

AMERICAN RIVER BANKSHARES

Form 10-K

February 26, 2016

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

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

California 68-0352144  
State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization

3100 Zinfandel Drive, Rancho Cordova, California 95670  
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code 916-851-0123

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, no par value	NASDAQ Global Select Market

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

None

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

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Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$64,919,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

As of February 25, 2016, the registrant's no par value Common Stock totaled 6,994,300 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this Form 10-K: Part III, Items 10 through 14 from Registrant's definitive proxy statement for the 2016 annual meeting of shareholders.

**AMERICAN RIVER BANKSHARES**

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Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## PART I

### Item 1. Business.

#### Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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 significantly from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following:

- 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;
- 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;
- variances in the actual versus projected growth in assets and return on assets;
- potential loan and lease losses;
- potential expenses associated with resolving non-performing assets as well as regulatory changes;
- changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits and other borrowed funds;
- competitive effects;
- potential declines in fee and other noninterest income earned associated with economic factors, as well as regulatory changes;
- 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;
- changes in the regulatory environment including increased capital and regulatory compliance requirements and further government intervention in the U.S. financial system;
- changes in business conditions and inflation;
- changes in securities markets, public debt markets, and other capital markets;
  - potential data processing, cybersecurity and other operational systems failures, breach or fraud;
- potential decline in real estate values in our operating markets;
- 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;
- changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations;
- projected business increases following any future strategic expansion could be lower than expected;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings;
- 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
- 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” in this report 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.

## **Introduction**

American River Bankshares (the “Company”) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. 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. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 851-0123.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank, and American River Financial, a California corporation which has been inactive since its incorporation in 2003.

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. American River Bank operates four full service offices in Sacramento County including the main office located at 1545 River Park Drive, Suite 107, Sacramento and branch offices in Sacramento and Gold River; one full service office in Placer County, located in Roseville; two full service offices in Sonoma County in Healdsburg and Santa Rosa; and three full service offices in Amador County in Jackson, Pioneer, and Ione. In addition, American River Bank operates loan production offices in Santa Clara and Contra Costa Counties. In 2000, North Coast Bank was acquired by the Company as a separate bank subsidiary. Effective December 31, 2003, North Coast Bank was merged with and into American River Bank. On December 3, 2004, the Company acquired Bank of Amador located in Jackson, California. Bank of Amador was merged with and into American River Bank.

American River Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable legal limits. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Dodd-Frank Act includes a permanent increase to \$250,000 as the maximum FDIC insurance limit per depositor retroactive to January 1, 2008 and the extension of unlimited FDIC insurance for noninterest-bearing transaction accounts effective December 31, 2010 through December 31, 2012. On November 9, 2010, the FDIC implemented a final rule to permanently increase the maximum insurance limit to \$250,000 under the Dodd-Frank Act. The unlimited insurance coverage for noninterest-bearing transaction accounts was not extended and terminated on December 31, 2012. The \$250,000 maximum deposit insurance amount per depositor remains in effect.

American River Bank does not offer trust services or international banking services and does not plan to do so in the near future. American River Bank’s primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. American River Bank 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. American River Bank also

conducts lease financing for most types of business equipment, from computer software to heavy earth-moving equipment. American River Bank owns 100% of two inactive companies, ARBCO and American River Mortgage. ARBCO was formed in 1984 to conduct real estate development and has been inactive since 1995. American River Mortgage has been inactive since its formation in 1994.

During 2015, the Company conducted no significant activities other than holding the shares of its subsidiaries. However, it is authorized, with the prior approval of the Board of Governors of the Federal Reserve System (the “Board of Governors”), the Company’s principal regulator, to engage in a variety of activities which are deemed closely related to the business of banking.

The common stock of the Company is registered under the Securities Exchange Act of 1934, as amended, and is listed and traded on the Nasdaq Global Select Market under the symbol “AMRB.”

At December 31, 2015, the Company had consolidated assets of \$635 million, net loans of \$289 million, deposits of \$531 million and shareholders’ equity of \$86 million.

## **General**

The Company is a regional bank holding company headquartered in Sacramento County, California. The principal communities served are located in Sacramento, Placer, Yolo, El Dorado, Sonoma, and Amador counties. In addition, the Company serves Alameda, Contra Costa and Santa Clara Counties through loan production offices located in the Cities of San Jose and San Ramon. The Company generates most of its revenue by providing a wide range of products and services to small and middle-market businesses and individuals. The Company’s principal source of revenue comes from interest income. Interest income is derived from interest and fees on loans and leases, interest on investments (principally government securities), and Federal funds sold (funds loaned on a short-term basis to other banks). For the year ended December 31, 2015, these sources comprised 66.3%, 33.7%, and 0.0%, respectively, of the Company’s interest income.

American River Bank’s deposits are not received from a single depositor or group of affiliated depositors, the loss of any one of which would have a materially adverse effect on the business of the Company. A material portion of American River Bank’s deposits are not concentrated within a single industry or group of related industries.

As of December 31, 2015 and December 31, 2014, American River Bank held \$29,000,000 in certificates of deposit for the State of California. In connection with these deposits, American River Bank is generally required to pledge securities to secure such deposits, except for the first \$250,000 insured by the FDIC.

Based on the most recent information made available by the FDIC through June 30, 2015, American River Bank competes with approximately 33 other banking or savings institutions in Sacramento County, 26 in Placer County, 18 in Sonoma County and 6 in Amador County. American River Bank’s market share of FDIC insured deposits in the service areas of Sacramento County was approximately 1.0%, in Placer County was approximately 0.5%, in Sonoma County was approximately 0.7%, and in Amador County was approximately 14.6% (based upon the most recent information made available by the FDIC through June 30, 2015).

## **Employees**

At December 31, 2015, the Company and its subsidiaries employed 100 persons on a full-time equivalent basis. The Company believes its employee relations are good.

## **Website Access**

The Company maintains a website where certain information about the Company is posted. Through the website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments thereto, as well as Section 16 Reports and amendments thereto, are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. These reports are free of charge and can be accessed through the address [www.americanriverbank.com](http://www.americanriverbank.com) by accessing the *Investor Relations* link, then the *SEC Filings* link



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located at that address. Once you have selected the *SEC Filings* link you will have the option to access the Section 16 Reports or the reports filed on Forms 10-K, 10-Q and 8-K by the Company by selecting the appropriate link.

## Supervision and Regulation

### General

The common stock of the Company is subject to the registration requirements of the Securities Act of 1933, as amended, and the qualification requirements of the California Corporate Securities Law of 1968, as amended. The Company is also subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934, as amended, which include, but are not limited to, annual, quarterly and other current reports with the SEC.

American River Bank is licensed by the California Commissioner of the Department of Business Oversight (the “Commissioner”), and its deposits are insured by the FDIC up to the applicable legal limits. On November 9, 2010, the FDIC implemented a final rule under the Dodd-Frank Act to permanently increase the maximum insurance limit to \$250,000 per depositor. American River Bank has chosen not to become a member of the Federal Reserve System. Consequently, American River Bank is subject to the supervision of, and is regularly examined by, the Commissioner and the FDIC. The supervision and regulation includes comprehensive reviews of all major aspects of American River Bank’s business and condition, including its capital ratios, allowance for possible loan and lease losses and other factors. However, no inference should be drawn that such authorities have approved any such factors. American River Bankshares and American River Bank are required to file reports with the Board of Governors, the Commissioner, and the FDIC and provide any additional information that the Board of Governors, the Commissioner, and the FDIC may require.

American River Bankshares is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”), and is registered as such with, and subject to the supervision of, the Board of Governors. The Company is required to obtain the approval of the Board of Governors before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, the Company would own or control more than 5% of the voting shares of such bank. The Bank Holding Company Act prohibits the Company from acquiring any voting shares of, or interest in, all or substantially all of the assets of, a bank located outside the State of California unless such an acquisition is specifically authorized by the laws of the state in which such bank is located. Any such interstate acquisition is also subject to applicable California and federal law.

The Company, and any subsidiaries which it may acquire or organize, are deemed to be “affiliates” within the meaning of that term as defined in the Federal Reserve Act. This means, for example, that there are limitations (a) on loans by American River Bank to affiliates, and (b) on investments by American River Bank in affiliates’ stock as collateral for loans to any borrower. The Company and its subsidiaries are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

In addition, regulations of the Board of Governors under the Federal Reserve Act require that reserves be maintained by American River Bank in conjunction with any liability of the Company under any obligation (promissory note, acknowledgement of advance, banker’s acceptance or similar obligation) with a weighted average maturity of less than seven (7) years to the extent that the proceeds of such obligations are used for the purpose of supplying funds to American River Bank for use in its banking business, or to maintain the availability of such funds.

### Capital Standards

*Risk-Based Capital.* The Board of Governors and the FDIC have adopted risk-based capital guidelines for evaluating the capital adequacy of bank holding companies and banks. The guidelines are designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to aid in making the definition of bank capital uniform internationally. Under the guidelines, American River Bankshares and American River Bank are required to maintain capital equal to at least 8.0% of its assets and

commitments to extend credit, weighted by risk, of which at least 4.0% must consist primarily of common equity (including retained earnings) and the remainder may consist of subordinated debt, cumulative preferred stock, or a limited amount of loan and lease loss reserves.

Assets, commitments to extend credit, and off-balance sheet items are categorized according to risk and certain assets considered to present less risk than others permit maintenance of capital at less than the 8% ratio. For example, most home mortgage loans are placed in a 50% risk category and therefore require maintenance of capital equal to 4% of those loans, while commercial loans are placed in a 100% risk category and therefore require maintenance of capital equal to 8% of those loans.

Under the risk-based capital guidelines, assets reported on an institution's balance sheet and certain off-balance sheet items are assigned to risk categories, each of which has an assigned risk weight. Capital ratios are calculated by dividing the institution's qualifying capital by its period-end risk-weighted assets. The guidelines establish two categories of qualifying capital: Tier 1 capital (defined to include common shareholders' equity and noncumulative perpetual preferred stock) and Tier 2 capital which includes, among other items, limited life (and in the case of banks, cumulative) preferred stock, mandatory convertible securities, subordinated debt and a limited amount of reserve for credit losses. Tier 2 capital may also include up to 45% of the pretax net unrealized gains on certain available-for-sale equity securities having readily determinable fair values (i.e., the excess, if any, of fair market value over the book value or historical cost of the investment security). The federal regulatory agencies reserve the right to exclude all or a portion of the unrealized gains upon a determination that the equity securities are not prudently valued. Unrealized gains and losses on other types of assets, such as bank premises and available-for-sale debt securities, are not included in Tier 2 capital, but may be taken into account in the evaluation of overall capital adequacy and net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital as a cushion against risk. Each institution is required to maintain a minimum risk-based capital ratio (including Tier 1 and Tier 2 capital) of 8%, of which at least half must be Tier 1 capital.

