

AMERICAN RIVER BANKSHARES

Form 10-Q

November 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 Number: 0-31525

AMERICAN RIVER BANKSHARES

(Exact name of registrant as specified in its charter)

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

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 S 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 S No £

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

Large accelerated filer £

Accelerated filer £

Non-accelerated filer S (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 Exchange Act).

Yes £ No S

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 – 9,327,920 shares outstanding at November 6, 2012.

AMERICAN RIVER BANKSHARES

**INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

<u>Part I.</u>	Page
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	47
<u>Item 4. Controls and Procedures</u>	48
 <u>Part II.</u>	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3. Defaults Upon Senior Securities</u>	49
<u>Item 4. Mine Safety Disclosures</u>	49
<u>Item 5. Other Information</u>	49
<u>Item 6. Exhibits</u>	50
 <u>Signatures</u>	54
 <u>Exhibit Index</u>	55
3.2 Bylaws, as amended	56
31.1 Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	97
31.2 Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	98
32.1 Certification of American River Bankshares by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	99
 101.INS XBRL Instance Document	
101.SCH XBRL Taxonomy Extension Schema	
101.CAL XBRL Taxonomy Extension Calculation	
101.DEF XBRL Taxonomy Extension Definition	
101.LAB XBRL Taxonomy Extension Label	
101.PRE XBRL Taxonomy Extension Presentation	

Table of Contents**PART I-FINANCIAL INFORMATION****Item 1. Financial Statements.**

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 28,651	\$ 23,768
Interest-bearing deposits in banks	1,000	1,250
Investment securities:		
Available-for-sale, at fair value	227,906	208,711
Held-to-maturity, at amortized cost	2,740	4,010
Loans and leases, less allowance for loan and lease losses of \$5,934 at September 30, 2012 and \$7,041 at December 31, 2011	270,196	293,731
Premises and equipment, net	2,182	2,355
Federal Home Loan Bank stock	3,254	3,093
Goodwill and other intangible assets	16,354	16,504
Other real estate owned	13,681	8,190
Bank owned life insurance	11,491	11,225
Accrued interest receivable and other assets	7,103	8,681
	\$ 584,558	\$ 581,518
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 137,289	\$ 133,440
Interest-bearing	329,436	328,845
Total deposits	466,725	462,285
Short-term borrowings	2,000	5,000
Long-term borrowings	16,000	14,000
Accrued interest payable and other liabilities	5,987	6,134
Total liabilities	490,712	487,419

Commitments and contingencies

Shareholders' equity:

Preferred stock, no par value; 20,000,000 shares authorized; none

Outstanding

Common stock, no par value; 20,000,000 shares authorized; issued and outstanding –
9,327,920 shares at September 30, 2012 and 9,890,909 shares at December 31, 2011

Retained earnings

Accumulated other comprehensive income, net of taxes

Total shareholders' equity

67,947	72,016
20,862	18,525
5,037	3,558
93,846	94,099
\$ 584,558	\$ 581,518

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended September 30, 2012

	Three months		Nine months	
	2012	2011	2012	2011
Interest income:				
Interest and fees on loans	\$4,101	\$4,777	\$12,655	\$14,619
Interest on deposits in banks	2	7	8	18
Interest and dividends on investment securities:				
Taxable	1,007	1,099	2,828	3,251
Exempt from Federal income taxes	224	187	673	503
Dividends	—	—	4	—
Total interest income	5,334	6,070	16,168	18,391
Interest expense:				
Interest on deposits	395	541	1,248	1,764
Interest on borrowings	75	99	206	279
Total interest expense	470	640	1,454	2,043
Net interest income	4,864	5,430	14,714	16,348
Provision for loan and lease losses	410	550	1,365	3,625
Net interest income after provision for loan and lease losses	4,454	4,880	13,349	12,723
Noninterest income:				
Service charges on deposit accounts	173	185	563	568
Gain on sale of securities	1	326	76	353
Rental income from OREO properties	261	—	653	—
Other noninterest income	277	239	807	716
Total noninterest income	712	750	2,099	1,637
Noninterest expense:				
Salaries and employee benefits	2,104	2,219	6,339	6,342
Occupancy	299	275	893	842
Furniture and equipment	214	167	606	528
Federal Deposit Insurance Corporation assessments	140	172	422	712
Expenses related to other real estate owned	573	260	1,415	969
Other expense	889	893	2,707	2,841
Total noninterest expense	4,219	3,986	12,382	12,234
Income before provision for income taxes	947	1,644	3,066	2,126

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Provision for income taxes	167	595	729	650
Net income	\$780	\$1,049	\$2,337	\$1,476
Basic earnings per share	\$0.08	\$0.11	\$0.24	\$0.15
Diluted earnings per share	\$0.08	\$0.11	\$0.24	\$0.15
Cash dividends per share	\$0.00	\$0.00	\$0.00	\$0.00

See notes to Unaudited Consolidated Financial Statements

Table of Contents

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended September 30,

	Three months		Nine months	
	2012	2011	2012	2011
Net income	\$780	\$1,049	\$2,337	\$1,476
Other comprehensive income:				
Increase in net unrealized gains on investment securities	1,132	1,706	2,543	3,580
Deferred tax expense	(453)	(682)	(1,018)	(1,432)
Increase in net unrealized gains on investment securities, net of tax	679	1,024	1,525	2,148
Reclassification adjustment for realized gains included in net income	(1)	(326)	(76)	(353)
Tax effect	—	130	30	141
Realized gains, net of tax	(1)	(196)	(46)	(212)
Total other comprehensive income	678	828	1,479	1,936
Comprehensive income	\$1,458	\$1,877	\$3,816	\$3,412

See notes to Unaudited Consolidated Financial Statements

Table of Contents

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock		Retained Earnings	Accumulated	Total Shareholders' Equity
	Shares	Amount		Other Comprehensive Income	
Balance, January 1, 2011	9,874,867	71,814	16,021	1,709	89,544
Net income			2,504		2,504
Other comprehensive income, net of tax: Net change in unrealized gains on available-for-sale investment securities				1,849	1,849
Net restricted stock awarded and related compensation expense	16,042	86			86
Stock option compensation expense		116			116
Balance, December 31, 2011	9,890,909	72,016	18,525	3,558	94,099
Net income			2,337		2,337
Other comprehensive income, net of tax: Net change in unrealized gains on available-for-sale investment securities				1,479	1,479
Net restricted stock award activity and related compensation expense	12,400	86			86
Stock option compensation expense		39			39
Retirement of common stock	(575,389)	(4,194)			(4,194)
Balance, September 30, 2012	9,327,920	\$67,947	\$20,862	\$ 5,037	\$ 93,846

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)

For the nine months ended September 30,	2012	2011
Cash flows from operating activities:		
Net income	\$2,337	\$1,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,365	3,625
Decrease in deferred loan origination fees, net	(89)	(111)
Depreciation and amortization	606	546
Gain on sale and call of investment securities	(76)	(353)
Amortization of investment security premiums and discounts, net	3,143	1,678
Increase in cash surrender values of life insurance policies	(199)	(206)
Stock based compensation expense	125	156
Loss on sale and write-down of other real estate owned	1,224	449
Decrease in accrued interest receivable and other assets	524	344
Decrease in accrued interest payable and other liabilities	(147)	(1,255)
Net cash provided by operating activities	8,813	6,349
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	8,500	9,706
Proceeds from matured available-for-sale investment securities	825	315
Proceeds from called available-for-sale investment securities	195	1,180
Purchases of available-for-sale investment securities	(67,485)	(47,157)
Proceeds from principal repayments for available-for-sale investment securities	38,165	19,048
Proceeds from principal repayments for held-to-maturity investment securities	1,274	1,659
Net decrease in interest-bearing deposits in banks	250	499
Net decrease in loans	14,173	25,936
Proceeds from sale of other real estate	1,371	888
Net (increase) decrease in FHLB stock	(161)	393
Purchases of equipment	(283)	(592)
Net cash (used in) provided by investing activities	(3,176)	11,875
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$2,680	\$9,456
Net increase (decrease) in time deposits	1,760	(10,989)
Net decrease in short-term borrowings	(3,000)	(2,000)
Net increase in long-term borrowings	2,000	4,000
Cash paid to repurchase common stock	(4,194)	—

