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Net interest income*	$5,558	$5,999	$17,021	$18,526
Provision for loan and lease losses	(2,025)	(1,001)	(5,677)	(6,030)
Noninterest income	441	597	1,362	1,756
Noninterest expense	(3,972)	(4,268)	(12,212)	(12,108)
Benefit (provision) for income taxes	89	(429)	66	(497)
Tax equivalent adjustment	(52)	(71)	(161)	(241)
Net income	$39	$827	$399	$1,406
Average total assets	$581,958	$559,450	$583,595	$568,649
Net income (annualized) as a percentage of average total assets	0.03%	0.59%	0.09%	0.33%

* Fully taxable equivalent basis

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company’s net interest margin was 4.41% for the three months ended September 30, 2010, 4.91% for the three months ended September 30, 2009, 4.55% for the nine months ended September 30, 2010 and 4.96% for the nine months ended September 30, 2009.

The fully taxable equivalent interest income component for the third quarter of 2010 decreased $838,000 (11.6%) to $6,396,000 compared to $7,234,000 for the three months ended September 30, 2009. The decrease in the fully taxable equivalent interest income for the third quarter of 2010 compared to the same period in 2009 is broken down by rate (down $725,000) and volume (down $113,000). The rate decrease can be attributed to the overall lower interest rate environment, forgone interest on nonaccrual loans, and lower average loans replaced with higher average investment securities. During the third quarter of 2010, foregone interest income on nonaccrual loans was approximately $528,000, compared to foregone interest of $373,000 during the third quarter of 2009. The foregone interest of $528,000 had a 42 basis point negative impact on the yield on earning assets. The average balance of earning assets increased 3.1% from $484,680,000 in the third quarter of 2009 to $499,787,000 in the third quarter of 2010. The overall decrease in average assets during the three-month period was predominately related to the decrease in loans. The decrease in loans was substantially offset by an increase in investment securities. When compared to the third quarter of 2009, average loan balances were down $43,399,000 (10.9%) to $356,340,000 for the third quarter of 2010 and average investment securities were up $59,076,000 (70.0%) to $143,447,000 for the third quarter of 2010. The overall low interest rate environment, the negative effect of the foregone interest on loans, and the change in the asset mix resulted in a 84 basis point decrease in the yield on average earning assets from 5.92% for 2009 to 5.08% for 2010. The volume decrease of $113,000 occurred mainly as a result of the decrease in average loans. The market in which the Company operates continues to see a slowdown in new loan volume as existing and potential new borrowers continue to pay down debt and delay expansion plans.

Total fully taxable equivalent interest income for the nine months ended September 30, 2010 decreased $2,784,000 (12.4%) to $19,692,000 compared to $22,476,000 for the nine months ended September 30, 2009. The breakdown of the fully taxable equivalent interest income for the nine months ended September 30, 2010 over the same period in 2009 resulted from decreases in rate (down $2,081,000) and a decrease in volume (down $703,000). Average earning assets increased nominally ($207,000) during the first nine months of 2010 as compared to the same period in 2009. Average loan balances decreased $42,824,000 (10.5%) during that same period and average investment securities balances increased $45,189,000 (51.3%).

Interest expense was $397,000 (32.2%) lower in the third quarter of 2010 versus the prior year period. The average balances on interest bearing liabilities were $12,673,000 (3.4%) lower in the third quarter of 2010 compared to the same quarter in 2009. The lower balances accounted for a $141,000 decrease in interest expense. Average borrowings were down $15,907,000 (44.8%) as the Company replaced higher cost borrowings with lower cost checking and money market accounts. Average deposit balances increased $10,779,000 or 2.4% from $456,963,000 during the third quarter of 2009 to $467,742,000 during the third quarter of 2010. The Company continues to have success attracting new deposit relationships, as a direct result of its business development efforts. As a result of the lower overall interest rate environment, the decrease in rates accounted for a $256,000 reduction in interest expense for the three-month period ended September 30, 2010 compared to the same quarter in 2009. Rates paid on interest bearing liabilities decreased 39 basis points from the third quarter of 2009 to the third quarter of 2010 from 1.31% to 0.92%. The lower overall rate environment accounted for the lower average rate paid on borrowings decreasing from 2.66% in the third quarter of 2009 to 2.42% during the third quarter of 2010. See the section titled “Other Borrowed Funds” later in the section for more information on the Company’s borrowings.

Interest expense was $1,279,000 (32.4%) lower in the nine-month period ended September 30, 2010 versus the prior year period. The average balances on interest-bearing liabilities were $16,384,000 (4.3%) lower in the nine-month period ended September 30, 2010 compared to the same period in 2009. The lower balances, especially in the level of average borrowings and time deposits accounted for a $531,000 decrease in interest expense. Average borrowings decreased $34,023,000 (61.1%) from $55,646,000 during the first nine months of 2009 to $21,623,000 during the first nine months of 2010. The decrease in interest expense was also aided by lower rates, which accounted for a $748,000 decrease in interest expense for the nine-month period. Rates paid on interest-bearing liabilities decreased 41 basis points from the first nine months of 2009 to the first nine months of 2010 from 1.38% to 0.97%.