A leverage capital standard was adopted as a supplement to the risk-weighted capital guidelines. Under the leverage capital standard, an institution is required to maintain a minimum ratio of Tier 1 capital to the sum of its quarterly average total assets and quarterly average reserve for loan losses, less intangible assets not included in Tier 1 capital. Period-end assets may be used in place of quarterly average total assets on a case-by-case basis. The Board of Governors and the FDIC have also adopted a minimum leverage ratio for bank holding companies as a supplement to the risk-weighted capital guidelines. The leverage ratio establishes a minimum Tier 1 ratio of 3% (Tier 1 capital to total assets) for the highest rated bank holding companies or those that have implemented the risk-based capital market risk measure. All other bank holding companies must maintain a minimum Tier 1 leverage ratio of 4% with higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weakness, a high risk profile, or are undergoing or anticipating rapid growth.

Effective January 1, 2015, the risk-based capital regulations were amended to the extent described below in "*Basel III - New Capital and Prompt Corrective Action Regulations*."

*Basel III – New Capital and Prompt Corrective Action Regulations.* In July 2013, the federal bank regulatory agencies issued interim final rules that revise and replace the 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 include 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 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.

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The federal bank regulatory agencies also implemented changes to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital ratios begin to show signs of weakness. These changes will take effect beginning January 1, 2015 and will require insured depository institutions to meet the following increased capital ratio requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8%; (iii) a total capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%. See also the additional discussion below under “Prompt Corrective Action.”

Management believes that American River Bank is in compliance with the minimum capital requirements, including the fully phased-in capital conservation buffer requirement based upon its capital position at December 31, 2015.

### **Prompt Corrective Action**

The Board of Governors and the FDIC have adopted regulations implementing a system of prompt corrective action pursuant to Section 38 of the Federal Deposit Insurance Act and Section 131 of the FDIC Improvement Act of 1991 (“FDICIA”). The regulations establish five capital categories with the following characteristics: (1) “Well capitalized” - consisting of institutions with a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive; (2) “Adequately capitalized” - consisting of institutions with a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater and a leverage ratio of 4% or greater, and the institution does not meet the definition of a “well capitalized” institution; (3) “Undercapitalized” - consisting of institutions with a total risk-based capital ratio less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 4%; (4) “Significantly undercapitalized” - consisting of institutions with a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%; (5) “Critically undercapitalized” - consisting of an institution with a ratio of tangible equity to total assets that is equal to or less than 2%.

The regulations established procedures for classification of financial institutions within the capital categories, filing and reviewing capital restoration plans required under the regulations and procedures for issuance of directives by the appropriate regulatory agency, among other matters. The regulations impose restrictions upon all institutions to refrain from certain actions which would cause an institution to be classified within any one of the three “undercapitalized” categories, such as declaration of dividends or other capital distributions or payment of management fees, if following the distribution or payment the institution would be classified within one of the “undercapitalized” categories. In addition, institutions which are classified in one of the three “undercapitalized” categories are subject to certain mandatory and discretionary supervisory actions. Mandatory supervisory actions include (1) increased monitoring and review by the appropriate federal banking agency; (2) implementation of a capital restoration plan; (3) total asset growth restrictions; and (4) limitations upon acquisitions, branch expansion, and new business activities without prior approval of the appropriate federal banking agency. Discretionary supervisory actions may include (1) requirements to augment capital; (2) restrictions upon affiliate transactions; (3) restrictions upon deposit gathering activities and interest rates paid; (4) replacement of senior executive officers and directors; (5) restrictions upon activities of the institution and its affiliates; (6) requiring divestiture or sale of the institution; and (7) any other supervisory action that the appropriate federal banking agency determines is necessary to further the purposes of the regulations. Further, the federal banking agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company under the guaranty is limited to the lesser of (i) an amount equal to 5 percent of the depository institution’s total assets at the time it became undercapitalized, and (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it were “significantly undercapitalized.” FDICIA also restricts the solicitation and acceptance of and

interest rates payable on brokered deposits by insured depository institutions that are not “well capitalized.” An “undercapitalized” institution is not allowed to solicit deposits by offering rates of interest that are significantly higher than the prevailing rates of interest on insured deposits in the particular institution’s normal market areas or in the market areas in which such deposits would otherwise be accepted.

Any financial institution which is classified as “critically undercapitalized” must be placed in conservatorship or receivership within 90 days of such determination unless it is also determined that some other course of action would better serve the purposes of the regulations. Critically undercapitalized institutions are also prohibited from making (but not accruing) any payment of principal or interest on subordinated debt without prior regulatory approval and regulators must prohibit a critically undercapitalized institution from taking certain other actions without prior approval, including (1) entering into any material transaction other than in the usual course of business, including investment expansion, acquisition, sale of assets or other similar actions; (2) extending credit for any highly leveraged transaction; (3) amending articles or bylaws unless required to do so to comply with any law, regulation or order; (4) making any material change in accounting methods; (5) engaging in certain affiliate transactions; (6) paying excessive compensation or bonuses; and (7) paying interest on new or renewed liabilities at rates which would increase the weighted average costs of funds beyond prevailing rates in the institution’s normal market areas.

On November 18, 2014, the FDIC adopted the Assessments Final Rule which revises the FDIC’s risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules that are effective commencing January 1, 2015. For smaller financial institutions (with total assets less than \$1 Billion and which are not custodial banks), the Final Rule revises and conforms capital ratios and ratio thresholds to the new prompt corrective action capital ratios and ratio thresholds for “well capitalized” and “adequately capitalized” evaluations which were adopted by the federal banking agencies as part of the Basel III capital regulations. Consequently, effective January 1, 2015, the prompt corrective action regulations were amended to the extent described above in “*Basel III – New Capital and Prompt Corrective Action Regulations.*”

#### **Additional Regulations**

Under the FDICIA, the federal financial institution agencies have adopted regulations which require institutions to establish and maintain comprehensive written real estate policies which address certain lending considerations, including loan-to-value limits, loan administrative policies, portfolio diversification standards, and documentation, approval and reporting requirements. The FDICIA further generally prohibits an insured state bank from engaging as a principal in any activity that is impermissible for a national bank, absent FDIC determination that the activity would not pose a significant risk to the Bank Insurance Fund, and that the bank is, and will continue to be, within applicable capital standards.

The Federal Financial Institution Examination Counsel (“FFIEC”) utilizes the Uniform Financial Institutions Rating System (“UFIRS”) commonly referred to as “CAMELS” to classify and evaluate the soundness of financial institutions. Bank examiners use the CAMELS measurements to evaluate capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. Effective January 1, 2005, bank holding companies such as the Company, were subject to evaluation and examination under a revised bank holding company rating system. The so-called BOPEC rating system implemented in 1979 was primarily focused on financial condition, consolidated capital and consolidated earnings. The rating system reflects the change toward analysis of risk management (as reflected in bank examination under the CAMELS measurements), in addition to financial factors and the potential impact of nondepository subsidiaries upon depository institution subsidiaries.

The federal financial institution agencies have established bases for analysis and standards for assessing a financial institution’s capital adequacy in conjunction with the risk-based capital guidelines including analysis of interest rate risk, concentrations of credit risk, risk posed by non-traditional activities, and factors affecting overall safety and soundness. The safety and soundness standards for insured financial institutions include analysis of (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest rate exposure; (5) asset growth; (6) compensation, fees and benefits; and (7) excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss. If an agency determines that an institution fails to meet any standard, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and



the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency. The agencies may elect to initiate enforcement action in certain cases rather than rely on an existing plan particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

Community Reinvestment Act (“CRA”) regulations evaluate banks’ lending to low and moderate income individuals and businesses across a four-point scale from “outstanding” to “substantial noncompliance,” and are a factor in regulatory review of applications to merge, establish new branches or form bank holding companies. In addition, any bank rated in “substantial noncompliance” with the CRA regulations may be subject to enforcement proceedings. In its most recent exam for CRA compliance, American River Bank has a rating of “satisfactory.”

## Limitations on Dividends

The Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law. Funds for payment of any cash dividends by the Company would be obtained from its investments as well as dividends and/or management fees from its subsidiaries. The payment of cash dividends and/or management fees by American River Bank is subject to restrictions set forth in the California Financial Code, as well as restrictions established by the FDIC. On July 27, 2009, it was announced that the Board of Directors had suspended the payment of cash dividends, until such time that it was prudent to reestablish the payment of cash dividends. The Company relies on distributions from American River Bank in the form of cash dividends in order to pay cash dividends to our shareholders. See Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" for more information regarding cash dividends.

## Competition

### Competitive Data

*American River Bank.* At June 30, 2015, based on the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report at that date, the competing commercial and savings banks had 183 offices in the cities of Gold River, Rancho Cordova, Roseville and Sacramento, California, where American River Bank has its five Sacramento area offices, 58 offices in the cities of Healdsburg and Santa Rosa, California, where American River Bank has its two Sonoma County offices, and three offices in the cities of Jackson, Pioneer and Ione, California, where American River Bank has its three Amador County offices. Additionally, American River Bank competes with thrifts and, to a lesser extent, credit unions, finance companies and other financial service providers for deposit and loan customers.

Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns. They also perform services, such as trust services, international banking, discount brokerage and insurance services, which American River Bank is neither authorized nor prepared to offer currently. American River Bank has made arrangements with its correspondent banks and with others to provide some of these services for its customers. For borrowers requiring loans in excess of American River Bank's legal lending limits, American River Bank has offered, and intends to offer in the future, such loans on a participating basis with its correspondent banks and with other community banks, retaining the portion of such loans which is within its lending limits. As of December 31, 2015, American River Bank's aggregate legal lending limits to a single borrower and such borrower's related parties were \$13,736,000 on an unsecured basis and \$22,894,000 on a fully secured basis based on capital and allowable reserves of \$91,578,000.

American River Bank's business is concentrated in its service area, which primarily encompasses Sacramento County, South Western Placer County, Sonoma County, and Amador County. The economy of American River Bank's service area is dependent upon government, manufacturing, tourism, retail sales, agriculture, population growth and smaller service oriented businesses.

Based upon the most recent "Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks" report dated June 30, 2015, there were 226 operating commercial and savings bank offices in Sacramento County with total deposits of \$28,273,025,000. This was an increase of \$1,438,829,000 compared to the June 30, 2014 balances. American River Bank held a total of \$278,433,000 in deposits, representing approximately 1.0% of total commercial and savings banks deposits in Sacramento County as of June 30, 2015.

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Based upon the most recent “Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks” report dated June 30, 2015, there were 109 operating commercial and savings bank offices in Placer County with total deposits of \$11,844,355,000. This was an increase of \$1,486,433,000 over the June 30, 2014 balances. American River Bank held a total of \$57,493,000 in deposits, representing approximately 0.5% of total commercial and savings banks deposits in Placer County as of June 30, 2015.

Based upon the most recent “Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks” report dated June 30, 2015, there were 122 operating commercial and savings bank offices in Sonoma County with total deposits of \$11,682,868,000. This was an increase of \$1,081,019,000 compared to the June 30, 2014 balances. American River Bank held a total of \$79,409,000 in deposits, representing approximately 0.7% of total commercial and savings banks deposits in Sonoma County as of June 30, 2015.

