AMERICAN RIVER BANKSHARES
Form 10-Q
November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from to

Commission File Number: 0-31525

AMERICAN RIVER BANKSHARES
(Exact name of registrant as specified in its

charter)

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

3100 Zinfandel Drive, Suite 450, Rancho Cordova, California	95670
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes x No o

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

Yes x No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Yes o No x

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

No par value Common Stock – 6,377,023 shares outstanding at November 3, 2017.

AMERICAN RIVER BANKSHARES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 37,233	$ 27,589
Interest-bearing deposits in banks	1,248	999
Investment securities:		
Available-for-sale, at fair value	249,879	254,020
Held-to-maturity, at amortized cost	404	483
Loans and leases, less allowance for loan and lease losses of $4,551 at September 30, 2017 and $4,822 at December 31, 2016	322,238	324,086
Premises and equipment, net	1,226	1,362
Federal Home Loan Bank stock	3,932	3,779
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	961	1,348
Bank owned life insurance	15,043	14,805
Accrued interest receivable and other assets	7,159	6,658
	$ 655,644	$ 651,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 205,938	$ 201,113
Interest-bearing	345,004	343,693
Total deposits	550,942	544,806
Short-term borrowings	2,000	3,500
Long-term borrowings	13,500	12,000
Accrued interest payable and other liabilities	6,947	7,294
Total liabilities	573,389	567,600
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 – 6,392,570 shares at September 30, 2017 and 6,661,726 shares at December 31, 2016	38,139	42,484
Retained earnings	43,437	40,822
Accumulated other comprehensive income, net of taxes	679	544
Total shareholders' equity	82,255	83,850
	$ 655,644	$ 651,450

See Notes to Unaudited Consolidated Financial Statements

3

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)				
For the periods ended September 30,	Three months		Nine months	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans:				
Taxable	$3,496	$3,617	$10,384	$10,424
Exempt from Federal income taxes	110	189	376	534
Interest on deposits in banks	4	2	9	5
Interest and dividends on investment securities:				
Taxable	1,292	1,340	3,978	4,333
Exempt from Federal income taxes	180	156	496	502
Dividends	—	—	13	11
Total interest income	5,082	5,304	15,256	15,809
Interest expense:				
Interest on deposits	224	179	621	545
Interest on borrowings	55	44	152	133
Total interest expense	279	223	773	678
Net interest income	4,803	5,081	14,483	15,131
Provision for loan and lease losses	300	(668)	300	(668)
Net interest income after provision for loan and lease losses	4,503	5,749	14,183	15,799
Noninterest income:				
Service charges on deposit accounts	117	124	348	381
Gain on sale, call, or impairment of securities	19	33	161	314
Rental income from other real estate owned	—	—	—	106
Other noninterest income	241	242	726	715
Total noninterest income	377	399	1,235	1,516
Noninterest expense:				
Salaries and employee benefits	2,102	2,073	6,336	6,334
Occupancy	262	295	793	885
Furniture and equipment	141	165	439	493
Federal Deposit Insurance Corporation assessments	51	77	156	233
Expenses related to other real estate owned	4	(30)	36	330
Other expense	752	766	2,350	2,277
Total noninterest expense	3,312	3,346	10,110	10,552
Income before provision for income taxes	1,568	2,802	5,308	6,763
Provision for income taxes	459	989	1,718	2,274

Net income	$1,109	$1,813	$3,590	$4,489
Basic earnings per share	$0.18	$0.28	$0.56	$0.66
Diluted earnings per share	$0.17	$0.27	$0.55	$0.66
Cash dividends per share	$0.05	$0.00	$0.15	$0.00

See notes to Unaudited Consolidated Financial Statements

4

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPRENENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended September 30,	Three months		Nine months	
	2017	2016	2017	2016
Net income	$1,109	$1,813	$3,590	$4,489
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on investment securities	(497)	(1,306)	376	2,406
Deferred tax benefit (expense)	199	522	(144)	(963)
(Decrease) increase in net unrealized gains on investment securities, net of tax	(298)	(784)	232	1,443
Reclassification adjustment for realized gains included in net income	(19)	(33)	(161)	(314)
Tax effect	8	13	64	125
Realized gains, net of tax	(11)	(20)	(97)	(189)
Total other comprehensive (loss) income	(309)	(804)	135	1,254
Comprehensive income	$800	$1,009	$3,725	$5,743

See Notes to Unaudited Consolidated Financial Statements

5

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock			Accumulated Other	Total
			Retained	Comprehensive	Shareholders'
	Shares	Amount	Earnings	Income	Equity
Balance, January 1, 2016	7,343,649	$49,554	$34,418	$ 2,103	$ 86,075
Net income			4,489		4,489
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				1,254	1,254
Net restricted stock award activity and related compensation expense	28,342	219			219
Stocks option exercised and compensation expense	1,500	43			43
Retirement of common stock	(716,897)	(7,414)			(7,414)
Balance, September 30, 2016	6,656,594	$42,402	$38,907	$ 3,357	$ 84,666
Balance, January 1, 2017	6,661,726	$42,484	$40,822	$ 544	$ 83,850
Net income			3,590		3,590
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				135	135
Cash dividends ($0.15 per share)			(975)		(975)
Net restricted stock award activity and related compensation expense	22,032	282			282
Stock options exercised	41,898	351			351
Stock option compensation expense	—	28			28
Retirement of common stock	(333,086)	(5,006)			(5,006)
Balance, September 30, 2017	6,392,570	$38,139	$43,437	$ 679	$ 82,255

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands) For the nine months ended September 30,	2017	2016
Cash flows from operating activities:		
Net income	$3,590	$4,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	300	(668)
Increase in deferred loan origination fees, net	5	27
Depreciation and amortization	255	326
Gain on sale, call, and impairment of investment securities, net	(161)	(314)
Amortization of investment security premiums and discounts, net	2,447	2,159
Increase in cash surrender values of life insurance policies	(238)	(239)
Stock based compensation expense	310	249
(Gain) loss on sale/write-down of other real estate owned	(8)	207
(Increase) decrease in accrued interest receivable and other assets	(581)	535
(Decrease) increase in accrued interest payable and other liabilities	(347)	2,140
Net cash provided by operating activities	5,572	8,911
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	31,288	12,656
Proceeds from matured available-for-sale investment securities	1,930	600
Proceeds from called available-for-sale investment securities	145	1,165
Purchases of available-for-sale investment securities	(63,061)	(27,608)
Proceeds from principal repayments for available-for-sale investment securities	31,768	33,749
Proceeds from principal repayments for held-to-maturity investment securities	79	115
Net increase in interest-bearing deposits in banks	(249)	(249)
Net decrease (increase) in loans	1,543	(21,873)
Proceeds from sale of other real estate	395	1,005
Net increase in FHLB stock	(153)	—
Purchases of equipment	(119)	(178)
Net cash provided by (used in) investing activities	3,566	(618)

7

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands) For the nine months ended September 30,	2017	2016
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	$8,825	$17,125
Net decrease in time deposits	(2,689)	(1,650)
Net (decrease) increase in short-term borrowings	(1,500)	1,500
Additions to long-term borrowings	3,500	5,000
Transfers from long-term to short-term borrowings	(2,000)	(3,500)
Proceeds from stock option exercise	351	13
Cash dividends paid	(975)	—
Cash paid to repurchase common stock	(5,006)	(7,414)
Net cash provided by financing activities	$506	$11,074
Increase in cash and cash equivalents	9,644	19,367
Cash and cash equivalents at beginning of year	27,589	23,727
Cash and cash equivalents at end of period	$37,233	$43,094

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the "Company") at September 30, 2017 and December 31, 2016, the results of its operations and statement of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016, its cash flows for the nine-month periods ended September 30, 2017 and 2016 and its statement of changes in shareholders' equity for the nine months ended September 30, 2017 and 2016 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 annual report on Form 10-K for the year ended December 31, 2016. The results of operations for the three-month and nine-month periods ended September 30, 2017 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.

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

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was approved by the Company's shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company's shareholders approved a stock option plan (the "2000 Plan"), under which 54,470 options remain outstanding at September 30, 2017. At September 30, 2017, under the 2010 Plan, there were 51,322 stock options and 79,474 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,362,437. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonqualified option agreements, restricted stock agreements, and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the "Plans") require that the option price may not be less than the fair market value of the stock at the date the option is awarded. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company's Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

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

Equity Compensation

For the three-month periods ended September 30, 2017 and 2016, the compensation cost recognized for equity compensation was $109,000 and $83,000, respectively. The recognized tax benefit for equity compensation expense was $40,000 and $29,000, respectively, for the three-month periods ended September 30, 2017 and 2016. For the nine-month periods ended September 30, 2017 and 2016, the compensation cost recognized for equity compensation was $310,000 and $249,000, respectively. The recognized tax benefit for equity compensation expense was $113,000 and $88,000, respectively, for the nine-month periods ended September 30, 2017 and 2016.

At September 30, 2017, the total compensation cost related to nonvested stock option awards not yet recorded was $71,000. This amount will be recognized over the next 2.75 years and the weighted average period of recognizing these costs is expected to be 1.4 years. At September 30, 2017, the total compensation cost related to restricted stock awards not yet recorded was $474,000. This amount will be recognized over the next 4.6 years and the weighted average period of recognizing these costs is expected to be 1.3 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month and nine-month periods ended September 30, 2017 or September 30, 2016. A summary of option activity under the Plans as of September 30, 2017 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, 2017	186,023	$ 12.92	3.7 years	$ 741
Awarded	—	—	—	—
Exercised	41,898	8.38	—	—
Expired, forfeited or cancelled	38,333	22.88	—	—
Outstanding at September 30, 2017	105,792	$ 11.10	3.7 years	$ 366
Vested at September 30, 2017	76,845	$ 11.80	2.2 years	$ 233
Non-vested at September 30, 2017	28,947	$ 9.24	7.0 years	$ 133

Restricted Stock

There were no shares of restricted stock awarded during the three-month periods ended September 30, 2017 and 2016. There were 24,982 and 29,756 shares of restricted stock awarded during the nine-month periods ended September 30, 2017 and 2016, respectively. Award date fair value is determined by the market price of the Company’s common stock on the date of award ($10.17 on February 17, 2016, $10.40 on May 19, 2016, $14.76 on February 16, 2017, and $13.83 on May 18, 2017).

There were no restricted share awards that were fully vested during the three-month period ended September 30, 2017 and 14,382 restricted share awards that were fully vested during the nine-month period ended September 30, 2017.

There were 947 restricted share awards that were fully vested during the three-month period ended September 30, 2016 and 19,166 restricted share awards that were fully vested during the nine-month period ended September 30, 2016. There were zero and 2,950 restricted share awards forfeited during the three-month and nine-month periods ended September 30, 2017, respectively. There were 386 and 1,414 restricted share awards forfeited during the three-month and nine-month periods ended September 30, 2016, respectively. The intrinsic value of nonvested restricted shares at September 30, 2017 was $1,100,000.

