AMERICAN RIVER BANKSHARES
Form 10-Q
August 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015
or

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

For the transition period from to

Commission File Number: 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

California	68-0352144
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3100 Zinfandel Drive, Suite 450, Rancho Cordova, California	95670
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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 x No o

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

Yes x No o

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

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

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

Yes o No x

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

No par value Common Stock – 7,570,157 shares outstanding at August 5, 2015.

AMERICAN RIVER BANKSHARES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2015

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$18,009	$ 22,449
Interest-bearing deposits in banks	1,000	1,000
Investment securities:		
Available-for-sale, at fair value	276,211	289,064
Held-to-maturity, at amortized cost	740	862
Loans and leases, less allowance for loan and lease losses of $5,359 at June 30, 2015 and $5,301 at December 31, 2014	275,353	258,057
Premises and equipment, net	1,461	1,518
Federal Home Loan Bank stock	3,779	3,686
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	3,781	4,647
Bank owned life insurance	14,326	14,167
Accrued interest receivable and other assets	5,909	5,983
	$616,890	$ 617,754
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$173,324	$ 155,698
Interest-bearing	338,659	354,995
Total deposits	511,983	510,693
Short-term borrowings	3,500	3,500
Long-term borrowings	7,500	7,500
Accrued interest payable and other liabilities	5,716	6,414
Total liabilities	528,699	528,107
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none outstanding		
	53,307	57,126

Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 7,730,157 shares at June 30, 2015 and 8,089,615 shares at December 31, 2014		
Retained earnings	31,492	29,150
Accumulated other comprehensive income, net of taxes	3,392	3,371
Total shareholders' equity	88,191	89,647
	$616,890	$ 617,754

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)				
For the periods ended June 30,	Three months		Six months	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	$3,424	$3,520	$6,719	$6,975
Interest on deposits in banks	1	1	2	2
Interest and dividends on investment securities:				
Taxable	1,657	1,340	3,073	2,678
Exempt from Federal income taxes	191	200	381	402
Dividends	10	6	10	6
Total interest income	5,283	5,067	10,185	10,063
Interest expense:				
Interest on deposits	208	254	422	516
Interest on borrowings	36	37	70	79
Total interest expense	244	291	492	595
Net interest income	5,039	4,776	9,693	9,468
Provision for loan and lease losses	—	—	—	—
Net interest income after provision for loan and lease losses	5,039	4,776	9,693	9,468
Noninterest income:				
Service charges on deposit accounts	127	149	244	305
Gain on sale of securities	51	17	218	17
Rental income from other real estate owned	90	105	161	212
Other noninterest income	239	237	469	476
Total noninterest income	507	508	1,092	1,010
Noninterest expense:				
Salaries and employee benefits	2,045	2,117	4,315	4,237
Occupancy	301	296	594	603
Furniture and equipment	179	188	356	366
Federal Deposit Insurance Corporation assessments	76	91	156	194
Expenses related to other real estate owned	55	123	202	122
Other expense	759	884	1,605	1,830
Total noninterest expense	3,415	3,699	7,228	7,352
Income before provision for income taxes	2,131	1,585	3,557	3,126
Provision for income taxes	745	550	1,215	1,085

Net income	$1,386	$1,035	$2,342	$2,041
Basic earnings per share	$0.18	$0.13	$0.30	$0.25
Diluted earnings per share	$0.18	$0.13	$0.30	$0.25
Cash dividends per share	$0.00	$0.00	$0.00	$0.00

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data) For the periods ended June 30,	Three months		Six months	
	2015	2014	2015	2014
Net income	$1,386	$1,035	$2,342	$2,041
Other comprehensive (loss) income:				
Unrealized holding (losses) gains on investment securities arising during the period	(1,847)	2,479	254	4,316
Deferred tax benefit (expense)	739	(991)	(102)	(1,726)
Unrealized holding (losses) gains on investment securities arising during the period, net of tax	(1,108)	1,488	152	2,590
Reclassification adjustment for realized gains included in net income	(51)	(17)	(218)	(17)
Tax effect	20	7	87	7
Realized gains, net of tax	(31)	(10)	(131)	(10)
Total other comprehensive (loss) income	(1,139)	1,478	21	2,580
Comprehensive income	$247	$2,512	$2,363	$4,621