Based upon the most recent “Data Book Summary of Deposits in FDIC Insured Commercial and Savings Banks” report dated June 30, 2015, there were 13 operating commercial and savings bank offices in Amador County with total deposits of \$664,516,000. This was an increase of \$25,840,000 compared to the June 30, 2014 balances. American River Bank held a total of \$96,814,000 in deposits, representing approximately 14.6% of total commercial and savings bank deposits in Amador County as of June 30, 2015.

### **FDIC Insurance**

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the “EESA”) was signed into law. The EESA temporarily raised the limit on federal deposit insurance coverage provided by the FDIC from \$100,000 to \$250,000 per depositor. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) into law. On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Act that permanently raised the current standard maximum deposit insurance amount per depositor to \$250,000 and provided for unlimited insurance coverage of noninterest-bearing transaction accounts. This unlimited insurance coverage was not extended and terminated on December 31, 2012. The \$250,000 maximum deposit insurance amount per depositor has remained in effect.

In addition, the Dodd-Frank Act also made other deposit insurance changes which may affect our insurance premium assessments to include (i) amendment of the assessment base used to calculate an insured depository institution’s deposit insurance premiums paid to the DIF by elimination of deposits and substitution of average consolidated total assets less average tangible equity during the assessment period as the revised assessment base; (ii) increasing the minimum designated reserve ratio of the DIF from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits; (iii) eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds; and (iv) repeal of the prohibition upon the payment of interest on demand deposits to be effective one year after the date of enactment of the Dodd-Frank Act. In December 2010, pursuant to the Dodd-Frank Act, the FDIC increased the designated reserve ratio of the DIF to 2.0 percent effective January 1, 2011, which has remained in effect.

On November 18, 2014, the FDIC adopted the Assessments Final Rule which revises the FDIC’s risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules adopted by the federal banking agencies as part of the so-called Basel III capital regulations to conform the prompt corrective action capital ratios and ratio thresholds for “well capitalized” and “adequately capitalized” evaluations.

On June 16, 2015, the FDIC proposed changes to the deposit insurance assessments for small insured banks having total assets less than \$10 Billion which have been insured for at least five years, based upon experience with bank failures. The changes, among other matters, revise the financial ratios method of determining assessments to reflect a statistical model estimating the probability of failure over three years and updating the financial measures used in the financial ratios method consistent with the statistical model. The FDIC proposed additional changes on October 22, 2015 to require banks with over \$10 Billion in assets to be responsible for the recapitalization of the DIF to 1.35 percent of insured deposits after achieving a 1.15 percent reserve ratio. On January 21, 2016, the FDIC proposed further revisions to the small insured bank assessments as the result of comments and recommendations received in response to its earlier proposal. The FDIC proposes that a final rule would go into effect the quarter after adoption, but the amendments would not become operative until the quarter after the DIF reserve ratio reaches 1.15 percent.

The FDIC has taken control of many failed financial institutions during the economic recession of 2007 to 2010 and guaranteed payment from the DIF up to the insured limit for deposits held at such failed institutions. It is uncertain what effect the implementation of the changes to the insurance assessments will have upon the Company; however, a deterioration in the economic conditions impacting financial institutions or a significant number of failed institutions might necessitate increases in premium assessments to maintain the DIF which could adversely impact the Company’s earnings.

### **General Competitive Factors**

In order to compete with the major financial institutions in its primary service areas, American River Bank uses to the fullest extent possible the flexibility which is accorded by their community bank status. This includes an emphasis on specialized services, local promotional activity, and personal contacts by their respective officers, directors and employees. American River Bank also seeks to provide special services and programs for individuals in their primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture, tools of the trade or expansion of practices or businesses. In the event there are customers whose loan demands exceed their respective lending limits, they seek to arrange for such loans on a participation basis with other financial institutions. Furthermore, American River Bank also assists those customers requiring services not offered by either bank to obtain such services from correspondent banks.

Commercial banks compete with savings and loan associations, credit unions, other financial institutions and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

Banking is a business that depends on interest rate differentials. In general, the difference between the interest rate paid by a bank to obtain their deposits and other borrowings and the interest rate received by a bank on loans extended to customers and on securities held in a bank's portfolio comprise the major portion of a bank's revenues.

The interest rate differentials of a bank, and therefore their revenues, are affected not only by general economic conditions, both domestic and foreign, but also by the monetary and fiscal policies of the United States as set by statutes and as implemented by federal agencies, particularly the Federal Reserve Board. The Federal Reserve Board can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States government securities, adjustments in the amount of interest free reserves that banks and other financial institutions are required to maintain, and adjustments to the discount rates applicable to borrowing by banks from the Federal Reserve Board. These activities influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and timing of any future changes in monetary policies and their impact on American River Bank is not predictable.

### **Impact of Certain Legislation and Regulation**

*Interstate Banking.* Since 1996, California law implementing certain provisions of prior federal law has (1) permitted interstate merger transactions; (2) prohibited interstate branching through the acquisition of a branch business unit located in California without acquisition of the whole business unit of the California bank; and (3) prohibited interstate branching through de novo establishment of California branch offices. Initial entry into California by an out-of-state institution must be accomplished by acquisition of or merger with an existing whole bank which has been in existence for at least five years. The Dodd-Frank Act signed into law by President Obama on July 21, 2010, includes provisions authorizing national and state banks to establish branch offices in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branch offices in other states if the host state expressly permitted out-of-state banks to establish branch offices in that state. Accordingly, banks may be able to enter new markets more freely.

*Gramm-Leach-Bliley Act.* In 1999, the Gramm-Leach-Bliley Act (the "GLB Act") was signed into law. The GLB Act eliminated most of the remaining depression-era "firewalls" between banks, securities firms and insurance companies which were established by The Banking Act of 1933, also known as the Glass-Steagall Act ("Glass-Steagall"). Glass-Steagall sought to insulate banks as depository institutions from the perceived risks of securities dealing and underwriting, and related activities. The GLB Act permitted bank holding companies that could qualify as "financial holding companies" to acquire securities firms or create them as subsidiaries, and securities firms could acquire banks or start banking activities through a financial holding company. Prior to the GLB Act, banks were also (with minor exceptions) prohibited from engaging in insurance activities or affiliating with insurers. The GLB Act removed these restrictions and substantially eliminated the prohibitions under the Bank Holding Company Act on affiliations between banks and insurance companies. Consequently, the common ownership of banks, securities firms and insurance firms was possible, in addition to the conduct of commercial banking, merchant banking, investment management, securities underwriting and insurance within a single financial institution using a "financial holding company" structure authorized by the GLB Act.

A bank holding company could qualify as a financial holding company if (i) its banking subsidiaries are "well capitalized" and "well managed" and (ii) it files with the Board of Governors a certification to such effect and a declaration that it elects to become a financial holding company. The Bank Holding Company Act was amended to permit financial holding companies to engage in activities, and acquire companies engaged in activities, that are

financial in nature or incidental to such financial activities. Financial holding companies were also permitted to engage in activities that were complementary to financial activities if the Board of Governors determined that the activity did not pose a substantial risk to the safety or soundness of depository institutions or the financial system in general. These standards expanded upon the list of activities “closely related to banking” which have defined the permissible activities of bank holding companies under the Bank Holding Company Act. Neither the Company nor American River Bank has determined whether or when to seek to acquire and exercise powers or activities under the GLB Act.

*Volcker Rule.* On December 10, 2013, the federal banking agencies jointly issued a final rule implementing the so-called “Volcker Rule” (set forth in Section 619 of the Dodd-Frank Act). The Volcker Rule prohibits depository institutions, companies that control such institutions, bank holding companies, and the affiliates and subsidiaries of such banking entities, from engaging as principal for the trading account of the banking entity in any purchase or sale of one or more covered financial instruments (so-called “proprietary trading”) and imposes limitations upon retaining ownership interests in, sponsoring, investing in and transacting with certain investment funds, including hedge funds and private equity funds. Certain activities involving underwriting, risk mitigation hedging, and transactions on behalf of customers as a fiduciary or riskless principal are not prohibited proprietary trading, including purchases and sales of financial instruments which are either obligations of or issued or guaranteed by (i) the United States or agencies thereof; (ii) a State or political subdivision including municipal securities; or (iii) the FDIC. Notwithstanding these permissible activities, no such activities are permitted if they would (i) involve or result in a material conflict of interest between the banking entity and its clients, customers, or counterparties; (ii) result, directly or indirectly, in a material exposure by the banking entity to a high-risk asset or a high-risk trading strategy; or (iii) pose a threat to the safety and soundness of the banking entity or to the financial stability of the United States. The effective date of the final rule has been extended to July 21, 2016. Neither the Company nor American River Bank engages in activities prohibited by the Volcker Rule nor do we expect the Volcker Rule to have a material impact upon the Company or American River Bank.

*Patriot Act.* On October 26, 2001, President Bush signed the USA Patriot Act (the “Patriot Act”), which includes provisions pertaining to domestic security, surveillance procedures, border protection, and terrorism laws to be administered by the Secretary of the Treasury. Title III of the Patriot Act entitled, “International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001” includes amendments to the Bank Secrecy Act which expand the responsibilities of financial institutions in regard to anti-money laundering activities with particular emphasis upon international money laundering and terrorism financing activities through designated correspondent and private banking accounts.

Effective December 25, 2001, Section 313(a) of the Patriot Act prohibits any insured financial institution such as American River Bank, from providing correspondent accounts to foreign banks which do not have a physical presence in any country (designated as “shell banks”), subject to certain exceptions for regulated affiliates of foreign banks. Section 313(a) also requires financial institutions to take reasonable steps to ensure that foreign bank correspondent accounts are not being used to indirectly provide banking services to foreign shell banks, and Section 319(b) requires financial institutions to maintain records of the owners and agent for service of process of any such foreign banks with whom correspondent accounts have been established.

Effective July 23, 2002, Section 312 of the Patriot Act created a requirement for special due diligence for correspondent accounts and private banking accounts. Under Section 312, each financial institution that establishes, maintains, administers, or manages a private banking account or a correspondent account in the United States for a non-United States person, including a foreign individual visiting the United States, or a representative of a non-United States person shall establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures, and controls that are reasonably designed to detect and record instances of money laundering through those accounts.

The Patriot Act contains various provisions in addition to Sections 313(a) and 312 that affect the operations of financial institutions by encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. The Company and American River Bank are not currently aware of any account relationships between American River Bank and any foreign bank or other person or entity as described above under Sections 313(a) or 312 of the Patriot Act.



Certain surveillance provisions of the Patriot Act were scheduled to expire, but were extended by President Bush. On May 26, 2011, President Obama signed a further four-year extension of the surveillance provisions. Some surveillance provisions of the Patriot Act expired on June 1, 2015, but were renewed the next day by the passage of the USA Freedom Act on June 2, 2015 and extended through 2019. However, the provision under which the National Security Agency (“NSA”) conducted mass phone data collection on individuals was changed to require the NSA to seek permission from a federal court in order to obtain such data from phone companies.

