

AMERICAN RIVER BANKSHARES

Form 10-Q

August 09, 2010

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 June 30, 2010

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)

California
(State or other jurisdiction of incorporation or
organization)

68-0352144
(I.R.S. Employer Identification No.)

3100 Zinfandel Drive, Suite 450, Rancho Cordova,
California
(Address of principal executive offices)

95670
(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 ☒ No ☐

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

Yes ☐ No ☐

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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 ☐

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

Accelerated filer ☐

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 ☒

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 – 9,845,533 shares outstanding at August 9, 2010.

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED JUNE 30, 2010

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands) June 30, 2010 December 31, 2009

ASSETS

Cash and due from banks	\$ 39,581	\$ 58,493
Investment securities:		
Available-for-sale (amortized cost: 2010—\$127,806; 2009—\$96,305)	131,392	96,682
Held-to-maturity (fair value: 2010—\$8,893; 2009—\$12,889)	8,445	12,331
Loans and leases, less allowance for loan and lease losses of \$7,441 at June 30, 2010 and \$7,909 at December 31, 2009	353,409	376,322
Premises and equipment, net	1,947	2,094
Federal Home Loan Bank stock	3,776	3,922
Goodwill and other intangible assets	16,843	16,965
Other real estate owned	3,219	2,508
Accrued interest receivable and other assets	20,431	25,101
	\$ 579,043	\$ 594,418

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Noninterest bearing	\$ 122,960	\$ 118,328
Interest-bearing	340,648	351,427
Total deposits	463,608	469,755
Short-term borrowings	9,500	14,500
Long-term borrowings	12,000	17,000
Accrued interest payable and other liabilities	4,190	5,818
Total liabilities	489,298	507,073
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 – 9,845,533 shares at June 30, 2010 and December 31, 2009	71,688	71,578
Retained earnings	15,905	15,545
Accumulated other comprehensive income, net of taxes	2,152	222

Total shareholders' equity		89,745	87,345
	\$	579,043	\$ 594,418

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(dollars in thousands, except per share data)

For the periods ended June 30,	Three months		Six months	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	\$ 5,580	\$ 6,364	\$ 11,417	\$ 13,082
Interest on deposits in banks	—	20	—	53
Interest and dividends on investment securities:				
Taxable	726	676	1,434	1,411
Exempt from Federal income taxes	162	256	331	521
Dividends	5	5	5	5
Total interest income	6,473	7,321	13,187	15,072
Interest expense:				
Interest on deposits	761	998	1,559	2,079
Interest on borrowings	130	305	274	636
Total interest expense	891	1,303	1,833	2,715
Net interest income	5,582	6,018	11,354	12,357
Provision for loan and lease losses	2,011	3,800	3,652	5,029
Net interest income after provision for loan and lease losses	3,571	2,218	7,702	7,328
Noninterest income:				
Service charges on deposit accounts	232	251	465	493
(Loss) gain sale of securities	(7)	160	(5)	160
Other noninterest income	235	238	461	506
Total noninterest income	460	649	921	1,159
Noninterest expense:				
Salaries and employee benefits	1,980	1,826	3,974	3,699
Occupancy	334	344	665	702
Furniture and equipment	179	184	377	375
Federal Deposit Insurance Corporation assessments	359	335	678	409
Other expense	1,203	1,550	2,546	2,655
Total noninterest expense	4,055	4,239	8,240	7,840
(Loss) income before provision for income taxes	(24)	(1,372)	383	647
(Benefit from) provision for income taxes	(78)	(668)	23	68

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Net income (loss)	\$ 54	\$ (704)	\$ 360	\$ 579
Basic earnings (loss) per share	\$ 0.01	\$ (0.12)	\$ 0.04	\$ 0.10
Diluted earnings (loss) per share	\$ 0.01	\$ (0.12)	\$ 0.04	\$ 0.10
Cash dividends per share	\$ 0.00	\$ 0.14	\$ 0.00	\$ 0.29

See notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(dollars in thousands)	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Total Comprehensive Income
Balance, January 1, 2009	5,792,283	\$ 47,433	\$ 15,617	\$ 397	\$ 63,447	
Comprehensive income:						
Net income			1,586		1,586	\$ 1,586
Other comprehensive (loss), net of tax:						
Net change in unrealized gains on available-for-sale investment securities				(175)	(175)	(175)
Total comprehensive income						\$ 1,411
Cash dividends (\$0.29 per share)			(1,658)		(1,658)	
Stock options exercised and related tax benefit	5,250	34			34	
Stock option compensation expense		210			210	
Issuance of new shares, net of costs	4,048,000	23,901			23,901	
Balance, December 31, 2009	9,845,533	71,578	15,545	222	87,345	
Comprehensive income:						
Net income			360		360	\$ 360
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				1,930	1,930	1,930
Total comprehensive income						\$ 2,290

Stock option
compensation expense

110

110

Balance, June 30, 2010	9,845,533	\$ 71,688	\$ 15,905	\$ 2,152	\$ 89,745
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See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)

For the six months ended June 30,

	2010	2009
Cash flows from operating activities:		
Net income	\$ 360	\$ 579
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	3,652	5,029
(Decrease) increase in deferred loan origination fees, net	(97)	24
Depreciation and amortization	420	418
Loss (gain) on sale and call of investment securities	5	(160)
Amortization of investment security premiums and discounts, net	1,131	114
Decrease in provision for accounts receivable servicing receivable losses	(4)	(36)
Increase in cash surrender value of life insurance policies	(127)	(116)
Stock option compensation expense	110	108
Tax benefit from exercise of stock options	—	(12)
Loss on sale and write-down of other real estate owned	405	301
Decrease (increase) in accrued interest receivable and other assets	3,482	(847)
Decrease in accrued interest payable and other liabilities	(1,628)	(1,493)
Net cash provided by operating activities	7,709	3,909
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	3,451	4,836
Proceeds from matured and called available-for-sale investment securities	3,120	575
Purchases of available-for-sale investment securities	(47,185)	(13,351)
Proceeds from principal repayments for available-for-sale investment securities	7,896	5,942
Proceeds from principal repayments for held-to-maturity investment securities	3,967	6,463
Net decrease in interest-bearing deposits in banks	—	3,357
Net decrease in loans	16,740	5,675
Proceeds from sale of other real estate	1,502	1,947
Net decrease in accounts receivable servicing receivables	40	1,192
Purchases of equipment	(151)	(334)
Net decrease in FHLB stock	146	—
Net cash (used in) provided by investing activities	(10,474)	16,302

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)

For the six months ended June 30,	2010	2009
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$9,219	\$10,774
Net (decrease) increase in time deposits	(15,366)	1,774
Net decrease in short-term borrowings	(5,000)	(28,731)
Net (decrease) increase in long-term borrowings	(5,000)	7,500
Payment of cash dividends	—	(1,658)
Exercise of stock options	—	22
Tax benefit from exercise of stock options	—	12
Net cash used in financing activities	\$(16,147)	\$(10,307)
(Decrease) increase in cash and cash equivalents	(18,912)	9,904
Cash and cash equivalents at beginning of year	58,493	15,170
Cash and cash equivalents at end of period	\$39,581	\$25,074

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the “Company”) at June 30, 2010 and December 31, 2009, and the results of its operations and its cash flows for the three-month and six-month periods ended June 30, 2010 and 2009 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 2009 annual report on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2010 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 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”). The total authorized shares that are available for issuance under the 2010 Plan is 1,476,829. 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. The 2000 Plan provides for incentive stock options and nonqualified stock options. Under the 2010 Plan and the 2000 Plan (collectively the “Plans”) the awards may be granted to employees and directors under incentive and nonstatutory agreements. 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. As of June 30, 2010, there

have not been any awards issued under the 2010 Plan.

Stock Option Compensation

There were no stock options awarded during the three-month periods ended June 30, 2010 and June 30, 2009. For the three-month periods ended June 30, 2010 and 2009, the compensation cost recognized for stock option compensation was \$55,000 and \$53,000, respectively. For the six-month periods ended June 30, 2010 and 2009, the compensation cost recognized for stock option compensation was \$110,000 and \$108,000, respectively. The recognized tax benefit for stock option compensation expense was \$7,000 and \$14,000, for the three-month periods ended June 30, 2010 and 2009, respectively. The recognized tax benefit for stock option compensation expense was \$17,000 and \$27,000, for the six-month periods ended June 30, 2010 and 2009, respectively.

At June 30, 2010, the total compensation cost related to nonvested stock option awards not yet recorded is expected to be \$267,000. This amount will be recognized over the next four years and the weighted average period of recognizing these costs is expected to be 1.5 years.

Stock Option Activity

A summary of option activity under the stock option plan as of June 30, 2010 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2010	381,021	\$ 17.20	5.3 years	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	(714)	\$ 22.59	—	—
Outstanding at June 30, 2010	380,307	\$ 17.19	6.0 years	\$ —
Exercisable at June 30, 2010	254,052	\$ 18.16	5.2 years	\$ —

The intrinsic value was derived from the market price of the Company's common stock of \$7.47 as of June 30, 2010.

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 \$59,125,000 and standby letters of credit of approximately \$10,261,000 at June 30, 2010. Such loans 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 2010 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 June 30, 2010 or June 30, 2009.