Restricted Stock	Shares	Weighted Average Award Date Fair Value
Nonvested at January 1, 2017	71,824	$ 9.69
Awarded	24,982	14.65
Less: Vested	14,382	9.76
Less: Expired, forfeited or cancelled	2,950	10.01
Nonvested at September 30, 2017	79,474	$ 11.22

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three-month or nine-month month periods ended September 30, 2017 or 2016 or outstanding at September 30, 2017 or December 31, 2016.

The intrinsic value used for stock options and restricted stock awards was derived from the market price of the Company's common stock of $13.84 as of September 30, 2017.

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 $11,321,000 and standby letters of credit of approximately $191,000 at September 30, 2017 and loan commitments of approximately $19,728,000 and standby letters of credit of approximately $238,000 at December 31, 2016. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2017 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory, insurance programs, performance obligations to government agencies, or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at September 30, 2017 or December 31, 2016.

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 (6,299,914 and 6,402,647 shares for the three-month and nine-month periods ended September 30, 2017, and 6,589,125 and 6,800,016 shares for the three-month and nine-month periods ended September 30, 2016). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 66,118 and 78,922, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2017 and 32,515 and 28,108, respectively, dilutive shares for the three-month and nine-month periods ended September 30, 2016. For the three-month periods ended September 30, 2017 and 2016, there were 32,448 and 99,308 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. For the nine-month periods ended September 30, 2017 and 2016, there were 32,448 and 99,308 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of Available-for-Sale and Held-to-Maturity investment securities at September 30, 2017 and December 31, 2016 consisted of the following (dollars in thousands):

Available-for-Sale

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$219,853	$ 1,768	$ (1,338)	$220,283
Obligations of states and political subdivisions	22,354	618	(144)	22,828
Corporate bonds	6,490	185	(7)	6,668
Equity securities:				
Corporate stock	51	49	—	100
	$248,748	$ 2,620	$ (1,489)	$249,879

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$229,118	$ 2,150	$ (1,483)	$229,785
Obligations of states and political subdivisions	22,436	559	(383)	22,612
Corporate bonds	1,501	18	—	1,519

Equity securities:				
Corporate stock	49	55	—	104
	$253,104	$ 2,782	$ (1,866)	$254,020

Net unrealized gains on available-for-sale investment securities totaling $1,131,000 were recorded, net of $452,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at September 30, 2017. Proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $22,730,000 and $19,000, respectively, for the three-month period ended September 30, 2017 and for the nine-month period ended September 30, 2017, proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $31,433,000 and $161,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and nine-month periods ended September 30, 2017.

Net unrealized gains on available-for-sale investment securities totaling $916,000 were recorded, net of $372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2016. Proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $5,534,000 and $33,000, respectively, for the three-month period ended September 30, 2016 and for the nine-month period ended September 30, 2016, proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $13,821,000 and $314,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and nine-month periods ended September 30, 2016.

Held-to-Maturity

September 30, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 404	$ 31	$ —	$ 435

December 31, 2016

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 483	$ 38	$ —	$ 521

There were no sales or transfers of held-to-maturity investment securities for the periods ended September 30, 2017 and September 30, 2016. Investment securities with unrealized losses at September 30, 2017 and December 31, 2016 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

September 30, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Entities	$ 107,598	$ (1,045)	18,644	(293)	$ 126,242	$ (1,338)
Obligations of states and political subdivisions	1,136	(7)	4,627	(137)	5,763	(144)
Corporate bonds	1,983	(7)	—	—	1,983	(7)
	$ 110,717	$ (1,059)	$ 23,271	$ (430)	$ 133,988	$ (1,489)

December 31, 2016	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:						
US Government Agencies and Sponsored Entities	$ 111,870	$ (1,415)	$ 5,010	$ (68)	$ 116,880	$ (1,483)

Obligations of states and political subdivisions	8,319	(383)	—	—	8,319	(383)
	$ 120,189	$ (1,798)	$ 5,010	$ (68)	$ 125,199	$ (1,866)

13

There were no held-to-maturity investment securities with unrealized losses as of September 30, 2017 or December 31, 2016. At September 30, 2017, the Company held 212 securities of which fifteen were in a loss position for twelve months or more. Of the fifteen securities in a loss position for greater than twelve months, eleven were U.S. Government Agencies and Sponsored Entities securities and four were obligations of states or political subdivisions.

At December 31, 2016, the Company held 219 securities of which 70 were in a loss position for less than twelve months and three were in a loss position for twelve months or more. Of the three securities that were in a loss position for greater than twelve months, all were US Government Agencies and Sponsored Entities.

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

The amortized cost and estimated fair values of investment securities at September 30, 2017 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	$—	$—		
After one year through five years	5,450	5,536		
After five years through ten years	18,140	18,704		
After ten years	5,254	5,256		
	28,844	29,496		
Investment securities not due at a single maturity date:				
US Government Agencies and Sponsored Entities	219,853	220,283	$ 404	$ 435
Corporate stock	51	100	—	—
	$248,748	$249,879	$ 404	$ 435

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

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

At September 30, 2017 and December 31, 2016, the recorded investment in nonperforming loans and leases was approximately $2,317,000 and $19,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the original loan agreement. At September 30, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $17,562,000, which includes $2,317,000 in nonaccrual loans and leases and $15,245,000 in performing loans and leases. Of the total impaired loans of $17,562,000, loans totaling $11,354,000 were deemed to require no specific reserve and loans totaling $6,208,000 were deemed to require a related valuation allowance of $404,000. At December 31, 2016, the recorded investment in loans and leases that were considered to be impaired totaled $17,297,000 with a related valuation allowance of

$421,000.

At September 30, 2017 and December 31, 2016, the balance in other real estate owned (“OREO”) was $961,000 and $1,348,000, respectively. At September 30, 2017, the Company did not own any residential OREO properties nor were there any residential properties in the process of foreclosure. During the first and second quarters of 2017, the Company did not add any new or sell any of the OREO properties, nor did we decrease the book value on any of the properties. During the third quarter of 2017, the Company did not add any properties to OREO and sold one single commercial property in Sacramento County with a book value of $387,000 for a gain of $8,000. The September 30, 2017 OREO balance of $961,000 consisted of one parcel of land zoned for commercial use. Nonperforming assets at September 30, 2017 and December 31, 2016 are summarized as follows:

(dollars in thousands)	September 30, 2017		December 31, 2016	
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$ 2,027		$ 19	
Nonaccrual loans and leases that are past due	290		—	
Loans and leases past due 90 days and accruing interest	—		—	
Other assets	—		—	
Other real estate owned	961		1,348	
Total nonperforming assets	$ 3,278		$ 1,367	
Nonperforming loans and leases to total loans and leases	0.71	%	0.01	%
Total nonperforming assets to total assets	0.50	%	0.21	%

Impaired loans and leases as of and for the periods ended September 30, 2017 and December 31, 2016 are summarized as follows:

(dollars in thousands)	As of September 30, 2017			As of December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$ 2,019	$ 2,692	$ —	$ —	$ —	$ —
Real estate-commercial	9,004	9,583	—	10,910	11,540	—
Real estate-residential	331	418	—	334	421	—
Subtotal	$ 11,354	$ 12,693	$ —	$ 11,244	$ 11,961	$ —
With an allowance recorded:						
Commercial	$ —	$ —	$ —	$ 157	$ 157	$ 11
Real estate-commercial	4,098	4,186	284	3,244	3,336	246
Real estate-multi-family	476	476	20	482	482	2
Real estate-residential	1,634	1,634	100	1,813	1,813	133
Agriculture	—	—	—	357	357	29
Subtotal	$ 6,208	$ 6,296	$ 404	$ 6,053	$ 6,145	$ 421
Total:						
Commercial	$ 2,019	$ 2,692	$ —	$ 157	$ 157	$ 11
Real estate-commercial	13,102	13,769	283	14,154	14,876	246
Real estate-multi-family	476	476	20	482	482	2
Real estate-residential	1,965	2,052	101	2,147	2,234	133
Agriculture	—	—	—	357	357	29
	$ 17,562	$ 18,989	$ 404	$ 17,297	$ 18,106	$ 421

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

	Average Recorded Investments for the three months ended		Average Recorded Investments for the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Commercial	$ 2,369	$ 32	$ 2,391	$ 33
Real estate-commercial	13,139	15,369	13,220	15,202
Real estate-multi-family	477	484	479	486
Real estate-residential	1,973	2,169	2,003	2,182
Agriculture	—	362	—	365
Consumer	—	35	—	36
Total	$ 17,958	$ 18,451	$ 18,093	$ 18,304

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

	Interest Income Recognized for the three months ended		Interest Income Recognized for the nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Commercial	$ 115	$ —	$ 114	$ 2
Real estate-commercial	320	123	503	567
Real estate-multi-family	17	15	25	25
Real estate-residential	39	24	76	76
Agriculture	—	6	—	16
Consumer	2	—	2	—
Total	$ 493	$ 168	$ 720	$ 686

7. TROUBLED DEBT RESTRUCTURINGS

During the three and nine-month periods ended September 30, 2017 and 2016, there were no loans that were modified as troubled debt restructurings.

There were no payment defaults on troubled debt restructurings within 12 months following the modification for the three-month and nine-month periods ended September 30, 2017 and September 30, 2016. At September 30, 2017 and December 31, 2016, there were no unfunded commitments on those loans considered troubled debt restructures. See also “Impaired Loans and Leases” in Item 2.