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2014	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				2,248	2,248
Net restricted stock awarded and related compensation expense	24,830	147			147
Stock option compensation expense		19			19
Retirement of common stock	(424,462)	(4,148)			(4,148)
Balance, December 31, 2014	8,089,615	57,126	29,150	3,371	89,647
Net income			2,342		2,342
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				21	21
Net restricted stock award activity and related compensation expense	45,023	111			111
Stock option compensation expense		15			15
Retirement of common stock	(404,481)	(3,945)			(3,945)
Balance, June 30, 2015	7,730,157	$53,307	$31,492	$ 3,392	$ 88,191

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)
For the six months ended June 30,

	2015	2014
Cash flows from operating activities:		
Net income	$2,342	$2,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	—
Decrease in deferred loan origination fees, net	(29)	(65)
Depreciation and amortization	212	226
Gain on sale and call of investment securities	(218)	(17)
Amortization of investment security premiums and discounts, net	1,798	2,451
Increase in cash surrender values of life insurance policies	(159)	(129)
Stock based compensation expense	126	71
Loss (gain) on sale and write-down of other real estate owned	68	(106)
Decrease in accrued interest receivable and other assets	61	162
Decrease in accrued interest payable and other liabilities	(698)	(731)
Net cash provided by operating activities	3,503	3,903
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	15,383	2,632
Proceeds from matured available-for-sale investment securities	—	105
Proceeds from called available-for-sale investment securities	—	270
Purchases of available-for-sale investment securities	(28,393)	(27,600)
Proceeds from principal repayments for available-for-sale investment securities	24,317	19,262
Proceeds from principal repayments for held-to-maturity investment securities	122	171
Net (increase) decrease in loans	(17,267)	5,103
Proceeds from sale of other real estate	924	106
Capitalized additions to other real estate	(126)	(54)
Net increase in FHLB stock	(93)	(438)
Purchases of equipment	(155)	(321)
Net cash used in investing activities	(5,288)	(764)

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)
For the six months ended June 30,

	2015	2014
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	$1,343	$10,604
Net decrease in time deposits	(53)	(3,436)
Net decrease in short-term borrowings	—	(6,500)
Net increase in long-term borrowings	—	1,500
Cash paid to repurchase common stock	(3,945)	(4,148)
Net cash used in financing activities	$(2,655)	$(1,980)
(Decrease) increase in cash and cash equivalents	(4,440)	1,159
Cash and cash equivalents at beginning of year	22,449	17,948
Cash and cash equivalents at end of period	$18,009	$19,107

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the “Company:”) at June 30, 2015 and December 31, 2014, the results of its operations and statement of comprehensive income for the three-month and six-month periods ended June 30, 2015 and 2014, its cash flows for the six-month periods ended June 30, 2015 and 2014 and its statement of changes in shareholders’ equity for the year ended December 31, 2014 and the six months ended June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2014 annual report on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2015 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes, the valuation of goodwill and the estimated fair value of investment securities, impaired loans and other real estate owned.

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

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 198,281 options remain outstanding at June 30, 2015. At June 30, 2015, under the 2010 Plan, there were 76,461 stock options and 60,790 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,399,259. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonqualified option agreements, restricted stock agreements, and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is awarded. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

The award date fair value of awards is determined by the market price of the Company's common stock on the date of award and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock awarded pursuant to such agreements vest in increments over one to five years from the date of award. The shares awarded to employees and directors under the restricted stock agreements vest on the applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated.

Equity Compensation

For the three-month periods ended June 30, 2015 and 2014, the compensation cost recognized for equity compensation was $71,000 and $38,000, respectively. The recognized tax benefit for equity compensation expense was $25,000 and $13,000, respectively, for the three-month periods ended June 30, 2015 and 2014. For the six-month periods ended June 30, 2015 and 2014, the compensation cost recognized for equity compensation was $126,000 and $71,000, respectively. The recognized tax benefit for equity compensation expense was $45,000 and $25,000, respectively, for the six-month periods ended June 30, 2015 and 2014.

At June 30, 2015, the total compensation cost related to nonvested stock option awards not yet recorded was $159,000. This amount will be recognized over the next 5.0 years and the weighted average period of recognizing these costs is expected to be 2.5 years. At June 30, 2015, the total compensation cost related to restricted stock awards not yet recorded was $484,000. This amount will be recognized over the next 5.0 years and the weighted average period of recognizing these costs is expected to be 2.0 years.