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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,	2010			2009		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	$ 356,340	$ 5,465	6.08 %	$ 399,739	$ 6,302	6.25 %
Taxable investment securities	127,788	722	2.24 %	62,845	635	4.01 %
Tax-exempt investment securities (2)	15,640	209	5.30 %	21,494	291	5.37 %
Corporate stock (2)	19	—	—	32	—	—
Federal funds sold	—	—	—	—	—	—
Investments in time deposits	—	—	—	570	6	4.18 %
Total earning assets	499,787	6,396	5.08 %	484,680	7,234	5.92 %
Cash & due from banks	48,021			41,026		
Other assets	42,215			41,763		
Allowance for loan & lease losses	(8,065)			(8,019)		
	$ 581,958			$ 559,450		
Liabilities & Shareholders' Equity						
Interest bearing liabilities:						
Interest checking and money market	$ 182,165	330	0.72 %	$ 164,654	366	0.88 %
Savings	42,146	55	0.52 %	35,879	64	0.71 %
Time deposits	118,292	333	1.12 %	138,836	567	1.62 %
Other borrowings	19,636	120	2.42 %	35,543	238	2.66 %
Total interest bearing liabilities	362,239	838	0.92 %	374,912	1,235	1.31 %
Noninterest bearing demand deposits	125,139			117,594		
Other liabilities	4,591			4,125		
Total liabilities	491,969			496,631		
Shareholders' equity	89,989			62,819		
	$ 581,958			$ 559,450		

Net interest income & margin (3)	$	5,558	4.41	%	$	5,999	4.91	%

(1) Loan interest includes loan fees of $17,000 and $6,000, respectively, during the three months ending September 30, 2010 and September 30, 2009. Average loan balances include non-performing loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2010 and 2009.

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

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

Nine Months Ended September 30,	2010			2009		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	$ 366,601	$ 16,883	6.16 %	$ 409,425	$ 19,384	6.33 %
Taxable investment securities	117,409	2,160	2.46 %	63,679	2,046	4.30 %
Tax-exempt investment securities (2)	15,933	649	5.45 %	24,468	981	5.36 %
Corporate stock (2)	23	—	—	29	6	27.66 %
Federal funds sold	—	—	—	14	—	—
Interest-bearing deposits in banks	—	—	—	2,144	59	3.68 %
Total earning assets	499,966	19,692	5.27 %	499,759	22,476	6.01 %
Cash & due from banks	48,271			33,611		
Other assets	43,718			41,948		
Allowance for loan & lease losses	(8,360)			(6,669)		
	$ 583,595			$ 568,649		
Liabilities & Shareholders' Equity						
Interest-bearing liabilities:						
Interest checking and money market	$ 181,890	1,023	0.75 %	$ 156,950	1,007	0.86 %
Savings	40,350	170	0.56 %	33,907	172	0.68 %
Time deposits	123,720	1,084	1.17 %	137,464	1,897	1.85 %
Other borrowings	21,623	394	2.44 %	55,646	874	2.10 %
Total interest-bearing liabilities	367,583	2,671	0.97 %	383,967	3,950	1.38 %
Noninterest-bearing demand deposits	121,731			115,769		
Other liabilities	5,280			5,338		
Total liabilities	494,594			505,074		
Shareholders' equity	89,001			63,575		
	$ 583,595			$ 568,649		
Net interest income & margin (3)		$ 17,021	4.55 %		$ 18,526	4.96 %

(1) Loan interest includes loan fees of $41,000 and $8,000, respectively, during the nine months ending September 30, 2010 and September 30, 2009. Average loan balances include non-performing loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2010 and 2009.

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

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

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Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses
Three Months Ended September 30, 2010 over 2009 (dollars in thousands)
Increase (decrease) due to change
in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ (684)	$ (153)	$ (837)
Taxable investment securities	656	(569)	87
Tax exempt investment securities (3)	(79)	(3)	(82)
Corporate stock	—	—	—
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(6)	—	(6)
Total	(113)	(725)	(838)
Interest-bearing liabilities:			
Interest checking and money market	39	(75)	(36)
Savings deposits	11	(20)	(9)
Time deposits	(84)	(150)	(234)
Other borrowings	(107)	(11)	(118)
Total	(141)	(256)	(397)
Interest differential	$ 28	$ (469)	$ (441)

Nine Months Ended September 30, 2010 over 2009 (dollars in
thousands)
Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ (2,027)	$ (474)	$ (2,501)
Taxable investment securities	1,726	(1,612)	114
Tax exempt investment securities (3)	(342)	10	(332)
Corporate stock	(1)	(5)	(6)
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(59)	—	(59)
Total	(703)	(2,081)	(2,784)
Interest-bearing liabilities:			
Interest checking and money market	160	(144)	16
Savings deposits	33	(35)	(2)
Time deposits	(190)	(623)	(813)
Other borrowings	(534)	54	(480)
Total	(531)	(748)	(1,279)
Interest differential	$ (172)	$ (1,333)	$ (1,505)

(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 $17,000 and $6,000, respectively, during the three months ending September 30, 2010 and September 30, 2009, and loan fees of $41,000 and $8,000, respectively, during the nine months ending September 30, 2010 and September 30, 2009, have been included in the interest income computation.