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of September 30, 2017 and December 31, 2016 are summarized below:

September 30, 2017 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$23,617	$163,916	$ 74,619	$ 10,548	$ 15,169
Watch	106	23,738	4,402	—	1,447
Special mention	1,011	2,302	—	—	712
Substandard	—	290	—	—	—
Doubtful	2,019	—	—	—	—
Total	$26,753	$190,246	$ 79,021	$ 10,548	$ 17,328

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$ 249	$ 1,685	$ 869	$290,672
Watch	—	—	237	29,930
Special mention	—	—	70	4,095
Substandard	—	—	10	300
Doubtful	—	—	—	2,019
Total	$ 249	$ 1,685	$ 1,186	$327,016

December 31, 2016 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$31,733	$166,769	$ 68,615	$ 6,770	$ 12,773
Watch	157	21,328	4,758	2,410	1,773
Special mention	721	3,032	—	—	710
Substandard	2,763	—	—	—	462
Doubtful or loss	—	—	—	—	—
Total	$35,374	$191,129	$ 73,373	$ 9,180	$ 15,718

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$ 404	$ 1,945	$ 1,093	$290,102
Watch	—	357	316	31,099
Special mention	—	—	219	4,682
Substandard	—	—	22	3,247

Doubtful or loss	—	—	—	—
Total	$ 404	$ 2,302	$ 1,650	$329,130

17

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

September 30, 2017 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2017	$855	$2,050	$851	$446	$253	$1	$64	$24	$278	$4,822
Provision for loan losses	240	(16)	147	34	(22)	(40)	(35)	(11)	3	300
Loans charged-off	(673)	—	—	—	—	—	—	—	—	(673)
Recoveries	5	54	—	—	—	39	—	4	—	102
Ending balance, September 30, 2017	$427	$2,088	$998	$480	$231	$—	$29	$17	$281	$4,551
Ending balance: Individually evaluated for impairment	$—	$284	$20	$—	$100	$—	$—	$—	$—	$404
Ending balance: Collectively evaluated for impairment	$427	$1,804	$978	$480	$131	$—	$29	$17	$281	$4,147
Loans										
Ending balance	$26,753	$190,246	$79,021	$10,548	$17,328	$249	$1,685	$1,186	$—	$327,016
Ending balance: Individually evaluated for impairment	$2,019	$13,102	$476	$—	$1,965	$—	$—	$—	$—	$17,562
Ending balance: Collectively evaluated for impairment	$24,734	$177,144	$78,545	$10,548	$15,363	$249	$1,685	$1,186	$—	$309,454
Allowance for Loan and Lease Losses										
Beginning balance, June 30, 2017	$916	$2,091	$789	$457	$268	$1	$59	$19	$281	$4,881
	182	(4)	209	23	(37)	(40)	(30)	(3)	—	300

Provision for loan losses										
Loans charged off	(673)	—	—	—	—	—	—	—	—	(673)
Recoveries	2	1	—	—	—	39	—	1	—	43
Ending balance, September 30, 2017	$427	$2,088	$998	$480	$231	$—	$29	$17	$281	$4,551

December 31, 2016 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Ending balance: Individually evaluated for impairment	$11	$246	$2	$—	$133	$—	$29	$—	$—	$421
Ending balance: Collectively evaluated for impairment	$844	$1,804	$849	$446	$120	$1	$35	$24	$278	$4,401
Loans										
Ending balance	$35,374	$191,129	$73,373	$9,180	$15,718	$404	$2,302	$1,650	$—	$329,130
Ending balance: Individually evaluated for impairment	$157	$14,154	$482	$—	$2,147	$—	$357	$—	$—	$17,297
Ending balance: Collectively evaluated for impairment	$35,217	$176,975	$72,891	$9,180	$13,571	$404	$1,945	$1,650	$—	$311,833

September 30, 2016 (dollars in thousands)		Real Estate				Other				
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance, January 1, 2016	$ 860	$2,369	$ 228	$ 813	$ 319	$1	$ 77	$ 78	$ 230	$4,975
Provision for loan losses	(769)	(64)	250	39	(53)	—	(13)	(97)	39	(668)
Loans charged-off	—	(68)	—	—	—	—	—	—	—	(68)
Recoveries	658	14	—	—	—	—	—	72	—	744
Ending balance, September 30, 2016	$ 749	$2,251	$ 478	$ 852	$ 266	$1	$ 64	$ 53	$ 269	$4,983
Allowance for Loan and Lease Losses										
Beginning balance, June 30, 2016	$ 808	$2,647	$ 329	$ 725	$ 283	$1	$ 73	$ 60	$ 206	$5,132
Provision for loan losses	(644)	(330)	149	127	(17)	—	(9)	(7)	63	(668)
Loans charged off	—	(68)	—	—	—	—	—	—	—	(68)
Recoveries	585	2	—	—	—	—	—	—	—	587
	$ 749	$2,251	$ 478	$ 852	$ 266	$1	$ 64	$ 53	$ 269	$4,983

Ending balance, September
30, 2016

19

The Company's aging analysis of the loan and lease portfolio at September 30, 2017 and December 31, 2016 are summarized below:

September 30, 2017 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$ —	$ —	$ —	$ —	$26,753	$ 26,753	$ —	$ 2,019
Real estate:								
Commercial	—	290	—	290	189,956	190,246	—	290
Multi-family	—	—	—	—	79,021	79,021	—	—
Construction	—	—	—	—	10,548	10,548	—	—
Residential	—	—	—	—	17,328	17,328	—	—
Other:								
Leases	—	—	—	—	249	249	—	—
Agriculture	—	—	—	—	1,685	1,685	—	—
Consumer	—	—	—	—	1,186	1,186	—	8
Total	$ —	$ 290	$ —	$ 290	$326,726	$ 327,016	$ —	$ 2,317

December 31, 2016 (dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$ —	$ —	$ —	$ —	$35,374	$ 35,374	$ —	$ —
Real estate:								
Commercial	—	—	—	—	191,129	191,129	—	—
Multi-family	—	—	—	—	73,373	73,373	—	—
Construction	—	—	—	—	9,180	9,180	—	—
Residential	—	—	—	—	15,718	15,718	—	—
Other:								
Leases	—	—	—	—	404	404	—	—
Agriculture	—	—	—	—	2,302	2,302	—	—
Consumer	—	—	—	—	1,650	1,650	—	19
Total	$ —	$ —	$ —	$ —	$329,130	$ 329,130	$ —	$ 19

20

9. BORROWING ARRANGEMENTS

At September 30, 2017, the Company had $17,000,000 of unsecured short-term borrowing arrangements with two of its correspondent banks. There were no advances under the borrowing arrangements as of September 30, 2017 or December 31, 2016.

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 $15,500,000 were outstanding from the FHLB at September 30, 2017, bearing interest rates ranging from 1.18% to 1.90% and maturing between July 20, 2018 and April 12, 2021. Advances totaling $15,500,000 were outstanding from the FHLB at December 31, 2016, bearing interest rates ranging from 1.01% to 1.52% and maturing between May 22, 2017 and July 13, 2020. Remaining amounts available under the borrowing arrangement with the FHLB at September 30, 2017 and December 31, 2016 totaled $112,239,000 and $100,187,000, 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 September 30, 2017 and December 31, 2016 were $7,281,000 and $11,068,000, respectively. There were no advances outstanding under this borrowing arrangement as of September 30, 2017 and December 31, 2016.

10. INCOME TAXES

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

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

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if applicable, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There have been no unrecognized tax benefits or accrued interest and penalties for the three-month and nine-month periods ended September 30, 2017 and 2016.

21

11. FAIR VALUE MEASUREMENTS

The following tables present information about the Company’s assets and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2017 and December 31, 2016. They indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

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

	Carrying	Fair Value Measurements Using:			
September 30, 2017	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$37,233	$37,233	$—	$—	$37,233
Interest-bearing deposits in banks	1,248	—	1,248	—	1,248
Available-for-sale securities	249,879	54	249,825	—	249,879
Held-to-maturity securities	404	—	435	—	435
FHLB stock	3,932	N/A	N/A	N/A	N/A
Net loans and leases:	322,238	—		330,342	330,342
Accrued interest receivable	1,919	—	1,000	919	1,919
Financial liabilities:					
Deposits:					
Noninterest-bearing	$205,938	$205,938	$—	$—	$205,938
Savings	66,482	66,482	—	—	66,482
Money market	131,545	131,545	—	—	131,545
NOW accounts	66,707	66,707	—	—	66,707
Time Deposits	80,270	—	86,270	—	86,270
Short-term borrowings	2,000	2,000	—	—	2,000

Long-term borrowings	13,500	—	13,474	—	13,474
Accrued interest payable	62	2	60	—	62

22

December 31, 2016	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$27,589	$27,589	$—	$—	$28,589
Interest-bearing deposits in banks	999	—	999	—	999
Available-for-sale securities	254,020	60	253,960	—	254,020
Held-to-maturity securities	483	—	521	—	521
FHLB stock	3,779	N/A	N/A	N/A	N/A
Net loans and leases:	324,086	—	—	329,110	329,110
Accrued interest receivable	1,824	—	937	887	1,824
Financial liabilities:					
Deposits:					
Noninterest-bearing	$201,113	$201,113	$—	$—	$201,113
Savings	64,740	64,740	—	—	64,740
Money market	131,342	131,342	—	—	131,342
NOW accounts	64,652	64,652	—	—	64,652
Time Deposits	82,959	—	83,720	—	83,720
Short-term borrowings	3,500	3,500	—	—	3,500
Long-term borrowings	12.000	—	12,110	—	12,110
Accrued interest payable	62	—	62	—	62

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

The following methods and assumptions were used by the Company to estimate the fair values of its financial instruments at September 30, 2017 and December 31, 2016:

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

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

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

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

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

23

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

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

Accrued interest receivable and payable: The carrying amount of accrued interest receivable approximates fair value resulting in a Level 3 classification and the carrying amount of accrued interest payable approximates fair value resulting in a Level 2 classification.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments was not material at September 30, 2017 and December 31, 2016.

Assets and liabilities measured at fair value on a recurring and non-recurring basis along with any related gain or loss recognized in the income statement due to fair value changes are presented in the following table:

Description		Fair Value Measurements Using			Total Gains
(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3	(Losses)
September 30, 2017					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
US Government Agencies and Sponsored Agencies	$220,283	$—	$220,283	$—	$ —
Obligations of states and political subdivisions	22,828	—	22,828	—	—
Corporate bonds	6,668	—	6,668	—	—
Corporate stock	100	54	46	—	—
Total recurring	$249,879	$54	$249,825	$—	$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Commercial	$2,019	$—	$—	$2,019	$ (673)
Real estate:					
Commercial	3,482	—	—	3,482	—
Residential	330	—	—	330	—
Other real estate owned Land	961	—	—	961	—
Total nonrecurring	$6,792	$—	$—	$6,792	$ (673)

24

Description (dollars in thousands)	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Gains (Losses)
December 31, 2016					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
US Government Agencies and Sponsored Entities	$229,785	$—	$229,785	$—	$ —
Corporate Debt securities	1,519	—	1,519		
Obligations of states and political subdivisions	22,612	—	22,612	—	—
Corporate stock	104	60	44	—	—
Total recurring	$254,020	$60	$253,960	$—	$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Real estate: Commercial	$3,535	$—	$—	$3,535	$ —
Residential	334	—	—	334	—
Other real estate owned					
Commercial	386	—	—	386	(25)
Land	962	—	—	962	173

There were no significant transfers between Levels 1 and 2 during the three-month and nine-month periods ended September 30, 2017 or the twelve months ended December 31, 2016.

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

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

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

<u>Other real estate owned</u> – Certain commercial and residential real estate properties classified as OREO are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may use a single valuation approach or a combination of approaches including comparable sales, cost and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income and other available data. Such adjustments are

usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for all Level 3 nonrecurring OREO is the sales comparison approach less selling costs ranging from 8% to 10%.

12. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (the “FASB”) and the International Accounting Standards Board (the “IASB”) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards (“IFRS”). Previous revenue recognition guidance in GAAP consisted of broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *“Revenue from Contracts with Customers.”* The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption was not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, *“Revenue from Contracts with Customers - Deferral of the Effective Date”* which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08, *“Principal versus Agent Considerations (Reporting Revenue Gross versus Net),”* ASU No. 2016-10, *“Identifying Performance Obligations and Licensing,”* ASU No. 2016-12, *“Narrow-Scope Improvements and Practical Expedients,”* and ASU No. 2016-20 *“Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.”* Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company is continuing its overall assessment of revenue streams and reviewing contracts potentially affected by the ASU including deposit related fees, interchange fees, and merchant income, to determine the potential impact the new guidance is expected to have on the Company’s financial position, results of operations or cash flows. In addition, the Company continues to follow certain implementation issues relevant to the banking industry which are still pending resolution. The Company plans to adopt ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach.

In January 2016, the FASB issued ASU No. 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities.*” This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. Early adoption of the other provisions mentioned above is not permitted. The Company has performed an evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 will not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases.*" Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU No. 2016-02. Based on the initial evaluation of the Company's current lease obligations, the Company has determined that the provisions of ASU No. 2016-02 may result in an increase in assets to recognize the present value of the lease obligations with a corresponding increase in liabilities, however, the Company does not expect this to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "*Improvements to Employee Share-Based Payment Accounting.*" This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminated the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance also requires an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 was effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption was permitted, but all of the guidance must be adopted in the same period. The Company adopted the provisions of ASU No. 2016-09 in the first quarter of 2017. The Company recorded a benefit of $118,000 for the three months ended September 30, 2017 and a benefit of $186,000 for the nine months ended September 30, 2017, related to the adoption of ASU No. 2016-09.

In June 2016, the FASB issued ASU No. 2016-13, *"Measurement of Credit Losses on Financial Instruments."* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). While the Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements, it has taken steps to prepare for the implementation when it becomes effective, such as forming an internal task force, gathering pertinent data, consulting with outside professionals, and evaluating its current IT systems.

In March of 2017, the FASB issued ASU No. 2017-08, "*Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities."* This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset dates), rather than contractual maturity date as currently required under GAAP. ASU 2017-08 does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of ASU 2017-08. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. Accordingly, effective January of 2017, the Company early adopted ASU 2017-08 and the adoption was immaterial to the Company's financial position, results of operations or cash flows.

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, 2016 and September 30, 2017 and its income and expense accounts for the three-month and nine-month periods ended September 30, 2017 and 2016. 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," "shoul "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ significantly from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following:

- the legislation promulgated by the United States Congress and actions taken by governmental agencies that may impact the U.S. financial system;
- the risks presented by economic volatility and recession, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- variances in the actual versus projected growth in assets and return on assets;
- potential loan and lease losses;
- potential expenses associated with resolving non-performing assets as well as regulatory changes;
- changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits and other borrowed funds;
- competitive effects;
- potential declines in fee and other noninterest income earned associated with economic factors, as well as regulatory changes;
- general economic conditions nationally, regionally, and within our operating markets could be less favorable than expected or could have a more direct and pronounced effect on us than expected and adversely affect our ability to continue internal growth at historical rates and maintain the quality of our earning assets;
- changes in the regulatory environment including increased capital and regulatory compliance requirements and government intervention in the U.S. financial system;
- changes in business conditions and inflation;
- changes in securities markets, public debt markets, and other capital markets;
- potential data processing, cybersecurity and other operational systems failures, breach or fraud;
- potential decline in real estate values in our operating markets;
- the effects of uncontrollable events such as terrorism, the threat of terrorism or the impact of military conflicts in connection with the conduct of the war on terrorism by the United States and its allies, negative financial and economic conditions, natural disasters, and disruption of power supplies and communications;
- changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations;
- projected business increases following any future strategic expansion could be lower than expected;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings;
-

the reputation of the financial services industry could experience 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.

29

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, 2016, 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.

Subsequent Event

On October 27, 2017, David Taber resigned from his position as President and Chief Executive Officer of the Company. He also resigned from the Company's Board of Directors and from all of his positions with the Company's wholly-owned subsidiary, American River Bank. Mr. Taber's resignation is not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices. On October 18, 2017, the Company's Board of Directors appointed Mr. David Ritchie as the President and Chief Executive Officer of the Company and American River Bank effective November 6, 2017, and as a member of the Board of Directors of the Company and American River Bank effective November 1, 2017. See the Form 8-K filed by the Company on October 27, 2017 with the Securities and Exchange Commission for additional disclosure regarding the leadership change.

Use of Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q ("Form 10Q") contains certain non-GAAP (Generally Accepted Accounting Principles) financial measures in addition to results presented in accordance with GAAP. These measures include tangible book value and taxable equivalent basis. Management has presented these non-GAAP financial measures in this Form 10Q because it believes that they provide useful and comparative information to assess trends in the Company's financial position reflected in the current quarter and year-to-date results and facilitate comparison of our performance with the performance of our peers.

Net Interest Margin and Efficiency Ratio (non-GAAP financial measures)

In accordance with industry standards, certain designated net interest income amounts are presented on a taxable equivalent basis, including the calculation of net interest margin and the efficiency ratio. The Company believes the presentation of net interest margin on a taxable equivalent basis using a 34% effective tax rate allows comparability of net interest margin with industry peers by eliminating the effect of the differences in portfolios attributable to the proportion represented by both taxable and tax-exempt loans and investments. The efficiency ratio is a measure of a banking company's overhead as a percentage of its revenue. The Company derives this ratio by dividing total noninterest expense by the sum of the taxable equivalent net interest income and the total noninterest income.

Tangible Equity (non-GAAP financial measures)

Tangible common stockholders' equity (tangible book value) excludes goodwill and other intangible assets. The Company believes the exclusion of goodwill and other intangible assets to create "tangible equity" facilitates the comparison of results for ongoing business operations. The Company's management internally assesses its performance based, in part, on these non-GAAP financial measures.

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan and Lease Losses

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

The allowance for loan and lease losses is determined based upon estimates that can and do change when the actual risk, loss events, or changes in other factors, occur. The analysis of the allowance uses an historical loss view as an indicator of future losses and as a result could differ from the actual losses incurred in the future. If the allowance for loan and lease losses falls below that deemed adequate (by reason of loan and lease growth, actual losses, the effect of changes in risk factors, or some combination of these), the Company has a strategy for supplementing the allowance for loan and lease losses, over the short-term. For further information regarding our allowance for loan and lease losses, see "Allowance for Loan and Lease Losses Activity" discussion later in this Item 2.

Stock-Based Compensation

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

Goodwill

Business combinations involving the Company's acquisition of equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment on an annual basis. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The most recent annual assessment was performed as of December 31, 2016, and at that time, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for (benefit from) income taxes. The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is, if applicable, reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There were no unrecognized tax benefits or accrued interest and penalties at September 30, 2017 or 2016 or for the three-month periods then ended.

General Development of Business

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 854-0123. The Company employed an equivalent of 97 full-time employees as of September 30, 2017.

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

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. American River Bank operates five full service offices in Sacramento and Placer Counties including the main office located at 1545 River Park Drive, Suite 107, Sacramento and branch offices in Sacramento, Gold River, and Roseville; two full service offices in Sonoma County in Healdsburg and Santa Rosa; and three full service offices in Amador County in Jackson, Pioneer, and Ione.

In 2000, the Company acquired North Coast Bank as a separate bank subsidiary. North Coast Bank was incorporated and commenced business in 1990 as Windsor Oaks National Bank in Windsor, California. In 1997, the name was changed to North Coast Bank. Effective December 31, 2003, North Coast Bank was merged with and into American River Bank. On December 3, 2004, the Company acquired Bank of Amador located in Jackson, California. Bank of Amador was merged with and into American River Bank.

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

American River Bank does not offer trust services or international banking services and does not plan to do so in the near future. American River Bank's primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. American River Bank accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and term loans and offers other customary banking services. American River Bank also conducts lease financing for certain types of business equipment. American River Bank owns 100% of two inactive companies, ARBCO and American River Mortgage. ARBCO was formed in 1984 to conduct real estate development and has been inactive since 1995. American River Mortgage has been inactive since its formation in 1994. During 2016 and 2017, 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 $1,109,000 for the quarter ended September 30, 2017, which was a decrease of $704,000 compared to $1,813,000 reported for the same period of 2016. Diluted earnings per share for the third quarter of 2017 were $0.17 compared to $0.27 recorded in the third quarter of 2016. The return on average equity ("ROAE") and the return on average assets ("ROAA") for the third quarter of 2017 were 5.37% and 0.68%, respectively, as compared to 8.62% and 1.13%, respectively, for the same period in 2016.

Net income for the nine months ended September 30, 2017 and 2016 was $3,590,000 and $4,489,000, respectively, with diluted earnings per share of $0.55 in 2017 and $0.66 in 2016. For the first nine months of 2017, ROAE was 5.82% and ROAA was 0.74% compared to 7.12% and 0.95%, respectively, for the same period in 2016.

Total assets of the Company increased by $4,194,000 (0.6%) from $651,450,000 at December 31, 2016 to $655,644,000 at September 30, 2017. Net loans totaled $322,238,000 at September 30, 2017, a decrease of $1,848,000 (0.6%) from $324,086,000 at December 31, 2016. Deposit balances at September 30, 2017 totaled $550,942,000, an increase of $6,136,000 (1.1%) from the $544,806,000 at December 31, 2016.

The Company ended the third quarter of 2017 with a leverage capital ratio of 10.3%, a Tier 1 capital ratio of 18.8%, and a total risk-based capital ratio of 20.0% compared to 10.5%, 19.0%, and 20.3%, respectively, at December 31, 2016. 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 September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Interest income*	$5,180	$5,412	$15,553	$16,152
Interest expense	(279)	(223)	(773)	(678)
Net interest income*	4,901	5,189	14,780	15,474
Provision for loan and lease losses	(300)	668	(300)	668
Noninterest income	377	399	1,235	1,516
Noninterest expense	(3,312)	(3,346)	(10,110)	(10,552)
Provision for income taxes	(459)	(989)	(1,718)	(2,274)
Tax equivalent adjustment	(98)	(108)	(297)	(343)
Net income	$1,109	$1,813	$3,590	$4,489
Average total assets	$649,427	$635,561	$649,845	$632,120
Net income (annualized) as a percentage of average total assets	0.68%	1.13%	0.74%	0.95%

* Fully taxable equivalent basis (FTE)

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company's net interest margin was 3.32% for the three months ended September 30, 2017, 3.65% for the three months ended September 30, 2016, 3.39% for the nine months ended September 30, 2017 and 3.64% for the nine months ended September 30, 2016.