Equity Plans Activity

Stock Options

There were 26,427 stock options awarded during the three-month and six-month periods ended June 30, 2015 at an average exercise price of $9.56. There were 32,705 stock options awarded during the three-month and six-month periods ended June 30, 2014 at an average exercise price of $8.85. The weighted average award date fair value of options awarded for the three-month and six-month periods ended June 30, 2015 was $3.24. The weighted average award date fair value of options awarded for the three-month and six-month periods ended June 30, 2014 was $2.44. A summary of option activity under the Plans as of June 30, 2015 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2015	271,700	$ 16.27	3.1 years	$ 82
Awarded	26,427	9.56	—	—
Exercised	—	—	—	—
Cancelled	23,385	18.11	—	—
Outstanding at June 30, 2015	274,742	$ 15.47	3.8 years	$ 90
Vested at June 30, 2015	215,205	$ 17.27	2.4 years	$ 62
Non-vested at June 30, 2015	59,537	$ 8.96	9.1 years	$ 28

Restricted Stock

There were 24,491 and 45,023 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2015, respectively. There were 24,830 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2014. Of the restricted shares awarded in 2015, 12,552 restricted shares vest one year from the date of the award, 11,939 vest over five years at 20% per year from the date of the award, and 20,532 are performance based awards and must meet minimum performance criteria before they begin to vest. If the performance metrics are not met, up to 100% of the award may be forfeited and if the performance metrics are exceeded, the awards may be increased by up to 150% of the original award. Of the restricted shares awarded in 2014, 13,560 restricted shares vested one year from the date of the award and 11,270 shares vest over five years at 20% per year from the date of the award. Award date fair value is determined by the market price of the Company's common stock on the date of award ($9.41 on March 18, 2015, $9.56 on May 22, 2015 and $8.85 on May 22, 2014).

There were 17,071 restricted share awards that were fully vested during the three-month and six-month periods ended June 30, 2015 and there were 12,710 restricted share awards that were fully vested during the three-month and six-month periods ended June 30, 2014. There were zero restricted share awards that had been forfeited during the three-month and six-month periods ended June 30, 2015 and June 30, 2014.

Restricted Stock	Shares	Weighted Average Award Date Fair Value
Nonvested at January 1, 2015	32,838	$ 8.31
Awarded	45,023	9.49
Less: Vested	17,071	8.72
Less: Cancelled	—	—
Nonvested at June 30, 2015	60,790	$ 9.07

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three-month or six-month month periods ended June 30, 2015 or 2014.

The intrinsic value used for stock options and restricted stock awards was derived from the market price of the Company’s common stock of $9.32 as of June 30, 2015.

3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately $33,016,000 and standby letters of credit of approximately $363,000 at June 30, 2015 and loan commitments of approximately $32,639,000 and standby letters of credit of approximately $356,000 at December 31, 2014. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2015 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory, insurance programs, performance obligations to government agencies, or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2015 or December 31, 2014.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (7,659,883 and 7,740,320 shares for the three-month and six-month periods ended June 30, 2015, and 8,082,638 and 8,201,383 for the three-month and six-month periods ended June 30, 2014). Diluted earnings per share reflect 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. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 14,828 and 13,999, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2015 and 9,276 and 10,515, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2014. For the three-month periods ended June 30, 2015 and 2014, there were 214,066 and 211,024 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. For the six-month periods ended June 30, 2015 and 2014, there were 214,066 and 211,024 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at June 30, 2015 and December 31, 2014 consisted of the following (dollars in thousands):

Available-for-Sale

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	$244,244	$ 4,686	$ (327)	$248,603
Obligations of states and political subdivisions	24,756	1,226	(30)	25,952
Corporate bonds	1,503	72	—	1,575
Equity securities:				
Corporate stock	54	27	—	81
	$270,557	$ 6,011	$ (357)	$276,211

	December 31, 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 bonds	1,504	79	—	1,583
Equity securities:				
Corporate stock	54	23	—	77
	$283,446	$ 6,240	$ (622)	$289,064

Net unrealized gains on available-for-sale investment securities totaling $5,654,000 were recorded, net of $2,262,000 in tax liabilities, as accumulated other comprehensive income within shareholders’ equity at June 30, 2015. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended June 30, 2015 totaled $5,473,000 and $51,000, respectively, and for the six-month period ended June 30, 2015 totaled $15,383,000 and $218,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 30, 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 and call of available-for-sale investment securities for the three-month period ended June 30, 2014 totaled $2,615,000 and $17,000, respectively, and for the six-month period ended June 30, 2014 totaled $2,885,000 and $17,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 30, 2014.

