercial	8,998	8,998	792	9,008	196
Multi-family	1,650	1,743	108	1,665	39
Residential	3,316	3,316	276	3,354	70
Other:					
Consumer	128	128	30	136	1
	<u>\$ 15,251</u>	<u>\$ 15,344</u>	<u>\$ 1,598</u>	<u>\$ 15,403</u>	<u>\$ 316</u>
Total:					
Commercial	\$ 1,736	\$ 1,736	\$ 392	\$ 1,905	\$ 21
Real estate:					
Commercial	19,919	20,117	792	20,622	207
Multi-family	1,650	1,743	108	1,665	39
Construction	248	248	—	256	—
Residential	3,316	3,316	276	3,354	70
Other:					
Consumer	165	165	30	173	2
	<u>\$ 27,034</u>	<u>\$ 27,325</u>	<u>\$ 1,598</u>	<u>\$ 27,975</u>	<u>\$ 339</u>

The recorded investment in loans and leases that were considered to be impaired totaled \$21,365,000 at December 31, 2015 and had a related valuation allowance of \$899,000. The average recorded investment in impaired loans and leases during 2015 was approximately \$20,818,000.

The recorded investment in loans and leases that were considered to be impaired totaled \$25,120,000 at December 31, 2014 and had a related valuation allowance of \$1,603,000. The average recorded investment in impaired loans and leases during 2014 was approximately \$24,127,000.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

Non-accrual loans and leases totaled approximately \$1,643,000 and \$1,653,000 at December 31, 2015 and 2014, respectively. There were no loans and leases past due 90 days or more and still accruing interest at December 31, 2015 and December 31, 2014. Interest income on non-accrual loans is generally recognized on a cash basis and was approximately \$59,000, \$84,000 and \$161,000 for the years ended December 31, 2015, 2014 and 2013. Interest foregone on non-accrual loans was approximately \$145,000, \$116,000 and \$324,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Troubled Debt Restructurings

During the period ended December 31, 2015, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate or an extension of the maturity date.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from three years to nine years. Modifications involving an extension of the maturity date were for periods ranging from six months to nine years.

The following table presents loans by class modified as troubled debt restructurings during the year ended December 31, 2015 (dollars in thousands):

	<u>Number of Loans</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Troubled debt restructurings:			
Commercial	1	\$ 26	\$ 26
Consumer	1	23	23
Real estate – residential	2	407	407
Real estate – commercial	1	644	644
Total	<u>5</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>

The troubled debt restructurings described above increased the allowance for loan and lease losses by \$59,000 and resulted in no charge-offs of during the year ended December 31, 2015.

The Company has not committed to lend additional amounts as of December 31, 2015 to borrowers with outstanding loans that are classified as troubled debt restructurings.

There were no payment defaults on troubled debt restructurings within 12 months following the modification during the year ended December 31, 2015.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

Troubled Debt Restructurings (Continued)

The following table presents loans by class modified as troubled debt restructurings during the year ended December 31, 2014 (dollars in thousands):

	<u>Number of Loans</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Troubled debt restructurings:			
Commercial	2	\$ 50	\$ 50
Real estate – commercial	8	5,787	5,787
Total	<u>10</u>	<u>\$ 5,837</u>	<u>\$ 5,837</u>

The troubled debt restructurings described above increased the allowance for loan and lease losses by \$263,000 and resulted in no charge-offs of during the year ended December 31, 2014.

The Company has not committed to lend additional amounts as of December 31, 2014 to borrowers with outstanding loans that are classified as troubled debt restructurings.

There were no payment defaults on troubled debt restructurings within 12 months following the modification during the year ended December 31, 2014.