The fully taxable equivalent interest income component for the third quarter of 2017 decreased $232,000 (4.3%) to $5,180,000 compared to $5,412,000 for the three months ended September 30, 2016. The decrease in the fully taxable equivalent interest income for the third quarter of 2017 compared to the same period in 2016 is broken down by rate (down $441,000) and volume (up $209,000). The yield on earning assets decreased from 3.81% during the third quarter of 2016 to 3.51% during the third quarter of 2017. The primary driver in this rate decrease was a decrease in the yield on loans which saw a decrease from 5.01% in the third quarter of 2016 to 4.48% in the third quarter of 2017 and a decrease in the yield on investments, which saw a decrease from 2.38% in the third quarter of 2016 to 2.33% in the third quarter of 2017. While average loans increased $15,580,000 (5.1%) from $307,324,000 during the third quarter of 2016 to $322,904,000 during the third quarter of 2017, due to the overall lower interest rate environment, the new loans added were at lower yields than the existing loans. The decrease in the yield on the investment portfolio is also due primarily to the lower rate environment as principal paydowns were reinvested at lower rates. The volume increase of $209,000 was primarily from an increase in average loans ($188,000) and investment balances ($21,000). The average balance of earning assets increased $19,941,000 (3.5%) from $565,070,000 in the third quarter of 2016 to $585,011,000 in the third quarter of 2017. When compared to the third quarter of 2016, average investment securities increased $4,112,000 (1.6%) from $256,747,000 for the third quarter of 2016 compared to $260,859,000 for the third quarter of 2017.

Total fully taxable equivalent interest income for the nine months ended September 30, 2017 decreased $599,000 (3.7%) to $15,553,000 compared to $16,152,000 for the nine months ended September 30, 2016. The breakdown of the decrease in fully taxable equivalent interest income for the nine months ended September 30, 2017 over the same period in 2016 resulted from a decrease in rate (down $1,173,000) and an increase in volume (up $574,000). Average earning assets increased $14,625,000 (2.6%) from $568,075,000 during the first nine months of 2016 to $582,700,000 for the same period in 2017. During the nine month periods, the Company also experienced a decrease in interest income due to the rates earned on loans (down $903,000) and investments (down $273,000). The yield on loans decreased from 4.93% in 2016 to 4.55% in 2017 and the yield on investments decreased from 2.52% in 2016 to 2.38% in 2017. These decreases were caused by the overall lower interest rate environment. Average loan balances increased by $18,179,000 (6.0%) from $301,645,000 during 2016 to $319,824,000 during 2017. The volume increase of $574,000 is primarily related to the above mentioned increase in loan balances from 2016 to 2017, which accounted for a $650,000 increase in interest income and was partially offset by a decrease in average investment balances. Average investment securities decreased $3,769,000 (1.4%) from $265,436,000 for the first nine months of 2016 compared to $261,667,000 for the first nine months of 2017.

Interest expense was $56,000 (25.1%) higher in the third quarter of 2017 versus the prior year period, increasing from $223,000 to $279,000. The $56,000 increase in interest expense during the third quarter of 2017 compared to the third quarter of 2016 was due to higher rates (up $58,000) and higher volume (down $2,000). While average balances on interest bearing liabilities were $356,547,000 or $9,374,000 (2.7%) higher in the third quarter of 2017 compared to $347,173,000 for the same quarter in 2016, the increased balances were in the low cost checking and savings accounts and there was a decrease in the higher interest bearing time deposits. This resulted in a decrease of $2,000 based on the overall higher volume. The increase in deposit expense can be attributed to an increase in rates paid on time deposit balances. Some of these time deposits are indexed to the three- or six-month treasury rates which have increased over the past twelve months. Rates paid on interest bearing liabilities increased five basis points from 0.26% in the third quarter of 2016 to 0.31% for the same period in 2017.

Interest expense was $95,000 (14.0%) higher in the nine-month period ended September 30, 2017 increasing from $678,000 in 2016 to $773,000 in 2017. The increase is related to rates (up $116,000) and volume (down $21,000). The increase in interest expense can be attributed to an increase in rates paid on time deposit balances. Some of these time deposits are indexed to the three- or six-month treasury rates which have increased over the past twelve months. Rates paid on interest bearing liabilities increased three basis points from 0.26% in 2016 to 0.29% in 2017. Average balances on interest bearing liabilities were $358,592,000 or $9,089,000 (2.6%) higher in 2017 compared to $349,503,000 in 2016. The increased balances were in the low cost checking and savings accounts and there was a decrease in the higher interest bearing time deposits. This resulted in a decrease of $21,000 based on the overall higher volume.

34

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 September 30,	2017			2016		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Taxable loans and leases (1)	$308,679	$3,496	4.49%	$289,795	$3,617	4.97%
Tax-exempt loans and leases (2)	14,225	147	4.10%	17,529	254	5.76%
Taxable investment Securities	237,907	1,292	2.15%	232,858	1,340	2.29%
Tax-exempt investment securities (2)	22,855	241	4.18%	23,811	199	3.32%
Corporate stock (2)	97	—	—	78	—	—
Federal funds sold	—	—	—	—	—	—
Investments in time deposits	1,248	4	1.27%	999	2	0.80%
Total earning assets	585,011	5,180	3.51%	565,070	5,412	3.81%
Cash & due from banks	30,229			37,343		
Other assets	39,063			38,618		
Allowance for loan & lease losses	(4,876)			(5,470)		
	$649,427			$635,561		
Liabilities & Shareholders' Equity						
Interest bearing liabilities:						
Interest checking and money market	$195,270	34	0.07%	$188,292	35	0.07%
Savings	65,458	6	0.04%	60,925	4	0.03%
Time deposits	80,232	184	0.91%	82,771	140	0.67%
Other borrowings	15,587	55	1.40%	15,185	44	1.15%
Total interest bearing liabilities	356,547	279	0.31%	347,173	223	0.26%
Noninterest bearing demand deposits	203,473			198,655		
Other liabilities	7,482			6,031		
Total liabilities	567,502			551,859		
Shareholders' equity	81,925			83,702		
	$649,427			$635,561		
Net interest income & margin (3)		$4,901	3.32%		$5,189	3.65%

(1)

Loan interest includes loan fees of $1,000 and $102,000, respectively, during the three months ended September 30, 2017 and September 30, 2016. Average loan balances include nonperforming 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 2017 and 2016.

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

(4) Average yield is calculated based on actual days in the period (92 days) and annualized to actual days in the year (365 days in 2017 and 366 days in 2016).

Nine Months Ended September 30,	2017			2016		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Taxable loans and leases (1)	$305,467	$10,384	4.54 %	$284,782	$10,424	4.89 %
Tax-exempt loans and leases (2)	14,357	503	4.68 %	16,863	716	5.67 %
Taxable investment Securities	238,775	3,978	2.23 %	241,129	4,333	2.40 %
Tax-exempt investment securities (2)	22,797	663	3.89 %	24,233	660	3.64 %
Corporate stock (2)	95	16	22.52%	74	14	25.27%
Federal funds sold	—	—	—	—	—	—
Interest-bearing deposits in banks	1,209	9	1.00 %	994	5	0.67 %
Total earning assets	582,700	15,553	3.57 %	568,075	16,152	3.80 %
Cash & due from banks	32,902			31,209		
Other assets	39,099			38,027		
Allowance for loan & lease losses	(4,856)			(5,191)		
	$649,845			$632,120		
Liabilities & Shareholders’ Equity						
Interest-bearing liabilities:						
Interest checking and money market	$197,606	104	0.07 %	$188,405	110	0.08 %
Savings	64,072	16	0.03 %	59,940	14	0.03 %
Time deposits	81,385	501	0.82 %	83,222	421	0.68 %
Other borrowings	15,529	152	1.31 %	17,936	133	0.99 %
Total interest-bearing liabilities	358,592	773	0.29 %	349,503	678	0.26 %
Noninterest-bearing demand deposits	201,227			192,103		
Other liabilities	7,559			6,262		
Total liabilities	567,378			547,868		
Shareholders’ equity	82,467			84,252		
	$649,845			$632,120		
Net interest income & margin (3)		$14,780	3.39 %		$15,474	3.64 %

(1) Loan interest includes loan fees of $121,000 and $197,000, respectively, during the nine months ended September 30, 2017 and September 30, 2016. Average loan balances include nonperforming 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 2017 and 2016.
(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 (273 days for 2017 and 274 days for 2016) and annualized to actual days in the year (365 days for 2017 and 366 days for 2016).

Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses
Three Months Ended September 30, 2017 over 2016 (dollars in thousands)
Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Taxable loans and leases (1)	$ 236	$ (357)	$ (121)
Tax-exempt loans and leases (2)	(48)	(59)	(107)
Taxable investment securities	29	(77)	(48)
Tax exempt investment securities (3)	(8)	50	42
Corporate stock	—	—	—
Interest-bearing deposits in banks	—	2	2
Total	209	(441)	(232)
Interest-bearing liabilities:			
Interest checking and money market	1	(2)	(1)
Savings deposits	—	2	2
Time deposits	(4)	48	44
Other borrowings	1	10	11
Total	(2)	58	56
Interest differential	$ 211	$ (499)	$ (288)

Nine Months Ended September 30, 2017 over 2016 (dollars in thousands)
Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Taxable loans and leases (1)	$ 756	$ (796)	$ (40)
Tax-exempt loans and leases (2)	(106)	(107)	(213)
Taxable investment securities	(42)	(313)	(355)
Tax exempt investment securities (3)	(39)	42	3
Corporate stock	4	(2)	2
Interest-bearing deposits in banks	1	3	4
Total	574	(1,173)	(599)
Interest-bearing liabilities:			
Interest checking and money market	5	(11)	(6)
Savings deposits	1	1	2
Time deposits	(9)	89	80
Other borrowings	(18)	37	19
Total	(21)	116	95
Interest differential	$ 595	$ (1,289)	$ (694)

(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 $1,000 and $102,000, respectively, during the three months ended September 30, 2017 and September 30, 2016, and loan fees of $121,000 and $197,000, respectively, during the nine months ended September 30, 2017 and September 30, 2016, 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 2017 and 2016.