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Net cash (used in) provided by financing activities	\$(754) \$467
Increase in cash and cash equivalents	4,883	18,691
Cash and cash equivalents at beginning of year	23,768	31,871
Cash and cash equivalents at end of period	\$28,651	\$50,562

See Notes to Unaudited Consolidated Financial Statements

7

Table of Contents

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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 September 30, 2012 and December 31, 2011, the results of its operations and statement of comprehensive income for the three and nine month periods ended September 30, 2012 and 2011, its cash flows for the nine-month periods ended September 30, 2012 and 2011 and its statement of changes in shareholders' equity for the year ended December 31, 2011 and the nine months ended September 30, 2012 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 2011 annual report on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2012 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 302,866 options remain outstanding at September 30, 2012. The total number of authorized shares that remain available for issuance under the 2010 Plan is 1,446,739. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonstatutory 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 granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

Table of Contents

The grant date fair value of awards is determined by the market price of the Company's common stock on the date of grant and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock granted pursuant to such agreements vest in increments over one to five years from the date of grant. 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 September 30, 2012 and 2011, the compensation cost recognized for equity compensation was \$46,000 and \$48,000, respectively. The recognized tax benefit for equity compensation expense was \$17,000 and \$15,000, for the three-month periods ended September 30, 2012 and 2011, respectively. For the nine-month periods ended September 30, 2012 and 2011, the compensation cost recognized for equity compensation was \$125,000 and \$156,000, respectively. The recognized tax benefit for equity compensation expense was \$43,000 and \$44,000, for the nine-month periods ended September 30, 2012 and 2011, respectively.

At September 30, 2012, the total compensation cost related to nonvested stock option awards not yet recorded is \$75,000. This amount will be recognized over the next 4.75 years and the weighted average period of recognizing these costs is expected to be 1.3 years. At September 30, 2012, the total compensation cost related to restricted stock awards not yet recorded is \$183,000. This amount will be recognized over the next 4.75 years and the weighted average period of recognizing these costs is expected to be 1.7 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month period ended September 30, 2012 and 17,329 stock options awarded during the nine-month period ended September 30, 2012 at an average exercise price of \$7.07. The weighted average grant date fair value of options granted for the nine-month period ended September 30, 2012 was \$2.31. There were no stock options awarded during the three- and nine- month periods ended September 30, 2011. A summary of option activity under the Plans as of September 30, 2012 and changes during the period then ended is presented below:

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2012	358,198	\$ 17.25	4.0 years	\$ —
Granted	17,329	7.07	9.9 years	9
Exercised	—	—	—	—
Cancelled	55,332	17.11	—	—
Outstanding at September 30, 2012	320,195	\$ 16.73	4.0 years	\$ 9
Vested at September 30, 2012	276,657	\$ 17.87	3.4 years	\$ —
Non-vested at September 30, 2012	43,538	\$ 9.47	7.5 years	\$ 9

Restricted Stock

There were no shares of restricted stock awarded during the three-month period ended September 30, 2012 and 16,207 shares of restricted stock awarded during the nine-month period ended September 30, 2012. Of the 16,207 restricted common shares, 9,898 will vest one year from the date of the award and 6,309 will vest over five years at 20% per year from the date of the award. There were 18,902 shares of restricted stock awarded during the three- and nine-month periods ended September 30, 2011. Grant date fair value is determined by the market price of the Company's common stock on the date of grant (\$7.07 on May 16, 2012 and \$5.25 on August 17, 2011).

Table of Contents

There were 16,792 restricted stock awards that were fully vested during the three- and nine-month periods ended September 30, 2012. There were 13,298 restricted stock awards that were fully vested during the three- and nine-month periods ended September 30, 2011. There were 1,278 and 4,524, respectively, restricted stock awards that had been forfeited during the three- and nine-month periods ended September 30, 2012 and zero and 2,860, respectively, restricted stock awards that had been forfeited during the three- and nine-month periods ended September 30, 2011. The intrinsic value of nonvested restricted stock at September 30, 2012 was \$205,000.

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	32,078	\$ 5.96
Awarded	16,207	7.07
Less: Vested	16,792	5.51
Less: Cancelled	4,524	6.67
Nonvested at September 30, 2012	26,969	\$ 6.79

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three- or nine- month periods ended September 30, 2012 or 2011.

The intrinsic value used for stock options and restricted stock was derived from the market price of the Company's common stock of \$7.60 as of September 30, 2012.

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 \$28,081,000 and standby letters of credit of approximately \$8,530,000 at September 30, 2012 and loan commitments of approximately \$36,479,000 and standby letters of credit of approximately \$10,086,000 at December 31, 2011. 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 2012 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 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 September 30, 2012 or December 31, 2011.

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 (9,292,639 and 9,544,014 shares for the three-month and nine-month periods ended September 30, 2012, and 9,858,878 and 9,57,019 for the three-month and nine-month periods ended September 30, 2011). 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 4,866 and 9,468, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2012 and 2,938 and 7,979, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2011. The stock options outstanding of 330,195 at September 30, 2012 and 359,569 at September 30, 2011 were considered anti-dilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

Table of Contents

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at September 30, 2012 and December 31, 2011 consisted of the following (dollars in thousands):

Available-for-Sale

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$190,195	\$ 6,399	\$ (164)	\$196,430
Obligations of states and political subdivisions	27,744	2,113	—	29,857
Corporate bonds	1,507	51	—	1,558
Equity securities:				
Corporate stock	64	—	(3)	61
	\$219,510	\$ 8,563	\$ (167)	\$227,906

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$175,038	\$ 4,570	\$ (154)	\$179,454
Obligations of states and political subdivisions	27,678	1,510	—	29,188
Equity securities:				
Corporate stock	65	4	—	69
	\$202,781	\$ 6,084	\$ (154)	\$208,711

Net unrealized gains on available-for-sale investment securities totaling \$8,396,000 were recorded, net of \$3,359,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at September 30, 2012. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended September 30, 2012 totaled \$2,957,000 and \$1,000, respectively, and for the nine-month period ended September 30, 2012 totaled \$8,695,000 and \$76,000, respectively. There were no transfers of available-for-sale investment securities for the three- and nine-month periods ended September 30, 2012.

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Net unrealized gains on available-for-sale investment securities totaling \$5,930,000 were recorded, net of \$2,372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2011. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended September 30, 2011 totaled \$9,294,000 and \$326,000, respectively, and the nine-month period ended September 30, 2011 totaled \$10,886,000 and \$353,000, respectively. There were no transfers of available-for-sale investment securities for the three- and nine-month periods ended September 30, 2011.

Table of ContentsHeld-to-Maturity

September 30, 2012

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 2,740	\$ 176	\$ —	\$ 2,916

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 4,010	\$ 221	\$ —	\$ 4,231

There were no sales or transfers of held-to-maturity investment securities for the periods ended September 30, 2012 and September 30, 2011. Investment securities with unrealized losses at September 30, 2012 and December 31, 2011 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2012		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	\$19,482	\$ (164)	—	—	\$19,482	\$ (164)
Obligations of states and political subdivisions	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Equity Securities:						
Corporate stock	2	(3)	—	—	2	(3)
	\$19,484	\$ (167)	\$ —	\$ —	\$19,484	\$ (167)

Table of Contents

2011					
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:

Mortgage-backed securities	\$23,749	\$ (154)	—	—	\$23,749	\$ (154)
	\$23,749	\$ (154)	\$ —	\$ —	\$23,749	\$ (154)

There were no held-to-maturity investment securities with unrealized losses as of September 30, 2012 or December 31, 2011.

At September 30, 2012, the Company held 195 securities of which ten were in a loss position for less than twelve months and none were in a loss position for twelve months or more. Of the ten securities in a loss position, nine are mortgage-backed securities and one is a corporate bond. At December 31, 2011, the Company held 189 securities of which eleven were in a loss position for less than twelve months and none were in a loss position for twelve months or more. All eleven securities in a loss position were mortgage-backed securities.