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 (9,845,533 shares for the three-month and six-month periods ended June 30, 2010, and 5,797,533 and 5,796,025 shares for the three-month and six-month periods ended June 30, 2009). Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. 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 options. When a loss occurs there is no effect on the calculation of diluted loss per share for common stock equivalents because the conversion is anti-dilutive, as a result of the loss for the three months ended June 30, 2009 there are no diluted shares reported for that period. There were zero diluted shares for the three-month and six-month periods ended June 30, 2010 and zero and 46,044 shares, respectively, for the three-month and six-month periods ended June 30, 2009. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income (loss) for all periods presented. Comprehensive income (loss) is comprised of net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss), net of taxes, was comprised of the unrealized gains (losses) on available-for-sale investment securities of \$964,000 and \$1,930,000, respectively, for the three-month and six-month periods ended June 30, 2010 and \$(173,000) and \$(234,000), respectively, for the three-month and six month periods ended June 30, 2009.

Comprehensive income (loss) was \$1,018,000 and \$2,290,000, respectively, for the three-month and six-month periods ended June 30, 2010 and \$(877,000) and \$345,000, respectively, for the three-month and six-month periods ended June 30, 2009. Reclassification adjustments resulting from realized gains or loss on sale of investment securities were \$(7,000) and \$(5,000), respectively, for the three-month and six-month periods ending June 30, 2010 and \$160,000 for both the three three-month and six-month periods ending June 30, 2009.

6. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at June 30, 2010 and December 31, 2009 consisted of the following (dollars in thousands):

Available-for-Sale

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$110,911	\$3,201	\$(68)	\$114,044
Obligations of states and political subdivisions	16,817	470	(18)	17,269
Equity securities:				
Corporate stock	78	8	(7)	79
	\$127,806	\$3,679	\$(93)	\$131,392

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$75,823	\$772	\$(586)	\$76,009
Obligations of states and political subdivisions	20,400	347	(160)	20,587
Equity securities:				
Corporate stock	82	11	(7)	86
	\$96,305	\$1,130	\$(753)	\$96,682

Net unrealized gains on available-for-sale investment securities totaling \$3,586,000 were recorded, net of \$1,434,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 30, 2010. Proceeds and gross realized gains (losses) from the sale and call of available-for-sale investment securities for the six-month period ended June 30, 2010 totaled \$3,843,000 and \$(5,000), respectively. There were no transfers of available-for-sale investment securities for the six-month period ended June 30, 2010.

During 2008, management determined that one equity security (FNMA Preferred Stock) had a loss considered to be other-than-temporary and the Company recorded an impairment charge of \$245,000. The security had a remaining balance of \$5,000 at June 30, 2010 and December 31, 2009.

Net unrealized gains on available-for-sale investment securities totaling \$377,000 were recorded, net of \$155,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2009. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the six-month period ended June 30, 2009 totaled \$4,836,000 and \$160,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2009.

Held-to-Maturity

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 8,445	\$ 448	\$ —	\$ 8,893
	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 12,331	\$ 558	\$ —	\$ 12,889

There were no sales of held-to-maturity investment securities for the periods ended June 30, 2010 and December 31, 2009 and no transfers of held-to-maturity investment securities for the periods ended June 30, 2010 and December 31, 2009.

Investment securities with unrealized losses at June 30, 2010 and December 31, 2009 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2010					
	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	\$ 9,580	\$ (48)	\$ 1,682	\$ (20)	\$ 11,262	\$ (68)
Obligations of states and political subdivisions	892	(15)	292	(3)	1,184	(18)
Corporate stock	4	(3)	5	(4)	9	(7)
	\$ 10,476	\$ (66)	\$ 1,979	\$ (27)	\$ 12,455	\$ (93)

	2009					
	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	\$ 41,046	\$ (527)	\$ 2,752	\$ (59)	\$ 43,798	\$ (586)
Obligations of states and political subdivisions	4,081	(80)	2,641	(80)	6,722	(160)
Corporate stock	5	(3)	3	(4)	8	(7)
	\$ 45,132	\$ (610)	\$ 5,396	\$ (143)	\$ 50,528	\$ (753)

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2010 or December 31, 2009.

At June 30, 2010, the Company held 165 securities of which 11 were in a loss position for less than twelve months and 9 were in a loss position for twelve months or more. Of the 20 securities in a loss position, 9 are corporate stocks, 8 are mortgage-backed securities and 3 are obligations of states and political subdivisions. At December 31, 2009, the Company held 155 securities of which 32 were in a loss position for less than twelve months and 10 were in a loss position for twelve months or more. Of the 42 securities in a loss position, 23 are mortgage-backed securities, 10 are obligations of states and political subdivisions and 9 are corporate stocks.

The unrealized loss on the Company's investments in mortgage-backed securities and obligations of states and political subdivisions 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 value of investment securities at June 30, 2010 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	\$ 771	\$ 776		
After one year through five years	7,058	7,252		
After five years through ten years	4,416	4,576		
After ten years	4,572	4,665		
	16,817	17,269		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	110,911	114,044	\$ 8,445	\$ 8,893
Corporate stock	78	79		
	\$ 127,806	\$ 131,392	\$ 8,445	\$ 8,893

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.

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

At June 30, 2010 and December 31, 2009, the recorded investment in nonperforming loans and leases was approximately \$19,259,000 and \$20,964,000, 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 original contractual terms of the loan agreement. At June 30, 2010, the recorded investment in loans and leases that were considered to be impaired totaled \$35,829,000, which includes loans and leases considered to be nonperforming and \$17,665,000 in performing loans and leases. Of the total impaired loans of \$35,829,000, loans totaling \$26,375,000 were deemed to require no specific reserve and loans totaling \$9,454,000 were deemed to require a related valuation allowance of \$2,395,000. At June 30, 2010, there were sixteen loans and leases that were modified and are currently performing (less than ninety days past due) totaling \$11,462,000 and eleven loans and leases that are considered nonperforming (and included in \$18,164,000 noted above), totaling \$3,040,000, that are considered troubled debt restructures. At June 30, 2010 and December 31, 2009, there were no unfunded commitments on those loans considered troubled debt restructures. At December 31, 2009, the recorded investment in loans and leases that were considered to be impaired totaled \$41,937,000 and had a related valuation allowance of \$3,810,000. If interest had been accruing on the nonperforming loans, such income would have approximated \$401,000 and \$712,000, respectively, for the three months and six-month periods ended June 30, 2010 and \$378,000 and \$559,000, respectively, for the three months and six-month periods ended June 30, 2009.

At June 30, 2010 and December 31, 2009, the recorded investment in other real estate owned (“OREO”) was \$3,219,000 and \$2,508,000, respectively. At March 31, 2010, the Company had \$3,271,000 in OREO. For the three months ended June 30, 2010, the Company transferred property from five loans in the amount of \$1,000,000 to OREO (and adjusted the balances through charges to the allowance for loan and lease losses in the amount of \$141,000), sold six properties with balances of \$866,000 for a net loss of \$53,000, and recorded \$45,000 in writedowns of OREO in other noninterest expense. The June 30, 2010 OREO balance of \$3,219,000 consists of seventeen properties with five being residential real estate in the amount of \$1,405,000 and twelve properties representing residential land, totaling \$1,814,000. Nonperforming loans and leases and OREO at June 30, 2010 and December 31, 2009 are summarized as follows:

(in thousands)	June 30, 2010		December 31, 2009	
Nonaccrual loans and leases that are current to terms	\$	2,284	\$	2,133
Nonaccrual loans and leases that are past due		16,975		18,831
Loans and leases past due 90 days and accruing interest		—		—
Other real estate owned		3,219		2,508
Total nonperforming assets	\$	22,478	\$	23,472
Nonperforming loans and leases to total loans and leases		5.34	%	5.46
Total nonperforming assets to total assets		3.88	%	3.95

8. BORROWING ARRANGEMENTS

At June 30, 2010, the Company had \$20,000,000 of unsecured short-term borrowing arrangements with two of its correspondent banks. There were no advances under the borrowing arrangements as of June 30, 2010 or December 31, 2009.

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-term and long-term) totaling \$21,500,000 were outstanding from the FHLB at June 30, 2010, bearing interest rates ranging from 1.60% to 3.78% and maturing between August 20, 2010 and January 13, 2014. Advances totaling \$31,500,000 were outstanding from the FHLB at December 31, 2009, bearing interest rates ranging from 1.60% to 3.78% and maturing between January 19, 2010 and January 13, 2014. Remaining amounts available under the borrowing arrangement with the FHLB at June 30, 2010 and December 31, 2009 totaled \$62,691,000 and \$54,047,000, respectively. 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 June 30, 2010 and December 31, 2009 were \$33,714,000 and \$36,353,000, respectively. There were no advances outstanding under this borrowing arrangement as of June 30, 2010 and December 31, 2009.

9. 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 (benefit from) for income taxes.

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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 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 statements of operations. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the three and six-month periods ended June 30, 2010.

10. FAIR VALUE MEASUREMENTS

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

	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$39,581	\$39,581	\$58,493	\$58,493
Investment securities	139,837	140,285	109,013	109,571
Loans and leases, net	353,409	347,883	376,322	370,057
FHLB stock	3,776	3,776	3,922	3,922
Accounts receivable servicing receivables	—	—	35	35
Accrued interest receivable	1,879	1,879	1,941	1,941
Cash surrender value of life insurance policies	10,869	10,869	10,742	10,742
Financial liabilities:				
Deposits	\$463,608	\$464,313	\$469,755	\$470,530
Short-term borrowings	9,500	9,500	14,500	14,500
Long-term borrowings	12,000	12,482	17,000	17,816
Accrued interest payable	326	326	344	344

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.

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 value of its financial instruments at June 30, 2010 and December 31, 2009:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. 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.

Loans and leases: For variable-rate loans and leases that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans and leases are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans and leases with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

FHLB stock: The carrying amount of FHLB stock approximates its fair value. This investment is carried at cost and is redeemable at par with certain restrictions.