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

Provision for Loan and Lease Losses

The Company experienced net loan and lease losses of $630,000 or 0.77% (on an annualized basis) of average loans and leases for the three months ended September 30, 2017 compared to net loan and lease recoveries of $519,000 or 0.67% (on an annualized basis) of average loans and leases for the three months ended September 30, 2016. As a result of the loan losses in 2017, the Company added $300,000 to the allowance for loan and lease losses during the third quarter. Due to the loan recoveries experienced in 2016, the Company reversed $668,000 from the allowance for loan and lease losses during the third quarter. For the first nine months of 2017, the Company added $300,000 to the loan and lease loss allowance and net loan and lease losses were $571,000 or 0.24% (on an annualized basis) of average loans and leases outstanding in 2017. The Company reversed $668,000 from the loan and lease loss allowance and net loan and lease recoveries were $676,000 or 0.30% (on an annualized basis) of average loans and leases outstanding in 2016. Despite a single loan charge-off of $673,000 during the third quarter of 2017, the Company continued to experience an overall improvement in the credit quality of the loan and lease portfolio and a reduction of credit losses and loan recoveries. 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Service charges on deposit accounts	$117	$124	$348	$381
Gain on sale/call/impairment of securities	19	33	161	314
Merchant fee income	106	98	302	277
Bank owned life insurance	82	80	238	239
Income from OREO properties	—	—	—	106
Other	53	64	186	199
Total noninterest income	$377	$399	$1,235	$1,516

Noninterest income decreased $22,000 (5.5%) to $377,000 for the three months ended September 30, 2017 compared to $399,000 for the three months ended September 30, 2016. The decrease from the third quarter of 2016 to the third quarter of 2017 was primarily related to a decrease in gain on sale of securities, which decreased $14,000 from $33,000 in 2016 to $19,000 in 2017.

For the nine months ended September 30, 2017, noninterest income decreased $281,000 (18.5%) from $1,516,000 to $1,235,000. The decrease from the first nine months of 2016 compared to the same period in 2017 was primarily related to the decrease in rental income from OREO properties which declined $106,000 from $106,000 in 2016 to zero in 2017 and a decrease in gain on sale of securities, which decreased $153,000 from $314,000 in 2016 to $161,000 in 2017. The decrease in OREO income resulted from the sale of the Bank's only remaining income producing OREO property in the first quarter of 2016.

Noninterest Expense

Noninterest expense decreased $34,000 (1.0%) from $3,346,000 in the third quarter of 2016 to $3,312,000 in the third quarter of 2017. Salary and employee benefits expense increased $29,000 (1.4%) from $2,073,000 during the third quarter of 2016 to $2,102,000 during the third quarter of 2017. The increase in salaries and benefits resulted from an increase in other employee benefits, including health insurance and 401(k) matching, which increased $49,000 (15.3%) from $321,000 in 2016 to $370,000 in 2017. Occupancy expense decreased $33,000 (11.2%) and furniture and equipment expense decreased $24,000 (14.5%) from the third quarter of 2016 to the third quarter of 2017. FDIC assessments decreased $26,000 (33.8%) from the third quarter of 2016 to the third quarter of 2017. The decrease in the FDIC assessments relates to a lower assessment rate as a result of the Deposit Insurance Fund reaching the FDIC's target level of 1.15% during 2016, which resulted in lower assessments for community banks such as American River Bank. OREO related expenses increased $34,000 during the third quarter of 2017 from a credit of $30,000 in the third quarter of 2016 to an expense of $4,000 in the third quarter of 2017. The primary reason for the decrease in OREO related expenses was a gain on sale of $43,000 recorded in the third quarter of 2016, which exceeded the normal operating costs for the quarter. Other expenses decreased $14,000 (1.8%) to $752,000 in the third quarter of 2017 compared to $766,000 in the third quarter of 2016. The fully taxable equivalent efficiency ratio for the third quarter of 2017 increased to 62.8% from 59.9% for the third quarter of 2016.

Noninterest expense for the nine-month period ended September 30, 2017 was $10,110,000 compared to $10,552,000 for the same period in 2016 for a decrease of $442,000 (4.2%). Salaries and employee benefits expense increased $2,000 from $6,334,000 for the nine months ended September 30, 2016 to $6,336,000 for the same period in 2017. Occupancy expense decreased $92,000 (10.4%) and furniture and equipment expense decreased $54,000 (11.0%). FDIC assessments decreased $77,000 (33.0%). OREO related expenses decreased $294,000 (89.1%) during 2017 to $36,000, from $330,000 in 2016. The decrease in OREO expenses is directly related to a $376,000 property write-down partially offset by a $117,000 gain on sale, both items occurring in the first quarter of 2016. Other expenses increased $73,000 (3.2%) from $2,277,000 for the nine months ended September 30, 2016 to $2,350,000 for the same period in 2017. The overhead efficiency ratio (fully taxable equivalent) for the first nine months of 2017 was 63.1% as compared to 62.1% in the same period of 2016.

Provision for Income Taxes

Federal and state income taxes for the quarter ended September 30, 2017 decreased $530,000 (53.6%) from $989,000 in the third quarter of 2016 to $459,000 in the third quarter of 2017 and decreased $556,000 (24.5%) from $2,274,000 in the nine months ended September 30, 2016 to $1,718,000 for the nine months ended September 30, 2017. The combined federal and state effective tax rate for the quarter ended September 30, 2017 was 29.3%, compared to 35.3% for the third quarter of 2016. For the nine months ended September 30, 2017, the combined federal and state effective tax rate was 32.4% compared to 33.6% for the nine months ended September 30, 2016. The lower effective tax rate in the third quarter of 2017 results from tax benefits realized under ASU 2016-09. The Company adopted ASU 2016-09 in 2017 and the benefit for the third quarter of 2017 was $118,000. The lower provision for taxes in 2017 resulted from a lower level of taxable income. Taxable income decreased $1,234,000 (44.0%) from $2,802,000 in the third quarter of 2016 to $1,568,000 in the third quarter of 2017 and decreased $1,455,000 (21.5%) from $6,763,000 in the first nine months of 2016 to $5,308,000 during the same period in 2017. For the nine months ended September 30, 2017, the Company recognized a benefit of $186,000 related to the adoption of ASU No. 2016-09.

Balance Sheet Analysis

The Company's total assets were $655,644,000 at September 30, 2017 compared to $651,450,000 at December 31, 2016, representing an increase of $4,194,000 (0.6%). The average assets for the three months ended September 30, 2017 were $649,427,000, which represents an increase of $13,866,000 (2.2%) from the balance of $635,561,000 during the three-month period ended September 30, 2016. The average assets for the nine months ended September 30, 2017 were $649,845,000, which represents an increase of $17,725,000 (2.8%) from the average balance of $632,120,000 during the nine-month period ended September 30, 2016.

Investment Securities

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

Table Five below summarizes the values of the Company's investment securities held on September 30, 2017 and December 31, 2016.

Table Five: Investment Securities Composition

(dollars in thousands)

Available-for-sale (at fair value)	September 30, 2017	December 31, 2016

Debt securities:		
U.S. Government Agencies and Sponsored Agencies	$ 220,283	$ 229,785
Obligations of states and political subdivisions	22,828	22,612
Corporate bonds	6,668	1,519
Corporate stock	100	104
Total available-for-sale investment securities	$ 249,879	$ 254,020

39

Held-to-maturity (at amortized cost)

Debt securities:		
U.S. Government Agencies and Sponsored Agencies	$404	$483
Total held-to-maturity investment securities	$404	$483

Net unrealized gains on available-for-sale investment securities totaling $1,131,000 were recorded, net of $452,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at September 30, 2017 and net unrealized gains on available-for-sale investment securities totaling $916,000 were recorded, net of $372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2016.

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

Loans and Leases

The Company's historical lending activities have been 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 adding $26 million in new loans during the first nine months of 2017. This production was offset by higher than anticipated pay downs and payoffs, and resulted in an overall net decrease in net loans and leases of $1,848,000 (0.6%) from $324,086,000 at December 31, 2016 to $322,238,000 at September 30, 2017. Despite the decrease in net loans in 2017, the market in which the Company operates has begun to show demand for credit products as the continued low rate environment and expectations for economic expansion have increased refinancing as well as new loan activity. Table Six below summarizes the composition of the loan portfolio as of September 30, 2017 and December 31, 2016.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	September 30, 2017		December 31, 2016		Change in	Percentage
	$	%	$	%	dollars	change
Commercial	$26,753	8 %	$35,374	11 %	$(8,621)	(24.4 %)
Real estate						
Commercial	190,246	58 %	191,129	58 %	(883)	(0.5 %)
Multi-family	79,021	24 %	73,373	22 %	5,648	7.7 %
Construction	10,548	3 %	9,180	3 %	1,368	14.9 %
Residential	17,328	5 %	15,718	5 %	1,610	10.2 %
Lease financing receivable	249	0 %	404	— %	(155)	(38.4 %)
Agriculture	1,685	1 %	2,302	1 %	(617)	(26.8 %)
Consumer	1,186	1 %	1,650	— %	(464)	(28.1 %)
Total loans and leases	327,016	100%	329,130	100%	(2,114)	(0.6 %)

Deferred loan and lease fees, net	(227)	(222)	(5)	
Allowance for loan and lease losses	(4,551)	(4,822)	271	
Total net loans and leases	$322,238	$324,086	$(1,848)	(0.6%)

40

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 networking, 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, multi-family, 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. 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 banking industry, many of these loans are originated with adjustable interest rates that reset upward after an introductory period. These "subprime" loans coupled with declines in housing prices led to an increase in default rates during the last recession, 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 September 30, 2017 and December 31, 2016.

Risk Elements

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

Ultimately, underlying trends in economic and business cycles influence credit quality. American River Bank's business is concentrated in the Sacramento Metropolitan Statistical Area, which is a diversified economy, but with a large State of California government presence and employment base; in Sonoma County, which is focused on businesses within the two communities in which the Bank has offices (Santa Rosa and Healdsburg); and in Amador County, in which the Bank is primarily focused on businesses within the three communities in which it has offices (Jackson, Pioneer, and Ione). The economy of Sonoma County is diversified with professional services, manufacturing, agriculture and real estate investment and construction, while the economy of Amador County is reliant upon government, services, retail trade, manufacturing industries and Indian gaming. The Company serviced markets in Santa Clara, Contra Costa, and Alameda Counties through a loan production office. In the fourth quarter of 2016, the Company discontinued operating the loan production office. The economies of Santa Clara, Contra Costa and Alameda Counties are diversified with professional services, manufacturing, technology related companies, real estate investment and construction.

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

In extending credit and commitments to borrowers, the Company generally requires collateral and/or guarantees as security. The repayment of such loans is expected to come from cash flows 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 90% of the Company's loan and lease portfolio at September 30, 2017 and 88% as of December 31, 2016. Management believes that the residential land portion of the Company's loan portfolio carries a reasonable level of credit risk. As of September 30, 2017, outstanding unimproved residential land commitments were $2,381,000 (or just 0.8% of the total real estate loans). Of the $2,381,000, $2,326,000 (98%) was represented by one amortizing loan, which was considered well-secured, with a favorable loan-to-value ratio. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio.

A decline in the economy in general, or decline in real estate values in the Company's market areas, in particular, could have an adverse impact on the collectability of real estate loans and require an increase in the provision for loan and lease losses. This could adversely affect the Company's future prospects, results of operations, profitability and stock price. Management believes that its lending practices and underwriting standards are structured with the intent to minimize losses; however, there is no assurance that losses will not occur. The Company's loan practices and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Company's market 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.