The unrealized loss on the Company's investments in mortgage-backed 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 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 September 30, 2012 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	\$875	\$879		
After one year through five years	3,247	3,389		
After five years through ten years	11,156	12,003		
After ten years	13,973	15,144		
	29,251	31,415		

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Investment securities not due at a single maturity date:

Mortgage-backed securities	190,195	196,430	\$2,740	\$ 2,916
Corporate stock	64	61	—	—
	\$219,510	\$227,906	\$2,740	\$ 2,916

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.

Table of Contents

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

At September 30, 2012 and December 31, 2011, the recorded investment in nonperforming loans and leases was approximately \$6,777,000 and \$13,423,000, 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 September 30, 2012, the recorded investment in loans and leases that were considered to be impaired totaled \$28,443,000, which includes \$6,777,000 in nonaccrual loans and leases and \$21,666,000 in accruing loans and leases. Of the total impaired loans of \$28,443,000, loans totaling \$14,095,000 were deemed to require no specific reserve and loans totaling \$14,348,000 were deemed to require a related valuation allowance of \$1,459,000. At December 31, 2011, the recorded investment in loans and leases that were considered to be impaired totaled \$30,085,000 and had a related valuation allowance of \$1,680,000. If interest had been accruing on the nonperforming loans, such income would have approximated \$129,000 and \$398,000 for the three months ended September 30, 2012 and 2011, respectively, and approximated \$601,000 and \$1,288,000 for the nine months ended September 30, 2012 and 2011, respectively.

At September 30, 2012 and December 31, 2011, the recorded investment in other real estate owned (“OREO”) was \$13,681,000 and \$8,190,000, respectively. In addition, at December 31, 2011, the Company owned one repossessed mobile home classified on the balance sheet in accrued interest receivable and other assets with a book value of \$55,000. For the three months ended March 31, 2012, the Company transferred four properties with loan balances in the amount of \$3,439,000 to OREO and wrote these balances down by \$194,000 to \$3,245,000, and sold four properties with balances of \$497,000 for a net loss of \$30,000. In addition to the \$194,000 in write downs, the Company also adjusted balances through charges to the allowance for loan and lease losses of \$74,000 and OREO expense of \$60,000 for properties obtained in the prior quarter. For the three months ended June 30, 2012, the Company transferred one property into OREO with a loan balance of \$244,000 and the Company sold two properties and a mobile home with balances of \$406,000 for a loss of \$39,000. The property added during the second quarter of 2012 was adjusted to its current carrying value of \$212,000, which is equal to fair value less selling costs. The single property added consisted of three contiguous undeveloped parcels in Amador County, which are zoned residential. One parcel is approximately eleven acres and the other two parcels are approximately five acres each. For the three months ended September 30, 2012, the Company acquired six OREO properties with net book values of \$3,900,000 and the Company sold three properties with balances of \$576,000 for a loss of \$12,000. Of the six properties added in the third quarter, four are related to a single client and are carried at \$3,138,000, after appropriate write downs and adjustments. These properties include a single use commercial property in Amador County carried at \$805,000, two abutting parcels of land in Sacramento County carried at \$1,200,000 and a single family residence in Monterey County carried at \$1,127,000. The other two properties include a single family residence in Sonoma County carried at \$308,000 and commercial retail space in Butte County carried at \$439,000.

The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the third quarter of 2012, this valuation process resulted in the Company reducing the book value of four properties by \$272,000. Furthermore, results of legal proceedings caused the Company to increase the value of an existing OREO property by \$248,000.

The September 30, 2012 OREO balance of \$13,681,000 consists of 23 properties including nine commercial real estate properties in the amount of \$8,547,000, five residential land properties in the amount of \$1,804,000, three commercial land properties totaling \$1,464,000 and six residential real estate properties in the amount of \$1,866,000.

Nonperforming loans and leases and OREO at September 30, 2012 and December 31, 2011 are summarized as follows:

(in thousands)	September 30, 2012	December 31, 2011		
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	\$ 1,909	\$ 396		
Nonaccrual loans and leases that are past due	4,868	13,027		
Loans and leases past due 90 days and accruing interest	—	—		
Other real estate owned	13,681	8,190		
Total nonperforming assets	\$ 20,458	\$ 21,613		
Nonperforming loans and leases to total loans and leases	2.45	%	4.46	%
Total nonperforming assets to total assets	3.50	%	3.73	%

Table of Contents

Impaired loans and leases as of and for the periods ended September 30, 2012 and December 31, 2011 are summarized as follows:

(in thousands)	As of September 30, 2012			As of December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	\$3,113	\$ 4,886	\$ —	\$3,069	\$ 3,089	\$ —
Real estate-commercial	9,679	10,266	—	4,723	6,428	—
Real estate-multi-family	15	15	—	17	17	—
Real estate-construction	74	260	—	—	—	—
Real estate-residential	1,039	1,093	—	180	180	—
Leases	4	4	—	17	17	—
Consumer	171	243	—	133	133	—
Subtotal	\$14,095	\$ 16,767	\$ —	\$8,139	\$ 9,864	\$ —
With an allowance recorded:						
Commercial	\$1,718	\$ 1,718	\$ 306	\$2,054	\$ 3,705	\$ 538
Real estate-commercial	8,245	8,443	661	13,504	13,853	707
Real estate-multi-family	1,689	1,782	128	1,187	1,280	5
Real estate-construction	—	—	—	2,083	2,402	147
Real estate-residential	1,722	1,722	145	1,936	1,936	118
Agriculture	389	591	163	597	597	89
Consumer	585	585	56	585	585	76
Subtotal	\$14,348	\$ 14,841	\$ 1,459	\$21,946	\$ 24,358	\$ 1,680
Total:						
Commercial	\$4,831	\$ 6,604	\$ 306	\$5,123	\$ 6,794	\$ 538
Real estate-commercial	17,924	18,709	661	18,227	20,281	707
Real estate-multi-family	1,704	1,797	128	1,204	1,297	5
Real estate-construction	74	260	—	2,083	2,402	147
Real estate-residential	2,761	2,815	145	2,116	2,116	118
Leases	4	4	—	17	17	—
Agriculture	389	591	163	597	597	89
Consumer	756	828	56	718	718	76
	\$28,443	\$ 31,608	\$ 1,459	\$30,085	\$ 34,222	\$ 1,680

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

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

	Average Recorded Investments for the three months ended		Average Recorded Investments for the nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Commercial	\$3,193	\$ 5,704	\$2,703	\$ 5,403
Real estate-commercial	15,872	21,377	15,846	21,451
Real estate-multi-family	1,356	1,781	1,484	1,665
Real estate-construction	925	4,726	1,356	4,712
Real estate-residential	1,475	4,163	1,407	4,329
Leases	—	—	—	—
Agriculture	494	507	493	525
Consumer	408	442	604	405
Total	\$23,723	\$ 38,700	\$23,893	\$ 38,490

Table of Contents

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 September 30, 2012		Interest Income Recognized for the nine months ended September 30, 2011	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Commercial	\$(15)	\$ 145	\$59	\$ 237
Real estate-commercial	86	1,646	416	1,969
Real estate-multi-family	14	15	44	32
Real estate-construction	—	8	—	20
Real estate-residential	(4)	(35)	41	32
Leases	—	—	—	—
Agriculture	—	—	—	3
Consumer	7	21	15	34
Total	\$88	\$ 1,800	\$575	\$ 2,327

7. TROUBLED DEBT RESTRUCTURINGS

At September 30, 2012, there were 40 loans and leases that were considered to be troubled debt restructurings. Of these loans and leases, 30 were modified and are currently performing (less than ninety days past due) totaling \$16,296,000 and ten are considered nonperforming (and included in the \$6,777,000 discussed in Note 6), totaling \$2,449,000. At September 30, 2012 and December 31, 2011, there were no unfunded commitments on those loans considered troubled debt restructures. See also “Impaired Loans and Leases” in Item 2.

The Company has allocated \$519,000 and \$535,000 of specific reserves to loans whose terms have been modified as troubled debt restructurings as of September 30, 2012 and December 31, 2011.