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.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (dollars in thousands):

	December 31,	
	2015	2014
Land	\$ 206	\$ 206
Building and improvements	845	855
Furniture, fixtures and equipment	5,831	5,577
Leasehold improvements	1,565	1,533
	8,447	8,171
Less accumulated depreciation and amortization	(7,040)	(6,653)
	\$ 1,407	\$ 1,518

Depreciation and amortization included in occupancy and furniture and equipment expense totaled \$430,000, \$438,000 and \$518,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

9. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following (dollars in thousands):

	December 31,	
	2015	2014
Savings	\$ 59,061	\$ 58,820
Money market	135,186	147,625
NOW accounts	61,324	60,862
Time, \$250,000 or more	46,827	48,287
Other time	37,744	39,401
	\$ 340,142	\$ 354,995

The Company held \$29,000,000 in certificates of deposit for the State of California as of December 31, 2015 and 2014. This amount represents 5.5% of total deposit balances at December 31, 2015 and 5.7% at December 31, 2014.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows (dollars in thousands):

Year Ending December 31,	
2016	\$ 59,739
2017	10,908
2018	6,671
2019	4,314
2020	2,925
Thereafter	<u>14</u>
	<u>\$ 84,571</u>

Interest expense recognized on interest-bearing deposits consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2015	2014	2013
Savings	\$ 29	\$ 40	\$ 68
Money market	218	383	435
NOW accounts	26	36	40
Time Deposits	<u>544</u>	<u>562</u>	<u>654</u>
	<u>\$ 817</u>	<u>\$ 1,021</u>	<u>\$ 1,197</u>

10. BORROWING ARRANGEMENTS

The Company has \$17,000,000 in unsecured short-term borrowing arrangements to purchase Federal funds with two of its correspondent banks. There were no advances under the borrowing arrangements as of December 31, 2015 and 2014.

In addition, the Company has a line of credit available with the FHLB which is secured by pledged mortgage loans (see Note 6) and investment securities (see Note 5). Borrowings may include overnight advances as well as loans with a term of up to thirty years. Advances totaling \$11,000,000 were outstanding from the FHLB at December 31, 2015, bearing fixed interest rates ranging from 0.45% to 1.91% and maturing between January 19, 2016 and July 12, 2019. Advances totaling \$11,000,000 were outstanding from the FHLB at December 31, 2014, bearing fixed interest rates ranging from 0.24% to 1.91% and maturing between March 16, 2015 and July 12, 2019. Amounts available under the borrowing arrangement with the FHLB at December 31, 2015 and 2014 totaled \$78,326,000 and \$67,228,000, respectively.

In addition, the Company entered into a secured borrowing agreement with the FRB in 2008. The borrowing arrangement is secured by pledging selected loans (see Note 6) and investment securities (see Note 5). There were no advances outstanding as of December 31, 2015 and 2014. Amounts available under the borrowing arrangement with the FRB at December 31, 2015 and 2014 totaled \$11,371,000 and \$17,335,000, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. BORROWING ARRANGEMENTS (Continued)

The following table summarizes these borrowings (dollars in thousands):

	December 31,			
	2015		2014	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Short-term portion of borrowings	\$ 3,500	1.28%	\$ 3,500	0.92%
Long-term borrowings	7,500	1.24%	7,500	1.39%
	<u>\$ 11,000</u>	1.26%	<u>\$ 11,000</u>	1.24%

Maturities on these borrowings are as follows (dollars in thousands):

Year Ending December 31,	
2016	\$ 3,500
2017	3,500
2018	2,000
2019	2,000
2020	—
Thereafter	—
	<u>\$ 11,000</u>

11. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2015, 2014, and 2013 consisted of the following (dollars in thousands):

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2015</u>			
Current	\$ 1,482	\$ 719	\$ 2,201
Deferred	409	64	473
Provision for income taxes	<u>\$ 1,891</u>	<u>\$ 783</u>	<u>\$ 2,674</u>
<u>2014</u>			
Current	\$ 1,754	\$ 612	\$ 2,366
Deferred	(99)	25	(74)
Provision for income taxes	<u>\$ 1,655</u>	<u>\$ 637</u>	<u>\$ 2,292</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. INCOME TAXES (Continued)

	Federal	State	Total
<u>2013</u>			
Current	\$ 797	\$ 217	\$ 1,014
Deferred	162	82	244
Provision for income taxes	\$ 959	\$ 299	\$ 1,258

Deferred tax assets (liabilities) consisted of the following (dollars in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
Allowance for loan and lease losses	\$ 2,275	\$ 2,422
Other real estate owned	30	287
Deferred compensation	2,519	2,502
Other	252	165
Total deferred tax assets	5,076	5,376
Deferred tax liabilities:		
Unrealized gains on available-for-sale investment securities	(1,401)	(2,247)
Future liability of state deferred tax assets	(160)	(215)
Deferred loan costs	(223)	(223)
Federal Home Loan Bank stock dividends	(211)	(211)
Premises and equipment	(273)	(45)
Total deferred tax liabilities	(2,268)	(2,941)
Net deferred tax assets	\$ 2,808	\$ 2,435