Northern California Wildfires

Beginning on October 8, 2017, much of the North Bay region of Northern California was struck by massive wildfires. It is too early to estimate the losses to property but experts are predicting it will be in the billions of dollars and the near term economic impact may be significant. Our two offices in Healdsburg and Santa Rosa were not damaged. Some of the Company's clients did lose their homes, but we do not have loans on those properties. At this time, we believe that losses to commercial or business property that secure our loans is not material. At September 30, 2017, we had approximately 8% of total loans in the Sonoma County market, the majority of which are secured by commercial property. Management is closely monitoring the situation and continues to respond to the immediate needs of clients and employees. It is not possible at this time to assess the full scope of this disaster or its impact on our clients and the economy of the region.

Nonperforming, Past Due and Restructured Loans and Leases

At September 30, 2017, 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 $2,317,000 or 0.71% of total loans and leases. The $2,317,000 in nonperforming loans and leases was made up of three loans. Two of those loans totaling $2,027,000 were current (less than 30 days past due pursuant to their original or modified terms). Nonperforming loans and leases were $19,000 or 0.01% of total loans and leases at December 31, 2016. There were no specific reserves held on the nonperforming loans at September 30, 2017 or at December 31, 2016.

42

The overall level of nonperforming loans decreased $2,000 (10.5%) to $17,000 during the first quarter of 2017 from $19,000 at December 31, 2016, and decreased further by $5,000 (29.4%) during the second quarter of 2017 and increased by $2,305,000 (192.1%) during the third quarter of 2017. At December 31, 2016, the Company's nonperforming loans included two consumer loans totaling $19,000. At September 30, 2017, the Company's nonperforming loans included one real estate loan totaling $290,000, one consumer loan totaling $8,000 and one commercial loan totaling $2,019,000. The $2,019,000 commercial loan is a shared national credit to a large retailer purchased by the Company in 2013. The initial loan balance was $3,000,000 and has since paid as agreed down to $2,692,000. In September 2017, the retailer filed for bankruptcy reorganization. At that time the loan was placed on nonaccrual and the balance was reduced to $673,000 through a $673,000 loss charged to the loan loss allowance. This bankruptcy filing occurred late in the third quarter and the Company used the latest information available to perform the impairment analysis. As more information becomes available, the Company will update the impairment analysis, which could lead to further charges to the loan loss allowance.

Table Seven below sets forth nonaccrual loans and loans past due 90 days or more as of September 30, 2017 and December 31, 2016.

Table Seven: Nonperforming Loans and Leases
(dollars in thousands)

	September 30, 2017	December 31, 2016
Past due 90 days or more and still accruing:		
Commercial	$ —	$ —
Real estate	—	—
Lease financing receivable	—	—
Agriculture	—	—
Consumer	—	—
Nonaccrual:		
Commercial	2,019	—
Real estate	290	—
Lease financing receivable	—	—
Agriculture	—	—
Consumer	8	19
Total nonperforming loans	$ 2,317	$ 19

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 September 30, 2017. Management is not aware of any potential problem loans, which were accruing and current at September 30, 2017, 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.

Impaired Loans and Leases

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

At September 30, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $17,562,000, which includes $15,245,000 in performing loans and leases. Of the total impaired loans of $17,562,000, loans totaling $11,354,000 were deemed to require no specific reserve and loans totaling $6,208,000 were deemed to require a related valuation allowance of $404,000. Of the $11,354,000 impaired loans that did not carry a specific reserve there were $5,831,000 in loans or leases that had partial charge-offs and $5,523,000 in loans or leases that were analyzed and determined not to require a specific reserve or charge-off because the collateral value or discounted cash flow value exceeded the loan or lease balance. The recorded investment in loans and leases that were considered to be impaired totaled $17,297,000 at December 31, 2016. Of the total impaired loans of $17,297,000, loans totaling $11,244,000 were deemed to require no specific reserve and loans totaling $6,053,000 were deemed to require a related valuation allowance of $421,000.

The Company has been operating in a market that has recently experienced sporadic improvement in real estate values of commercial, residential, land, and construction properties. As such, the Company is focused on monitoring collateral values for those loans considered collateral dependent. For collateral dependent loans in excess of $250,000, the Company performs an internal evaluation or obtains an updated appraisal, as necessary, which is generally once every twelve months. In the third quarter of 2017, the Company had net loan losses of $630,000 and a provision of $300,000. In the third quarter of 2016, the Company had net loan and lease recoveries of $519,000 and a negative provision of $668,000 (i.e., a reduction of $668,000 in the allowance for loan and lease losses).

During the quarters ended September 30, 2017 and 2016, there were no loans that were modified as troubled debt restructurings. There were no payment defaults during the three months ended September 30, 2017 or September 30, 2016 on troubled debt restructurings made in the preceding twelve months. At September 30, 2017 and December 31, 2016 there were no unfunded commitments on those loans considered troubled debt restructures.

Allowance for Loan and Lease Losses Activity

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

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

The Company establishes general and specific reserves in accordance with accounting principles generally accepted in the United States of America. The ALLL is composed of categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination. The ALLL totaled $4,551,000 or 1.39% of total loans and leases at September 30, 2017 compared to $4,822,000 or 1.47% of total loans and leases at December 31, 2016. 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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Average loans and leases outstanding	$322,904	$307,324	$319,824	$301,645
Allowance for loan and lease losses at beginning of period	$4,881	$5,132	$4,822	$4,975
Loans and leases charged off:				
Commercial	(673)	—	(673)	—
Real estate	—	(68)	—	(68)
Lease financing receivable	—	—	—	—
Agriculture	—	—	—	—
Consumer	—	—	—	—
Total	(673)	(68)	(673)	(68)
Recoveries of loans and leases previously charged off:				
Commercial	2	585	5	658
Real estate	1	2	54	14
Lease financing receivable	39	—	39	—
Agriculture	—	—	—	—
Consumer	1	—	4	72
Total	43	587	102	744
Net loans and leases charged off (recovered)	630	(519)	571	(676)
Additions (reductions) to allowance charged (credited) to operating expenses	300	(668)	300	(668)
Allowance for loan and lease losses at end of period	$4,551	$4,983	$4,551	$4,983
Ratio of net charge-offs (recoveries) to average loans and leases outstanding (annualized)	0.77%	-0.67%	0.24%	-0.30%
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	0.37%	-0.86%	0.13%	-0.30%
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	1.39%	1.57%	1.39%	1.57%

The ALLL as a percentage of impaired loans and leases was 25.9% at September 30, 2017 and 27.9% at December 31, 2016. Of the total nonperforming and impaired loans and leases outstanding as of September 30, 2017, there were $5,831,000 in loans or leases that had been reduced by partial charge-offs of $1,340,000. As these loan or lease balances are charged off, the remaining balances, following analysis, normally do not initially require specific reserves and are not eligible for general reserves. The impact of this on credit ratios is such that the Company's ALLL as a percentage may be lower, because the partial charge-offs have reduced the potential future losses related to those credits.

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

It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Based on information currently available to analyze inherent credit risk, including 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.

Other Real Estate Owned

At September 30, 2017, the Company had one other real estate owned ("OREO") property with a book value of $961,000. This is a reduction of $387,000 (28.7%) from the $1,348,000 reported as of December 31, 2016. During the third quarter of 2017, the Company did not foreclose on any property and sold one OREO property that had a book value of $387,000 and recorded an $8,000 gain on sale. There were no valuation adjustments to the book value of the existing OREO properties during the third quarter of 2017. The Company believes that the OREO property owned at September 30, 2017 is carried approximately at fair value.

Deposits

At September 30, 2017, total deposits were $550,942,000 representing a $6,136,000 (1.1%) increase from the December 31, 2016 balance of $544,806,000. The Company's deposit growth plan for 2017 is to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts while allowing higher cost time deposits to mature and close or renew at lower rates. During the first nine months of 2017, the Company experienced deposit account increases in noninterest-bearing accounts ($4,825,000 or 2.4%), interest-bearing checking ($2,055,000 or 3.2%), money market accounts ($203,000 or 0.2%), and savings ($1,742,000 or 2.7%) and a decrease in time deposits ($2,689,000 or 3.2%).

Other Borrowed Funds

Other borrowings outstanding as of September 30, 2017 and December 31, 2016, consist of advances (both long-term and short-term) from the FHLB. Table Nine below summarizes these borrowings.

Table Nine: Other Borrowed Funds

(dollars in thousands)

	September 30, 2017		December 31, 2016	
	Amount	Rate	Amount	Rate
Short-term borrowings:				
FHLB advances	$ 2,000	1.37 %	$ 3,500	1.01 %
Long-term borrowings:				
FHLB advances	$ 13,500	1.41 %	$ 12,000	1.32 %

The maximum amount of short-term borrowings at any month-end during the first nine months of 2017 and 2016 was $3,500,000 and $28,500,000, 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	$ 2,000	$9,000
Maturity	2018	2018 to 2021
Weighted average rates	1.37 %	1.41 %

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 current capital adequacy guidelines and the regulatory framework for prompt corrective action, banking organizations 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.

At September 30, 2017, shareholders' equity was $82,255,000, representing a decrease of $1,595,000 (1.9%) from $83,850,000 at December 31, 2016. The decrease resulted from repurchases of common stock ($5,006,000) and the payment of cash dividends ($975,000) exceeding the additions from other comprehensive income ($135,000), net income for the period ($3,590,000), and the stock based compensation ($661,000). The Company's ratio of Total Risk-Based Capital to risk adjusted assets was 20.00% at September 30, 2017 and 20.3% at December 31, 2016. Its Tier 1 Risk-Based Capital to risk-adjusted assets was 18.8% at September 30, 2017 and 19.0% at December 31, 2016. Its Leverage Ratio was 10.3% at September 30, 2017 and 10.5% at December 31, 2016. Table Ten below lists the Company's and American River Bank's capital ratios at September 30, 2017 and December 31, 2016, as well as the minimum capital ratios for capital adequacy and the minimum requirement for a well-capitalized institution.

Table Ten: Capital Ratios

Capital to Risk-Adjusted Assets	September 30, 2017		December 31, 2016		Minimum Regulatory Capital Requirements		Well-Capitalized Minimum Requirements	
American River Bankshares								
Leverage Ratio	10.3	%	10.5	%	4.0	%	N/A	
Tier 1 Risk-Based Capital	18.8	%	19.0	%	6.0	%	N/A	
Total Risk-Based Capital	20.0	%	20.3	%	8.0	%	N/A	
American River Bank								
Leverage Ratio	10.4	%	10.6	%	4.0	%	5.0	%
Common Equity Tier 1 Risk-Based Capital	18.6	%	18.9	%	4.5	%	6.5	%
Tier 1 Risk-Based Capital	18.6	%	18.9	%	6.0	%	8.0	%
Total Risk-Based Capital	19.8	%	20.2	%	8.0	%	10.0	%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory requirements 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 September 30, 2017 and December 31, 2016.