Accounts receivable servicing receivables: The carrying amount of accounts receivable servicing receivables approximates their fair value because of the relatively short period of time between the origination of the receivables and their expected collection.

Cash surrender value of life insurance policies: The fair value of life insurance policies are based on cash surrender values at each reporting date as provided by insurers.

Deposits: The fair values for non-maturing deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

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

Commitments to extend credit: The fair value of commitments is based on fees currently charged to enter into similar agreements, net of origination fees. These fees were not material at June 30, 2010 and December 31, 2009.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2010, and indicates 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 information other than the 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. 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.

		Fair Value Measurements Using			
Description (dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
June 30, 2010					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities	\$ 131,392	\$ 75	\$ 131,317	\$ —	N/A
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans	\$ 17,854	\$ —	\$ 16,210	\$ 1,644	\$ (2,144)
Other real estate owned	3,219	—	3,219	—	(405)
Total	\$ 21,073	\$ —	\$ 19,429	\$ 1,644	\$ (2,549)
December 31, 2009					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities	\$ 96,682	\$ 78	\$ 96,604	\$ —	N/A
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans	\$ 18,461	\$ —	\$ 16,081	\$ 2,380	\$ (3,633)

Other real estate owned	2,508	—	2,508	—	(1,089)
Total	\$ 20,969	\$ —	\$ 18,859	\$ 2,380	\$ (4,722)

There were no recurring items valued using significant unobservable inputs (level 3) for available-for-sale securities as of June 30, 2010 and December 31, 2009. There were no transfers between level 1 and level 2 during the six months ended June 30, 2010 or the twelve months ended December 31, 2009.

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 evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Evaluated 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 impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

Other real estate owned - Other real estate owned (“OREO”) represents real estate which the Company has title to in partial or full satisfaction of loans. At or near the time of foreclosure the Company obtains an appraisal and the OREO is recorded at the fair value of the real estate less costs to sell, which becomes the property’s new basis. The value of the OREO properties is periodically assessed by performing a property valuation, which could include a full or partial appraisal.

11. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2010, Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This standard expands disclosures about credit quality of financing receivables and the allowance for loan and lease losses. The standard will require the Company to expand disclosures about the credit quality of our loans and leases and the related reserves against them. The extra disclosures will include disaggregated matters related to our past due loans, credit quality indicators, and modifications of loans and leases. The Company will adopt the standard beginning with our December 31, 2010 financial statements. Management does not currently believe that the adoption of this standard will have a material impact on the Company’s financial position, results of operation, or cash flows.

12. OTHER MATTERS

In February 2010, in connection with American River Bank’s (the “Bank”) regularly scheduled 2009 FDIC examination, the Bank entered into a Memorandum of Understanding (the “Memorandum”) with the FDIC and the California Commissioner of Financial Institutions. The Memorandum covers actions to be taken by the Board of Directors and management to enhance BSA compliance; reduce the Bank’s level of classified assets and further strengthen and improve the Bank’s asset quality; requesting regulatory approval prior to paying any cash dividends; and maintaining the Bank’s Tier 1 Leverage capital ratio at not less than 8% and a Total Risk-Based capital ratio of not less than 11%. As of June 30, 2010, the foregoing ratios for the Bank were 11.7% and 18.5%, respectively. The Company believes that the Bank is currently in compliance in all material respects with the actions described in the Memorandum. Consequently, the Company does not expect these actions to significantly change its business strategy in any material respect; however, noncompliance with provisions of the Memorandum could result in regulatory enforcement actions that could have a material adverse effect upon the Company.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). Provisions of the Act that will affect the Company and Bank depositors include 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. It is uncertain whether these changes will result in increased FDIC insurance assessments in the future. It is also uncertain how and to what extent other provisions of the Act and regulations promulgated thereunder will impact the results of operations of the Company in the future.

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, 2009 and June 30, 2010 and its income and expense accounts for the three-month and six-month periods ended June 30, 2010 and 2009. 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 materially 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; and
the efficiencies we may expect to receive from any investments in personnel and infrastructure may not be realized.

The factors set forth under “Item 1A - Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, 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. We use historical loss data and the economic environment as factors, among others, in determining the inherent loss that may be present in our loan and lease portfolio. Actual losses could differ significantly from the factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is an estimate of the credit loss risk in our loan and lease portfolio. 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) “Accounting by Creditors for Impairment of a Loan,” which requires that losses be accrued on impaired loans based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan and lease losses is determined based upon estimates that can and do change when the actual risk, loss events, or changes in other factors, occur. The analysis of the allowance uses an historical loss view as an

indicator of future losses and as a result could differ from the loss 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 in an amount equal to the fair value of the share-based payments such as stock options granted to employees. The Company records compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that were outstanding on January 1, 2006 and for all awards granted after that date as they vest. The fair value of each option is estimated on the date of grant and amortized over the service period using an option-pricing model. Critical assumptions that affect the estimated fair value of each option include expected stock price volatility, dividend yields, option life and the risk-free interest rate.

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 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 the goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2009 and determined that there was no impairment. 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.

Fair Value

Effective January 1, 2008, the Company adopted the accounting principles of "Fair Value Measurements," which among other things, requires enhanced disclosures about financial instruments carried at fair value. "Fair Value Measurements" establishes a hierarchical disclosure framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

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 June 30, 2010.

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. The Bank operates: (1) five full service offices in Sacramento and Placer Counties including the head office located at 1545 River Park Drive, Suite 107, Sacramento, and branch offices located at 520 Capitol Mall, Suite 100, Sacramento, 9750 Business Park Drive, Sacramento, 10123 Fair Oaks Boulevard, Fair Oaks and 2240 Douglas Boulevard, Roseville, (2) two full service offices in Sonoma County located at 412 Center Street, Healdsburg and 90 South E Street, Suite 110, Santa Rosa, operated under the name “North Coast Bank, a division of American River Bank,” and (3)) three full service offices in Amador County located at 422 Sutter Street, Jackson, 26395 Buckhorn Ridge Drive, Pioneer, and 66 Main Street, Ione, operated under the name “Bank of Amador, a division of American River Bank.” North Coast Bank was acquired by the Company in 2000 as a separate bank subsidiary and was merged with and into American River Bank in 2003. The Company acquired Bank of Amador in 2004 and 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. The Bank is also participating in the FDIC Transaction Account Guarantee Program (the “TAGP”). Under the TAGP, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount. This coverage was in effect until June 30, 2010 for banks that continued to participate in the TAGP and on June 22, 2010, the FDIC adopted a final rule to further extend the program to December 31, 2010. The final rule included the possibility of an additional 12-month extension through December 31, 2011, without further rulemaking, at the discretion of the FDIC based on evaluation of economic factors. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC’s general deposit insurance rules. 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, 2009. In addition to the TAGP, on July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). The 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.

The Bank’s primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. The 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 revolving credit loans and offers other customary banking services. The Bank does not offer trust services or international banking services and does not plan to do so in the near future. The Bank also conducts lease financing for most types of business equipment, from computer software to heavy earth-moving equipment. The 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 2010, 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 \$54,000 for the quarter ended June 30, 2010, which was an increase of \$758,000 compared to the \$704,000 loss reported for the same period of 2009. Diluted earnings per share for the

second quarter of 2010 were \$0.01 compared to a loss of \$0.12 recorded in the second quarter of 2009. The return on average equity (ROAE) and the return on average assets (ROAA) for the second quarter of 2010 were 0.24% and 0.04%, respectively, as compared to -4.41% and -0.50%, respectively, for the same period in 2009.

Net income for the six months ended June 30, 2010 and 2009 was \$360,000 and \$579,000, respectively, with diluted earnings per share of \$0.04 and \$0.10, respectively. For the first six months of 2010, ROAE was 0.82% and ROAA was 0.12% compared to 1.83% and 0.20%, respectively, for the same period in 2009.

Total assets of the Company decreased by \$15,375,000 (2.6%) from \$594,418,000 at December 31, 2009 to \$579,043,000 at June 30, 2010. Net loans totaled \$353,409,000 at June 30, 2010, down \$22,913,000 (6.1%) from \$376,322,000 at December 31, 2009. Deposit balances at June 30, 2010 totaled \$463,608,000, down \$6,147,000 (1.3%) from \$469,755,000 at December 31, 2009.

The Company ended the second quarter of 2010 with a Tier 1 capital ratio of 12.5% and a total risk-based capital ratio of 19.6% compared to 12.4% and 18.4%, respectively, at December 31, 2009. 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 One: Components of Net Income

(dollars in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Net interest income*	\$5,635	\$6,102	\$11,464	\$12,527
Provision for loan and lease losses	(2,011)	(3,800)	(3,652)	(5,029)
Noninterest income	460	649	921	1,159
Noninterest expense	(4,055)	(4,239)	(8,240)	(7,840)
Benefit (provision) for income taxes	78	668	(23)	(68)
Tax equivalent adjustment	(53)	(84)	(110)	(170)
Net income (loss)	\$54	\$(704)	\$360	\$579
Average total assets	\$584,511	\$569,098	\$584,428	\$573,322
Net income (loss) (annualized) as a percentage of average total assets	0.04 %	(0.50 %)	0.12 %	0.20 %

* Fully taxable equivalent basis

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 4.52% for the three months ended June 30, 2010, 4.87% for the three months ended June 30, 2009, 4.62% for the six months ended June 30, 2010 and 4.98% for the six months ended June 30, 2009.