Held-to-Maturity

June 30, 2015

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	$ 740	$ 56	$ —	$ 796

December 31, 2014

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	$ 862	$ 60	$ —	$ 922

There were no sales or transfers of held-to-maturity investment securities for the periods ended June 30, 2015 and June 30, 2014. Investment securities with unrealized losses at June 30, 2015 and December 31, 2014 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

June 30, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	$38,764	$ (289)	3,746	(38)	$42,510	$ (327)
Obligations of states and political subdivisions	755	(9)	640	(21)	1,395	(30)
	$39,519	$ (298)	$4,386	$ (59)	$43,905	$ (357)

December 31, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	$57,145	$ (503)	$10,006	$ (99)	$67,151	$ (602)
Obligations of states and political subdivisions	—	—	649	(20)	649	(20)
	$57,145	$ (503)	$10,655	$ (119)	$67,800	$ (622)

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2015 or December 31, 2014.

At June 30, 2015, the Company held 222 securities of which 20 were in a loss position for less than twelve months and three were in a loss position for twelve months or more. Of the 20 securities in a loss position for less than twelve months, 19 were U.S. Government Agencies and Sponsored Agencies securities and one was obligations of states or political subdivisions and of the three securities that were in a loss position for greater than twelve months, two were U.S. Government Agencies and Sponsored Agencies securities and one was an obligation of a states or political subdivisions.

At December 31, 2014, the Company held 223 securities of which 25 were in a loss position for less than twelve months and six were in a loss position for twelve months or more. Of the 25 securities in a loss position for less than twelve months, 22 were US Government Agencies and Sponsored Agencies securities and three were obligations of states or political subdivisions and of the six securities that were in a loss position for greater than twelve months, five were U.S. Government Agencies and Sponsored Agencies securities and one was an obligation of a states or political subdivisions.

The unrealized loss on the Company's investments in mortgage-backed securities, obligations of states and political subdivisions, and corporate bonds, 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 until maturity, management does not consider these investments to be other-than-temporarily impaired.

The amortized cost and estimated fair values of investment securities at June 30, 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	$175	$176		
After one year through five years	3,810	3,960		
After five years through ten years	13,405	14,051		
After ten years	8,869	9,340		
	26,259	27,527		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	244,244	248,603	$ 740	$ 796
Corporate stock	54	81	—	—
	$270,557	$276,211	$ 740	$ 796

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.

6. IMPAIRED AND NONPERFORMING LOANS AND LEASES AND OTHER REAL ESTATE OWNED

At June 30, 2015 and December 31, 2014, the recorded investment in nonperforming loans and leases was approximately $2,454,000 and $1,653,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. 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 contractual terms of the original loan agreement. At June 30, 2015, the recorded investment in loans and leases that were considered to be impaired totaled $23,816,000, which includes $2,369,000 in nonaccrual loans and leases and $21,447,000 in performing loans and leases. Of the total impaired loans of $23,816,000, loans totaling $12,325,000 were deemed to require no specific reserve and loans totaling $11,491,000 were deemed to require a related valuation allowance of $1,453,000. At 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. If interest had been accruing on the nonperforming loans, such income would have approximated $46,000 and $15,000 for the three months ended June 30, 2015 and 2014, respectively, and approximated $69,000 and $54,000 for the six months ended June 30, 2015 and 2014, respectively.

At June 30, 2015 and December 31, 2014, the balance in other real estate owned ("OREO") was $3,781,000 and $4,647,000, respectively. At June 30, 2015, the Company did not own any residential OREO properties and there were $338,000 of residential properties in the process of foreclosure. During the first quarter of 2015, the Company sold two adjoining parcels of land in Sacramento County that did not result in a gain or loss at the time of sale; however, prior to sale, the book value of this property was adjusted by $76,000 with a charge to expense during the first quarter of 2015. The Company did not add any properties to OREO during the first quarter of 2015. During the second quarter of 2015, the Company did not foreclose on any property and an OREO property in Amador County consisting of unimproved land was sold. No gain or loss was recorded as a result of the sale.

The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the second quarter of 2015, this valuation process did not result in the Company adjusting any book values.

The June 30, 2015, the OREO balance of $3,781,000 consisted of four properties including two commercial real estate properties in the total amount of $2,522,000 and two commercial unimproved land properties totaling $1,259,000.