The effects which the Patriot Act and any amendments to the Patriot Act or additional legislation enacted by Congress may have upon financial institutions is uncertain; however, such legislation could increase compliance costs and thereby potentially may have an adverse effect upon the Company’s results of operations.

*Sarbanes-Oxley Act.* On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the “Act”) which responded to issues in corporate governance and accountability. Among other matters, key provisions of the Act and rules promulgated by the SEC pursuant to the Act include the following:

- Expanded oversight of the accounting profession by creating a new independent public company oversight board to be monitored by the SEC.

- Revised rules on auditor independence to restrict the nature of non-audit services provided to audit clients and to require such services to be pre-approved by the audit committee.

- Improved corporate responsibility through mandatory listing standards relating to audit committees, certifications of periodic reports by the CEO and CFO and making issuer interference with an audit a crime.

- Enhanced financial disclosures, including periodic reviews for largest issuers and real time disclosure of material company information.

- Enhanced criminal penalties for a broad array of white collar crimes and increases in the statute of limitations for securities fraud lawsuits.

- Disclosure of whether a company has adopted a code of ethics that applies to the company’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and disclosure of any amendments or waivers to such code of ethics.

- Disclosure of whether a company’s audit committee of its board of directors has a member of the audit committee who qualifies as an “audit committee financial expert.”

- A prohibition on insider trading during pension plan black-out periods.

- Disclosure of off-balance sheet transactions.

- A prohibition on personal loans to directors and officers.

- Conditions on the use of non-GAAP (generally accepted accounting principles) financial measures.

- Standards on professional conduct for attorneys requiring attorneys having an attorney-client relationship with a company, among other matters, to report “up the ladder” to the audit committee, another board committee or the entire board of directors certain material violations.

- Expedited filing requirements for Form 4 reports of changes in beneficial ownership of securities reducing the filing deadline to within 2 business days of the date a transaction triggers an obligation to report.

- Accelerated filing requirements for Forms 10-K and 10-Q by public companies which qualify as “accelerated filers” to a phased-in reduction of the filing deadline for Form 10-K reports and Form 10-Q reports.

- Disclosure concerning website access to reports on Forms 10-K, 10-Q and 8-K, and any amendments to those reports, by “accelerated filers” as soon as reasonably practicable after such reports and material are filed with or furnished to the SEC.

- Rules requiring national securities exchanges and national securities associations to prohibit the listing of any security whose issuer does not meet audit committee standards established pursuant to the Act.

- The requirement to report on internal controls over financial reporting in accordance with Section 404 of the Act.

The Company's securities are listed on the Nasdaq Global Select Market. Consequently, in addition to the rules promulgated by the SEC pursuant to the Act, the Company must also comply with the listing standards applicable to Nasdaq listed companies. The Nasdaq listing standards applicable to the Company include standards related to (i) director independence, (ii) executive session meetings of the board, (iii) requirements for audit, nominating and compensation committee charters, membership qualifications and procedures, (iv) shareholder approval of equity compensation arrangements, and (v) code of conduct requirements that comply with the code of ethics under the Act.

The effect of the Act upon the Company is uncertain; however, the Company has incurred and it is anticipated that it will continue to incur increased costs to comply with the Act and the rules and regulations promulgated pursuant to the Act by the SEC, Nasdaq and other regulatory agencies having jurisdiction over the Company or the issuance and listing of its securities. The Company does not currently anticipate, however, that compliance with the Act and such rules and regulations will have a material adverse effect upon its financial position or results of its operations or its cash flows.

*Corporate Disclosure Act.* Effective January 1, 2003, the California Corporate Disclosure Act (the "CCD Act") required publicly traded corporations incorporated or qualified to do business in California to disclose information about their past history, auditors, directors and officers. Effective September 28, 2004, the CCD Act, as currently in effect and codified at California Corporations Code Section 1502.1, requires the Company to file with the California Secretary of State and disclose within 150 days after the end of its fiscal year certain information including the following:

- The name of a company's independent auditor and a description of services, if any, performed for a company during the previous two fiscal years and the period from the end of the most recent fiscal year to the date of filing;
- The annual compensation paid to each director and the five most highly compensated non-director executive officers (including the CEO) during the most recent fiscal year, including all plan and non-plan compensation for all services rendered to a company as specified in Item 402 of Regulation S-K such as grants, awards or issuance of stock, stock options and similar equity-based compensation;
- A description of any loans made to a director at a "preferential" loan rate during the company's two most recent fiscal years, including the amount and terms of the loans;
- Whether any bankruptcy was filed by a company or any of its directors or executive officers within the previous 10 years;
- Whether any director or executive officer of a company has been convicted of fraud during the previous 10 years; and
- A description of any material pending legal proceedings other than ordinary routine litigation as specified in Item 103 of Regulation S-K and a description of such litigation where the company was found legally liable by a final judgment or order.

The Company does not currently anticipate that compliance with the CCD Act will have a material adverse effect upon its financial position or results of its operations or its cash flows.

*Fair and Accurate Credit Transactions Act.* The Board of Governors, the FDIC, the other federal financial institution regulatory agencies, and the Federal Trade Commission issued a joint press release on October 31, 2007 and final rules and guidelines effective January 1, 2008, subject to mandatory compliance as of November 1, 2008, implementing sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program. The program must include reasonable policies and procedures for detecting, preventing, and mitigating identity theft in connection with certain new and existing covered accounts. Covered accounts are defined as (i) an account primarily for personal, family, or household purposes (i.e., consumer accounts), or (ii) any other account for which there is a reasonably foreseeable risk to customers or the safety and soundness of the financial institution or creditor from identity theft. The program must be appropriate to the size and complexity of the financial institution or creditor and the nature and

scope of its activities and should be designed to:

- identify relevant patterns, practices, and specific forms of activity that are “red flags” of possible identity theft and incorporate those red flags into the program;
- detect the occurrence of red flags incorporated into the program;
- respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
- ensure that the program is updated periodically to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

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The regulations include guidelines that each financial institution must consider and, to the extent appropriate, include in its program and steps that must be taken to administer the program including (i) obtaining approval of the program by the board of directors or a committee of the board, (ii) ensuring oversight of the development, implementation and administration of the program, (iii) training staff, and (iv) overseeing service provider arrangements. The guidelines contemplate that existing fraud prevention procedures may be incorporated into the program.

### **Legislation to Stabilize Financial Markets**

In response to global credit and liquidity issues involving a number of financial institutions, the United States government, particularly the United States Department of the Treasury (the “U.S. Treasury”) and the federal financial institution regulatory agencies, have taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks. Below is a description of various legislation intended to stabilize the United States financial markets which directly or indirectly may affect the Company.

*Emergency Economic Stabilization Act.* On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the “EESA”) was signed into law. Pursuant to the EESA, the U.S. Treasury was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the U.S. financial markets and has implemented several programs, including the purchase by the U.S. Treasury of certain troubled assets from financial institutions under the Troubled Asset Relief Program” (the “TARP”) and the direct purchase by the U.S. Treasury of equity securities of financial institutions under the Capital Purchase Program (the “CPP”). The EESA also temporarily raised the limit on federal deposit insurance coverage provided by the FDIC from \$100,000 to \$250,000 per depositor.

*Capital Purchase Program.* On October 24, 2008, the U.S. Treasury announced plans to direct \$250 Billion of the TARP funding into the CPP to acquire preferred stock investments in bank holding companies and banks with the capital acquired through such investments accorded Tier 1 capital treatment. Bank holding companies and banks eligible to participate as a Qualifying Financial Institution (“QFI”) in the CPP were required to enter into agreements with the U.S. Treasury containing various standard terms and conditions. The Company did not participate in the CPP and instead raised \$25.3 million (in gross proceeds) in a public offering in December 2009 to augment capital.

*American Recovery and Reinvestment Act.* On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the “ARRA”) was signed into law. Section 7001 of the ARRA amended Section 111 of the EESA in its entirety. While the U.S. Treasury was required to promulgate regulations to implement the restrictions and standards set forth in Section 7001, the ARRA, among other things, significantly expands the executive compensation restrictions previously imposed by the EESA. Such restrictions apply to any entity that participated in the CPP under TARP. Since the Company determined not to participate in the CPP, the executive compensation restrictions and standards set forth in Section 7001 of the ARRA are not applicable to the Company.

*The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.* On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act is intended to restructure the regulation of the financial services sector by, among other things, (i) establishing a framework to identify systemic risks in the financial system implemented by a newly created Financial Stability Oversight Council and other federal banking agencies; (ii) expanding the resolution authority of the federal banking agencies over troubled financial institutions; (iii) authorizing changes to capital and liquidity requirements; (iv) changing deposit insurance assessments; and (v) enhancing regulatory supervision to improve the safety and soundness of the financial services sector. The Dodd-Frank Act is expected to have a significant impact upon our business as its provisions are implemented over time. Below is a summary of certain provisions of the Dodd-Frank Act which, directly or indirectly, may affect us.

*Changes to Capital Requirements.* The federal banking agencies are required to establish revised minimum leverage and risk-based capital requirements for banks and bank holding companies. Under these requirements, trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than \$15 Billion in assets. The Dodd-Frank Act requires capital requirements to be counter cyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction consistent with safety and soundness.

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*Enhanced Regulatory Supervision.* The Dodd-Frank Act increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency.

*Consumer Protection.* The Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”) within the Federal Reserve System. The CFPB is responsible for establishing and implementing rules and regulations under various federal consumer protection laws governing certain consumer products and services. The CFPB has primary enforcement authority over large financial institutions with assets of \$10 Billion or more, while smaller institutions will be subject to the CFPB’s rules and regulations through the enforcement authority of the federal banking agencies. States are permitted to adopt consumer protection laws and regulations that are more stringent than those laws and regulations adopted by the CFPB and state attorneys general are permitted to enforce consumer protection laws and regulations adopted by the CFPB.

*Deposit Insurance.* The Dodd-Frank Act permanently increased the deposit insurance limit for insured deposits to \$250,000 per depositor and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. Other deposit insurance changes under the Dodd-Frank Act include (i) amendment of the assessment base used to calculate an insured depository institution’s deposit insurance premiums paid to the Deposit Insurance Fund (“DIF”) by elimination of deposits and substitution of average consolidated total assets less average tangible equity during the assessment period as the revised assessment base; (ii) increasing the minimum designated reserve ratio of the DIF from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits; (iii) eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds; and (iv) repeal of the prohibition upon the payment of interest on demand deposits to be effective one year after the date of enactment of the Dodd-Frank Act. In December 2010, pursuant to the Dodd-Frank Act, the FDIC increased the reserve ratio of the DIF to 2.0 percent effective January 1, 2011, which has remained in effect. The FDIC has proposed further changes to the deposit insurance assessments applicable to small insured depository institutions with assets less than \$10 Billion and additional DIF recapitalization obligations for insured depository institutions with more than \$10 Billion in assets. See the discussion of these changes in “Supervision and Regulation - FDIC Insurance.”