(3) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2010 and 2009.

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

Provision for Loan and Lease Losses

The Company provided $2,025,000 for loan and lease losses for the third quarter of 2010 as compared to $1,001,000 for the third quarter of 2009. Net loan and lease losses for the three months ended September 30, 2010 were $2,019,000 or 2.25% (on an annualized basis) of average loans and leases as compared to $1,187,000 or 1.18% (on an annualized basis) of average loans and leases for the three months ended September 30, 2009. For the first nine months of 2010, the Company made provisions for loan and lease losses of $5,677,000 and net loan and lease losses were $6,139,000 or 2.24% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of $6,030,000 and net loan and lease losses of $4,376,000 for the first nine months of 2009 or 1.43% (on an annualized basis) of average loans and leases outstanding. The Company has continued to provide significant amounts to the reserve for loan and lease losses for 2010 resulting from a continued high level of nonperforming loans and leases, due mainly to the overall challenging economy in the Company's market areas and the United States, overall. Although loan chargeoffs increased from 2009 to 2010, the provision for loan and lease losses decreased for the nine months ended September 2010 compared to the nine months ended September 2009. The majority of the loan chargeoffs in the first nine months of 2010 had specific reserves on those loans and those reserves were reduced as the loan balances were partially charged off. At September 30, 2010, specific reserves were $1,635,000 compared to $3,810,000 as of December 31, 2009. For additional information see the "Allowance for Loan and Lease Losses Activity."

Noninterest Income

Table Four below provides a summary of the components of noninterest income for the periods indicated (dollars in thousands):

Table Four: Components of Noninterest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service charges on deposit accounts	$ 201	$ 269	$ 666	$ 762
Gain (loss) on sale of securities	1	93	(4)	253
Merchant fee income	107	108	308	329
Bank owned life insurance	74	63	201	179
Other	58	64	191	233
Total noninterest income	$ 441	$ 597	$ 1,362	$ 1,756

Noninterest income decreased $156,000 (26.1%) to $441,000 for the three months ended September 30, 2010 as compared to $597,000 for the three months ended September 30, 2009. The decrease from the third quarter of 2009 to the third quarter of 2010 was primarily related to sales of investment securities. For the third quarter of 2010, the Company recorded a gain on sale of $1,000 compared to a gain on sale of $93,000 for the third quarter of 2009. For the nine months ended September 30, 2010, noninterest income decreased $394,000 (22.4%) to $1,362,000. The decrease from the first nine months of 2009 compared to the same period in 2010 was also related to sales of investment securities. For the nine months ended September 30, 2010, the Company recorded a loss on sale of $4,000 compared to a gain on sale of $253,000 for the nine months ended September 30, 2009. In addition, during the first nine months ended September 30, 2010, the Company experienced a decline in service charge income of $96,000 or 12.6% due to a decrease in fees from overdraft charges.

Noninterest Expense

Noninterest expense decreased $296,000 (6.9%) to a total of $3,972,000 in the third quarter of 2010 compared to $4,268,000 in the third quarter of 2009. Salary and employee benefits expense increased $146,000 (8.2%) from $1,780,000 during the third quarter of 2009 to $1,926,000 during the third quarter of 2010. The increase in salary and benefits was due in part to a decrease in direct costs associated with the production of new loans. The Company allocates the direct costs of originating loans as a credit to salary expense in accordance with generally accepted accounting principles. As loan volume decreases the Company allocates less direct costs of loan production against salary expense. The offset from direct cost reimbursement decreased $57,000 (33.7%) from $169,000 in 2009 to $112,000 in 2010. Overall salary expense increased $32,000 (2.1%) mainly due to the additional staff added to the loan collection and workout department. Employee benefits, which include employee health insurance, increased $73,000 (29.7%). On a quarter-over-quarter basis, occupancy expense decreased $28,000 (8.2%) and furniture and equipment expense decreased $21,000 (11.1%). FDIC assessments increased $217,000 (130.7%) during 2010 to $383,000, from $166,000 in 2009. The increase relates to increased assessments from the FDIC based on the growth is the Company's deposits balances, changes to the Bank's assessment category, and to cover losses suffered by the FDIC. Other real estate owned ("OREO") decreased $601,000 (79.1%) from $760,000 in the third quarter of 2009 to $159,000 in the third quarter of 2010. Much of this decrease is related to lower valuation allowances in 2010 as compared to 2009. Other expense decreased $9,000 (0.8%) to a total of $1,021,000 in the third quarter of 2010 versus the third quarter of 2009. The fully taxable equivalent efficiency ratio for the third quarter of 2010 increased to 65.19% from 63.71% for the third quarter of 2009.