The fully taxable equivalent interest income component for the second quarter of 2010 decreased \$879,000 (11.9%) to \$6,526,000 compared to \$7,405,000 for the three months ended June 30, 2009. The decrease in the fully taxable equivalent interest income for the second quarter of 2010 compared to the same period in 2009 is broken down by rate (down \$611,000) and volume (down \$268,000). The rate decrease can be attributed to the overall lower interest rate

environment, forgone interest on nonaccrual loans, and lower average loans replaced with higher average investment securities. During the second quarter of 2010, foregone interest income on nonaccrual loans was approximately \$401,000, compared to foregone interest of \$378,000 during the second quarter of 2009. The foregone interest of \$378,000 had a 32 basis point negative impact on the yield on earning assets. The average balance of earning assets decreased 0.5% from \$502,455,000 in the second quarter of 2009 to \$499,975,000 in the second quarter of 2010. The overall decrease in average assets during the three month period was predominately related to the decrease in loans. The decrease in loans was substantially offset by an increase in investment securities. When compared to the second quarter of 2009, average loan balances were down \$45,571,000 (11.1%) to \$365,388,000 for the second quarter of 2010 and average investment securities were up \$45,526,000 (51.1%) to \$134,587,000 for the second quarter of 2010. The overall low interest rate environment, the negative effect of the foregone interest on loans, and the change in the asset mix resulted in a 67 basis point decrease in the yield on average earning assets from 5.91% for 2009 to 5.24% for 2010. The volume decrease of \$268,000 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 six months ended June 30, 2010 decreased \$1,945,000 (12.8%) to \$13,297,000 compared to \$15,242,000 for the six months ended June 30, 2009. The breakdown of the fully taxable equivalent interest income for the six months ended June 30, 2010 over the same period in 2009 resulted from decreases in rate (down \$1,345,000) and a decrease in volume (down \$600,000). Average earning assets decreased \$7,368,000 (1.5%) during the first six months of 2010 as compared to the same period in 2009. Average loan balances decreased \$42,531,000 (10.3%) during that same period and average investment securities balances increased \$38,128,000 (42.3%).

Interest expense was \$412,000 (31.6%) lower in the second quarter of 2010 versus the prior year period. The average balances on interest bearing liabilities were \$14,005,000 (3.7%) lower in the second quarter of 2010 compared to the same quarter in 2009. The lower balances accounted for an \$183,000 decrease in interest expense for the same periods. Average borrowings were down \$32,428,000 (59.8%) as the Company replaced higher cost borrowings with lower cost checking and money market accounts. Average deposit balances increased \$24,145,000 or 5.4% from \$444,945,000 during the second quarter of 2009 to \$469,090,000 during the second quarter of 2010. The Company continues to have success attracting new deposit relationships, as a direct result of its business development efforts. As a result of the lower overall interest rate environment, the decrease in rates accounted for a \$229,000 reduction in interest expense for the three-month period ended June 30, 2010 compared to the same quarter in 2009. Rates paid on interest bearing liabilities decreased 39 basis points from the second quarter of 2009 to the second quarter of 2010 from 1.36% to 0.97%. Despite the lower overall rate environment, the average rate paid on our borrowings increased from 2.26% in the second quarter of 2009 to 2.39% during the second quarter of 2010. This increase is the result of low rate short-term borrowings maturing leaving just longer-term higher rate borrowings. See the section titled "Other Borrowed Funds" later in the section for more information on the Company's borrowings.

Interest expense was \$882,000 (32.5%) lower in the six-month period ended June 30, 2010 versus the prior year period. The average balances on interest-bearing liabilities were \$18,268,000 (4.7%) lower in the six-month period ended June 30, 2010 compared to the same period in 2009. The lower balances, especially in the level of average borrowings and time deposits accounted for a \$376,000 decrease in interest expense. The decrease in interest expense was also aided by lower rates, which accounted for a \$506,000 decrease in interest expense for the six-month period. Rates paid on interest-bearing liabilities decreased 41 basis points from the first six months of 2009 to the first six months of 2010 from 1.41% to 1.00%.

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 Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended June 30, (Taxable Equivalent Basis) (dollars in thousands)	2010			2009		
	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	\$ 365,388	\$ 5,580	6.13 %	\$ 410,959	\$ 6,364	6.21 %
Taxable investment securities	118,768	726	2.45 %	63,584	676	4.26 %
Tax-exempt investment securities (2)	15,793	215	5.46 %	25,450	339	5.34 %
Corporate stock (2)	26	5	77.13 %	27	6	89.13 %
Federal funds sold	—	—	—	6	—	0.00 %
Investments in time deposits	—	—	—	2,429	20	3.30 %
Total earning assets	499,975	6,526	5.24 %	502,455	7,405	5.91 %
Cash & due from banks	49,838			34,679		
Other assets	43,414			38,122		
Allowance for loan & lease losses	(8,716)			(6,158)		
	\$ 584,511			\$ 569,098		
Liabilities & Shareholders' Equity						
Interest bearing liabilities:						
Interest checking and money market	\$ 181,892	343	0.76 %	\$ 155,630	323	0.83 %
Savings	40,783	58	0.57 %	33,380	54	0.65 %
Time deposits	124,612	360	1.16 %	139,844	621	1.78 %
Other borrowings	21,775	130	2.39 %	54,213	305	2.26 %
Total interest bearing liabilities	369,062	891	0.97 %	383,067	1,303	1.36 %
Noninterest bearing demand deposits	121,803			116,091		
Other liabilities	4,743			5,842		
Total liabilities	495,608			505,000		
Shareholders' equity	88,903			64,098		
	\$ 584,511			\$ 569,098		
Net interest income & margin (3)		\$ 5,635	4.52 %		\$ 6,102	4.87 %

(1) Loan interest includes loan fees of \$3,000 and loan costs of \$7,000, respectively, during three months ending June 30, 2010 and June 30, 2009. 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 2010 and 2009.
- (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 quarter (91 days) and annualized to actual days in the year (365 days).

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Six Months Ended June 30, 2010

(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)		2009 Avg Balance	Interest	Avg Yield (4)	
Assets								
Earning assets:								
Loans and leases (1)	\$ 371,816	\$ 11,417	6.19	%	\$ 414,347	\$ 13,082	6.37	%
Taxable investment securities	112,133	1,434	2.58	%	64,113	1,411	4.44	%
Tax-exempt investment securities (2)	16,082	440	5.52	%	25,981	690	5.36	%
Corporate stock (2)	26	6	46.54	%	19	6	63.68	%
Federal funds sold	—	—	0.00	%	22	—	0.00	%
Interest-bearing deposits in banks	—	—	0.00	%	2,943	53	3.63	%
Total earning assets	500,057	13,297	5.36	%	507,425	15,242	6.06	%
Cash & due from banks	48,398				29,843			
Other assets	44,482				42,037			
Allowance for loan & lease losses	(8,509)				(5,983)			
	\$ 584,428				\$ 573,322			
Liabilities & Shareholders' Equity								
Interest-bearing liabilities:								
Interest checking and money market	\$ 181,751	693	0.77	%	\$ 153,033	641	0.84	%
Savings	39,437	115	0.59	%	32,904	108	0.66	%
Time deposits	126,480	751	1.20	%	136,767	1,330	1.96	%
Other borrowings	22,633	274	2.44	%	65,865	636	1.95	%
Total interest-bearing liabilities	370,301	1,833	1.00	%	388,569	2,715	1.41	%
Noninterest-bearing demand deposits	119,998				114,844			
Other liabilities	5,629				5,949			
Total liabilities	495,928				509,362			
Shareholders' equity	88,500				63,960			
	\$ 584,428				\$ 573,322			
Net interest income & margin (3)								
		\$ 11,464	4.62	%		\$ 12,527	4.98	%

- (1) Loan interest includes loan fees of \$24,000 and \$3,000, respectively, during the six months ending June 30, 2010 and June 30, 2009. 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 2010 and 2009.
- (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 (181days) and annualized to actual days in the year (365 days).

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

Three Months Ended June 30, 2010 over 2009 (dollars in thousands)

Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	\$ (706)	\$ (78)	\$ (784)
Taxable investment securities	587	(537)	50
Tax exempt investment securities (3)	(129)	5	(124)
Corporate stock	—	(1)	(1)
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(20)	—	(20)
Total	(268)	(611)	(879)
Interest-bearing liabilities:			
Interest checking and money market	55	(35)	20
Savings deposits	12	(8)	4
Time deposits	(68)	(193)	(261)
Other borrowings	(182)	7	(175)
Total	(183)	(229)	(412)
Interest differential	\$ (85)	\$ (382)	\$ (467)

Six Months Ended June 30, 2010 over 2009 (dollars in thousands)

Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	\$ (1,343)	\$ (322)	\$ (1,665)
Taxable investment securities	1,057	(1,034)	23
Tax exempt investment securities (3)	(263)	13	(250)
Corporate stock	2	(2)	—
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(53)	—	(53)
Total	(600)	(1,345)	(1,945)
Interest-bearing liabilities:			
Interest checking and money market	120	(68)	52
Savings deposits	21	(14)	7
Time deposits	(100)	(479)	(579)
Other borrowings	(417)	55	(362)
Total	(376)	(506)	(882)
Interest differential	\$ (224)	\$ (839)	\$ (1,063)

-
- (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) Loan fees of \$3,000 and loan costs of \$7,000, respectively, during the three months ending June 30, 2010 and June 30, 2009, and loan fees of \$24,000 and \$3,000, respectively, during the six months ending June 30, 2010 and June 30, 2009, 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 2010 and 2009.