*Transactions with Affiliates.* The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

*Transactions with Insiders.* Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.

*Enhanced Lending Limitations.* The Dodd-Frank Act strengthens the existing limits on a depository institution’s credit exposure to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.

*Debit Card Interchange Fees.* The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. The Federal Reserve Board was required to establish standards for reasonable and proportional fees which may take into account the costs of preventing fraud. The restrictions on interchange fees, however, do not apply to banks that, together with their affiliates, have assets of less than \$10 Billion.

*Interstate Branching.* The Dodd-Frank Act authorizes national and state banks to establish branch offices in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branch offices in other states if the host state expressly permitted out-of-state banks to establish branch offices in that state. Accordingly, banks may be able to enter new markets more freely.

*Charter Conversions.* Effective one year after enactment of the Dodd-Frank Act, depository institutions that are subject to a cease and desist order or certain other enforcement actions issued with respect to a significant supervisory matter are prohibited from changing their federal or state charters, except in accordance with certain notice,

application and other procedures involving the applicable regulatory agencies.

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*Compensation Practices.* The Dodd-Frank Act provides that the appropriate federal banking regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other “covered financial institution” that provides an insider or other employee with “excessive compensation” or could lead to a material financial loss to such firm. In June 2010, prior to the enactment of the Dodd-Frank Act, the federal bank regulatory agencies jointly issued the *Interagency Guidance on Sound Incentive Compensation Policies* (“Guidance”), which requires that financial institutions establish metrics for measuring the risk to the financial institution of such loss from incentive compensation arrangements and implement policies to prohibit inappropriate risk taking that may lead to material financial loss to the institution. Together, the Dodd-Frank Act and the Guidance may impact our compensation policies and arrangements.

*Corporate Governance.* The Dodd-Frank Act will enhance corporate governance requirements to include (i) requiring publicly traded companies to give shareholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders; (ii) authorizing the SEC to promulgate rules that would allow shareholders to nominate their own candidates for election as directors using a company’s proxy materials; (iii) directing the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1 Billion, regardless of whether or not the company is publicly traded; and (iv) authorizing the SEC to prohibit broker discretionary voting on the election of directors and on executive compensation matters.

Many of the requirements under the Dodd-Frank Act will be implemented over an extended period of time. Therefore, the nature and extent of regulations that will be issued by various regulatory agencies and the impact such regulations will have on the operations of financial institutions such as ours is unclear. Such regulations resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

### **Future Legislation and Regulation**

In addition to legislative changes, the various federal and state financial institution regulatory agencies frequently propose rules and regulations to implement and enforce already existing legislation. It cannot be predicted whether or in what form any such rules or regulations will be enacted or the effect that such regulations may have on American River Bankshares or American River Bank. However, in light of the current conditions in the U.S. financial markets and economy, Congress and regulators have increased their focus on the regulation of the financial services industry. The Company anticipates that additional regulations will likely increase the Company’s expenses, which may adversely impact the Company’s results of operations, financial condition, future prospects, profitability, and stock price.

### **Item 1A. Risk Factors.**

**The Company and its subsidiary, American River Bank, conduct business in an environment that includes certain risks described below which could have a material adverse effect on the Company’s business, results of operations, financial condition, future prospects and stock price. You are also referred to the matters described under the heading “Cautionary Statements Regarding Forward-Looking Statements,” in Part I, Item 1 and Part II, Item 7 of this report on Form 10-K for additional information regarding factors that may affect the Company’s business.**



**⚡We are subject to extensive regulation, which could adversely affect our business.**

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. We believe that we are in substantial compliance in all material respects with laws, rules and regulations applicable to the conduct of our business. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. These laws, rules and regulations may be modified, or other new laws, rules or regulations, may be adopted in the future, which could make compliance much more difficult or expensive, or restrict our ability to originate, broker or sell loans, reduce service charge income on deposits, or further limit or restrict the amount of commissions, or interest or other charges earned on loans originated or sold by us or otherwise adversely affect our business, results of operations, financial condition, or future prospects. The Dodd-Frank Act, signed into law on July 21, 2010, has had and is expected to continue to have a broad impact on the financial services sector, including significant regulatory and compliance changes. Many of the Dodd-Frank Act requirements will be implemented over an extended period of time and due to the uncertainty associated with the manner in which they will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on our operations is not clear. Changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business, results of operations, financial condition or future prospects.

**⚡Difficult market conditions have adversely affected our business.**

Dramatic declines occurred in the housing market during the economic downturn resulting in falling home prices and a significant number of foreclosures. These circumstances along with unemployment and under-employment continue to negatively impact the credit performance of our loan portfolio and resulted in significant write-downs of asset values. These asset write-downs have had a significant impact on the Company's financial results and ratios, including our net income, earnings per share, return on average equity and return on average assets. Our net income decreased from \$7,751,000 in 2008 to \$1,586,000 in 2009 and \$476,000 in 2010, then increased to \$2,504,000 in 2011, \$3,207,000 in 2012 and decreased slightly from 2012 to \$3,057,000 in 2013, then increased to \$4,361,000 in 2014 and \$5,268,000 in 2015. Our earnings per share decreased from \$1.30 per share in 2008 to \$0.26 per share in 2009 and \$0.05 per share in 2010, then increased to \$0.25 per share in 2011, \$0.34 per share in 2012 and 2013, \$0.54 per share in 2014 and \$0.70 per share in 2015. Our return on average equity decreased from 12.39% in 2008 to 2.44% in 2009 and 0.53% in 2010, then increased to 2.74% in 2011, 3.42% in 2012 and decreased slightly from 2012 to 3.38% in 2013, then increased to 4.98% in 2014 and 6.03% in 2015. Our return on average assets decreased from 1.32% in 2008 to 0.28% in 2009 and 0.08% in 2010, then increased to 0.43% in 2011, 0.55% in 2012, 0.52% in 2013, 0.72 in 2014, and 0.85% in 2015. While there was some improvement in our financial results and ratios in recent years compared to 2008 through 2010, the increases are below our historical averages and there is no guarantee that these increases will continue into the future, which could adversely affect our stock price. A significant decline in our stock price could result in substantial losses for individual shareholders.

**⚡Worsening economic conditions could adversely affect our business.**

The economic conditions in the United States in general and within California and in our operating markets have not fully recovered from the economic downturn of 2007 through 2010. Unemployment nationwide and in California increased significantly through this economic downturn and have returned to more normal historical levels, however, there is no certainty that these levels will continue in the future. As of December 31, 2015, the unemployment rate nationwide was 5.0% compared to 5.6% one year ago. At December 31, 2014, the unemployment rate nationwide was 5.6% compared to 6.7% at December 31, 2013, 7.9% at December 31, 2012, 8.5% at December 31, 2011, 9.4% at

December 31, 2010, 9.9% at December 31, 2009, and 7.3% at December 31, 2008. As of December 31, 2015, the unemployment rate in California was 5.8%, compared to 7.3% at December 31, 2014, 8.3% at December 31, 2013, 9.8% at December 31, 2012, 11.1% at December 31, 2011, 12.5% at December 31, 2010, 12.3% at December 31, 2009 and 8.7% at December 31, 2008. The unemployment rate in the Company's primary markets of Sacramento, Sonoma, and Amador Counties was 5.6%, 4.2% and 6.3%, respectively, at December 31, 2015 compared to 6.2%, 4.7% and 7.2%, respectively, at December 31, 2014, 7.7%, 5.7% and 9.0%, respectively, at December 31, 2013, 9.8%, 7.7% and 11.0%, respectively, at December 31, 2012, 10.9%, 8.9% and 12.7%, respectively, at December 31, 2011, 12.7%, 10.0% and 13.4%, respectively, at December 31, 2010, 12.2%, 10.3% and 12.5%, respectively, at December 31, 2009, and 8.7%, 7.0% and 9.3%, respectively, at December 31, 2008. These unemployment statistics may not reflect the full extent of unemployment conditions nationwide, in California and in the Company's primary operating markets due to the exclusion of statistics regarding the number of persons who are no longer seeking employment, among other statistical data. Availability of credit and consumer spending, real estate values, and consumer confidence have all been adversely affected. The credit, capital and liquidity problems that have confronted the U.S. financial system during the economic downturn of 2007 through 2010 have not been fully resolved despite massive government expenditures and legislative efforts to stabilize the U.S. financial system. These conditions may not be fully resolved in the foreseeable future.

The Bank conducts banking operations principally in Northern California. As a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in Northern California. Our business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in Northern California, and continued adverse economic conditions could have a material adverse effect upon us. In addition, California's budgetary and fiscal difficulties during the downturn of 2007 through 2010 resulted in a reduction of the number of California government employees. The businesses operating in California and, in particular in the City of Sacramento, depend on the relationships with these government employees, and reduced spending activity by these government employees could have a material impact on the success or failure of these businesses, some of which are current customers or could become future customers of the Bank.

The market in which the Company operates experienced a slowdown in new loan volume as existing and potential new borrowers paid down debt and delayed expansion plans. This reduction in loan volume has had an adverse effect upon our net interest margin and profitability. Any deterioration in economic conditions locally, regionally or nationally could result in a further economic downturn in Northern California with the following consequences, any of which could further adversely affect our business:

- loan delinquencies and defaults may increase;
- problem assets and foreclosures may increase;
- demand for loans and other products and services may decline;
- low cost or noninterest bearing deposits may decrease;
- collateral for loans may decline in value, in turn reducing clients' borrowing power, and reducing the value of assets and collateral as sources of repayment of existing loans;
- foreclosed assets may not be able to be sold;
- volatile securities market conditions could adversely affect valuations of investment portfolio assets; and
- reputational risk may increase due to public sentiment regarding the banking industry.

**Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.**

At December 31, 2015, our non-performing loans and leases were 0.56% of total loans and leases compared to 0.63% of total loans and leases at December 31, 2014, 0.77% of total loans and leases at December 31, 2013, 2.12% at December 31, 2012, 4.46% at December 31, 2011, 6.52% at December 31, 2010, 5.46% at December 31, 2009 and 1.49% at December 31, 2008. At December 31, 2015, our non-performing assets (which include foreclosed real estate and repossessed assets) to total assets were 0.96% compared to 1.16% at December 31, 2014, 1.60% at December 31, 2013, 2.97% at December 31, 2012, 3.73% at December 31, 2011, 4.36% at December 31, 2010, 3.95% at December 31, 2009, and 1.49% at December 31, 2008. The allowance for loan and lease losses as a percentage of non-performing loans and leases was 302.8% as of December 31, 2015 compared to 320.7% as of December 31, 2014, 270.1% as of December 31, 2013, 105.6% as of December 31, 2012, 52.5% as of December 31, 2011, 33.6% at December 31, 2010, 37.7% at December 31, 2009 and 94.8% at December 31, 2008. While these non-performing loans and leases and non-performing assets have decreased in recent years, there is no guarantee that these decreases will continue into the future, which could adversely affect our stock price. A significant decline in our stock price could result in substantial losses for individual shareholders.