Noninterest expense for the nine-month period ended September 30, 2010 was $12,212,000 versus $12,108,000 for the same period in 2009 for an increase of $104,000 (0.9%). Salaries and benefits expense increased $421,000 (7.7%) from $5,479,000 for the nine months ended September 30, 2009 to $5,900,000 for the same period in 2010. The increase in salary and benefits was due in part to a decrease in direct costs associated with the production of new loans. The offset from direct cost reimbursement decreased $163,000 (32.1%) from $508,000 in 2009 to $345,000 in 2010. Overall salary expense increased $85,000 (1.9%) mainly due to the additional staff added to the loan collection and workout department. Employee benefits, which include employee health insurance, increased $174,000 (22.7%). Occupancy expense decreased $65,000 (6.2%) and furniture and equipment expense decreased $19,000 (3.4%). FDIC assessments increased $486,000 (84.5%) during 2010 to $1,061,000, from $575,000 in 2009. The total OREO expense in 2010 was $743,000 compared to $1,318,000 in 2009, the reduced expense ($575,000 or 43.6%) is related to lower valuation allowances in 2010 as compared to 2009. Other expense decreased $144,000 (4.6%) from $3,127,000 for the nine months ended September 30, 2009 to $2,983,000 for the same period in 2010. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first nine months of 2010 was 65.4% as compared to 58.7% in the same period of 2009.

(Benefit from) Provision for Income Taxes

The Company recorded a benefit from Federal and State income taxes for the quarter ended September 30, 2010 of $89,000, compared to a tax provision expense of $429,000 for the third quarter of 2009. The benefit for Federal and State income taxes for the nine months ended September 30, 2010 was $66,000, compared to a provision of $497,000 for the same period in 2009. The benefit recorded in 2010, results from the Company realizing the benefits of tax free income related to such items as municipal bonds and bank owned life insurance against a pretax loss.

Balance Sheet Analysis

The Company's total assets were $580,936,000 at September 30, 2010 as compared to $594,418,000 at December 31, 2009, representing a decrease of $13,482,000 (2.3%). The average assets for the three months ended September 30, 2010 were $581,958,000, which represents an increase of $22,508,000 or 4.0% compared to the balance of

$559,450,000 during the three-month period ended September 30, 2009. The average assets for the nine months ended September 30, 2010 were $583,595,000, which represents an increase of $14,646,000 or 2.6% from the balance of $568,649,000 during the nine-month period ended September 30, 2009. The increase in average assets for both periods is the result of increased deposits being invested in securities. The increase in the balance of securities has also been aided by the decrease in loan balances. See “Net Interest Income and Net Interest Margin” above for a discussion of the average balances of loans, investments, and deposits.

Investment Securities

The Company classifies its investment securities as either available-for-sale or held-to-maturity. The Company's intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities available-for-sale may be sold, for liquidity purposes, to implement asset/liability management strategies, and in response to changes in interest rates, prepayment rates and similar factors. During the first nine months of 2010, the Company used the majority of the proceeds from loan paydowns and principal payments from investment securities to purchase mortgage backed-securities. Table Five below summarizes the values of the Company's investment securities held on September 30, 2010 and December 31, 2009.

Table Five: Investment Securities Composition
(dollars in thousands)

Available-for-sale (at fair value)	September 30, 2010		December 31, 2009	
Debt securities:				
Mortgage-backed securities	$	114,878	$	76,009
Obligations of states and political subdivisions		16,865		20,587
Corporate stock		79		86
Total available-for-sale investment securities	$	131,822	$	96,682
Held-to-maturity (at amortized cost)				
Debt securities:				
Mortgage-backed securities	$	7,189	$	12,331
Total held-to-maturity investment securities	$	7,189	$	12,331

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

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. The Company's continuing focus in our market area, new borrowers developed through the Company's marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating $24 million in new loans through the first nine months of 2010. Normal pay downs, loan chargeoffs, and loans transferred to OREO, resulted in an overall decrease in total loans and leases of $31,326,000 (8.3%) from December 31, 2009. The market in which the Company operates continues to see a slowdown in new loan volume as existing borrowers continue to pay down debt and delay expansion plans. Table Six below summarizes the composition of the loan portfolio as of September 30, 2010 and December 31, 2009.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	September 30, 2010		December 31, 2009		Change in dollars	Percentage change
	$	%	$	%		
Commercial	$ 61,178	17 %	$ 72,621	19 %	$ (11,443)	(15.8 %)
Real estate						
Commercial	216,220	61 %	223,685	58 %	(7,465)	(3.3 %)
Multi-family	6,457	2 %	8,476	2 %	(2,019)	(23.8 %)
Construction	16,903	5 %	27,482	7 %	(10,579)	(38.5 %)
Residential	28,120	8 %	26,922	7 %	1,198	4.4 %
Lease financing receivable	2,986	1 %	3,920	1 %	(934)	(23.8 %)
Agriculture	7,255	2 %	7,472	2 %	(217)	(2.9 %)
Consumer	13,752	4 %	14,253	4 %	(501)	(3.5 %)
Total loans and leases	352,871	100 %	384,831	100 %	(31,960)	(8.3 %)
Deferred loan and lease fees, net	(428)		(600)		172	
Allowance for loan and lease losses	(7,447)		(7,909)		462	
Total net loans and leases	$ 344,996		$ 376,322		$ (31,326)	(8.3 %)