- (4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company provided \$2,011,000 for loan and lease losses for the second quarter of 2010 as compared to \$3,800,000 for the second quarter of 2009. Net loan and lease losses for the three months ended June 30, 2010 were \$2,950,000 or 3.24% (on an annualized basis) of average loans and leases as compared to \$1,881,000 or 1.84% (on an annualized basis) of average loans and leases for the three months ended June 30, 2009. For the first six months of 2010, the Company made provisions for loan and lease losses of \$3,652,000 and net loan and lease losses were \$4,120,000 or 2.23% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of \$5,029,000 and net loan and lease losses of \$3,189,000 for the first six months of 2009 or 1.55% (on an annualized basis) of average loans and leases outstanding. The increase in the loan and lease losses for 2010 results from a continued high level of nonperforming loans and leases, due mainly to the overall challenging economy in the Company's market areas and the United States, overall. Although the chargeoffs increased from 2009 to 2010, the provision for loan and lease losses for the six months ended June 2010 compared to the six months ended June 2009 was less. The majority of the chargeoffs in the first half of 2010 previously had specific reserves and those reserves were reduced as the loans were charged down. At June 30, 2010, specific reserves were \$2,395,000 compared to \$3,810,000 as of December 31, 2009. 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service charges on deposit accounts	\$232	\$251	\$465	\$493
Gain (loss) on sale of securities	(7)	160	(5)	160
Merchant fee income	104	112	201	221
Bank owned life insurance	69	59	127	116
Other	62	67	133	169
Total noninterest income	\$460	\$649	\$921	\$1,159

Noninterest income decreased \$189,000 (29.1%) to \$460,000 for the three months ended June 30, 2010 as compared to \$649,000 for the three months ended June 30, 2009. The decrease from the second quarter of 2009 to the second quarter of 2010 was primarily related to sales of investment securities. For the second quarter of 2010, the Company recorded a loss on sale of \$7,000 compared to a gain on sale of \$160,000 for the second quarter of 2009. For the six months ended June 30, 2010, noninterest income decreased \$238,000 (20.5%) to \$921,000. The decrease from the first six months of 2009 compared to the same period in 2010 was also related to sales of investment securities. For the six months ended June 30, 2010, the Company recorded a loss on sale of \$5,000 compared to a gain on sale of \$160,000 for the six months ended June 30, 2009.

Noninterest Expense

Noninterest expense decreased \$130,000 (3.1%) to a total of \$4,055,000 in the second quarter of 2010 compared to \$4,239,000 in the second quarter of 2009. Salary and employee benefits expense increased \$154,000 (8.4%) from \$1,826,000 during the second quarter of 2009 to \$1,980,000 during the second quarter of 2010. The increase in salary and benefits was due in part to a decrease in direct costs associated with the production of new loans. The Company

allocates the direct costs of originating loans as a credit to salary expense in accordance with generally accepted accounting principles. As loan volume decreases the Company allocates less direct costs of loan production against salary expense. The offset from direct cost reimbursement decreased \$40,000 (23.5%) from \$169,000 in 2009 to \$129,000 in 2010. Overall salary expense increased \$23,000 (1.6%) mainly due to the additional staff added to the loan collection and workout department. Employee benefits, which includes employee health insurance, increased \$68,000 (27.1%). On a quarter-over-quarter basis, occupancy expense decreased \$10,000 (2.9%) and furniture and equipment expense decreased \$5,000 (2.7%). FDIC assessments increased \$24,000 (7.2%) during 2010 to \$359,000, from \$335,000 in 2009. The majority of this increase relates to increased assessments from the FDIC based on the Bank's assessment category and to cover losses suffered by the FDIC due to an increased number of bank failures. Other expense decreased \$347,000 (22.4%) to a total of \$1,203,000 in the second quarter of 2010 versus the second quarter of 2009. Much of this decrease is related to lower costs associated with maintaining the Company's other real estate owned ("OREO") and lower amounts added to the loss reserve for accounts receivable servicing. The total OREO expense in the second quarter of 2010 was \$203,000 compared to \$441,000 for the same period in 2009, the reduced expense related to lower valuations allowances in 2010 as compared to 2009. In the second quarter of 2009, the Company added \$98,000 to its reserve for accounts receivable servicing and in the second quarter of 2010, the addition was zero. The Company discontinued this product in late 2009 and the asset balances have been reduced to zero as well. The fully taxable equivalent efficiency ratio for the second quarter of 2010 increased to 65.53% from 61.81% for the second quarter of 2009.

Noninterest expense for the six-month period ended June 30, 2010 was \$8,240,000 versus \$7,840,000 for the same period in 2009 for an increase of \$400,000 (5.1%). Salaries and benefits expense increased \$275,000 (7.4%) from \$3,699,000 for the six months ended June 30, 2009 to \$3,974,000 for the same period in 2010. The increase in salary and benefits was due in part to a decrease in direct costs associated with the production of new loans. The offset from direct cost reimbursement decreased \$106,000 (31.3%) from \$339,000 in 2009 to \$233,000 in 2010. Overall salary expense increased \$54,000 (1.8%) mainly due to the additional staff added to the loan collection and workout department. Employee benefits, which include employee health insurance, increased \$102,000 (19.7%). Occupancy expense decreased \$37,000 (5.3%) and furniture and equipment expense increased \$2,000 (0.5%). FDIC assessments increased \$269,000 (65.8%) during 2010 to \$678,000, from \$409,000 in 2009. Other expense decreased \$109,000 (4.1%) from \$2,655,000 for the six months ended June 30, 2009 to \$2,546,000 for the same period in 2010. Much of this decrease is related to lower amounts added to the loss reserve for accounts receivable servicing. In 2009, the Company added \$143,000 to its reserve for accounts receivable servicing; and in 2010 there was a recovery of \$4,000. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first six months of 2010 was 65.6% as compared to 56.3% in the same period of 2009.

(Benefit from) Provision for Income Taxes

The Company recorded a benefit from Federal and State income taxes for the quarter ended June 30, 2010 of \$78,000, compared to tax benefit of \$668,000 for the second quarter of 2009. The provision for Federal and State income taxes for the six months ended June 30, 2010 was \$23,000, resulting in an effective tax rate of 6.0%, compared to \$68,000, or an effective tax rate of 10.5%, for the same period in 2009. The benefit and the lower overall effective tax rate results from the Company realizing the benefits of tax free income related to such items as municipal bonds and bank owned life insurance against a pretax loss in the case of the quarters ended June 30, 2010 and 2009, and the overall lower amount of taxable income in the six month periods ended June 30, 2010 and 2009.

Balance Sheet Analysis

The Company's total assets were \$579,043,000 at June 30, 2010 as compared to \$594,418,000 at December 31, 2009, representing a decrease of \$15,375,000 (2.6%). The average assets for the three months ended June 30, 2010 were \$584,511,000, which represents an increase of \$15,413,000 or 2.7% compared to the balance of \$569,098,000 during the three-month period ended June 30, 2009. The average assets for the six months ended June 30, 2010 were \$584,428,000, which represents an increase of \$11,106,000 or 1.9% from the balance of \$573,322,000 during the six-month period ended June 30, 2009. The increase in average assets for both periods is the result of increased deposits being invested in securities. The increase in the balance of securities has also been aided by the decrease in loan balances. See "Net Interest Income and Net Interest Margin" above for a discussion of the average balances of loans, investments, and deposits.

Investment Securities

The Company classifies its investment securities as either 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, for liquidity purposes, to implement asset/liability management strategies, and in response to changes in interest rates, prepayment rates and similar factors. During the first half of 2010, the Company used the majority of the proceeds from loan paydowns and principal payments from investment securities to purchase mortgage backed-securities. Table Five below summarizes the values of the Company's investment securities held on June 30, 2010 and December 31, 2009.

Table Five: Investment Securities Composition
(dollars in thousands)

Available-for-sale (at fair value)	June 30, 2010	December 31, 2009
Debt securities:		
Mortgage-backed securities	\$ 114,045	\$ 76,009
Obligations of states and political subdivisions	17,269	20,587
Corporate stock	78	86
Total available-for-sale investment securities	\$ 131,392	\$ 96,682
Held-to-maturity (at amortized cost)		
Debt securities:		
Mortgage-backed securities	\$ 8,445	\$ 12,331
Total held-to-maturity investment securities	\$ 8,445	\$ 12,331

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 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 \$18 million in new loans during the first half of 2010. Normal pay downs, loan chargeoffs, and loans transferred to OREO, resulted in an overall decrease in total loans and leases of \$22,913,000 (6.1%) from December 31, 2009. 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 June 30, 2010 and December 31, 2009.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	June 30, 2010		December 31, 2009		Change in		Percentage	
	\$	%	\$	%	dollars		change	
Commercial	\$ 61,819	17 %	\$ 72,621	19 %	\$ (10,802)		(14.9 %)	
Real estate								
Commercial	216,451	60 %	223,685	58 %	(7,234)		(3.2 %)	
Multi-family	8,164	2 %	8,476	2 %	(312)		(3.7 %)	
Construction	20,733	6 %	27,482	7 %	(6,749)		(24.6 %)	
Residential	29,879	8 %	26,922	7 %	2,957		11.0 %	
Lease financing								
receivable	3,253	1 %	3,920	1 %	(667)		(17.0 %)	
Agriculture	7,259	2 %	7,472	2 %	(213)		(2.9 %)	
Consumer	13,795	4 %	14,253	4 %	(458)		(3.2 %)	
Total loans and leases	361,353	100 %	384,831	100 %	(23,478)		(6.1 %)	
Deferred loan and								
lease fees, net	(503)		(600)		97			
Allowance for loan								
and lease losses	(7,441)		(7,909)		468			
Total net loans and								
leases	\$ 353,409		\$ 376,322		\$ (22,913)		(6.1 %)	

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

Commercial loans consist of credit lines for operating needs, loans for equipment purchases, working capital, and various other business loan products. Consumer loans include a range of traditional consumer loan products such as personal lines of credit and homeowner equity lines of credit and loans to finance purchases of autos, boats, recreational vehicles, mobile homes and various other consumer items. Construction loans are generally comprised of commitments to customers within the Company's service area for construction of commercial properties, multi-family properties and custom and semi-custom single-family residences. Other real estate loans consist primarily of loans secured by first trust deeds on commercial and residential properties typically with maturities from 3 to 10 years and original loan-to-value ratios generally from 65% to 75%. Agriculture loans consist primarily of vineyard loans and development loans to plant vineyards. In general, except in the case of loans under SBA programs or Farm Services Agency guarantees, the Company does not make long-term mortgage loans.