During the nine-month period ended September 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

The following table presents loans by class modified as troubled debt restructurings during the three months ended September 30, 2012 (dollars in thousands):

	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	2	\$ 618	\$ 618
Real estate – commercial	3	1,167	1,129
Real estate – multi-family	2	19	19
Total	7	\$ 1,804	\$ 1,766

Table of Contents

The following table presents loans by class modified as troubled debt restructurings during the nine months ended September 30, 2012 (dollars in thousands):

	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	7	\$ 1,311	\$ 1,311
Real estate – commercial	9	4,676	4,638
Real estate – multi-family	2	539	539
Real estate – residential	3	921	808
Other – agriculture	1	410	410
Other – consumer	4	50	50
Total	26	\$ 7,907	\$ 7,756

The troubled debt restructurings described above increased the allowance for loan and lease losses by \$146,000 and resulted in charge offs of \$38,000 during the three months ended September 30, 2012 and increased the allowance for loan and lease losses by \$329,000 and resulted in charge offs of \$151,000 during the nine months ended September 30, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default (typically past due 90 days or more) within twelve months following the modification during the period indicated (dollars in thousands):

Nine months ended September 30, 2012	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real estate – commercial	1	\$ 506
Consumer	1	5
Total	2	\$ 511

There were no payment defaults during the three months ended September 30, 2012 on troubled debt restructurings made in the preceding twelve months.

Table of Contents

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of September 30, 2012 and December 31, 2011 are summarized below:

September 30, 2012 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
	Real Estate				
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	\$27,123	\$147,303	\$ 7,089	\$ 7,884	\$ 15,395
Watch	2,150	22,538	1,187	418	1,592
Special mention	438	11,845	444	346	1,173
Substandard	1,972	11,131	517	74	505
Doubtful	702	—	—	—	—
Total	\$32,385	\$192,817	\$ 9,237	\$ 8,722	\$ 18,665

Grade:	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Pass	\$1,882	\$ 2,882	\$ 7,820	\$217,378
Watch	—	—	688	28,573
Special mention	—	404	37	14,687
Substandard	4	389	411	15,003
Doubtful	—	—	—	702
Total	\$1,886	\$ 3,675	\$ 8,956	\$276,343

December 31, 2011 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
	Real Estate				
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	\$33,856	\$164,117	\$ 5,669	\$ 6,462	\$ 16,215
Watch	1,540	20,673	1,204	984	1,163
Special mention	2,173	7,187	449	827	1,372
Substandard	3,794	11,938	258	2,083	945
Doubtful	745	128	—	—	—
Total	\$42,108	\$204,043	\$ 7,580	\$ 10,356	\$ 19,695

Credit Risk Profile by Internally Assigned Grade Other Credit

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Grade:	Exposure			Total
	Leases	Agriculture	Consumer	
Pass	\$1,708	\$ 3,416	\$ 9,684	\$241,127
Watch	—	570	237	26,371
Special mention	—	—	264	12,272
Substandard	17	597	799	20,431
Doubtful	—	—	—	873
Total	\$1,725	\$ 4,583	\$ 10,984	\$301,074

18

Table of Contents

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

September 30,
2012

(dollars in
thousands)

	Real Estate				Other					
	Com- mercial	Com- mercial	Multi- Family	Construc- tion	Residential	Leases	Agri- culture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2012	\$1,536	\$3,156	\$198	\$582	\$609	\$79	\$167	\$348	\$366	\$7,041
Provision for loan losses	(395)	728	122	228	36	(74)	257	463	—	1,365
Loans charged-off	(302)	(1,124)	(8)	(377)	(167)	(9)	(202)	(494)		(2,683)
Recoveries	15	136	3	22	—	6	—	29		211
Ending balance, September 30, 2012	\$854	\$2,896	\$315	\$455	\$478	\$2	\$222	\$346	\$366	\$5,934
Ending balance: Individually evaluated for impairment	\$306	\$661	\$128	\$—	\$145	\$—	\$163	\$56	\$—	\$1,459
Ending balance: Collectively evaluated for impairment	\$548	\$2,235	\$187	\$455	\$333	\$2	\$59	\$290	\$366	\$4,475
Loans										
Ending balance	\$32,385	\$192,817	\$9,237	\$8,722	\$18,665	\$1,886	\$3,675	\$8,956	\$—	\$276,343

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Ending
balance:
Individually
evaluated for
impairment

\$4,574	\$16,812	\$1,688	\$—	\$1,932	\$—	\$389	\$622	\$—	\$26,017
---------	----------	---------	-----	---------	-----	-------	-------	-----	----------

Ending
balance:
Collectively
evaluated for
impairment

\$27,811	\$176,005	\$7,549	\$8,722	\$16,733	\$1,886	\$3,286	\$8,334	\$—	\$250,326
----------	-----------	---------	---------	----------	---------	---------	---------	-----	-----------

Allowance for Loan and Lease Losses	Real Estate				Other				Unallocated	Total
	Com- mercial	Com- mercial	Multi- Family	Construc- tion	Residential	Leases	Agri- culture	Consumer		
Beginning balance, June 30, 2012	\$1,065	\$3,079	\$263	\$371	\$502	\$1	\$206	\$376	\$338	\$6,201
Provision for loan losses	(75)	25	52	379	30	2	16	(47)	28	410
Loans charged-off	(151)	(279)	—	(295)	(54)	(1)	—	(2)	—	(782)
Recoveries	15	71	—	—	—	—	—	19	—	105
Ending balance, September 30, 2012	\$854	\$2,896	\$315	\$455	\$478	\$2	\$222	\$346	\$366	\$5,934

Table of ContentsDecember 31,
2011(dollars in
thousands)

	Real Estate				Other			Consumer	Unallocated	Total
	Com- mercial	Com- mercial	Multi- Family	Construc- tion	Residential	Leases	Agri- culture			
Ending balance: Individually evaluated for impairment	\$538	\$707	\$5	\$147	\$118	\$—	\$89	\$76	\$—	\$1,680
Ending balance: Collectively evaluated for impairment	\$998	\$2,449	\$193	\$435	\$491	\$79	\$78	\$272	\$366	\$5,361
Loans										
Ending balance	\$42,108	\$204,043	\$7,580	\$10,356	\$19,695	\$1,725	\$4,583	\$10,984	\$—	\$301,074
Ending balance: Individually evaluated for impairment	\$5,123	\$18,227	\$1,204	\$2,083	\$2,116	\$17	\$597	\$718	\$—	\$30,085
Ending balance: Collectively evaluated for impairment	\$36,985	\$185,816	\$6,376	\$8,273	\$17,579	\$1,708	\$3,986	\$10,266	\$—	\$270,989

September 30, 2011
(dollars in thousands)

	Real Estate				Other			Consumer	Unallocated	Total
	Com- mercial	Com- mercial	Multi- Family	Construc- tion	Residential	Leases	Agri- culture			
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2011	\$2,574	\$2,715	\$115	\$1,090	\$581	\$7	\$131	\$221	\$151	\$7,585
Provision for loan losses	(221)	1,991	167	186	222	87	86	320	787	3,625
Loans charge-offs	(587)	(1,820)	(83)	(456)	(333)	—	(240)	(220)	—	(3,739)

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Recoveries	152	5	—	—	—	—	241	19	—	417
Ending balance, September 30, 2011	\$1,918	\$2,891	\$199	\$820	\$470	\$94	\$218	\$340	\$938	\$7,888

20

Table of Contents

The Company's aging analysis of the loan and lease portfolio at September 30, 2012 and December 31, 2011 are summarized below:

September 30, 2012 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	\$—	\$—	\$ 2,285	\$2,285	\$30,100	\$32,385	—	\$ 3,363
Real estate:								
Commercial	555	767	1,948	3,270	189,547	192,817	—	2,579
Multi-family	—	—	—	—	9,237	9,237	—	—
Construction	299	—	—	299	8,423	8,722	—	74
Residential	—	233	—	233	18,432	18,665	—	210
Other:								
Leases	—	—	4	4	1,882	1,886	—	4
Agriculture	—	—	—	—	3,675	3,675	—	389
Consumer	56	69	111	236	8,720	8,956	—	158
Total	\$910	\$1,069	\$ 4,348	\$6,327	\$270,016	\$276,343	\$ —	\$ 6,777
December 31, 2011 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	\$60	\$277	\$2,472	\$2,809	\$39,299	\$42,108	—	\$ 2,775
Real estate:								
Commercial	2,318	1,527	5,271	9,116	194,927	204,043	—	7,469
Multi-family	—	—	257	257	7,323	7,580	—	257
Construction	—	244	1,967	2,211	8,145	10,356	—	2,083
Residential	—	—	—	—	19,695	19,695	—	—
Other:								
Leases	—	—	17	17	1,708	1,725	—	17
Agriculture	—	—	597	597	3,986	4,583	—	597
Consumer	188	411	139	738	10,246	10,984	—	225
Total	\$2,566	\$2,459	\$10,720	\$15,745	\$285,329	\$301,074	\$ —	\$ 13,423

Table of Contents

9. BORROWING ARRANGEMENTS

At September 30, 2012, the Company had \$17,000,000 of unsecured short-term borrowing arrangements with two of its correspondent banks. There were no advances under the borrowing arrangements as of September 30, 2012 or December 31, 2011.