The Company and its subsidiaries file income tax returns in the United States and California jurisdictions. There are currently no pending federal, state or local income tax examinations by tax. Furthermore, with few exceptions, the Company is no longer subject to the examination by federal taxing authorities for the years ended before December 31, 2012 and by state and local taxing authorities for years before December 31, 2011. The unrecognized tax benefits and changes therein and the interest and penalties accrued by the Company as of December 31, 2015 were not significant.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. INCOME TAXES (Continued)

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate of 34% in 2015, 2014 and 2013 to income before income taxes. The significant items comprising these differences consisted of the following:

	Year Ended December 31,		
	2015	2014	2013
Federal income tax statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	6.5%	6.3%	4.6%
Tax benefit of interest on loans to/investments in states and political subdivisions	(4.5)%	(4.0)%	(6.5)%
Tax-exempt income from life insurance policies	(1.3)%	(1.9)%	(2.9)%
Equity compensation expense	0.1%	0.1%	0.1%
Other	(1.1)%	—	(0.1)%
	<u>33.7%</u>	<u>34.5%</u>	<u>29.2%</u>

12. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases branch facilities, administrative offices and various equipment under noncancelable operating leases which expire on various dates through the year 2024. Certain of the leases have five year renewal options. One of the branch facilities is leased from a current member of the Company's Board of Directors (see Note 17).

Future minimum lease payments are as follows (dollars in thousands):

<u>Year Ending December 31,</u>	
2016	\$ 767
2017	451
2018	258
2019	155
2020	148
Thereafter	429
	<u>\$ 2,208</u>

Rental expense included in occupancy, furniture and equipment expense totaled \$837,000, \$872,000 and \$865,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Financial Instruments With Off-Balance-Sheet Risk

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

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

The following financial instruments represent off-balance-sheet credit risk (dollars in thousands):

	December 31,	
	2015	2014
Commitments to extend credit:		
Revolving lines of credit secured by 1-4 family residences	\$ 727	\$ 1,447
Commercial real estate, construction and land development commitments secured by real estate	13,999	16,206
Other unused commitments, principally commercial loans	12,004	14,986
	\$ 26,730	\$ 32,639
Standby letters of credit	\$ 238	\$ 356

At inception, real estate commitments are generally secured by property with a loan to value ratio of 55% to 75%. In addition, the majority of the Company's commitments have variable interest rates.

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

Standby letters of credit are conditional commitments issued to guarantee the performance or financial obligation of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to clients throughout Northern California.

In management's judgment, a concentration exists in real estate-related loans which represented approximately 86% and 87% of the Company's loan portfolio at December 31, 2015 and 2014, respectively. A continued substantial decline in the economy in general, or a continued decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on collectability of these loans. However, personal and business income represents the primary source of repayment for a majority of these loans.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. COMMITMENTS AND CONTINGENCIES (Continued)

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Company had \$4,126,000 in uninsured deposits at December 31, 2015. The Company had \$4,082,000 in uninsured deposits at December 31, 2014.

Contingencies

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

13. SHAREHOLDERS' EQUITY

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows (dollars and shares in thousands, except per share data):

<u>For the Year Ended</u>	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>December 31, 2015</u>			
Basic earnings per share	\$ 5,268	7,561	<u>\$ 0.70</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>18</u>	
Diluted earnings per share	<u>\$ 5,268</u>	<u>7,579</u>	<u>\$ 0.70</u>
<u>December 31, 2014</u>			
Basic earnings per share	\$ 4,361	8,130	<u>\$ 0.54</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>14</u>	
Diluted earnings per share	<u>\$ 4,361</u>	<u>8,144</u>	<u>\$ 0.54</u>
<u>December 31, 2013</u>			
Basic earnings per share	\$ 3,057	8,888	<u>\$ 0.34</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>6</u>	
Diluted earnings per share	<u>\$ 3,057</u>	<u>8,894</u>	<u>\$ 0.34</u>

Stock options for 188,735 shares, 211,024 shares and 277,923 shares of common stock were not considered in computing diluted earnings per common share for the years ended December 31, 2015, 2014 and 2013, respectively, because they were antidilutive.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Based Compensation