Non-performing assets adversely affect our net income in various ways. We generally do not record interest income on non-performing loans or other real estate owned, thereby adversely affecting our income and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile, which could result in a request to reduce our level of non-performing assets and/or raise additional capital. When we reduce problem assets through loan sales, workouts, restructurings and

otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. We may experience increases in non-performing assets and the disposition of such non-performing assets may adversely affect our profitability.

**Tightening of credit markets and liquidity risk could adversely affect our business, financial condition and results of operations.**

A tightening of the credit markets or any inability to obtain adequate funds for asset growth at an acceptable cost could adversely affect our asset growth and liquidity position and, therefore, our earnings capability. In addition to core deposit growth, maturity of investment securities and loan and lease payments, we also rely on alternative funding sources including unsecured borrowing lines with correspondent banks, secured borrowing lines with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco, and public time certificates of deposits. Our ability to access these sources could be impaired by deterioration in our financial condition as well as factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations for the financial services industry or serious dislocation in the general credit markets. In the event such a disruption should occur, our ability to access these sources could be adversely affected, both as to price and availability, which would limit or potentially raise the cost of the funds available to us.

**We have a concentration risk in real estate related loans.**

At December 31, 2015, \$251.8 million, or 86.0% of our total loan and lease portfolio, consisted of real estate related loans. Of that amount, \$199.6 million, or 79.3%, consisted of commercial real estate, \$14.5 million, or 5.7% consisted of commercial and residential construction loans (including land acquisition and development loans) and \$37.7 million, or 15.0%, consisted of residential mortgages and residential multi-family real estate. The majority of our real property collateral is located in our operating markets in Northern California. The deteriorating economic conditions in California and in our operating markets during the economic downturn of 2007 through 2010, contributed to an overall decline in commercial and residential real estate values. While property values have recovered somewhat, a substantial decline in commercial and residential real estate values in our primary market areas could occur as a result of worsening economic conditions or other events including natural disasters such as earthquakes, droughts, floods, fires, and similar adverse weather occurrences. Such a decline in values could have an adverse impact on us by limiting repayment of defaulted loans through sale of commercial and residential real estate collateral and by a likely increase in the number of defaulted loans to the extent that the financial condition of our borrowers is adversely affected by such a decline in values.

**Our allowance for loan and lease losses may not be adequate to cover actual losses.**

Like all financial institutions, the Bank maintains an allowance for loan and lease losses to provide for loan defaults and non-performance, but its allowance for loan and lease losses may not be adequate to cover actual loan and lease losses. In addition, future provisions for loan and lease losses could materially and adversely affect the Bank's and therefore our Company's operating results. The adequacy of the Bank's allowance for loan and lease losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of realizable future losses is susceptible to changes in economic, operating and other conditions, including changes in the local and general California real estate market and operating environment, as well as interest rates, employment levels and other economic factors that may be beyond our control, and these losses may exceed current estimates.

Federal regulatory agencies, as an integral part of the examination process, review the Bank's loans and leases and allowance for loan and lease losses, as well as management's policies and procedures for determining the adequacy of the allowance for loan and lease losses. We believe that our allowance for loan and lease losses policies are effective and that our allowance for loan and lease losses is adequate to cover current probable incurred losses. However, the Bank may have to further increase the allowance for loan and lease losses as a result of the effects of deterioration of economic conditions nationally and in the operating markets in which the Bank conducts business and/or as a result of changes in regulation or accounting methodologies.

**Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.**

As of December 31, 2015, our largest outstanding commercial business loan and largest outstanding commercial real estate loan amounted to \$5.8 million and \$5.7 million, respectively. At such date, our commercial real estate loans amounted to \$199.6 million, or 67.8% of our total loan and lease portfolio, and our commercial business loans amounted to \$36.2 million, or 12.3% of our total loan and lease portfolio. Commercial real estate and commercial business loans generally are considered riskier than single-family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Bank's commercial real estate and commercial business loans are made to small business or middle market customers who may have a heightened vulnerability to economic conditions. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could adversely affect our results of operations.

**Our business is subject to interest rate risk, and variations in interest rates may negatively affect our financial performance.**

Changes in the interest rate environment may reduce our net interest income. It is expected that we will continue to realize income from the differential or "margin" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest margins are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We may be unable to minimize our interest rate risk. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality, and loan origination volume.

**Governmental monetary policies and intervention to stabilize the U.S. financial system may affect our business and are beyond our control.**

The business of banking is affected significantly by the fiscal and monetary policies of the federal government and its agencies. Such policies are beyond our control. We are particularly affected by the policies established by the Federal Reserve Board in relation to the supply of money and credit in the United States. The instruments of monetary policy available to the Federal Reserve Board can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on our business.

The Emergency Economic Stabilization Act of 2008 (the "EESA"), signed into law on October 3, 2008, the American Recovery and Reinvestment Act of 2009 (the "ARRA"), signed into law on February 17, 2009, and other legislation was intended to help stabilize the U.S. financial system by improving the credit, capital and liquidity problems confronting the financial system. Many provisions of the Dodd Frank Act, signed into law on July 21, 2010, have also been implemented as part of the continuing stabilization effort. However, a continuation or worsening of such economic conditions could limit our access to capital or sources of liquidity in amounts and at times necessary to conduct operations in compliance with applicable regulatory requirements.

**The Bank faces strong competition from banks, financial service companies and other companies that offer banking services, which could adversely affect our business.**

Increased competition in our market may result in reduced loans and deposits or the rates charged or paid on these instruments and adversely affect our net interest margin. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer similar banking services compared to those that are offered by the Bank in its service area. These competitors include national and super-regional banks, finance

companies, investment banking and brokerage firms, credit unions, government-assisted farm credit programs, other community banks and technology-oriented financial institutions offering online services. In particular, the Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits than we do and are thereby better able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loans and deposits, as well as the range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances, such as Internet-based banking services that cross traditional geographic bounds, enable more companies to provide financial services. If the Bank is unable to attract and retain banking customers, we may be unable to maintain our historical levels of loans and leases and deposits or our net interest margin.

**Our operations are dependent upon key personnel.**

Our future prospects are and will remain highly dependent on our directors, executive officers and other key personnel. Our success will, to some extent, depend on the continued service of our directors and continued employment of the executive officers, in addition to our ability to attract and retain experienced banking professionals to serve us and the Bank in other key positions. The unexpected loss of the services of any of these individuals could have a detrimental effect on our business.

• **Technology implementation problems or computer system failures could adversely affect us.**

Our future growth prospects will be highly dependent on the ability of the Bank to implement changes in technology that affect the delivery of banking services such as the increased demand for computer access to bank accounts and the availability to perform banking transactions electronically. The Bank's ability to compete will depend upon its ability to continue to adapt technology on a timely and cost-effective basis to meet such demands. In addition, our business and operations and those of the Bank could be susceptible to adverse effects from computer failures, communication and energy disruption, and activities such as fraud of unethical individuals with the technological ability to cause disruptions or failures of the Bank's data processing system.

**Cybersecurity breaches or other technological difficulties could adversely affect us.**

We cannot be certain that the continued implementation of safeguards will eliminate the risk of vulnerability to technological difficulties or failures or ensure the absence of a breach of information security, including as a result of cybersecurity breach. The FDIC has recently highlighted in its Supervisory Insights publication that cybersecurity is a critical challenge facing the financial services industry and that the frequency and sophistication of cyber-attacks are increasing. The Bank will continue to enhance its information security programs consistent with regulatory requirements including reliance on the services of various vendors who provide data processing and communication services to the financial services industry. Nonetheless, if information security is compromised or other technology difficulties or failures occur at the Bank or with one of our vendors, information may be lost or misappropriated, services and operations may be interrupted and the Bank could be exposed to claims from its customers as a result.

**Our controls over financial reporting and related governance procedures may fail or be circumvented.**

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks such as processing system failures or errors and customer or employee fraud, and we maintain insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and provides only reasonable, not absolute, certainty that the objectives of the system will be met. Events could occur which are not prevented or detected by our internal controls, are not insured against, or are in excess of our insurance limits. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have an adverse effect on our business.

**We may not be successful in raising additional capital needed in the future.**

If additional capital is needed in the future as a result of losses, our business strategy or regulatory requirements, our efforts to raise such additional capital may be unsuccessful or shares sold in the future may be sold at prices or on terms that are not equal to or better than the current market price. The inability to raise additional capital when needed or at prices and terms acceptable to us could adversely affect our ability to implement our business strategies.



**The effects of legislation in response to credit conditions may adversely affect us.**

Legislation that has or may be passed at the federal level and/or by the State of California in response to conditions affecting credit markets could cause us to experience higher credit losses if such legislation reduces the amount that the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Such legislation could also result in the imposition of limitations upon the Bank's ability to foreclose on property or other collateral or make foreclosure less economically feasible. Such events could result in increased loan and lease losses and require a material increase in the allowance for loan and lease losses.

**The effects of changes to FDIC insurance coverage limits and assessments are uncertain and increased premiums may adversely affect us.**

FDIC insurance premium assessments are uncertain and increased premium assessments may adversely affect our earnings. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund ("DIF"). Recent economic conditions have resulted and may continue to result in bank failures. In such event, the FDIC may take control of failed institutions and guarantee payment from the DIF up to the insured limit for deposits held at such failed institutions. Depending on any future losses that the DIF may suffer due to failed institutions, there may be additional premium increases in order to replenish the DIF.

On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that made permanent a \$250,000 deposit insurance limit per depositor and also provided unlimited insurance coverage for noninterest-bearing transaction accounts. This unlimited insurance coverage was not extended and terminated on December 31, 2012. The \$250,000 maximum deposit insurance amount per depositor remains in effect.

In addition, the Dodd-Frank Act also made other deposit insurance changes which may affect our insurance premium assessments to include (i) amendment of the assessment base used to calculate an insured depository institution's deposit insurance premiums paid to the DIF by elimination of deposits and substitution of average consolidated total assets less average tangible equity during the assessment period as the revised assessment base; (ii) increasing the minimum designated reserve ratio of the DIF from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits; (iii) eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds; and (iv) repeal of the prohibition upon the payment of interest on demand deposits to be effective one year after the date of enactment of the Dodd-Frank Act. In December 2010, pursuant to the Dodd-Frank Act, the FDIC increased the designated reserve ratio of the DIF to 2.0 percent effective January 1, 2011, which has remained in effect.

On November 18, 2014, the FDIC adopted the Assessments Final Rule which revises the FDIC's risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules that were effective commencing January 1, 2015. For smaller financial institutions such as the Bank (with total assets less than \$1 Billion and which are not custodial banks), the Final Rule revises and conforms capital ratios and ratio thresholds to the new prompt corrective action capital ratios and ratio thresholds for "well capitalized" and "adequately capitalized" evaluations which were adopted by the federal banking agencies as part of the so-called Basel III capital regulations.