Nonperforming assets at June 30, 2015 and December 31, 2014 are summarized as follows:

(in thousands)	June 30, 2015	December 31, 2014
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$ 96	$ 13
Nonaccrual loans and leases that are past due	2,358	1,640
Loans and leases past due 90 days and accruing interest	—	—
Other assets	878	878
Other real estate owned	3,781	4,647
Total nonperforming assets	$ 7,113	$ 7,178
Nonperforming loans and leases to total loans and leases	0.87 %	0.63 %
Total nonperforming assets to total assets	1.15 %	1.16 %

Impaired loans and leases as of and for the periods ended June 30, 2015 and December 31, 2014 are summarized as follows:

(in thousands)	As of June 30, 2015			As of December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$36	$36	$ —	$—	$—	$ —
Real estate-commercial	11,951	12,584	—	10,684	11,398	—
Real estate-residential	338	425	—	338	425	—
Consumer	—	—	—	37	37	—
Subtotal	$12,325	$13,045	$ —	$11,059	$11,860	$ —
With an allowance recorded:						
Commercial	$728	$728	$ 540	$769	$769	$ 344
Real estate-commercial	7,287	7,386	630	9,773	9,857	949
Real estate-multi-family	492	492	7	496	496	38
Real estate-residential	2,496	2,609	232	2,524	2,637	237
Agriculture	376	376	11	381	381	13
Consumer	112	112	33	118	118	22

Subtotal	$11,491	$11,703	$ 1,453	$14,061	$14,258	$ 1,603
Total:						
Commercial	$764	$764	$ 540	$769	$769	$ 344
Real estate-commercial	19,238	19,970	630	20,457	21,255	949
Real estate-multi-family	492	492	7	496	496	38
Real estate-residential	2,834	3,034	232	2,862	3,062	237
Agriculture	376	376	11	381	381	13
Consumer	112	112	33	155	155	22
	$23,816	$24,748	$ 1,453	$25,120	$26,118	$ 1,603

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The following table presents the average balance related to impaired loans and leases for the periods indicated (in thousands):

	Average Recorded Investments for the three months ended		Average Recorded Investments for the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Commercial	$ 757	$ 1,610	$ 794	$ 1,517
Real estate-commercial	19,796	19,218	19,383	19,029
Real estate-multi-family	492	1,644	494	1,642
Real estate-construction	—	246	—	245
Real estate-residential	2,840	2,912	2,848	2,908
Agriculture	377	194	378	389
Consumer	132	164	115	164
Total	$ 24,394	$ 25,988	$ 24,012	$ 25,894

The following table presents the interest income recognized on impaired loans and leases for the periods indicated (in thousands):

	Interest Income Recognized for the three months ended		Interest Income Recognized for the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Commercial	$ 3	$ 9	$ 5	$ 22
Real estate-commercial	216	237	472	484
Real estate-multi-family	7	19	12	38
Real estate-construction	—	3	—	6
Real estate-residential	32	29	63	67
Agriculture	5	10	8	10
Consumer	—	—	1	2
Total	$ 263	$ 307	$ 561	$ 629

7. TROUBLED DEBT RESTRUCTURINGS

At June 30, 2015, there were 17 loans and leases that were considered to be troubled debt restructurings. Of these loans and leases, 11 are currently performing (less than ninety days past due) totaling $8,893,000 and six are considered nonperforming (and included in the $2,454,000 discussed in Note 6), totaling $1,871,000. Of the six troubled debt restructurings considered nonperforming, one is current to the modified terms. At June 30, 2015 and December 31, 2014, there were no unfunded commitments on those loans considered troubled debt restructures.

The Company has allocated $734,000 and $829,000 of specific reserves to loans whose terms have been modified as troubled debt restructurings as of June 30, 2015 and December 31, 2014.

During the six-month period ended June 30, 2015, the terms of seven loans were modified as a troubled debt restructuring. The modifications of the terms of these loans were a line of credit converted to a term loan, extensions of the maturity date and/or interest rates lower than the original loan rate.

The following table presents loans by class modified as troubled debt restructurings during the three months ended June 30, 2015 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	1	$ 47	$ 47
Real estate – commercial	2	1,650	1,650
Real estate – residential	1	255	255
Consumer	1	23	23
Total	5	$ 1,975	$ 1,975

The following table presents loans by class modified as troubled debt restructurings during the six months ended June 30, 2015 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	1	$ 47	$ 47
Real estate – commercial	4	2,167	2,167
Real estate – residential	1	255	255
Consumer	1	23	23
Total	7	$ 2,492	$ 2,492

The troubled debt restructurings described above increased the allowance for loan and lease losses by $170,000 and resulted in no charge-offs during the six months ended June 30, 2015.