In 2000, the Board of Directors adopted and the Company's shareholders approved a stock option plan (the "2000 Plan"), under which 171,950 options remain outstanding at December 31, 2015. On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was approved by the Company's shareholders on May 20, 2010. The total number of authorized shares that are available for issuance under the 2010 Plan is 1,395,985. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. The 2010 Plan and the 2000 Plan (collectively the "Plans"), under which equity incentives may be granted to employees and directors under incentive and nonstatutory agreements, require that the option price may not be less than the fair value of the stock at the date the option is granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company's Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration; however, no new options will be awarded under the 2000 Plan. The Plans do not provide for the settlement of awards in cash and new shares are issued upon exercise of an option.

A summary of the outstanding and nonvested stock option activity for the year ended December 31, 2015 is as follows:

	Outstanding		Nonvested	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Balance, January 1, 2015	271,700	\$ 16.27	43,118	\$ 2.41
Options granted	26,427	\$ 9.56	26,427	\$ 3.24
Options vested	(10,017)	\$ 2.40		
Options expired or canceled	(49,716)	\$ 18.11		
Balance, December 31, 2015	<u>248,411</u>	\$ 15.19	<u>59,528</u>	\$ 2.78

A summary of options as of December 31, 2015 is as follows:

Nonvested:	
Weighted average exercise price of nonvested stock options	\$ 8.96
Aggregate intrinsic value of nonvested stock options	\$ 96,563
Weighted average remaining contractual term in years of nonvested stock options	8.60
Vested:	
Number of vested stock options	188,883
Number of options expected to vest	56,216
Weighted average exercise price per share	\$ 17.15
Aggregate intrinsic value	\$ 135,879
Weighted average remaining contractual term in years	2.13

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Based Compensation (Continued)

<u>Range of Exercise Prices</u>	<u>Number of Options Outstanding December 31, 2015</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Number of Options Exercisable December 31, 2015</u>
\$7.07- \$11.66	118,808	6.45 years	59,280
\$11.67- \$18.10	42,669	2.15 years	42,669
\$18.11 - \$24.07	86,934	0.65 years	86,934
	<u>248,411</u>		<u>188,883</u>

Restricted Stock

There were 45,023 shares of restricted stock awarded during 2015. Of the 45,023 restricted common shares, 12,552 will vest one year from the date of the award and 11,939 will vest 20% per year from the date of the award. The remaining 20,532 are considered performance based awards. The awards can be earned based upon the stock performance of the Company's common stock in relationship to the common stock of the Company's peer group. The number of shares can be adjusted by up to 150% of the award if outstanding performance is reached or can be forfeited if minimum performance is not reached. The awards vest one year and a day after the two year performance period or January 1, 2018. The weighted average contractual term over which the restricted stock will vest is 1.64 years. There were 24,830 shares of restricted stock awarded during 2014. Of the 24,830 restricted common shares, 13,560 will vest one year from the date of the award and 11,270 will vest 20% per year from the date of the award. The weighted average contractual term over which the restricted stock will vest is 1.22 years.

<u>Restricted Stock</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at January 1, 2015	32,838	\$ 8.31
Awarded	45,023	\$ 9.49
Vested	<u>(20,344)</u>	\$ 8.36
Cancelled		
Nonvested at December 31, 2015	<u>57,517</u>	\$ 9.21

The shares awarded to employees and directors under the restricted stock agreements vest on applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated. New shares are issued upon vesting of the restricted common stock.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. REGULATORY MATTERS

Dividends

Upon declaration by the Board of Directors of the Company, all shareholders of record will be entitled to receive dividends. There is no assurance, however, that any dividends will be paid in the future since they are subject to regulatory restrictions, and dependent upon earnings, financial condition and capital requirements of the Company and its subsidiaries. There were no cash dividends declared or paid in 2015, 2014 or 2013.