It is uncertain what effect these changes will have on our future insurance assessments and costs of operations, but any increases in premium assessments will adversely impact our earnings.

**In the future we may be required to recognize impairment with respect to investment securities, including the FHLB stock we hold.**

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other than temporary impairment each reporting period, as required by generally accepted accounting principles, and as of December 31, 2015, we did not recognize any securities as other than temporarily impaired. Future evaluations of the securities

portfolio may require us to recognize an impairment charge with respect to these and other holdings. In addition, as a condition to membership in the Federal Home Loan Bank of San Francisco (the "FHLB"), we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2015, we held stock in the FHLB totaling \$3.8 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. The FHLB currently distributes cash dividends on its shares, however, past dividend paying practices are not a guarantee of future dividends. To date, we have not recognized any impairment charges related to our FHLB stock holdings. Any future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such holdings.

**If the goodwill we have recorded in connection with our acquisition of Bank of Amador becomes impaired, it could have an adverse impact on our earnings and capital.**

At December 31, 2015, we had approximately \$16.3 million of goodwill on our balance sheet attributable to our merger with Bank of Amador in December 2004. In accordance with accounting principles generally accepted in the United States of America, our goodwill is not amortized but rather evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Such evaluation is based on a variety of factors, including the quoted price of our common stock, market prices of the common stock of other banking organizations, common stock trading multiples, discounted cash flows, and data from comparable acquisitions. Future evaluations of goodwill may result in findings of impairment and write-downs, which could be material.

**The effects of terrorism and other events beyond our control may adversely affect our results of operations.**

The terrorist actions on September 11, 2001 and thereafter, as well as the military conflicts in the Middle East, have had significant adverse effects upon the United States economy. Whether terrorist activities in the future and the actions of the United States and its allies in combating terrorism on a worldwide basis will adversely impact us and the extent of such impact is uncertain. Similar events beyond our control including, but not limited to, financial and economic instability and governmental actions in response, natural disasters such as earthquakes, droughts, floods, fires, and similar adverse weather occurrences, disruption of power supplies and communications equipment such as telephones, cellular phones, computers, and other forms of electronic equipment or media, and widespread, adverse public health occurrences, may adversely affect our future results of operations by, among other things, disrupting the conduct of our operations and those of our customers, which could result in a reduction in the demand for loans and other products and services offered by the Bank, increase non-performing loans and the amounts reserved for loan and lease losses, or cause significant declines in our level of deposits.

**Future acquisitions and expansion activities may disrupt our business and adversely affect our operating results.**

We regularly evaluate potential acquisitions and expansion opportunities. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of incorporating acquired banks or branches into the Bank, executing cost savings measures, and being unable to profitably deploy funds in an acquisition.

**We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.**

In December 2009, the Company raised \$25.3 million (in gross proceeds) in a public offering of 4,048,000 shares of its common stock at \$6.25 per share. Our articles of incorporation, as amended, provide the authority to issue without further shareholder approval, 20,000,000 shares of common stock, no par value per share, of which 7,343,649 shares were issued and outstanding at December 31, 2015. Pursuant to the Company's 2010 Equity Incentive Plan and its 2000 Stock Option Plan, at December 31, 2015, employees and directors of the Company had outstanding options to purchase 248,411 shares of common stock. As of December 31, 2015, 1,395,985 shares of common stock remained available for awards under the 2010 Equity Incentive Plan.

We are not restricted from issuing additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We frequently evaluate opportunities to access the capital markets taking into account our regulatory capital ratios, financial condition and other relevant considerations, and subject to market conditions, we may take further capital actions. Such actions could include,

among other things, the issuance of additional shares of common stock in public or private transactions in order to further increase our capital levels above the requirements for a well capitalized institution established by the federal bank regulatory agencies as well as other regulatory targets.

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The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities including, without limitation, securities issued upon exercise of outstanding equity awards under our 2010 Equity Incentive Plan or outstanding options under our 2000 Stock Option Plan, could be substantially dilutive to shareholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur.

**The price of our common stock may fluctuate significantly, and this may make it difficult for shareholders to resell shares of common stock they own at times or at prices they find attractive.**

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility, which reached unprecedented levels during the economic downturn of 2007 through 2010. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. This may make it difficult for shareholders to resell shares of common stock they own at times or at prices they find attractive. The low trading volume in our common shares on the NASDAQ Global Select Market means that our shares may have less liquidity than other publicly traded companies. We cannot ensure that the volume of trading in our common shares will be maintained or will increase in the future.

The trading price of the shares of our common stock will depend on many factors, which may change from time to time and which may be beyond our control, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales or offerings of our equity or equity related securities, and other factors identified above in the forward-looking statement discussion in Part I, Item 1 of this Annual Report on Form 10-K under the heading "Cautionary Statements Regarding Forward-Looking Statements" and below. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our common stock or those of other financial institutions;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community generally or relating to our reputation, our market area, our competitors or the financial services industry in general;
  - strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- actions by our current shareholders, including sales of common stock by existing shareholders and/or directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our equity, equity-related or debt securities;
- changes in the frequency or amount of dividends or share repurchases;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involves or affects us;
- trading activities in our common stock, including short-selling;
- domestic and international economic factors unrelated to our performance; and
- general U.S. and international market conditions and, in particular, developments related to market conditions for the financial services industry.

A significant decline in our stock price could result in substantial losses for individual shareholders.



**We may be unable or choose not to pay cash dividends in the foreseeable future.**

Our ability to pay dividends on our common stock depends on a variety of factors. On July 27, 2009 we announced suspension of our quarterly dividends, which remains in effect. The Company relies on distributions from the Bank in the form of cash dividends in order to pay cash dividends to our shareholders. Cash dividends may or may not be paid in the future since they are subject to regulatory restrictions and to evaluation by our Board of Directors of financial factors including, but not limited to, our earnings, financial condition and capital requirements.

**Anti-takeover provisions in our articles of incorporation and bylaws and California law could make a third party acquisition of us difficult.**

Our articles of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us (even if doing so would be beneficial to our shareholders) and for holders of our common stock to receive any related takeover premium for their common stock. We are also subject to certain provisions of California law that would delay, deter or prevent a change in control of the Company. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The Company and American River Bank lease nine and own two of their respective premises. The Company's headquarters is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California. The office space is located in a six-story office building. The lease term is seven (7) years and expires on July 31, 2017. The premises consist of approximately 12,218 square feet on the fourth floor of the building. The space is leased from MSCP Capital Center Investors, LLC, successor to One Capital Center.

American River Bank's main office is located at 1545 River Park Drive, Suite 107, Sacramento, California, in a modern, five-story building which has off-street parking for its clients. American River Bank leases premises in the building from Hines VAF II Sacramento Properties, L.P., the successor to Spieker Properties. The lease term is for one-hundred and twenty-seven (127) months and expires on February 28, 2021. The premises consist of 1,643 square feet on the ground floor.

American River Bank leases premises at 9750 Business Park Drive, Sacramento, California. The premises are leased from Bradshaw Plaza, Associates, Inc., which is owned in part by Charles D. Fite, a director of the Company. The lease term is ten (10) years and expires on November 30, 2016. The premises consist of 3,711 square feet on the ground floor.

American River Bank leases premises at 11220 Gold River Express Drive, Gold River, California. The premises are leased from Gold River Village Associates, a California Limited Partnership. The lease term is one-hundred and twenty-six (126) months and expires on November 30, 2024. The premises consist of 1,650 square feet on the ground floor.

American River Bank leases premises at 2240 Douglas Boulevard, Roseville, California. The premises are leased from LUM YIP KEE, LIMITED (doing business as Twin Tree Land Company). The lease term is ten (10) years and expires on November 30, 2016. The premises consist of 3,790 square feet on the ground floor.

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American River Bank leases premises at 520 Capitol Mall, Sacramento, California. The premises are leased from 520 Capitol Mall, Inc. The lease term is one-hundred and twenty-five (125) months and expires on October 31, 2024. The premises consist of 2,143 square feet on the second floor.

American River Bank (formerly North Coast Bank, a division of American River Bank), owns premises at 412 Center Street, Healdsburg, California. The premises were purchased June 1, 1993. The purchase price for the land and building was \$343,849. The building consists of 2,620 square feet. The land consists of 10,835 square feet.



American River Bank (formerly North Coast Bank, a division of American River Bank), leases premises at 90 South E Street, Santa Rosa, California. The premises were subleased from Chicago Title Company through November 11, 2011 and now are leased from 90 E Street, LLC until January 31, 2019. The combined sublease and lease term is ten (10) years and expires on January 31, 2019. The premises consist of 3,600 square feet on the ground floor.

American River Bank (formerly Bank of Amador, a division of American River Bank), leases premises at 422 Sutter Street, Jackson, California. The premises are leased from the United States Postal Service. The most recent lease term was five (5) years and expired on May 31, 2011 and the premises consisted of 6,400 square feet on the ground floor and second floor. Effective June 1, 2011, the lease was extended for an additional five (5) years set to expire on May 31, 2016. The new lease term does not include the second floor and the new premises consist of approximately 3,600 square feet on the ground floor.

American River Bank (formerly Bank of Amador, a division of American River Bank), leases premises at 26395 Buckhorn Ridge Road, Pioneer, California. The premises are leased from Joseph T. Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust. The lease term is ten (10) years and expires on October 31, 2017. The premises consist of 1,757 square feet of office space on the ground floor, an attached garage consisting of approximately 400 square feet and 1,223 feet of office space on the second floor.

American River Bank, owns premises at 66 Main Street, Ione, California. The premises were purchased April 1, 1995. The purchase price for the land and building was \$167,500. The building consists of 2,576 square feet. The land consists of 9,700 square feet.

The leases on the premises located at 1545 River Park Drive, 9750 Business Park Drive, 90 South E Street, 26395 Buckhorn Ridge Road, 11220 Gold River Express Drive, 520 Capitol Mall, 422 Sutter Street, and 3100 Zinfandel Drive, contain options to extend for five years. Included in the above premises is a facility leased from a current director of the Company at terms and conditions which management believes are consistent with the commercial lease market. The foregoing summary descriptions of leased premises are qualified in their entirety by reference to the lease agreements listed as exhibits in Part IV, Item 15 of this Annual Report on Form 10-K.

### **Item 3. Legal Proceedings.**

There are no material legal proceedings adverse to the Company and its subsidiaries to which any director, officer, affiliate of the Company, or 5% shareholder of the Company or its subsidiaries, or any associate of any such director, officer, affiliate or 5% shareholder of the Company or its subsidiaries are a party, and none of the above persons has a material interest adverse to the Company or its subsidiaries.

From time to time, the Company and/or its subsidiaries may be a party to claims and legal proceedings arising in the ordinary course of business. The Company's management is not aware of any pending legal proceedings to which either it or its subsidiaries may be a party or has recently been a party, which will have a material adverse effect on the financial condition or results of operations of the Company or its subsidiaries.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

The Company’s common stock began trading on the NASDAQ National Stock Market (“Nasdaq”) under the symbol “AMRB” on October 26, 2000. Effective July 3, 2006, the Company’s common stock became listed and traded on the Nasdaq Global Select Market. The following table shows the high and the low prices for the common stock, for each quarter during 2015 and 2014, as reported by Nasdaq.