"Subprime" real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the industry, many of these loans were originated with adjustable interest rates that reset upward after an introductory period. These "subprime" loans coupled with declines in housing prices have led to an increase in the banking industry's default rates resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company did not have any such "subprime" loans at June 30, 2010 and December 31, 2009.

Risk Elements

The Company assesses and manages credit risk on an ongoing basis through a total credit culture that emphasizes excellent credit quality, extensive internal monitoring and established formal lending policies. Additionally, the Company contracts with an outside loan review consultant to periodically review the existing loan and lease portfolio. Management believes its ability to identify and assess risk and return characteristics of the Company's loan and lease portfolio is critical for profitability and growth. Management strives to continue its emphasis on credit quality in the loan and lease approval process, through active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan and lease review and grading system that functions to continually assess the credit risk inherent in the loan and lease portfolio. In addition, the Company has taken actions to further strengthen its lending compliance management system in accordance with recommendations arising out of its 2008 compliance examination including, among other matters, enhancement of existing procedures for internal control of loan compliance functions such as maintenance of required levels of compliance training, increased monitoring of the compliance program, and identification of any compliance weaknesses. The Company is also taking actions to further strengthen and improve its asset quality in accordance with recommendations arising out of its 2009 regulatory examination including, among other matters, enhancement of existing procedures for appraisals and re-appraisals on secured loans and other real estate owned, and problem loan identification, including identification of impaired loans and leases and identification of troubled debt restructured loans. See also "Note 12—OTHER MATTERS," for more information regarding the Memorandum entered into with the FDIC and the California Commissioner of Financial Institutions.

Ultimately, underlying trends in economic and business cycles may influence credit quality. American River Bank's business is concentrated in the Sacramento Metropolitan Statistical Area, which is a diversified economy, but with a large State of California government presence and employment base, in Sonoma County, through North Coast Bank, a division of American River Bank, whose business is focused on businesses within the two communities in which it has offices (Santa Rosa and Healdsburg) and in Amador County, through Bank of Amador, a division of American River Bank, whose business is focused on businesses and consumers within the three communities in which it has offices (Jackson, Pioneer, and Ione) as well as a diversified residential construction loan business in numerous Northern California counties. The economy of Sonoma County is diversified with professional services, manufacturing, agriculture and real estate investment and construction, while the economy of Amador County is reliant upon government, services, retail trade, manufacturing industries and Indian gaming.

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

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

In management's judgment, a concentration exists in real estate loans, which represented approximately 76.2% of the Company's loan and lease portfolio at June 30, 2010, an increase from 74.5% at December 31, 2009. Management believes that the residential land and residential construction portion of the Company's loan portfolio carries more than the normal credit risk it has seen in the past several years, due primarily to severely curtailed demand for new and resale residential property, a large supply of unsold residential land and new and resale homes, and observed reductions in values throughout the Company's market area. Management has responded by evaluating loans that it considers to carry any significant risk above the normal risk of collectability by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease loss at levels adequate to reflect the loss risk inherent in its total loan portfolio.

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

Nonaccrual, Past Due and Restructured Loans and Leases

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

At June 30, 2010, nonperforming loans and leases (those loans and leases on nonaccrual status and those loans and leases still accruing and past due 90 days or more) were \$19,259,000 or 5.33% of total loans and leases. The \$19,259,000 in nonperforming loans and leases was made up of forty-nine loans and three leases. Ten of those loans totaling \$2,285,000 were current (less than 30 days past due) pursuant to their original or modified terms. Nonperforming loans and leases were \$20,964,000 or 5.46% of total loans and leases at December 31, 2009. Of the June 30, 2010 balance, a valuation allowance of \$506,000 was established on the nonperforming loans considered to be impaired which totaled \$18,164,000. Of the December 31, 2009 balance, a valuation allowance of \$1,421,000 was established.

The overall level of nonperforming loans increased \$832,000 (4.5%) to \$19,259,000 at June 30, 2010 compared to \$18,427,000 at March 31, 2010. At March 31, 2010, the Company had forty-nine loans and six leases considered nonperforming totaling \$18,427,000. During the second quarter of 2010, five of those loans totaling \$1,000,000 were moved to OREO, two loans in the amount of \$168,000 were charged off, one loan in the amount of \$128,000 was paid off, two loans in the amount of \$515,000 were current and returned to performing status and eleven loans in the total amount of \$4,173,000 were placed on nonperforming status. Of the eleven loans added in the second quarter of 2010, all are real estate secured. Seven of the eleven are single family home loans or lots totaling \$2,009,000 that are predominately located in Amador and Calaveras counties; of which, three are owner occupied single family homes, three are single family residential lots, and one is a non-owner occupied single family residence. One of the eleven is a multi-family home loan totaling \$1,231,000, which is a 29-unit apartment building in Sacramento County. Two of the eleven are commercial real estate loans totaling \$804,000; of which, one is a non-owner occupied restaurant located in Sonoma County and the other loan is secured by three adjoining parcels in Calaveras County-one is a small retail building, one is an unimproved lot, and the third is an owner occupied single family home. The last of the eleven loans is classified as agriculture and it is a horse boarding property in Sacramento County totaling \$129,000.

As reported in the Form 10-Q for the period ended March 31, 2010, activity during that quarter included seven nonperforming loans totaling \$1,911,000 moving to OREO, two loans in the amount of \$1,705,000 paying off, two loans being partially charged off in the amount of \$916,000, one loan in the amount of \$271,000 paid current and returned to performing status and twelve loans in the total amount of \$2,283,000 being placed on nonperforming status. Of those twelve loans added in the first quarter, ten in the total amount of \$2,211,000 were real estate secured

and the remaining \$72,000 consists of two commercial loans.

The net interest due on nonaccrual loans and leases but excluded from interest income was \$401,000 for the three months ended June 30, 2010, compared to foregone interest of \$378,000 during the same period in 2009. The net interest due on nonaccrual loans and leases but excluded from interest income was \$712,000 for the six months ended June 30, 2010, compared to \$559,000 during the same period in 2009.

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of June 30, 2010. Management is not aware of any potential problem loans, which were accruing and current at June 30, 2010, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company. Table Seven below sets forth nonaccrual loans and loans past due 90 days or more as of June 30, 2010 and December 31, 2009.

Table Seven: Nonperforming Loans and Leases

(dollars in thousands)	June 30, 2010	December 31, 2009
Past due 90 days or more and still accruing		
Commercial	\$ —	\$ —
Real estate	—	—
Lease financing receivable	—	—
Consumer and other	—	—
Nonaccrual		
Commercial	3,282	6,143
Real estate	15,651	14,048
Lease financing receivable	36	55
Consumer and other	290	718
Total nonperforming loans and leases	\$ 19,259	\$ 20,964

Impaired Loans and Leases

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the original contractual terms of the loan or lease agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan or lease discounted at the loan or lease's original effective interest rate, (ii) the observable market price of the impaired loan or lease, or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans or leases that are collectively evaluated for credit risk. In assessing whether a loan or lease is impaired, the Company typically reviews loans or leases graded substandard or lower as well as loans considered troubled debt restructures with outstanding principal balances in excess of \$100,000. At June 30, 2010, the recorded investment in loans and leases that were considered to be impaired totaled \$35,829,000, which includes loans and leases considered nonperforming and \$17,665,000 in performing loans and leases. Of the total impaired loans of \$35,829,000, loans totaling \$26,375,000 were deemed to require no specific reserve and loans totaling \$9,454,000 were deemed to require a related valuation allowance of \$2,395,000. At December 31, 2009, the recorded investment in loans and leases that were considered to be impaired and were deemed to require specific reserves totaled \$14,369,000 and had a related valuation allowance of \$3,810,000. At June 30, 2010, there were sixteen loans and leases that were restructured and are currently performing (less than ninety days past due) totaling \$11,462,000 and eleven loans and leases that are considered nonperforming (and included in Table Seven above), totaling \$3,040,000, that are considered troubled debt restructures ("TDR"). These TDRs have a specific reserve of \$1,111,000.

Allowance for Loan and Lease Losses Activity

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

and resulting allowance level are adjusted accordingly as these factors change.

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

The allowance for loan and lease losses totaled \$7,441,000 or 2.06% of total loans and leases at June 30, 2010 compared to \$7,909,000 or 2.06% of total loans and leases at December 31, 2009. The Company establishes general reserves in accordance with the accounting principles, "Accounting for Contingencies," and specific reserves in accordance with the accounting principles, "Accounting by Creditors for Impairment of a Loan." The ALLL is maintained by categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses.

It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Based on information currently available to analyze inherent credit risk, which includes but is not limited to economic factors, overall credit quality, historical delinquencies and a history of actual charge-offs, management believes that the provision for loan and lease losses and the allowance for loan and lease losses are prudent and adequate. Adjustments may be made based on differences from estimated loan and lease growth, the types of loans constituting this growth, changes in risk ratings within the portfolio, and general economic conditions. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty.

While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide adjustments to the allowance based on their judgment of information available to them at the time of their examination. Table Eight below summarizes, for the periods indicated, the activity in the ALLL.