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

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

In addition, a "capital conservation buffer," is established which when fully phased-in will require maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements described above. The 2.5% buffer will increase the minimum capital ratios to (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new buffer requirement will be phased-in between January 1, 2016 and January 1, 2019. The buffer requirement for 2017 is 1.25% and will increase gradually to 2.50% by January 1, 2019. If the capital ratio levels of a banking organization fall below the capital conservation buffer amount, the organization will be subject to limitations on (i) the payment of dividends; (ii) discretionary bonus payments; (iii) discretionary payments under Tier 1 instruments; and (iv) engaging in share repurchases.

The federal bank regulatory agencies also implemented changes to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital ratios begin to show signs of weakness. These changes became effective January 1, 2015 and require insured depository institutions to meet the following increased capital ratio requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

On January 25, 2017, the Company approved and authorized a 5% stock repurchase program for 2017 (the "2017 Program"). During the first six months of 2017, the Company completed the 2017 Program by repurchasing 333,086 shares of its common stock at an average price of $14.99 per share. On October 18, 2017, the Company approved and authorized an increase to this stock repurchase program. The repurchase target was also 5% of the outstanding common shares and is effective for the remainder of 2017. See Part II, Item 2, for additional disclosure regarding the 2017 Program. In addition, on January 25, 2017, the Company announced that it was reinstituting a quarterly cash dividend program and on February 22, 2017, the Company paid a $0.05 per common share cash dividend to shareholders of record on February 8, 2017. The Company has subsequently declared three additional $0.05 per share cash dividends.

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 it 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 September 30, 2017 and 2016.

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 September 30, 2017 were approximately $11,321,000 and $191,000, 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 September 30, 2017, consolidated liquid assets totaled $212.2 million or 32.4% of total assets compared to $224.2 million or 34.4% of total assets on December 31, 2016. In addition to liquid assets, the Company maintains two short-term unsecured lines of credit in the amount of $17,000,000 with two of its correspondent banks. At September 30, 2017, the Company had $17,000,000 available under these credit lines. Additionally, the Bank is a member of the FHLB. At September 30, 2017, the Bank could have arranged for up to $127,739,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At September 30, 2017, the Bank had advances, borrowings and commitments (including letters of credit) outstanding of

$15,500,000, leaving $112,239,000 available under these FHLB secured borrowing arrangements. The 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 September 30, 2017, the Bank’s borrowing capacity at the Federal Reserve Bank was $7,281,000. 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 September 30, 2017 and December 31, 2016, 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 $11,512,000 and $19,966,000 at September 30, 2017 and December 31, 2016, respectively. As a percentage of net loans and leases these off-balance sheet items represent 3.6% and 6.2%, respectively.

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

Website Access

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

After a review of the model results as of September 30, 2017, the Company does not consider the fluctuations from the base case, to have a material impact on the Company's projected results and are within the tolerance levels outlined in the Company's interest rate risk polices. 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 September 30, 2017. 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 September 30, 2017, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

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, 2016, filed with the Securities and Exchange Commission on February 24, 2017.

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

On January 20, 2016, the Company approved and authorized a stock repurchase program for 2016 (the "2016 Program"). The 2016 Program authorized the repurchase during 2016 of up to 5% of the outstanding shares of the Company's common stock. In addition, on April 20, 2016, the Company approved and authorized an additional amount of 5% to be purchased under the 2016 Program. During 2016, the Company repurchased 716,897 shares of its common stock at an average price of $10.34 per share. Repurchases under the 2016 Program were made from time to time by the Company in the open market. All such transactions were structured to comply with Securities and Exchange Commission Rule 10b-18 and all shares repurchased under the 2016 Program were retired.

On January 25, 2017, the Company approved and authorized a stock repurchase program for 2017 (the “2017 Program”). The 2017 Program authorized the repurchase during 2017 of up to 5% of the outstanding shares of the Company’s common stock, or approximately 333,086 shares based on the 6,661,726 shares outstanding as of December 31, 2016. During the first six months of 2017, the Company repurchased 333,086 shares of its common stock at an average price of $14.99 per share. On October 18, 2017, the Company approved and authorized an increase in the 2017 Program. The increase authorized the repurchase during the remainder of 2017 of up to 5% of the outstanding shares of the Company’s common stock, or approximately an additional 319,624 shares based on the 6,392,480 shares outstanding as of September 30, 2017. Repurchases under the 2017 Program have been, and will be, made from time to time by the Company in the open market. All such transactions are structured to comply with Securities and Exchange Commission Rule 10b-18 and all shares repurchased under the 2017 Program have been or will be retired upon purchase. The following table lists shares repurchased during the quarter ended September 30, 2017 and the maximum amount available to repurchase under the repurchase plan. Since the initial 2017 Program was completed in the first six months of 2017, and the increase to the 2017 Program was not approved until October 18, 2017, there is no data to report in the table for the quarter ended September 30, 2017.

50

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
Month #1 July 1 through July 31, 2017	-	-	-	-
Month #2 August 1 through August 31, 2017	-	-	-	-
Month #3 September 1 through September 30, 2017	-	-	-	-
Total	-	-	-	N/A

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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 March 31, 2011, filed with the Commission on May 10, 2011.
(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 March 31, 2013, filed with the Commission on May 9, 2013.
(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 (**) and the Second Amendment thereto dated August 27, 2010, with HINES VAF II SACRAMENTO PROPERTIES, L.P., a Delaware limited partnership, the successor to Spieker Properties, L.P., incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 30, 2010.

51

(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 Current Report on Form 8-K, filed with the Commission on November 28, 2006 and the First Amendment thereto dated July 1, 2016, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 6, 2016.
*(10.3)	Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 3, 2012 and the first amendment thereto dated January 21, 2015, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 23, 2015.
*(10.4)	Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 3, 2012.
*(10.5)	Employment Agreement between Registrant and David T. Taber dated June 2, 2006, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 30, 2006.
*(10.6)	Salary Continuation Agreement, as amended on December 31, 2012, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 2, 2013.
*(10.7)	Salary Continuation Agreement, as amended on December 31, 2012, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 2, 2013.
*(10.8)	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 Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.9)	Registrant's 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. **
*(10.10)	Registrant's 401(k) Plan dated December 23, 2008, incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K, filed with the Commission on December 24, 2008.
(10.11)	Lease agreement between American River Bank, and the United States Postal Service, dated July 13, 2017, related to 424 Sutter Street, Jackson, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 14, 2017.
*(10.12)	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.
*(10.13)	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 Current Report on Form 8-K, filed with the Commission on February 22, 2008.

52

(10.14)	Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 30, 2012, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 4, 2012.
(10.15)	Lease agreement between Registrant and MSCP Capital Investors, LLC (successor to PGOCC, LLC and One Capital Center), a Delaware 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 Current Report on Form 8-K, filed with the Commission on May 18, 2005 and the First and Second Amendments thereto dated April 22, 2010, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on April 23, 2010, and the Third Amendment thereto dated June 28, 2016, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 1, 2016.
(10.16)	Managed Services Agreement between American River Bankshares and Fidelity Information Services, LLC successor to ProNet Solutions, Inc., dated June 25, 2012, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 27, 2012 and the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 14, 2015.
*(10.17)	American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Current 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 Current 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 Current Report on Form 8-K, filed with the Commission on March 23, 2007; the Third Amendment thereto, incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008; the Fourth Amendment thereto, incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Commission on March 20, 2009; the Fifth Amendment thereto, incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Commission on March 18, 2010; the Sixth Amendment thereto, incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Commission on March 17, 2011; the Seventh Amendment thereto, incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Commission on February 17, 2012; the Eighth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on January 31, 2013; the Ninth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on January 16, 2014; the Tenth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on January 27, 2015; the Eleventh Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on January 22, 2016; and the Twelfth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on December 22, 2016.
*(10.18)	American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.34 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.
*(10.19)	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 Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.20)	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 Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.21)	Salary Continuation Agreement, as amended on December 31, 2012, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 2, 2013.

53

*(10.22)	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 Current Report on Form 8-K, filed with the Commission on February 22, 2008.
(10.23)	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 Current Report on Form 8-K, filed with the Commission on May 24, 2007 the First Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 16, 2007, and the Second Amendment thereto, dated October 16, 2017, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 17, 2017.
(10.24)	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 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on December 24, 2008.
(10.25)	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 Current Report on Form 8-K, filed with the Commission on January 5, 2010.
*(10.26)	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 Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.27)	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 Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.28)	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 and form of restricted stock award agreement incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 20, 2015.
(10.29)	Subscription and Services Agreement between American River Bank and Postilion, Inc., dated June 19, 2012, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 21, 2012, and the amended agreement dated March 6, 2015 with ACI Worldwide Corp., successor to Postilion, Inc., incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 12, 2015.
*(10.30)	Salary Continuation Agreement between American River Bank and Robert H. Muttera, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 4, 2013.
(10.31)	Lease agreement dated February 6, 2014, between American River Bank and Gold River Village Associates, a California Limited Partnership, related to 11220 Gold River Express Drive, Gold River, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 10, 2014.
(10.32)	

Lease agreement dated February 12, 2014, between American River Bank and 520 Capitol Mall Inc., a Delaware corporation, related to 520 Capitol Mall, Suite 200, Sacramento, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 18, 2014.

*(10.33)	Employment Agreement dated June 2, 2014, between American River Bank and Loren E. Hunter, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 2, 2014.
*(10.34)	Salary Continuation Agreement between American River Bank and Loren E. Hunter, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 11, 2014.
*(10.35)	Registrant's Performance Based Restricted Stock Awards Program, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on March 20, 2015.
(10.36)	Lease agreement dated July 11, 2016, between American River Bank and DDS Properties, a California General Partnership, related to 2510 Douglas Blvd., Roseville, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 12, 2016.
*(10.37)	Separation and Release Agreement dated October 27, 2017, between the Registrant and David T. Taber, incorporated by reference from Exhibit 10.36 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 27, 2017.
*(10.38)	Employment Agreement dated October 27, 2017, between the Registrant and David E. Ritchie, Jr., incorporated by reference from Exhibit 10.37 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 27, 2017.
(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.
(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 American River Bankshares by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document****
101.SCH	XBRL Taxonomy Extension Schema****
101.CAL	XBRL Taxonomy Extension Calculation****
101.DEF	XBRL Taxonomy Extension Definition****
101.LAB	XBRL Taxonomy Extension Label****
101.PRE	XBRL Taxonomy Extension Presentation****

*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.

****These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

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
November 6, 2017	By: /s/ DAVID E. RITCHIE, JR. David E. Ritchie, Jr. President and Chief Executive Officer
	AMERICAN RIVER BANKSHARES
November 6, 2017	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
31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	59
31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	60
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.	61

57