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

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

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

Risk Elements

The Company assesses and manages credit risk on an ongoing basis through a total credit culture that emphasizes excellent credit quality, extensive internal monitoring and established formal lending policies. Additionally, the Company contracts with an outside loan review consultant to periodically review the existing loan and lease portfolio. Management believes its ability to identify and assess risk and return characteristics of the Company's loan and lease portfolio is critical for profitability and growth. Management strives to continue its emphasis on credit quality in the loan and lease approval process, through active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan and lease review and grading system that functions to continually assess the credit risk inherent in the loan and lease portfolio. In addition, the Company has taken actions to further strengthen its lending compliance management system in accordance with recommendations arising out of its 2008 compliance examination including, among other matters, enhancement of existing procedures for internal control of loan compliance functions such as maintenance of required levels of compliance training, increased monitoring of the compliance program, and identification of any compliance weaknesses. The Company is also taking actions to further strengthen and improve its asset quality in accordance with recommendations arising out of its 2009 regulatory examination including, among other matters, enhancement of existing procedures for appraisals and re-appraisals on secured loans and other real estate owned, and problem loan identification, including identification of impaired loans and leases and identification of troubled debt restructured loans. See also "Note 11— OTHER MATTERS," for more information regarding the Memorandum entered into with the FDIC and the California Commissioner of Financial Institutions.

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

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

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

In management's judgment, a concentration exists in real estate loans, which represented approximately 75.9% of the Company's loan and lease portfolio at September 30, 2010, an increase from 74.5% at December 31, 2009. Management believes that the residential land and residential construction portion of the Company's loan portfolio carries more than the normal credit risk it has seen in the past several years, due primarily to severely curtailed demand for new and resale residential property, a large supply of unsold residential land and new and resale homes, and observed reductions in values throughout the Company's market area. Management has responded by evaluating loans that it considers to carry any significant risk above the normal risk of collectability by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio.

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

Nonaccrual, Past Due and Restructured Loans and Leases

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

At September 30, 2010, nonperforming loans and leases (those loans and leases on nonaccrual status and those loans and leases still accruing and past due 90 days or more) were $24,902,000 or 7.07% of total loans and leases. The $24,902,000 in nonperforming loans and leases was made up of fifty-two loans and three leases. Nine of those loans totaling $4,504,000 were current (less than 30 days past due) pursuant to their original or modified terms. Nonperforming loans and leases were $20,964,000 or 5.46% of total loans and leases at December 31, 2009. Of the September 30, 2010 balance, a valuation allowance of $252,000 was established on the nonperforming loans considered to be impaired which totaled $23,647,000. Of the December 31, 2009 balance, a valuation allowance of $1,421,000 was established.

The overall level of nonperforming loans increased $5,643,000 (29.3%) to $24,902,000 at September 30, 2010 compared to $19,259,000 at June 30, 2010. At June 30, 2010, the Company had forty-nine loans and three leases considered nonperforming totaling $19,259,000. During the third quarter of 2010, three of those loans totaling $730,000 were moved to OREO, one loan in the amount of $6,000 was charged off, one loan in the amount of $45,000 was current and returned to performing status, 2 loans were restructured with the non-performing portions of the loans charged off ($64,000) while the performing portions ($1,045,000) were returned to accrual status after showing sufficient indication of performance.

Ten loans in the total amount of $8,167,000 were placed on nonperforming status in the third quarter of 2010. Of the ten loans, eight loans totaling $6,760,000 were real estate secured and two loans totaling $1,407,000 were commercial loans. Four of the eight real estate secured loans are commercial properties with two in Placer County, one in Butte County and one in Calaveras County totaling $4,451,000. Two of the eight are multi-family properties totaling $1,633,000; of which, one is in Sonoma County and one is in San Joaquin County. One of the eight is a land development loan in Solano County totaling $207,000. The last of the eight loans is a single-family residence in Sacramento County totaling $469,000.

As reported in the Form 10-Q for the period ended June 30, 2010, activity during that quarter included five loans totaling $1,000,000 moved to OREO, two loans in the amount of $168,000 charged off, one loan in the amount of $128,000 paid off, two loans in the amount of $515,000 paid current and returned to performing status and eleven loans in the total amount of $4,173,000 placed on nonperforming status. Of the eleven loans added in the second quarter of 2010, all were real estate secured. During the first quarter of 2010, seven nonperforming loans totaling $1,911,000 were moved to OREO, two loans in the amount of $1,705,000 were paid off, two loans were partially charged off in the amount of $916,000, one loan in the amount of $271,000 was paid current and returned to performing status and twelve loans in the total amount of $2,283,000 were placed on nonperforming status. Of those twelve loans added in the first quarter, ten in the total amount of $2,211,000 were real estate secured and the remaining $72,000 consists of two commercial loans.