Table Eight: Allowance for Loan and Lease Losses

(dollars in thousands)	Three Months Ended June 30, 2010		2009		Six Months Ended June 30, 2010		2009	
Average loans and leases outstanding	\$365,338		\$410,959		\$371,816		\$414,347	
Allowance for loan and lease losses at beginning of period	\$8,380		\$5,839		\$7,909		\$5,918	
Loans and leases charged off:								
Commercial	(699	)	(655	)	(1,698	)	(665)
Real estate	(2,198	)	(1,203	)	(2,350	)	(2,496)
Lease financing receivable	—		(15	)	—		(15)
Consumer	(73	)	(23	)	(172	)	(30)
Total	(2,970	)	(1,896	)	(4,219	)	(3,206)
Recoveries of loans and leases previously charged off:								
Commercial	—		13		63		13	
Real estate	20		1		36		1	
Lease financing receivable	—		1		—		3	
Consumer	—		—		—		—	
Total	20		15		99		17	
Net loans and leases charged off	(2,950	)	(1,881	)	(4,120	)	(3,189)
Additions to allowance charged to operating expenses	2,011		3,800		3,652		5,029	
Allowance for loan and lease losses at end of period	\$7,441		\$7,758		\$7,441		\$7,758	
Ratio of net charge-offs to average loans and Leases outstanding (annualized)	3.24	%	1.84	%	2.23	%	1.55	%
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	2.21	%	3.71	%	1.98	%	2.45	%
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	2.06	%	1.91	%	2.06	%	1.91	%

Other Real Estate Owned

At June 30, 2010, the Company had seventeen OREO properties with a carrying cost of \$3,219,000. This compares to thirteen properties with a carrying cost of \$2,508,000 at December 31, 2009 and twelve properties with a carrying cost of \$3,347,000 at June 30, 2009. During the second quarter of 2010, the Company sold six properties for a loss of \$52,000 and added five properties to OREO with loan balances totaling \$1,000,000. The five properties added during the quarter were simultaneously written down to fair value by \$141,000 leaving a net value of \$859,000. Of the five properties added during the quarter, two are 4-plexes, one in Sacramento carried at \$414,000 and the other in Yuba County carried at \$248,000; two of the five properties added during the quarter are residential lots, both in Sacramento for a combined carrying value of \$41,000 and the fifth property was a single family five acre parcel that was sold before quarter end for its net book value of \$156,000.

During the first quarter of 2010, the Company sold two properties for a loss of \$25,000 and added seven properties to OREO with loan balances totaling \$1,911,000. The seven properties added during the quarter, were simultaneously written down to fair value by \$209,000 leaving a net value of \$1,702,000. Of the seven properties added during the quarter five properties totaling \$775,000 are individual single family lots, three of which are in Santa Rosa, California and two are in Sacramento, California; one property is a single family home in the County of El Dorado with a book value of \$483,000 and the seventh is one property that represents two commercial parcels in Fairfield, California with a book value of \$444,000. The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the first half of 2010, this valuation process resulted in the Company reducing the book value of the properties by \$328,000. At December 31, 2009, the OREO reserve was \$15,000. The resulting write downs during the first half of 2010 reduced the reserve balance to zero at June 30, 2010 because the Company believes that all seventeen properties are carried approximately at fair value.

Deposits

At June 30, 2010, total deposits were \$463,608,000 representing a decrease of \$6,147,000 from the December 31, 2009 balance of \$469,755,000. The Company's deposit growth plan for 2010 is to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts. The Company experienced increases in noninterest-bearing (\$4,632,000 or 3.9%), money market (\$4,203,000 or 3.2%) and savings (\$4,511,000 or 12.5%) and decreases in time deposits (\$15,366,000 or 11.5%) and interest-bearing checking (\$4,127,000 or 8.2%) in the six month period ended June 30, 2010.

Other Borrowed Funds

Other borrowings outstanding as of June 30, 2010 and December 31, 2009, consist of advances (both long-term and short-term) from the Federal Home Loan Bank of San Francisco ("FHLB"). Table Nine below summarizes these borrowings.

Table Nine: Other Borrowed Funds
(dollars in thousands)

	June 30, 2010		December 31, 2009	
	Amount	Rate	Amount	Rate
Short-term borrowings:				
FHLB advances	\$ 9,500	2.10%	\$ 14,500	2.84%
Long-term borrowings:				
FHLB advances	\$ 12,000	2.63%	\$ 17,000	2.40%

The maximum amount of short-term borrowings at any month-end during the first two quarters of 2010 and 2009 was \$9,500,000 and \$69,448,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

	Short-term	Long-term
Amount	\$ 9,500	\$ 12,000
Maturity	2010 to 2011	2011 to 2014
Average rates	2.10%	2.63%

The Company has also been issued a total of \$8,000,000 in letters of credit by the FHLB that are pledged to secure Local Agency Deposits. The letters of credit act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letters of credit was not drawn upon in 2010 or 2009 and management does not currently expect to draw upon them in the foreseeable future. See the Liquidity section that follows for additional information on FHLB borrowings.

Capital Resources

The Company and American River Bank are subject to certain regulatory capital requirements administered by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the "FDIC"). Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as

calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As a result of a 2009 FDIC examination, management entered into a Memorandum of Understanding as of February 10, 2010 with the FDIC and the California Commissioner of Financial Institutions, which requires the Bank to take certain actions including maintaining the Bank's Tier I Leverage capital ratio at not less than 8% and a Total Risk-Based capital ratio of not less than 11%. As of June 30, 2010, the foregoing capital ratios for the Bank were 11.7% and 18.5%, respectively. We believe that we are currently in compliance in all material respects with the actions described in the Memorandum, including the capital ratios as described above. See "Note 12, OTHER MATTERS" herein for more information regarding the Memorandum.

At June 30, 2010, shareholders' equity was \$89,745,000, representing an increase of \$2,400,000 (2.7%) from \$87,345,000 at December 31, 2009. The increase results from the addition of the net income for the period, the stock based compensation expense, and the increase in other comprehensive income. The Company's ratio of total risk-based capital to risk adjusted assets was 19.6% at June 30, 2010 and 18.4% at December 31, 2009. Tier 1 risk-based capital to risk-adjusted assets was 18.4% at June 30, 2010 and 17.1% at December 31, 2009. The leverage ratio was 12.5% at June 30, 2010 and 12.4% at December 31, 2009.

Table Ten below lists the Company's actual capital ratios at June 30, 2010 and December 31, 2009 as well as the minimum capital ratios for capital adequacy.

Table Ten: Capital Ratios

	At June 30, 2010		At December 31, 2009		Minimum Regulatory Capital Requirements	
Capital to Risk-Adjusted Assets						
Leverage ratio	12.5	%	12.4	%	4.00	%
Tier 1 Risk-Based Capital	18.4	%	17.1	%	4.00	%
Total Risk-Based Capital	19.6	%	18.4	%	8.00	%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. Management believes that both the Company and American River Bank met all of their capital adequacy requirements as of June 30, 2010 and December 31, 2009.

On December 17, 2009, the Company filed a Current Report with the SEC on Form 8-K announcing the completion of an offering of approximately \$24 million of its common stock. Effective July 27, 2009, the Company temporarily suspended both the payment of cash dividends and stock repurchases. See Part II, Item 2, for additional disclosure regarding the stock repurchase plan.

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing or other commercial concerns primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company and its subsidiaries through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a significant effect upon the results of operations of the Company and its subsidiaries during the periods ended June 30, 2010 and 2009.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, short-term investments and securities, and loan and lease repayments contribute to liquidity, along with deposit increases, while loan and lease funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding standby letters of credit at June 30, 2010 were approximately \$59,125,000 and \$10,261,000, respectively. Such loan commitments relate primarily to revolving lines of credit and other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale and/or pledged for secured borrowings. At June 30, 2010, consolidated liquid assets totaled \$108.4 million or 18.7% of total assets compared to \$79.8 million or 13.4% of total assets on December 31, 2009. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of \$20,000,000 with two of its correspondent banks. At June 30, 2010, the Company had \$20,000,000 available under these credit lines. Additionally, the Bank is a member of the FHLB. At June 30, 2010, the Bank could have arranged for up to \$92,191,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At June 30, 2010, the Company had advances, borrowings and commitments (including letters of credit) outstanding of \$29,500,000, leaving \$62,691,000 available under these FHLB secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank of San Francisco. The borrowing can be secured by pledging selected loans and investment securities. At June 30, 2010, the Company's borrowing capacity at the Federal Reserve Bank was \$33,714,000. The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets and borrowing capacity to offset the potential runoff of these volatile and/or cyclical deposits.

Liquidity is also affected by portfolio maturities and the effect of interest rate fluctuations on the marketability of both assets and liabilities. The Company can sell any of its unpledged securities held in the available-for-sale category to meet liquidity needs. The Bank has established a master repurchase agreement with a correspondent bank to enable such transactions. Furthermore, the Bank can pledge additional unencumbered securities to borrow from the Federal Reserve Bank of San Francisco and the FHLB.

Off-Balance Sheet Items

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

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company applies the same credit policies to commitments and letters of credit as it does for loans included on the consolidated balance sheet. As of June 30, 2010 and December 31, 2009, commitments to extend credit and standby letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and standby letters of credit were \$69,386,000 and \$78,015,000 at June 30, 2010 and December 31, 2009, respectively. As

a percentage of net loans and leases these off-balance sheet items represent 19.6% and 20.7%, respectively.

The Company has certain ongoing commitments under operating leases. These commitments do not significantly impact operating results.