The Company has a line of credit available with the Federal Home Loan Bank of San Francisco (the "FHLB") which is secured by pledged mortgage loans and investment securities. Borrowings may include overnight advances as well as loans with terms of up to thirty years. Advances (both short and long-term) totaling \$18,000,000 were outstanding from the FHLB at September 30, 2012, bearing interest rates ranging from 0.67% to 2.73% and maturing between May 20, 2013 and July 12, 2019. Advances totaling \$19,000,000 were outstanding from the FHLB at December 31, 2011, bearing interest rates ranging from 0.67% to 2.73% and maturing between January 9, 2012 and July 20, 2016. Remaining amounts available under the borrowing arrangement with the FHLB at September 30, 2012 and December 31, 2011 totaled \$59,912,000 and \$62,242,000, respectively. The decreased borrowing capacity during 2012 resulted from the decrease in the pledged securities collateral. In addition, the Company has a secured borrowing agreement with the Federal Reserve Bank of San Francisco. The borrowing can be secured by pledging selected loans and investment securities. Borrowings generally are short-term including overnight advances as well as loans with terms up to ninety days. Amounts available under this borrowing arrangement at September 30, 2012 and December 31, 2011 were \$29,003,000 and \$30,396,000, respectively. The decreased borrowing capacity during 2012 resulted from the decrease in the pledged loan collateral. There were no advances outstanding under this borrowing arrangement as of September 30, 2012 and December 31, 2011.

10. 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 (benefit from) 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.

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 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, if applicable, 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. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There have been no unrecognized tax benefits or accrued interest and penalties for the three- and nine-month periods ended September 30, 2012 and 2011.

Table of Contents

11. 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 September 30, 2012 and December 31, 2011. 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):

	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
September 30, 2012					
Financial assets:					
Cash and due from banks	\$28,651	\$28,651			\$28,651
Interest-bearing deposits in banks	1,000		\$998		998
Available-for-sale securities	227,906	2	227,904		227,906
Held-to-maturity securities	2,740		2,916		2,916
FHLB stock	3,254	N/A	N/A	N/A	N/A
Net loans and leases:	270,196			267,134	267,134
Accrued interest receivable	1,786			1,786	1,786

Financial liabilities:

Deposits:

Noninterest-bearing	\$ 137,289	\$ 137,289		\$ 137,289
Savings	51,254	51,254		51,254
Money market	126,445	126,445		126,445
NOW accounts	52,254	52,254		52,254
Time, \$100,000 or more	72,760		73,507	73,507
Other time	26,723		26,970	26,970
Short-term borrowings	2,000	2,000		2,000
Long-term borrowings	16,000		16,177	16,177
Accrued interest payable	147		147	147

Table of Contents

December 31, 2011	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$23,768	\$23,768			\$23,768
Interest-bearing deposits in banks	1,250		\$1,254		1,254
Available-for-sale securities	208,711	9	208,702		208,711
Held-to-maturity securities	4,010		4,231		4,231
FHLB stock	3,093	N/A	N/A	N/A	N/A
Net loans and leases:	293,731			\$290,505	290,505
Accrued interest receivable	1,952			1,952	1,952
Financial liabilities:					
Deposits:					
Noninterest-bearing	\$133,440	\$133,440			\$133,440
Savings	47,919	47,919			47,919
Money market	139,244	139,244			139,244
NOW accounts	43,959	43,959			43,959
Time, \$100,000 or more	69,464		70,143		70,143
Other time	28,259		28,513		28,513
Short-term borrowings	5,000	5,000			5,000
Long-term borrowings	14,000		14,326		14,326
Accrued interest payable	226		226		226

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 September 30, 2012 and December 31, 2011:

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.

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. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB stock: It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Table of Contents

Deposits: The fair values disclosed for demand deposits (e.g. interest and non-interest checking, passbook 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 approximates fair value resulting in a Level 3 classification and the carrying amount of accrued interest payable approximates fair value resulting in a Level 2.

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 September 30, 2012 and December 31, 2011.

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

Description (dollars in thousands)	Fair Value	Fair Value Measurements Using			Total Gains (Losses)
		Level 1	Level 2	Level 3	
September 30, 2012					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
Mortgage-backed securities	\$196,430	\$—	\$196,430	\$—	\$ —
Obligations of states and political subdivisions	29,857	—	29,857	—	—
Corporate bonds	1,558	—	1,558	—	—
Corporate stock	61	2	59		
Total recurring	\$227,906	\$2	\$227,906	\$—	\$ —

Assets and liabilities measured on a nonrecurring basis:
Impaired loans:

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Commercial	\$1,326	\$— \$—	\$1,326	\$ (64)
Real estate:				
Commercial	786	— —	786	73
Multi-family	—	— —	—	—
Construction	—	— —	—	—
Residential	—	— —	—	—
Other:				
Agriculture	389	— —	389	276
Consumer	—	— —	—	—
Other real estate owned	13,681	— —	13,681	(627)
Total nonrecurring	\$16,182	\$— \$—	\$16,182	\$ (342)

Table of Contents

Description (dollars in thousands)	Fair Value	Fair Value Measurements Using			Total Gains (Losses)
		Level 1	Level 2	Level 3	
December 31, 2011					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
Mortgage-backed securities	\$179,454	\$—	\$179,454	\$—	\$—
Obligations of states and political subdivisions	29,188	—	29,188	—	—
Corporate stock	69	9	60	—	—
Total recurring	\$208,711	\$9	\$208,702	\$—	\$—
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Commercial	\$1,828	\$—	\$—	\$1,828	\$(181)
Real estate:					
Commercial	7,982	—	—	7,982	(489)
Construction	2,083	—	—	2,083	(422)
Other:					
Agriculture	597	—	—	597	(330)
Consumer	565	—	—	565	(66)
Other real estate owned	8,190	—	—	8,190	(1,002)
Total nonrecurring	\$21,245	\$—	\$—	\$21,245	\$(2,490)

There were no transfers between Levels 1 and 2 during the three-month and nine-month periods ended September 30, 2012 or the twelve months ended December 31, 2011.

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 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 other real estate owned (“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%.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of the significant changes in American River Bankshares' (the "Company") balance sheet accounts between December 31, 2011 and September 30, 2012 and its income and expense accounts for the three-month and nine-month periods ended September 30, 2012 and 2011. The discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This discussion and supporting tables and the consolidated financial statements and related notes appearing elsewhere in this report are unaudited. Interest income and net interest income are presented on a fully taxable equivalent basis (FTE) within management's discussion and analysis. Certain matters discussed or incorporated by reference in this Quarterly Report on Form 10-Q including, but not limited to, matters described in "Item 2 - 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 duration of financial and economic volatility and decline and actions taken by the United States Congress and governmental agencies, including the United States Department of the Treasury, to deal with challenges to the U.S. financial system;
- the risks presented by a continued economic 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 continued or increasing loan and lease losses;
- potential increasing levels of expenses associated with resolving nonperforming 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 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 and other operational systems failures or fraud;
- potential continued 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 the current military conflicts in Afghanistan and Iraq and the conduct of the war on terrorism by the United States and its allies, worsening 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;

Table of Contents

- the efficiencies we may expect to receive from any investments in personnel and infrastructure may not be realized; and
- downgrades in the credit rating of the United States by credit rating agencies.