The net interest due on nonaccrual loans and leases but excluded from interest income was $528,000 for the three months ended September 30, 2010, compared to foregone interest of $373,000 during the same period in 2009. The net interest due on nonaccrual loans and leases but excluded from interest income was $1,240,000 for the nine months ended September 30, 2010, compared to $904,000 during the same period in 2009.

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

Table Seven: Nonperforming Loans and Leases

(dollars in thousands)	September 30, 2010		December 31, 2009	
Past due 90 days or more and still accruing				
Commercial	$	—	$	—
Real estate		—		—
Lease financing receivable		—		—
Consumer and other		—		—
Nonaccrual				
Commercial		4,447		6,143
Real estate		20,180		14,048
Lease financing receivable		32		55
Consumer and other		243		718
Total nonperforming loans and leases	$	24,902	$	20,964

Impaired Loans and Leases

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the original contractual terms of the loan or lease agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan or lease discounted at the loan or lease's original effective interest rate, (ii) the observable market price of the impaired loan or lease, or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans or leases that are collectively evaluated for credit risk. In assessing whether a loan or lease is impaired, the Company typically reviews loans or leases graded substandard or lower 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. At September 30, 2010, the recorded investment in loans and leases that were considered to be impaired totaled $43,788,000, which includes loans and leases considered nonperforming and $20,141,000 in performing loans and leases. Of the total impaired loans of $43,788,000, loans totaling $31,270,000 were deemed to require no specific reserve and loans totaling $12,518,000 were deemed to require a related valuation allowance of $1,635,000. At December 31, 2009, the recorded investment in loans and leases that were considered to be impaired and were deemed to require specific reserves totaled $14,369,000 and had a related valuation allowance of $3,810,000. At September 30, 2010, there were twenty-seven loans and leases that were restructured and are currently performing (less than ninety days past due) totaling $11,079,000 and nineteen loans and leases that are considered nonperforming (and included in Table Seven above), totaling $9,155,000, that are considered troubled debt restructures ("TDR"). These TDRs have a specific reserve of $253,000.

Allowance for Loan and Lease Losses Activity

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

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

The allowance for loan and lease losses totaled $7,447,000 or 2.06% of total loans and leases at September 30, 2010 compared to $7,909,000 or 2.06% of total loans and leases at December 31, 2009. The Company establishes general reserves in accordance with the accounting principles, “Accounting for Contingencies,” and specific reserves in accordance with the accounting principles, “Accounting by Creditors for Impairment of a Loan.” The ALLL is maintained by categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses.

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

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

Table Eight: Allowance for Loan and Lease Losses
(dollars in thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Average loans and leases outstanding	$356,340	$399,739	$366,601	$409,425
Allowance for loan and lease losses at beginning of period	$7,441	$7,758	$7,909	$5,918
Loans and leases charged off:				
Commercial	(200)	(844)	(1,898)	(1,509)
Real estate	(1,802)	(212)	(4,151)	(2,708)
Lease financing receivable	(18)	(152)	(18)	(167)
Consumer	—	—	(172)	(30)
Total	(2,020)	(1,208)	(6,239)	(4,414)
Recoveries of loans and leases previously charged off:				
Commercial	—	5	63	18
Real estate	—	8	36	9
Lease financing receivable	1	—	1	3
Consumer	—	8	—	8
Total	1	21	100	38
Net loans and leases charged off	(2,019)	(1,187)	(6,139)	(4,376)
Additions to allowance charged to operating expenses	2,025	1,001	5,677	6,030
Allowance for loan and lease losses at end of period	$7,447	$7,572	$7,447	$7,572
Ratio of net charge-offs to average loans and Leases outstanding (annualized)	2.25%	1.18%	2.24%	1.43%
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	2.25%	0.99%	2.07%	1.97%
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	2.11%	1.92%	2.11%	1.92%

Other Real Estate Owned

At September 30, 2010, the Company had thirteen OREO properties with a carrying cost of $3,067,000. This compares to thirteen properties with a carrying cost of $2,508,000 at December 31, 2009 and fifteen properties totaling a net $3,484,000 at September 30, 2009. During the third quarter of 2010, the Company sold seven properties for a combined loss of $4,000 and added three properties to OREO with loan balances totaling $730,000. Of the three properties added during the quarter, two are residential lots, one is a multi-lot parcel in Amador County with a carrying value of $365,000 and the other is a single lot in Sacramento County with a carrying value of $22,000. The third property was a single family residence in Calaveras County with a carrying value of $343,000.