Website Access

American River Bankshares maintains a website where certain information about the Company is posted. Through the website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, as well as Section 16 Reports and amendments thereto, are available as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). These reports are free of charge and can be accessed through the address www.amrb.com by clicking on the SEC Filings link located at that address. Once you have selected the SEC Filings link you will have the option to access the Section 16 Reports or the other above-referenced reports filed by the Company by selecting the appropriate link.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

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

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

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer-modeling techniques, the Company is able to estimate the potential impact of changing interest rates on earnings. A balance sheet forecast is prepared quarterly using inputs of actual loans, securities and interest-bearing liabilities (i.e. deposits/borrowings) positions as the beginning base. The forecast balance sheet is processed against three interest rate scenarios. The scenarios include a 200 basis point rising rate forecast, a flat rate forecast and a 200 basis point falling rate forecast which take place within a one-year time frame. The net interest income is measured during the year assuming a gradual change in rates over the twelve-month horizon. The simulation modeling indicated below attempts to estimate changes in the Company's net interest income utilizing a forecast balance sheet projected from the end of period balances.

Table Eleven below summarizes the effect on net interest income (NII) of a ± 200 basis point change in interest rates as measured against a constant rate (no change) scenario.

Table Eleven: Interest Rate Risk Simulation of Net Interest as of June 30, 2010 and December 31, 2009

	\$ Change in NII from Current 12 Month Horizon June 30, 2010	\$ Change in NII from Current 12 Month Horizon December 31, 2009
(dollars in thousands)		
Variation from a constant rate scenario		
+200bp	\$ 242	\$ (10)
- 200bp	\$ (1,348)	\$ (432)

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

Item 4. Controls and Procedures.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

During the quarter ended June 30, 2010, there have been no changes in the Company's internal control over financial reporting that have significantly affected, or are reasonably likely to materially affect, these controls.

Item 4T. Controls and Procedures.

The information required under Item 308T(b) of Regulation S-K is included in Item 4 above.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no significant changes in the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2009, filed with the Securities and Exchange Commission on March 5, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On January 16, 2008, the Board of Directors of the Company authorized a stock repurchase program which allows for the repurchase of up to six and one half percent (6.5%) annually of the Company's outstanding shares of common stock. Each year the Company may repurchase up to 6.5% of the shares outstanding (adjusted for stock splits or stock dividends). The number of shares reported in column (d) of the table as shares that may be repurchased under the plan represent shares eligible for the calendar year 2010. The repurchases under this plan can be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel the repurchase program at any time for any reason. As such, on July 27, 2009, the Company announced that the Board of Directors was temporarily suspending the stock repurchase program. The Company relies on distributions from the Bank in the form of cash dividends in order to fund its repurchase program. As a result of a regularly scheduled FDIC examination in 2009, the Bank entered into a Memorandum of Understanding in February 2010 with the FDIC and the California Commissioner of Financial Institutions which requires the Bank to take certain actions including restricting the payment of cash dividends. As a result, any future cash dividends from the Bank will require prior approval from its regulators. The following table lists shares repurchased during the quarter ended June 30, 2010 and the maximum amount available to repurchase under the repurchase plan, which as a result on the suspension of the repurchase program was zero.

	(a)	(b)	(c)	(d)
Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
Month #1				
April 1 through April 30, 2010	None	N/A	None	None
Month #2				
May 1 through May 31, 2010	None	N/A	None	None
Month #3				
June 1 through	None	N/A	None	None

June 30, 2010

Total	None	N/A	None
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Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Reserved).

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
(2.1)	Agreement and Plan of Reorganization and Merger by and among the Registrant, ARH Interim National Bank and North Coast Bank, N.A., dated as of March 1, 2000 (included as Annex A). **
(2.2)	Agreement and Plan of Reorganization and Merger by and among the Registrant, American River Bank and Bank of Amador, dated as of July 8, 2004 (included as Annex A). ***
(3.1)	Articles of Incorporation, as amended, incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009, filed with the Commission on August 13, 2009.
(3.2)	Bylaws, as amended, incorporated by reference from Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the Commission on August 8, 2008.
(4.1)	Specimen of the Registrant's common stock certificate, incorporated by reference from Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
(10.1)	Lease agreement between American River Bank and Spieker Properties, L.P., a California limited partnership, dated April 1, 2000, related to 1545 River Park Drive, Suite 107, Sacramento, California. **
(10.2)	Lease agreement between American River Bank and Bradshaw Plaza, Associates, Inc. dated November 27, 2006, related to 9750 Business Park Drive, Sacramento, California incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on November 28, 2006.
(10.3)	Lease agreement between American River Bank and Marjorie Wood Taylor, Trustee of the Marjorie Wood-Taylor Trust, dated April 5, 1984, and addendum thereto dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California (**) and Amendment No. 2 thereto dated May 14, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's

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Report on Form 8-K, filed with the Commission on May 15, 2009.

- (10.4) Lease agreement between American River Bank and LUM YIP KEE, Limited (formerly Sandalwood Land Company) dated August 28, 1996, related to 2240 Douglas Boulevard, Suite 100, Roseville, California (**) and Amendment No. 1 thereto dated July 28, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on July 31, 2006.

- *(10.5) Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
- *(10.6) Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
- (10.7) Lease agreement between American River Bank and 520 Capitol Mall, Inc., dated August 19, 2003, related to 520 Capitol Mall, Suite 100, Sacramento, California, incorporated by reference from Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003 and the First Amendment thereto dated April 21, 2004, incorporated by reference from Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
- *(10.8) Employment Agreement between Registrant and David T. Taber dated June 2, 2006, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
- *(10.9) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- *(10.10) Salary Continuation Agreement, as amended on February 21, 2008, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- *(10.11) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- *(10.12) Registrant's 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. **
- *(10.13) Registrant's 401(k) Plan dated December 23, 2008, incorporated by reference from Exhibit 99.1 to the Report on Form 8-K, filed with the Commission on December 24, 2008.
- (10.14) Lease agreement between Bank of Amador and the United States Postal Service, dated April 24, 2001, related to 424 Sutter Street, Jackson, California (***) and the First Amendment thereto, dated June 5, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on June 6, 2006.
- *(10.15) Salary Continuation Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- *(10.16) Director Retirement Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on February

- (10.17) Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 22, 2005, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on April 27, 2005.
- (10.18) Lease agreement between Registrant and One Capital Center, a California limited partnership, dated May 17, 2005, related to 3100 Zinfandel Drive, Rancho Cordova, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 18, 2005 and the First Amendment thereto dated April 23, 2010, incorporated by reference from Exhibit 99.1 to the Registrant's Form 8-K, filed with the Commission on April 23, 2010.
- (10.19) Managed Services Agreement between American River Bankshares and ProNet Solutions, Inc., dated June 16, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on June 18, 2009.
- *(10.20) American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 27, 2005; the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 17, 2006; the Second Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 23, 2007; the Third Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008, the Fourth Amendment thereto, incorporated by reference from the Registrant's Report on Form 8-K, filed with the Commission on March 20, 2009, and the Fifth Amendment thereto, incorporated by reference from the Registrant's Report on Form 8-K, filed with the Commission on March 18, 2010.
- *(10.21) American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.33 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 8, 2006.
- *(10.22) Employment Agreement dated September 20, 2006, between American River Bankshares and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- *(10.23) Employment Agreement dated September 20, 2006, between American River Bankshares and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- *(10.24) Employment Agreement dated September 20, 2006, between American River Bankshares and Kevin B. Bender, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- *(10.25) Employment Agreement dated September 20, 2006, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- *(10.26) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.6 to the Registrant's

- *(10.27) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.7 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- (10.28) Lease agreement dated May 23, 2007 between Bank of Amador, a division of American River Bank, and Joseph Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust, related to 26395 Buckhorn Ridge Road, Pioneer, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 24, 2007 and the First Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 16, 2007.
- (10.29) Sublease agreement dated December 23, 2008, between North Coast Bank, a division of American River Bank, and Chicago Title Company, a California Corporation; and lease agreement dated December 23, 2008, between North Coast Bank, a division of American River Bank, and 90 E Street LLC, related to 90 E Street, Santa Rosa, California, incorporated by reference from Exhibit 99.2 and 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on December 24, 2008.
- (10.30) Customer Service Agreement dated January 4, 2010, between American River Bankshares and TriNet HR Corporation, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 5, 2010.
- *(10.31) Form of Indemnification Agreement entered into on January 20, 2010, between American River Bankshares and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 22, 2010.
- *(10.32) Form of Indemnification Agreement entered into on January 20, 2010, between American River Bank and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on January 22, 2010.
- *(10.33) Registrant's 2010 Equity Incentive Plan, incorporated by reference from the Registrant's Definitive Proxy Statement for its 2010 Annual Meeting of Shareholders, filed with the Commission on April 9, 2010.
- (14.1) Registrant's Code of Ethics, incorporated by reference from Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the Commission on March 19, 2004.
- (21.1) The Registrant's only subsidiaries are American River Bank, a California banking corporation, and American River Financial, a California corporation.
- (31.1) Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- (32.1) Certification of Registrant by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Denotes management contracts, compensatory plans or arrangements.

**Incorporated by reference to Registrant's Registration Statement on Form S-4 (No. 333-36326) filed with the Commission on May 5, 2000.

***Incorporated by reference to Registrant's Registration Statement on Form S-4 (No. 333-119085) filed with the Commission on September 17, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN RIVER BANKSHARES

August 9, 2010

By: /s/ DAVID T. TABER
David T. Taber
President and Chief Executive Officer

AMERICAN RIVER BANKSHARES

August 9, 2010

By: /s/ MITCHELL A. DERENZO
Mitchell A. Derenzo
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description	Page
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31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	51
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.	52

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