The factors set forth under “Item 1A - Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, and other cautionary statements and information set forth in this Quarterly Report on Form 10-Q should be carefully considered and understood as being applicable to all related forward-looking statements contained in this Quarterly Report on Form 10-Q, 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. 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 the probable incurred credit loss risk inherent in our loan and lease portfolio 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 or lease 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 an 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” discussion later in this Item 2.

Stock-Based Compensation

The Company recognizes compensation expense over the vesting 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.

Table of Contents

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branch offices constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net fair value of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. 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 a reporting unit level at least annually following the year of acquisition. The Company performed an evaluation of goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2011 and determined that there was no impairment. No events have occurred since the last evaluation that would result in the Company recording an impairment of the goodwill. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes in earnings, the effective tax rate, historical earnings multiples and the cost of capital could all cause different results for the calculation of the present value of future cash flows upon which the assessment is based.

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 (benefit from) 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.

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 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, if applicable, 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. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There were no unrecognized tax benefits or accrued interest and penalties at September 30, 2012 or 2011 or for the three-month and nine-month periods then ended.

General Development of Business

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) 854-0123. The Company employed an equivalent of 114 full-time employees as of September 30, 2012.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank (the "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 five full service offices in Sacramento and Placer Counties including the main office located at 1545 River Park Drive, Suite 107, Sacramento and branch offices in Sacramento, Fair Oaks, and Roseville; two full service offices in Sonoma County in Healdsburg and Santa Rosa; and three full service banking offices in Amador County in Jackson, Pioneer, and Ione.

Table of Contents

In 2000, the Company acquired North Coast Bank as a separate bank subsidiary. North Coast Bank was incorporated and commenced business in 1990 as Windsor Oaks National Bank in Windsor, California. In 1997, the name was changed to North Coast Bank. 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.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "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 increase the coverage and extension of FDIC insurance under the Dodd-Frank Act. FDIC insurance coverage and assessments are discussed under "Item 1A--Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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 certain types of business 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 2012, 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 "Federal Reserve Board"), 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."

Overview

The Company recorded net income of \$780,000 for the quarter ended September 30, 2012, which was a decrease of \$269,000 compared to \$1,049,000 reported for the same period of 2011. Diluted earnings per share for the third quarter of 2012 were \$0.08 compared to \$0.11 recorded in the third quarter of 2011. The return on average equity ("ROAE") and the return on average assets ("ROAA") for the third quarter of 2012 were 3.34% and 0.52%, respectively, as compared to 4.53% and 0.72%, respectively, for the same period in 2011.

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Net income for the nine months ended September 30, 2012 and 2011 was \$2,337,000 and \$1,476,000, respectively, with diluted earnings per share of \$0.24 in 2012 and \$0.15 in 2011. For the first nine months of 2012, ROAE was 3.33% and ROAA was 0.53% compared to 2.17% and 0.34%, respectively, for the same period in 2011.

Total assets of the Company increased by \$3,040,000 (0.5%) from \$581,518,000 at December 31, 2011 to \$584,558,000 at September 30, 2012. Net loans totaled \$270,196,000 at September 30, 2012, down \$23,535,000 (8.0%) from \$293,731,000 at December 31, 2011. Deposit balances at September 30, 2012 totaled \$466,725,000, up \$4,440,000 (1.0%) from the \$462,285,000 at December 31, 2011.

The Company ended the third quarter of 2012 with a leverage capital ratio of 12.7%, a Tier 1 capital ratio of 22.4%, and a total risk-based capital ratio of 23.7% compared to 13.1%, 21.5%, and 22.8%, respectively, at December 31, 2011. Table One below provides a summary of the components of net income for the periods indicated (See the “Results of Operations” section that follows for an explanation of the fluctuations in the individual components).

Table of Contents**Table One: Components of Net Income**

(dollars in thousands)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Interest income*	\$5,414	\$6,137	\$16,397	\$18,563
Interest expense	(470)	(640)	(1,454)	(2,043)
Net interest income*	4,944	5,497	14,943	16,520
Provision for loan and lease losses	(410)	(550)	(1,365)	(3,625)
Noninterest income	712	750	2,099	1,637
Noninterest expense	(4,219)	(3,986)	(12,382)	(12,234)
Provision for income taxes	(167)	(595)	(729)	(650)
Tax equivalent adjustment	(80)	(67)	(229)	(172)
Net income	\$780	\$1,049	\$2,337	\$1,476
Average total assets	\$591,460	\$579,985	\$585,285	\$575,775
Net income (annualized) as a percentage of average total assets	0.52 %	0.72 %	0.53 %	0.34 %

* Fully taxable equivalent basis (FTE)

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 and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company's net interest margin was 3.88% for the three months ended September 30, 2012, 4.39% for the three months ended September 30, 2011, 3.94% for the nine months ended September 30, 2012 and 4.41% for the nine months ended September 30, 2011.

The fully taxable equivalent interest income component for the third quarter of 2012 decreased \$723,000 (11.8%) to \$5,414,000 compared to \$6,137,000 for the three months ended September 30, 2011. The decrease in the fully taxable equivalent interest income for the third quarter of 2012 compared to the same period in 2011 is broken down by rate (down \$530,000) and volume (down \$193,000). The rate decrease can be attributed to the overall lower interest rate environment and lower average loan balances replaced with higher average investment securities. While forgone interest on nonaccrual loans has decreased, it continues to negatively impact the yield on earning assets. During the third quarter of 2012, foregone interest income on nonaccrual loans was approximately \$129,000, compared to

foregone interest of \$398,000 during the third quarter of 2011. The foregone interest of \$129,000 had a 9 basis point negative impact on the yield on earning assets. The average balance of earning assets increased \$10,215,000 (2.1%) from \$496,500,000 in the third quarter of 2011 to \$506,715,000 in the third quarter of 2012; however, there was a significant change in the average earning asset mix during these periods, due to an increase in investment securities, offset by a decrease in loan balances. Principal reductions from loan balances were invested into investment securities. When compared to the third quarter of 2011, average loan balances were down \$42,116,000 (13.2%) to \$277,793,000 for the third quarter of 2012 and average investment securities were up \$53,531,000 (34.6%) to \$227,222,000 for the third quarter of 2012. The overall low interest rate environment and the change in the asset mix (lower loan totals and higher investment security totals) resulted in a 65 basis point decrease in the yield on average earning assets from 4.90% for the third quarter of 2011 to 4.25% for the third quarter of 2012. The volume decrease of \$193,000 occurred mainly as a result of the decrease in average loans. The market in which the Company operates continues to see a slowdown in new loan volume as existing and potential new borrowers continue to pay down debt and delay expansion plans.

Total fully taxable equivalent interest income for the nine months ended September 30, 2012 decreased \$2,166,000 (11.7%) to \$16,397,000 compared to \$18,563,000 for the nine months ended September 30, 2011. The breakdown of the fully taxable equivalent interest income for the nine months ended September 30, 2012 over the same period in 2011 resulted from decreases in rate (down \$1,560,000) and a decrease in volume (down \$606,000). Average earning assets increased \$5,512,000 (1.1%) during the first nine months of 2012 as compared to the same period in 2011. Average loan balances decreased \$40,633,000 (12.4%) during that same period and average investment securities balances increased \$47,200,000 (30.7%).