The following table presents loans by class modified as troubled debt restructurings during the three months ended June 30, 2014 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	1	$ 213	$ 213
Consumer	1	46	46
Total	2	$ 259	$ 259

The following table presents loans by class modified as troubled debt restructurings during the six months ended June 30, 2014 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	5	$ 5,109	$ 5,109
Consumer	1	46	46
Total	6	$ 5,155	$ 5,155

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The troubled debt restructurings described above increased the allowance for loan and lease losses by $151,000 and resulted in no charge-offs during the six months ended June 30, 2014.

There were no payment defaults on troubled debt restructurings within 12 months following the modification for the three-month and six-month periods ended June 30, 2014 and June 30, 2015.

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of June 30, 2015 and December 31, 2014 are summarized below:

June 30, 2015	Credit Risk Profile by Internally Assigned Grade				
(dollars in thousands)		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$27,183	$169,711	$ 16,922	$ 6,838	$ 9,243
Watch	1,247	12,853	498	5,114	2,305
Special mention	—	14,031	—	325	743
Substandard	3,604	1,800	—	—	833
Doubtful	—	—	—	—	—
Total	$32,034	$198,395	$ 17,420	$ 12,277	$ 13,124

	Credit Risk Profile by Internally Assigned Grade			
	Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$981	$2,063	$ 2,775	$ 235,716
Watch	—	—	1,124	23,141
Special mention	—	376	229	15,704
Substandard	—	—	172	6,409
Doubtful	—	—	—	—
Total	$981	$2,439	$ 4,300	$ 280,970

December 31, 2014	Credit Risk Profile by Internally Assigned Grade				
(dollars in thousands)		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$20,179	$163,091	$ 13,663	$ 3,327	$ 9,364
Watch	1,280	13,724	504	4,372	2,504
Special mention	101	13,583	—	329	603
Substandard	3,626	3,473	—	—	838
Doubtful or loss	—	—	—	—	—

Total	$25,186	$193,871	$ 14,167	$ 8,028	$ 13,309

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure				
	Leases	Agriculture	Consumer		Total
Grade:					
Pass	$1,286	$2,501	$ 3,424		$ 216,835
Watch	—	—	1,041		23,425
Special mention	—	381	268		15,265
Substandard	—	—	183		8,120
Doubtful or loss	—	—	—		—
Total	$1,286	$2,882	$ 4,916		$ 263,645

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The allocation of the Company's allowance for loan and lease losses and by portfolio segment and by impairment methodology are summarized below:

June 30, 2015 (dollars in thousands)		Real Estate				Other			
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unalloc
Allowance for Loan and Lease Losses									
Beginning balance, January 1, 2015	$1,430	$2,317	$130	$583	$399	$2	$62	$124	$254
Provision for loan losses	199	(389)	(23)	224	(14)	—	(12)	2	13
Loans charged off	—	—	—	—	—	(1)	—	(6)	—
Recoveries	23	40	—	—	—	—	—	2	—
Ending balance, June 30, 2015	$1,652	$1,968	$107	$807	$385	$1	$50	$122	$267
Ending balance: Individually evaluated for impairment	$540	$630	$7	$—	$232	$—	$11	$33	$—
Ending balance: Collectively evaluated for impairment	$1,112	$1,338	$100	$807	$153	$1	$39	$89	$267
Loans									
Ending balance	$32,034	$198,395	$17,420	$12,277	$13,124	$981	$2,439	$4,300	$—
Ending balance: Individually evaluated for impairment	$764	$19,238	$492	$—	$2,834	$—	$376	$112	$—
Ending balance: Collectively evaluated for impairment	$31,270	$179,157	$16,928	$12,277	$10,290	$981	$2,063	$4,188	$—
Allowance for Loan and Lease Losses									
Beginning balance, March 31, 2015	$1,403	$2,284	$120	$680	$392	$1	$55	$132	$241
Provision for loan losses	232	(355)	(13)	127	(7)	1	(5)	(6)	26
Loans charged off	—	—	—	—	—	(1)	—	(4)	—
Recoveries	17	39	—	—	—	—	—	—	—
Ending balance, June 30, 2015	$1,652	$1,968	$107	$807	$385	$1	$50	$122	$267

December 31, 2014

(dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Ending balance:										
Individually evaluated for impairment	$ 344	$ 949	$ 38	$ —	$ 237	$ —	$ 13	$ 22	$ —	$ 1,603
Ending balance:										
Collectively evaluated for impairment	$ 1,086	$ 1,368	$ 92	$ 583	$ 162	$ 2	$ 49	$ 102	$ 254	$ 3,698

<u>Loans</u>