As reported in the Form 10-Q for the period ended June 30, 2010, during the second quarter of 2010, the Company sold six properties for a loss of $52,000 and added five properties to OREO with loan balances totaling $1,000,000. The five properties added during the second quarter were simultaneously written down to fair value by $141,000 leaving a net value of $859,000. Of the five properties added during the second quarter, two are 4-plexes, one in Sacramento carried at $414,000 and the other in Yuba County carried at $248,000; two of the five properties added during the quarter are residential lots, both in Sacramento for a combined carrying value of $41,000 and the fifth property was a single family five acre parcel that was sold before quarter end for its net book value of $156,000. During the first quarter of 2010, the Company sold two properties for a loss of $25,000 and added seven properties to OREO with loan balances totaling $1,911,000. The seven properties added during the first quarter were simultaneously written down to fair value by $209,000 leaving a net value of $1,702,000. Of the seven properties added during the first quarter, five properties totaling $775,000 are individual single family lots, three of which are in Santa Rosa, California and two are in Sacramento, California; one property is a single family home in the County of El Dorado with a book value of $483,000 and the seventh is one property that represents two commercial parcels in Fairfield, California with a book value of $444,000. The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the third quarter of 2010, this valuation process resulted in the Company reducing the book value of two properties by $120,000.

Deposits

At September 30, 2010, total deposits were $469,799,000 representing an increase of $44,000 from the December 31, 2009 balance of $469,755,000. The Company's deposit growth plan for 2010 is to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts. The Company experienced increases in noninterest-bearing ($10,447,000 or 8.8%), money market ($3,316,000 or 2.5%) and savings ($7,166,000 or 19.8%) and decreases in time deposits ($17,626,000 or 13.2%) and interest-bearing checking ($3,259,000 or 6.5%) in the nine month period ended September 30, 2010.

Other Borrowed Funds

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

Table Nine: Other Borrowed Funds

(dollars in thousands)	September 30, 2010			December 31, 2009		
	Amount	Rate		Amount	Rate	
Short-term borrowings:						
FHLB advances	$7,000	2.40	%	$14,500	2.84	%
Long-term borrowings:						
FHLB advances	$10,000	2.41	%	$17,000	2.40	%

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

	Short-term	Long-term
Amount	$ 7,000	$ 10,000

Maturity	2011		2012 to 2014	
Average rates	2.40	%	2.41	%

The Company has also been issued a total of $8,200,000 in letters of credit by the FHLB that are pledged to secure Local Agency Deposits. The letters of credit act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letters of credit was not drawn upon in 2010 or 2009 and management does not currently expect to draw upon them in the foreseeable future. See the Liquidity section that follows for additional information on FHLB borrowings.

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Capital Resources

The Company and American River Bank are subject to certain regulatory capital requirements administered by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the "FDIC"). Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As a result of a 2009 FDIC examination, management entered into a Memorandum of Understanding as of February 10, 2010 with the FDIC and the California Commissioner of Financial Institutions, which requires the Bank to take certain actions including maintaining the Bank's Tier I Leverage capital ratio at not less than 8% and a Total Risk-Based capital ratio of not less than 11%. As of September 30, 2010, the foregoing capital ratios for the Bank were 11.8% and 19.0%, respectively. We believe that we are currently in compliance in all material respects with the actions described in the Memorandum, including the capital ratios as described above. See "Note 11, OTHER MATTERS" herein for more information regarding the Memorandum.

At September 30, 2010, shareholders' equity was $89,994,000, representing an increase of $2,649,000 (3.0%) from $87,345,000 at December 31, 2009. The increase results from the addition of the net income for the period, the stock based compensation expense, and the increase in other comprehensive income. The Company's ratio of total risk-based capital to risk adjusted assets was 20.2% at September 30, 2010 and 18.4% at December 31, 2009. Tier 1 risk-based capital to risk-adjusted assets was 18.9% at September 30, 2010 and 17.1% at December 31, 2009. The leverage ratio was 12.6% at September 30, 2010 and 12.4% at December 31, 2009.

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

Table Ten: Capital Ratios

Capital to Risk-Adjusted Assets	At September 30, 2010		At December 31, 2009		Minimum Regulatory Capital Requirements	
Leverage ratio	12.6	%	12.4	%	4.00	%
Tier 1 Risk-Based Capital	18.9	%	17.1	%	4.00	%
Total Risk-Based Capital	20.2	%	18.4	%	8.00	%

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

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

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing or other commercial concerns primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company and 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, 2010 and 2009.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, short-term investments and securities, and loan and lease repayments contribute to liquidity, along with deposit increases, while loan and lease funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding standby letters of credit at September 30, 2010 were approximately $45,355,000 and $10,152,000, 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, 2010, consolidated liquid assets totaled $115.6 million or 19.9% of total assets compared to $79.8 million or 13.4% of total assets on December 31, 2009. In addition to liquid assets, the Company maintains a short-term line of credit in the amount of $10,000,000 with one of its correspondent banks. At September 30, 2010, the Company had $10,000,000 available under this credit line. Additionally, the Bank is a member of the FHLB. At September 30, 2010, the Bank could have arranged for up to $84,980,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At September 30, 2010, the Company had advances, borrowings and commitments (including letters of credit) outstanding of $25,200,000, leaving $59,780,000 available under these FHLB secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank of San Francisco. The borrowing can be secured by pledging selected loans and investment securities. At September 30, 2010, the Company's borrowing capacity at the Federal Reserve Bank was $36,022,000. 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. Futhermore, 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, 2010 and December 31, 2009, commitments to extend credit and standby letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and standby letters of credit were $55,507,000 and $78,015,000 at September 30, 2010 and December 31, 2009, respectively. As a percentage of net loans and leases these off-balance sheet items represent 16.1% and 20.7%, respectively.