As a California corporation, the Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that neither a corporation nor any of its subsidiaries shall make a distribution to the corporation's shareholders unless the board of directors has determined in good faith either of the following: (1) the amount of retained earnings of the corporation immediately prior to the distribution equals or exceeds the sum of (A) the amount of the proposed distribution plus (B) the preferential dividends arrears amount; or (2) immediately after the distribution, the value of the corporation's assets would equal or exceed the sum of its total liabilities plus the preferential rights amount. The good faith determination of the board of directors may be based upon (1) financial statements prepared on the basis of reasonable accounting practices and principles, (2) a fair valuation, or (3) any other method reasonable under the circumstances; provided, that a distribution may not be made if the corporation or subsidiary making the distribution is, or is likely to be, unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature. The term "preferential dividends arrears amount" means the amount, if any, of cumulative dividends in arrears on all shares having a preference with respect to payment of dividends over the class or series to which the applicable distribution is being made, provided that if the articles of incorporation provide that a distribution can be made without regard to preferential dividends arrears amount, then the preferential dividends arrears amount shall be zero. The term "preferential rights amount" means the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy the preferential rights, including accrued but unpaid dividends, of other shareholders upon dissolution that are superior to the rights of the shareholders receiving the distribution, provided that if the articles of incorporation provide that a distribution can be made without regard to any preferential rights, then the preferential rights amount shall be zero.

In addition, the California Financial Code restricts the total dividend payment of any state banking corporation in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. In addition, subject to prior regulatory approval, any state banking corporation may request an exception to this restriction.

Regulatory Capital

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

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of December 31, 2015 and 2014, the most recent regulatory notification categorized American River Bank as well capitalized under the regulatory framework for prompt corrective action plan. There are no conditions or events since that notification that management believes have changed the Bank's categories.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

Effective January 1, 2015, bank holding companies with consolidated assets of \$1 Billion or more and banks like American River Bank must comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019, which would consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6% (increased from 4%); (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets (“leverage”) ratio of 4%.

In addition, a “capital conservation buffer,” is established which when fully phased-in will require maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer will increase the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new buffer requirement will be phased-in between January 1, 2016 and January 1, 2019. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

To be categorized as well capitalized, ARB must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

Management believes that the Company and ARB met all their capital adequacy requirements as of December 31, 2015 and 2014.

	December 31,			
	2015		2014	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollars in thousands)				
<u>Leverage Ratio</u>				
American River Bankshares and Subsidiaries	\$ 67,651	11.0%	\$ 69,955	11.6%
Minimum regulatory requirement	\$ 24,673	4.0%	\$ 24,112	4.0%
American River Bank	\$ 68,079	11.0%	\$ 70,216	11.7%
Minimum requirement for “Well-Capitalized” institution	\$ 30,826	5.0%	\$ 30,125	5.0%
Minimum regulatory requirement	\$ 24,661	4.0%	\$ 24,100	4.0%
<u>Common Equity Tier 1 Risk-Based Capital Ratio</u>				
American River Bank	\$ 68,079	19.1%		N/A
Minimum requirement for “Well-Capitalized” institution	\$ 23,237	6.5%		N/A
Minimum regulatory requirement	\$ 16,065	4.5%		N/A
<u>Tier 1 Risk-Based Capital Ratio</u>				
American River Bankshares and Subsidiaries	\$ 67,651	19.3%	\$ 69,955	21.6%
Minimum regulatory requirement	\$ 20,988	6.0%	\$ 12,957	4.0%
American River Bank	\$ 68,079	19.1%	\$ 70,216	21.7%
Minimum requirement for “Well-Capitalized” institution	\$ 28,559	8.0%	\$ 19,419	6.0%
Minimum regulatory requirement	\$ 21,420	6.0%	\$ 12,946	4.0%
<u>Total Risk-Based Capital Ratio</u>				
American River Bankshares and Subsidiaries	\$ 72,031	20.6%	\$ 74,020	22.9%
Minimum regulatory requirement	\$ 27,984	8.0%	\$ 26,014	8.0%
American River Bank	\$ 72,548	20.3%	\$ 74,277	22.9%
Minimum requirement for “Well-Capitalized” institution	\$ 35,750	10.0%	\$ 32,490	10.0%
Minimum regulatory requirement	\$ 28,559	8.0%	\$ 25,992	8.0%

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15. OTHER NONINTEREST INCOME AND EXPENSE

Other noninterest income consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2015	2014	2013
Merchant fee income	\$ 378	\$ 413	\$ 443
Increase in cash surrender value of life insurance policies (Note 16)	316	284	247
Other	237	345	383
	<u>\$ 931</u>	<u>\$ 1,042</u>	<u>\$ 1,073</u>