2015	High	Low
First quarter	9.98	9.23
Second quarter	9.95	9.10
Third quarter	10.35	9.15
Fourth quarter	11.19	9.40
2014	High	Low
First quarter	10.29	8.92
Second quarter	9.75	8.21
Third quarter	9.63	8.42
Fourth quarter	9.99	9.05

The closing price for the Company’s common stock on February 24, 2016 was \$9.85.

**Holders**

As of February 18, 2016, there were approximately 1,900 shareholders of record of the Company’s common stock.

**Dividends**

The Company paid quarterly cash dividends on its common stock from the first quarter of 2004 through the second quarter of 2009. Prior to that, the Company paid cash dividends twice a year since 1992. On July 27, 2009, the Company announced that the Board of Directors had suspended the payment of cash dividends, until such time that it was prudent to reestablish the payment of cash dividends. The Company relies on distributions from the Bank in the form of cash dividends in order to pay cash dividends to our shareholders. In 2015 and 2014, there were no cash dividends paid to our shareholders. It is uncertain whether any dividends will be paid in the future since they are subject to regulatory and statutory restrictions and the evaluation by the Company’s Board of Directors of financial factors including, but not limited to earnings, financial condition and capital requirements of the Company and its subsidiaries.

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.

The Board of Governors generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company’s financial position. The Board of Governors’ policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

The payment of cash dividends by American River Bank is subject to restrictions set forth in the California Financial Code (the “Financial Code”). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (a) the bank’s retained earnings; or (b) the bank’s net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the Commissioner, make a distribution to its shareholders in an amount not exceeding the greater of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that the Commissioner determines that the shareholders’ equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the Commissioner may order the bank to refrain from making a proposed distribution.

The FDIC may also restrict the payment of dividends by a subsidiary bank if such payment would be deemed unsafe or unsound or if after the payment of such dividends, the bank would be included in one of the “undercapitalized” categories for capital adequacy purposes pursuant to the FDIC Improvement Act of 1991.

### Stock Repurchases

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. Repurchases under the 2015 Program were made from time to time by the Company in the open market. All such transactions were structured to comply with Securities and Exchange Commission Rule 10b-18 and all shares repurchased under the 2015 Program were retired.

The following table lists shares repurchased during the quarter ended December 31, 2015 and the maximum amount available to repurchase under the repurchase plan.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share  (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
Month #1	—	—	—	—

October 1  
through October  
31, 2015  
Month #2

November 1  
through  
November 30,  
2015  
Month #3

December 1  
through  
December 31,  
2015

Total  
30

—	—	—	—
—	—	—	—
—	—	—	N/A

The Company repurchased 424,462 shares in 2014, 575,389 shares in 2013, and 849,404 shares in 2012 and did not repurchase any of its shares in 2011 or 2010. Share amounts have been adjusted for stock dividends and/or splits.

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.

**Item 6. 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	
<b>Operations Data:</b>						
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	
<b>Share Data:</b>						
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	
<b>Balance Sheet Data:</b>						
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	
<b>Financial Ratios:</b>						
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.

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## **Item 7. 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 on Form 10-K including, but not limited to, matters described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," 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" in this report 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

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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.

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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.

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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)	Avg Balance	Interest	Avg Yield	Avg Balance	Interest	Avg Yield	Avg Balance	Interest	Avg Yield	
<b>Assets:</b>										
<b>Earning assets:</b>										
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	562,066	21,340	3.80 %	539,334	20,242	3.75 %	511,868	19,170	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	(5,271 )			(5,544 )			(5,769 )			
	\$623,049			\$605,247			\$590,411			
<b>Liabilities &amp; Shareholders' Equity:</b>										
<b>Interest bearing liabilities:</b>										
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	356,052	961	0.27 %	355,872	1,168	0.33 %	349,329	1,490	0.43 %	
Demand deposits	173,130			155,537			144,710			
Other liabilities	6,537			6,275			5,978			
Total liabilities	535,719			517,684			500,017			
Shareholders' equity	87,330			87,563			90,394			

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\$623,049    \$605,247    \$590,411

Net interest income & margin (3)	\$20,379    3.63 %	\$19,074    3.54 %	\$17,680    3.45 %
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(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.

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**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	1,383	(285 )	1,098

Interest-bearing liabilities:

Demand deposits	(11 )	(165 )	(176 )
Savings deposits	4	(15 )	(11 )
Time deposits	(15 )	(2 )	(17 )
Other borrowings	37	(40 )	(3 )
Total	15	(222 )	(207 )
Interest differential	\$ 1,368	\$ (63 )	\$ 1,305

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	474	591	1,065

Interest-bearing liabilities:			
Demand deposits	40	(95 )	(55 )
Savings deposits	3	(30 )	(27 )
Time deposits	(41 )	(53 )	(94 )
Other borrowings	(97 )	(49 )	(146 )
Total	(95 )	(227 )	(322 )
Interest differential	\$ 569	\$ 818	\$ 1,387

- (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		
	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
	\$2,015	\$2,177	\$2,015

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



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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
	\$2,962	\$3,377	\$3,087

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

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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

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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



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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.

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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	326		(496)	)	635		2,625		4,169	
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 in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of 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 in each category to total loans	Amount	Percent of 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. See Part II, Item 5, “Stock Repurchases” for more information regarding stock repurchases.

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 Carrying Amount	Weighted Average Yield	2014 Carrying Amount	Weighted Average Yield	2013 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 %



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Total investment securities	\$623	4.68	%	\$862	4.60	%	\$1,185	4.57	%
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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.

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## 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
	\$26,730	\$32,639
Letters of credit	\$238	\$356

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

Less than

More than

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	Total	1 year	1-3 years	3-5 years	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

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## Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (the “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.

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.

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.

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The information required by Item 7A of Form 10-K is contained in the “Market Risk Management” section of Item 7-“Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 52.

**Item 8. Financial Statements and Supplementary Data.**

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All schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Consolidated Financial Statements or notes thereto.

**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.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California

February 25, 2016

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**AMERICAN RIVER BANKSHARES AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2015 and 2014****(Dollars in thousands)**

	2015	2014
<b>ASSETS</b>		
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
	<b>\$634,640</b>	<b>\$617,754</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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
	\$634,640	\$617,754

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	20,968	19,965	18,881
Interest expense:			
Interest on deposits (Note 9)	817	1,021	1,197
Interest on borrowings	144	147	293
Total interest expense	961	1,168	1,490
Net interest income	20,007	18,797	17,391
Provision for loan and lease losses (Note 7)	—	(541 )	200
Net interest income after provision for loan and lease losses	20,007	19,338	17,191
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	2,015	2,177	2,015
Noninterest expense:			
Salaries and employee benefits (Notes 6 and 16)	8,528	8,776	8,516
Other real estate expense	322	364	936

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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	14,080	14,862	14,891
Income before provision for income taxes	7,942	6,653	4,315
Provision for income taxes (Note 11)	2,674	2,292	1,258
Net income	\$5,268	\$4,361	\$3,057
Basic earnings per share (Note 13)	\$0.70	\$0.54	\$0.34
Diluted earnings per share (Note 13)	\$0.70	\$0.54	\$0.34
Cash dividends per share of issued and outstanding common stock	\$—	\$—	\$—

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)**

	2015	2014	2013
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	(1,118)	2,373	(3,140)
Reclassification adjustment for realized gains included in net income	(251 )	(208 )	(36 )
Tax effect	101	83	14
Realized gains, net of tax	(150 )	(125 )	(22 )
Total other comprehensive (loss) income	(1,268)	2,248	(3,162)
Comprehensive income (loss)	\$4,000	\$6,609	\$(105 )

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)

	Common Stock		Retained	Accumulated Other Comprehensive Income	Total Share holders' Equity
	Shares	Amount	Earnings	(Net of Taxes)	
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:					

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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	7,343,649		\$49,554		\$34,418		\$2,103	
							\$86,075	

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)

	2015	2014	2013
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	8,777	8,983	11,447
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 )



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Net (increase) decrease in FHLB stock	(93 )	(438 )	6
Net cash used in investing activities	(19,653)	(22,337)	(45,394 )

(Continued)

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**AMERICAN RIVER BANKSHARES AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Continued)

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

	<b>2015</b>	<b>2014</b>	<b>2013</b>
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	12,154	17,855	(3,566 )
Increase (decrease) in cash and cash equivalents	1,278	4,501	(37,513)
Cash and cash equivalents at beginning of year	22,449	17,948	55,461
Cash and cash equivalents at end of year	\$23,727	\$22,449	\$17,948
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.

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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

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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

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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

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## 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 reprice 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			Total Gains (Losses)
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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	—	—

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Obligations of states and political subdivisions	26,013	—	26,013	—	—
Corporate stock	70	24	46	—	—
Total recurring	\$273,819	\$ 24	\$ 273,795	\$ —	\$ —
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## AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## 3. FAIR VALUE MEASUREMENTS (Continued)

(Dollars in thousands)		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Gains (Losses)
December 31, 2015	Fair Value	(Level 1)	(Level 2)	(Level 3)	(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	\$7,451	\$ —	\$ —	\$ 7,451	\$ (334 )

(Dollars in thousands)		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total Gains (Losses)
December 31, 2014	Fair Value	(Level 1)	(Level 2)	(Level 3)	(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	—	—

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Obligations of states and political subdivisions	26,289	—	26,289	—	—
Corporate stock	77	28	49	—	—
Total recurring	\$289,064	\$ 28	\$ 289,036	\$ —	\$ —
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	\$3,447	\$ —	\$ —	\$ 3,447	\$ (46 )
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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
	\$270,315	\$ 4,434	\$ (930 )	\$273,819
	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
	\$283,446	\$ 6,240	\$ (622 )	\$289,064

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 Realized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 623	\$ 46	\$ —	\$ 669

	2014			
	Amortized Cost	Gross Realized 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		

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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	—	—
	\$270,315	\$273,819	\$ 623	\$ 669

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

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Obligations of states and political subdivisions	—	—	649	(20	)	649	(20	)	
	\$57,145	\$ (503	)	\$10,655	\$ (119	)	\$67,800	\$ (622	)

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									
	Real Estate				Other					
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
<u>Allowance for Loan and Lease Losses</u>										
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	\$860	\$2,369	\$228	\$813	\$319	\$1	\$77	\$78	\$230	\$4,975
Ending balance: Individually evaluated for impairment	\$25	\$598	\$5	\$—	\$204	\$—	\$38	\$29	\$—	\$899
Ending balance: Collectively evaluated for impairment	\$835	\$1,771	\$223	\$813	\$115	\$1	\$39	\$49	\$230	\$4,076

Loans

Ending balance	\$36,195	\$199,591	\$23,494	\$14,533	\$14,200	\$732	\$2,431	\$3,122	\$—	\$294,298
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