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

Website Access

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

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

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

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

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

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

(dollars in thousands)	$ Change in NII from Current 12 Month Horizon September 30, 2010	$ Change in NII from Current 12 Month Horizon December 31, 2009
Variation from a constant rate scenario		
+200bp	$ 430	$ (10)
- 200bp	$ (1,245)	$ (432)

Management does not consider the fluctuations, as outlined in the table above, to have a material impact on the Company's projected results and are within the tolerance levels outlined in the Company's interest rate risk 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, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

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

Item 4T. Controls and Procedures.

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

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, 2010	None	N/A	None	None
Month #2 August 1 through August 31, 2010	None	N/A	None	None
Month #3 September 1 through	None	N/A	None	None

September 30, 2010			
Total	None	N/A	None

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Reserved).

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

2009, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on May 15, 2009.

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

*(10.5) Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 30, 2006.

*(10.6) Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 30, 2006.

(10.7) Lease agreement between American River Bank and 520 Capitol Mall, Inc., dated August 19, 2003, related to 520 Capitol Mall, Suite 100, Sacramento, California, incorporated by reference from Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003 and the First Amendment thereto dated April 21, 2004, incorporated by reference from Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.

*(10.8) Employment Agreement between Registrant and David T. Taber dated June 2, 2006, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 30, 2006.

*(10.9) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.10) Salary Continuation Agreement, as amended on February 21, 2008, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.11) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.12) Registrant's 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. **

*(10.13) Registrant's 401(k) Plan dated December 23, 2008, incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K, filed with the Commission on December 24, 2008.

(10.14) Lease agreement between Bank of Amador and the United States Postal Service, dated April 24, 2001, related to 424 Sutter Street, Jackson, California (***) and the First Amendment thereto, dated June 5, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 6, 2006.

*(10.15)	Salary Continuation Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.16)	Director Retirement Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.5 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.
(10.17)	Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 22, 2005, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on April 27, 2005.
(10.18)	Lease agreement between Registrant and One Capital Center, a California limited partnership, dated May 17, 2005, related to 3100 Zinfandel Drive, Rancho Cordova, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 18, 2005 and the First Amendment thereto dated April 23, 2010, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on April 23, 2010.
(10.19)	Managed Services Agreement between American River Bankshares and ProNet Solutions, Inc., dated June 16, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 18, 2009.
*(10.20)	American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 27, 2005; the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 17, 2006; the Second Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 23, 2007; the Third Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008, the Fourth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on March 20, 2009, and the Fifth Amendment thereto, incorporated by reference from the Registrant's Current Report on Form 8-K, filed with the Commission on March 18, 2010.
*(10.21)	American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.33 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 8, 2006.
*(10.22)	Employment Agreement dated September 20, 2006, between American River Bankshares and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.23)	Employment Agreement dated September 20, 2006, between American River Bankshares and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.

*(10.24) Employment Agreement dated September 20, 2006, between American River Bankshares and Kevin B. Bender, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.

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*(10.25)	Employment Agreement dated September 20, 2006, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.5 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.26)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.6 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.27)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.7 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.
(10.28)	Lease agreement dated May 23, 2007 between Bank of Amador, a division of American River Bank, and Joseph Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust, related to 26395 Buckhorn Ridge Road, Pioneer, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 24, 2007 and the First Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 16, 2007.
(10.29)	Sublease agreement dated December 23, 2008, between North Coast Bank, a division of American River Bank, and Chicago Title Company, a California Corporation; and lease agreement dated December 23, 2008, between North Coast Bank, a division of American River Bank, and 90 E Street LLC, related to 90 E Street, Santa Rosa, California, incorporated by reference from Exhibit 99.2 and 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on December 24, 2008.
(10.30)	Customer Service Agreement dated January 4, 2010, between American River Bankshares and TriNet HR Corporation, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 5, 2010.
*(10.31)	Form of Indemnification Agreement entered into on January 20, 2010, between American River Bankshares and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.32)	Form of Indemnification Agreement entered into on January 20, 2010, between American River Bank and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.33)	Registrant's 2010 Equity Incentive Plan, incorporated by reference from the Registrant's Definitive Proxy Statement for its 2010 Annual Meeting of Shareholders, filed with the Commission on April 9, 2010.
(14.1)	Registrant's Code of Ethics, incorporated by reference from Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the Commission on March 19, 2004.
(21.1)	

The Registrant's only subsidiaries are American River Bank, a California banking corporation, and American River Financial, a California corporation.

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(31.1) Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

*Denotes management contracts, compensatory plans or arrangements.

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

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

SIGNATURES

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

	AMERICAN RIVER BANKSHARES
November 4, 2010	By: /s/ DAVID T. TABER David T. Taber President and Chief Executive Officer
	AMERICAN RIVER BANKSHARES
November 4, 2010	By: /s/ MITCHELL A. DERENZO Mitchell A. Derenzo Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description	Page
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.	

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