Table of Contents

Interest expense was \$470,000 or \$170,000 (26.6%) lower in the third quarter of 2012 versus the prior year period. The average balances on interest bearing liabilities were \$5,072,000 (1.5%) higher in the third quarter of 2012 compared to the same quarter in 2011. The slightly higher balances did not impact the overall interest expense, as the lower rate was the main cause for the decrease in interest expense. The net \$170,000 decrease in interest expense during the third quarter of 2012 compared to the third quarter of 2011 was due to lower rates (down \$169,000) and volume (down \$1,000). The Company focused its marketing efforts on replacing higher cost time deposits with lower cost checking, savings, and money market accounts. Average time deposit balances were down \$617,000 (0.6%) during the third quarter of 2012 compared to the third quarter of 2011, while average interest checking, savings, and money market accounts were up \$7,515,000 (3.3%) during that same time period. The Company continues to have success attracting new deposit relationships as a direct result of its business development efforts. In addition, higher cost other borrowings decreased \$1,826,000 (9.4%) from the third quarter of 2011 to the third quarter of 2012. The decrease of \$169,000 in rates is a result of the lower overall interest rate environment. Rates paid on interest bearing liabilities decreased 20 basis points from 0.73% to 0.53% for the third quarter of 2011 compared to the third quarter of 2012.

Interest expense was \$589,000 (28.8%) lower in the nine-month period ended September 30, 2012 versus the prior year period. The average balances on interest-bearing liabilities were up slightly (\$121,000) in the nine-month period ended September 30, 2012 compared to the same period in 2011. The higher balances, however, did not increase interest expense as the increases occurred in lower cost 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 \$25,000 due to this increase in savings balance offset by the decrease in time deposits and other borrowings. Average savings balances increased \$4,328,000 (9.4%) during the first nine months of 2012 compared to the same period in 2011; while average time deposits decreased \$3,603,000 (3.5%) and other borrowings decreased \$706,000 (4.3%) during the same time period. The decrease in interest expense was mainly due to lower rates, which accounted for a \$564,000 decrease in interest expense for the nine-month period. Rates paid on interest-bearing liabilities decreased 22 basis points from the first nine months of 2011 to the first nine months of 2012 from 0.78% to 0.56%.

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 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) and changes in average interest rates.

Table of Contents

Table Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended September 30,	2012			2011		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	\$277,793	\$4,101	5.87%	\$319,909	\$4,777	5.92%
Taxable investment Securities	198,106	1,007	2.02%	154,709	1,099	2.82%
Tax-exempt investment securities (2)	29,806	304	4.06%	19,670	254	5.12%
Corporate stock (2)	10	—	—	12	—	—
Federal funds sold	—	—	—	—	—	—
Investments in time deposits	1,000	2	0.80%	2,200	7	1.26%
Total earning assets	506,715	5,414	4.25%	496,500	6,137	4.90%
Cash & due from banks	41,054			48,835		
Other assets	49,974			42,811		
Allowance for loan & lease losses	(6,283)			(8,161)		
	\$591,460			\$579,985		
Liabilities & Shareholders' Equity						
Interest bearing liabilities:						
Interest checking and money market	\$183,189	155	0.34%	\$180,554	253	0.56%
Savings	51,726	28	0.22%	46,846	44	0.37%
Time deposits	100,202	212	0.84%	100,819	244	0.96%
Other borrowings	17,609	75	1.69%	19,435	99	2.02%
Total interest bearing liabilities	352,726	470	0.53%	347,654	640	0.73%
Noninterest bearing demand deposits	139,645			134,054		
Other liabilities	6,085			6,379		
Total liabilities	498,456			488,087		
Shareholders' equity	93,004			91,898		
	\$591,460			\$579,985		
Net interest income & margin (3)		\$4,944	3.88%		\$5,497	4.39%

(1) Loan interest includes loan costs of \$4,000 and loan fees of \$14,000, respectively, during the three months ended September 30, 2012 and September 30, 2011. Average loan balances include non-performing loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.

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

(4) Average yield is calculated based on actual days in the period (92 days) and annualized to actual days in the year (366 days for 2012 and 365 days for 2011).

Table of Contents

Nine Months Ended September 30, (Taxable Equivalent Basis) (dollars in thousands)	2012			2011		
	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	\$287,552	\$12,655	5.88 %	\$328,185	\$14,619	5.96 %
Taxable investment securities	188,828	2,828	2.00 %	153,712	3,251	2.83 %
Tax-exempt investment securities (2)	29,390	902	4.10 %	17,297	675	5.22 %
Corporate stock (2)	9	4	59.37 %	18	—	—
Federal funds sold	—	—	—	—	—	—
Interest-bearing deposits in banks	1,051	8	1.02 %	2,106	18	1.14 %
Total earning assets	506,830	16,397	4.32 %	501,318	18,563	4.95 %
Cash & due from banks	37,360			39,961		
Other assets	47,626			42,409		
Allowance for loan & lease losses	(6,531)			(7,913)		
	\$585,285			\$575,775		
Liabilities & Shareholders' Equity						
Interest-bearing liabilities:						
Interest checking and money market	\$182,833	517	0.38 %	\$182,731	829	0.61 %
Savings	50,480	88	0.23 %	46,152	148	0.43 %
Time deposits	100,010	643	0.86 %	103,613	787	1.02 %
Other borrowings	15,741	206	1.75 %	16,447	279	2.27 %
Total interest-bearing liabilities	349,064	1,454	0.56 %	348,943	2,043	0.78 %
Noninterest-bearing demand deposits	136,354			130,027		
Other liabilities	6,230			5,953		
Total liabilities	491,648			484,923		
Shareholders' equity	93,637			90,852		
	\$585,285			\$575,775		
Net interest income & margin (3)		\$14,943	3.94 %		\$16,520	4.41 %

(1) Loan interest includes loan fees of \$7,000 and \$42,000, respectively, during the nine months ended September 30, 2012 and September 30, 2011. Average loan balances include non-performing loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.

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

(4) Average yield is calculated based on actual days in the period (274 days in 2012 and 273 in 2011) and annualized to actual days in the year (366 days for 2012 and 365 days for 2011).

Table of Contents

Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses
 Three Months Ended September 30, 2012 over 2011 (dollars in thousands)

Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Net loans (1)(2)	\$ (627)	\$ (49)	\$ (676)
Taxable investment securities	307	(399)	(92)
Tax exempt investment securities (3)	131	(81)	50
Corporate stock	—	—	—
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(4)	(1)	(5)
Total	(193)	(530)	(723)
Interest-bearing liabilities:			
Interest checking and money market	4	(102)	(98)
Savings deposits	5	(21)	(16)
Time deposits	(1)	(31)	(32)
Other borrowings	(9)	(15)	(24)
Total	(1)	(169)	(170)
Interest differential	\$ (192)	\$ (361)	\$ (553)

Nine Months Ended September 30, 2012 over 2011 (dollars in thousands)

Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Net loans (1)(2)	\$(1,812)	\$(152)	\$(1,964)
Taxable investment securities	743	(1,166)	(423)
Tax exempt investment securities (3)	472	(245)	227
Corporate stock	—	4	4
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(9)	(1)	(10)
Total	(606)	(1,560)	(2,166)
Interest-bearing liabilities:			
Interest checking and money market	—	(312)	(312)
Savings deposits	14	(74)	(60)
Time deposits	(27)	(117)	(144)
Other borrowings	(12)	(61)	(73)
Total	(25)	(564)	(589)
Interest differential	\$ (581)	\$ (996)	\$ (1,577)

(1) The average balance of non-accruing loans is immaterial as a percentage of total loans and, as such, has been included in net loans.

(2)

Edgar Filing: AMERICAN RIVER BANKSHARES - Form 10-Q

Loan costs of \$4,000 and loan fees of \$14,000, respectively, during the three months ended September 30, 2012 and September 30, 2011, and loan fees of \$7,000 and \$42,000, respectively, during the nine months ended September 30, 2012 and September 30, 2011, have been included in the interest income computation.

- (3) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.
- (4) The rate/volume variance has been included in the rate variance.

Table of Contents

Provision for Loan and Lease Losses

The Company provided \$410,000 for loan and lease losses for the third quarter of 2012 as compared to \$550,000 for the third quarter of 2011. Net loan and lease losses for the three months ended September 30, 2012 were \$677,000 or 0.97% (on an annualized basis) of average loans and leases as compared to \$549,000 or 0.68% (on an annualized basis) of average loans and leases for the three months ended September 30, 2011. For the first nine months of 2012, the Company made provisions for loan and lease losses of \$1,365,000 and net loan and lease losses were \$2,472,000 or 1.15% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of \$3,625,000 and net loan and lease losses of \$3,322,000 for the first nine months of 2011 or 1.35% (on an annualized basis) of average loans and leases outstanding. The Company has continued to add to the allowance for loan and lease losses for 2012 as we continue to have a higher than historical average level of nonperforming loans and leases. The high level of nonperforming loans and leases is due to the impact that the overall challenging economy in the Company's market areas and in the United States has had on the Company's borrowers. For additional information see the "Allowance for Loan and Lease Losses Activity."