Other noninterest expense consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2015	2014	2013
Professional fees	\$ 863	\$ 1,182	\$ 933
Outsourced item processing	360	355	357
Directors' expense	402	394	348
Telephone and postage	368	357	329
Stationery and supplies	143	193	240
Advertising and promotion	164	160	284
Other operating expenses	662	736	596
	<u>\$ 2,962</u>	<u>\$ 3,377</u>	<u>\$ 3,087</u>

16. EMPLOYEE BENEFIT PLANS

American River Bankshares 401(k) Plan

The American River Bankshares 401(k) Plan has been in place since January 1, 1993 and is available to all employees. Under the plan, the Company will match 100% of each participant's contribution up to 3% of annual compensation plus 50% of the next 2% of annual compensation. Employer Safe Harbor matching contributions are 100% vested upon entering the plan. The Company's contributions totaled \$202,000, \$178,000 and \$181,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Employee Stock Purchase Plan

The Company contracts with an administrator for an Employee Stock Purchase Plan which allows employees to purchase the Company's stock at fair market value as of the date of purchase. The Company bears all costs of administering the Plan, including broker's fees, commissions, postage and other costs actually incurred.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16. EMPLOYEE BENEFIT PLANS (Continued)

American River Bankshares Deferred Compensation Plan

The Company has established a Deferred Compensation Plan for certain members of the management team and a Deferred Fee Agreement for Non-Employee Directors for the purpose of providing the opportunity for participants to defer compensation. Participants of the management team, who are selected by a committee designated by the Board of Directors, may elect to defer annually a minimum of \$5,000 or a maximum of eighty percent of their base salary and all of their cash bonus. Directors may also elect to defer up to one hundred percent of their monthly fees. The Company bears all administration costs and accrues interest on the participants' deferred balances at a rate based on U.S. Government Treasury rates plus 4.0%. This rate was 5.65% at December 31, 2015. Deferred compensation, including interest earned, totaled \$2,837,000 and \$2,690,000 at December 31, 2015 and 2014, respectively. The expense recognized under this plan totaled \$156,000, \$150,000 and \$117,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Salary Continuation Plan

The Company has agreements to provide certain current executives, or their designated beneficiaries, with annual benefits for up to 15 years after retirement or death. These benefits are substantially equivalent to those available under life insurance policies purchased by the Company on the lives of the executives. The Company accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. As of December 31, 2015 and 2014, the Company had accrued \$1,252,000 and \$1,179,000, respectively, for potential benefits payable. This payable approximates the then present value of the benefits expected to be provided at retirement and is included in accrued interest payable and other liabilities on the consolidated balance sheet. The expense recognized under this plan totaled \$168,000, \$142,000 and \$170,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

In connection with these plans, the Company invested in single premium life insurance policies with cash surrender values totaling \$14,483,000 and \$14,167,000 at December 31, 2015 and 2014, respectively. On the consolidated balance sheet, the cash surrender value of life insurance policies is included in accrued interest receivable and other assets. Tax-exempt income on these policies, net of expense, totaled approximately \$316,000, \$383,000 and \$365,000 for the years ended December 31, 2015, 2014 and 2013, respectively. In 2014 and 2013, \$99,000 and \$118,000, respectively, of this tax-exempt income was from the death benefit proceeds of life insurance policies on former employees or directors.

17. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including Directors and affiliates. The following is a summary of the aggregate activity involving related party borrowers during 2015 (dollars in thousands):

Balance, January 1, 2015	\$ 3,821
Disbursements	—
Amounts repaid	(789)
Balance, December 31, 2015	<u>\$ 3,032</u>

There are no undisbursed commitments to related parties as of December 31, 2015.