Noninterest 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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service charges on deposit accounts	\$173	\$185	\$563	\$568
Gain on sale/call of securities	1	326	76	353
Merchant fee income	141	120	404	342
Bank owned life insurance	68	69	200	205
Income from OREO properties	261	—	653	—
Other	68	50	203	169
Total noninterest income	\$712	\$750	\$2,099	\$1,637

Noninterest income decreased \$38,000 (5.1%) to 712,000 for the three months ended September 30, 2012 as compared to \$750,000 for the three months ended September 30, 2011. The decrease from the third quarter of 2011 to the third quarter of 2012 was primarily related to a decrease in gains from sale of investment securities offset by an increase in income from OREO properties. Gains from investment sales in the third quarter of 2012 were \$1,000, down from \$326,000 in the third quarter of 2011. Income from OREO properties was \$261,000 compared to none in

the third quarter of 2011. The income from OREO properties results primarily from rents received on leased office properties the Company foreclosed upon in the last twelve months. For the nine months ended September 30, 2012, noninterest income increased \$462,000 (28.2%) to \$2,099,000. The increase from the first nine months of 2011 compared to the same period in 2012 was also related to higher rents received on properties obtained through foreclosure.

Noninterest Expense

Noninterest expense increased \$233,000 (5.8%) to a total of \$4,219,000 in the third quarter of 2012 compared to \$3,986,000 in the third quarter of 2011. Salary and employee benefits expense decreased \$115,000 (5.2%) from \$2,219,000 during the third quarter of 2011 to \$2,104,000 during the third quarter of 2012. The decrease in salary and benefits is primarily related to a decrease in incentive accruals. Incentive accruals decreased \$172,000 from \$192,000 in the third quarter of 2011 to \$20,000 in the third quarter of 2012, primarily due to the Company's actual net income in relationship to a higher targeted net income. These incentive accruals are estimates based on full year results and will be adjusted before the end of the year when actual results are known. On a quarter-over-quarter basis, occupancy expense increased \$24,000 (8.7%) and furniture and equipment expense increased \$47,000 (28.1%). FDIC assessments decreased \$32,000 (18.6%) during the third quarter of 2012 to \$140,000, from \$172,000 in the third quarter of 2011. OREO related expenses increased \$313,000 (120.4%) during the third quarter of 2012 to \$573,000, from \$260,000 in the third quarter of 2011. Other expense decreased \$4,000 (0.4%) to a total of \$889,000 in the third quarter of 2012 versus the third quarter of 2011. The increase in the furniture and equipment expense resulted from depreciation related to purchases of furniture and equipment, including software and three new ATM machines. The decrease in the FDIC assessments resulted from the change in the FDIC assessment methodology from a deposit based system to an asset risk-based system. The increase in OREO expenses is directly related to the type of OREO properties the Company now owns. Over the past twelve months the Company has acquired multiple office buildings, while these properties do produce rental income, as reported above, they also require a significant amount of expense to maintain. The fully taxable equivalent efficiency ratio for the third quarter of 2012 increased to 73.7% from 62.9% for the third quarter of 2012. This increase in the efficiency ratio is related to a decrease in net interest income.

Table of Contents

Noninterest expense for the nine-month period ended September 30, 2012 was \$12,382,000 versus \$12,234,000 for the same period in 2011 for an increase of \$148,000 (1.2%). Salaries and benefits expense decreased \$3,000 from \$6,342,000 for the nine months ended September 30, 2011 to \$6,339,000 for the same period in 2012. Occupancy expense increased \$51,000 (6.1%) and furniture and equipment expense increased \$78,000 (14.8%). FDIC assessments decreased \$290,000 (40.7%) during 2012 to \$422,000, from \$712,000 in 2011. OREO related expenses increased \$446,000 (46.0%) during 2012 to \$1,415,000, from \$969,000 in 2011. The primary reason for this increase in OREO expenses is due to higher costs to maintain the office buildings and other foreclosed properties now owned by the Company. Other expense decreased \$134,000 (4.7%) from \$2,841,000 for the nine months ended September 30, 2011 to \$2,707,000 for the same period in 2012. The decrease in other expenses results from the Company's focus on reducing controllable expenses. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first nine months of 2012 was 71.8% as compared to 66.5% in the same period of 2011.

Provision for Income Taxes

Federal and state income taxes for the quarter ended September 30, 2012 decreased \$428,000 from \$595,000 in the third quarter of 2011 to \$167,000 in the third quarter of 2012. The effective tax rate for the quarter ended September 30, 2012 was 17.6% compared to 36.2% for the third quarter of 2011. For the nine months ended September 30, 2012, the provision for income taxes was \$729,000 with an effective tax rate of 23.8%, compared to a provision of \$650,000 and an effective tax rate of 30.6% for the nine months ended September 30, 2011. The lower effective tax rate in 2012 resulted from the normal tax benefits such as the benefits of tax-free income related to municipal bonds and bank owned life insurance, but also in the most recent quarter, we realized the benefits of Enterprise Zone credits on our State tax return. For the first time, the Company took advantage of hiring credit and the sales and use tax credit offered under the California Enterprise Zone program. In the third quarter of 2012, the Company realized the credit for the full year of 2011.

Balance Sheet Analysis

The Company's total assets were \$584,558,000 at September 30, 2012 as compared to \$581,518,000 at December 31, 2011, representing an increase of \$3,040,000 (0.5%). The average assets for the three months ended September 30, 2012 were \$591,460,000, which represents an increase of \$11,475,000 or 2.0% over the balance of \$579,985,000 during the three-month period ended September 30, 2011. The average assets for the nine months ended September 30, 2012 were \$585,285,000, which represents an increase of \$9,510,000 or 1.7% from the average balance of \$575,775,000 during the nine-month period ended September 30, 2011.

Investment Securities

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company's intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities available-for-sale may be sold to implement asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Table Five below summarizes the values of the Company's investment securities held on September 30, 2012 and December 31, 2011.

Table Five: Investment Securities Composition

(dollars in thousands)	September 30, 2012	December 31, 2011
Available-for-sale (at fair value)		
Debt securities:		
Mortgage-backed securities	\$ 196,430	\$ 179,454
Obligations of states and political subdivisions	29,857	29,188
Corporate bonds	1,558	—
Corporate stock	61	69
Total available-for-sale investment securities	\$ 227,906	\$ 208,711
Held-to-maturity (at amortized cost)		
Debt securities:		
Mortgage-backed securities	\$ 2,740	\$ 4,010
Total held-to-maturity investment securities	\$ 2,740	\$ 4,010

Table of Contents

Net unrealized gains on available-for-sale investment securities totaling \$8,396,000 were recorded, net of \$3,358,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at September 30, 2012 and net unrealized gains on available-for-sale investment securities totaling \$5,930,000 were recorded, net of \$2,372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2011.

Management periodically evaluates each investment security in a loss position for other than temporary impairment relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management has the ability and intent to hold securities with established maturity dates until recovery of fair value, which may be until maturity, and believes it will be able to collect all amounts due according to the contractual terms for all of the underlying investment securities; therefore, management does not consider these investments to be other-than-temporarily impaired.

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. The Company's continuing focus in our market area, new borrowers developed through the Company's marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating \$26 million in new loans during the first nine months of 2012. Normal pay downs, loan charge-offs, and loans transferred to OREO resulted in a net decrease in total loans and leases of \$24,731,000 (8.2%) from December 31, 2011. The market in which the Company operates continues to see a slowdown in new loan volume as existing borrowers continue to pay down debt and delay expansion plans. Table Six below summarizes the composition of the loan portfolio as of September 30, 2012 and December 31, 2011.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands) September
30, 2012