The Company also leases one of its branch facilities from a current member of the Company's Board of Directors. Rental payments to the Director totaled \$108,000, \$107,000 and \$105,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2015 and 2014
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and due from banks	\$ 191	\$ 378
Investment in subsidiaries	86,503	89,908
Other assets	<u>333</u>	<u>277</u>
	<u>\$ 87,027</u>	<u>\$ 90,563</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Other liabilities	<u>\$ 952</u>	<u>\$ 916</u>
Total liabilities	<u>952</u>	<u>916</u>
Shareholders' equity:		
Common stock	49,554	57,126
Retained earnings	34,418	29,150
Accumulated other comprehensive income, net of taxes	<u>2,103</u>	<u>3,371</u>
Total shareholders' equity	<u>86,075</u>	<u>89,647</u>
	<u>\$ 87,027</u>	<u>\$ 90,563</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME

For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income:			
Dividends declared by subsidiaries – eliminated in consolidation	\$ 7,900	\$ 4,250	\$ 6,000
Management fee from subsidiaries – eliminated in consolidation	—	—	—
Other income	<u>—</u>	<u>—</u>	<u>—</u>
Total income	<u>7,900</u>	<u>4,250</u>	<u>6,000</u>
Expenses:			
Professional fees	97	89	91
Directors' expense	285	280	247
Other expenses	<u>204</u>	<u>212</u>	<u>205</u>
Total expenses	<u>586</u>	<u>581</u>	<u>543</u>
Income before equity in undistributed income of subsidiaries	7,314	3,669	5,457
Equity in (distributed) undistributed income of subsidiaries	<u>(2,287)</u>	<u>453</u>	<u>(2,623)</u>
Income before income taxes	5,027	4,122	2,834
Income tax benefit	<u>241</u>	<u>239</u>	<u>223</u>
Net income	<u>\$ 5,268</u>	<u>\$ 4,361</u>	<u>\$ 3,057</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015, 2014 and 2013

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:			
Net income	\$ 5,268	\$ 4,361	\$ 3,057
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Distributed (undistributed) earnings of subsidiaries	2,287	(453)	2,623
Equity-based compensation expense	271	166	131
(Increase) decrease in other assets	(206)	(44)	1,004
Increase (decrease) in other liabilities	36	80	(60)
Net cash provided by operating activities	<u>7,656</u>	<u>4,110</u>	<u>6,755</u>
Cash flows from investing activities:			
Purchase of equipment	—	—	—
Sale of equipment	—	—	—
Net cash provided by investing activities	<u>—</u>	<u>—</u>	<u>—</u>
Cash flows from financing activities:			
Cash paid to repurchase common stock	<u>(7,843)</u>	<u>(4,148)</u>	<u>(7,000)</u>
Net cash used in financing activities	<u>(7,843)</u>	<u>(4,148)</u>	<u>(7,000)</u>
Net decrease in cash and cash equivalents	(187)	(38)	(245)
Cash and cash equivalents at beginning of year	<u>378</u>	<u>416</u>	<u>661</u>
Cash and cash equivalents at end of year	<u>\$ 191</u>	<u>\$ 378</u>	<u>\$ 416</u>

Selected Quarterly Information (Unaudited)

(In thousands, except per share and price range of common stock)

	March 31,	June 30,	September 30,	December 31,
<u>2015</u>				
Interest income	\$ 4,902	\$ 5,283	\$ 5,458	\$ 5,325
Net interest income	4,654	5,039	5,218	5,096
Provision for loan and lease losses	—	—	—	—
Noninterest income	585	507	490	433
Noninterest expense	3,813	3,415	3,432	3,420
Income before taxes	1,426	2,131	2,276	2,109
Net income	956	1,386	1,469	1,457
Basic earnings per share	\$.12	\$.18	\$.20	\$.20
Diluted earnings per share	.12	.18	.20	.20
Cash dividends per share	—	—	—	—
Price range, common stock	\$ 9.23-9.98	\$ 9.10-9.95	\$ 9.15-10.35	\$ 9.40-11.19
<u>2014</u>				
Interest income	\$ 4,996	\$ 5,067	\$ 4,966	\$ 4,936
Net interest income	4,692	4,776	4,679	4,650
Provision for loan and lease losses	—	—	(200)	(341)
Noninterest income	502	508	520	647
Noninterest expense	3,653	3,699	3,662	3,848
Income before taxes	1,541	1,585	1,737	1,790
Net income	1,006	1,035	1,124	1,196
Basic earnings per share	\$.12	\$.13	\$.14	\$.15
Diluted earnings per share	.12	.13	.14	.15
Cash dividends per share	—	—	—	—
Price range, common stock	\$ 8.92-10.29	\$ 8.21-9.75	\$ 8.42-9.63	\$ 9.05-9.99



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