James Todd
Form 4
February 25, 2019

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
James Todd
(Last) (First) (Middle)
415 HOLIDAY DRIVE
(Street)
PITTSBURGH, PA 15220
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FOSTER L B CO [FSTR]

3. Date of Earliest Transaction (Month/Day/Year)
02/21/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Controller & CAO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/21/2019		A		1,767 (1)	A	$ 0	6,669	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
James Todd 415 HOLIDAY DRIVE PITTSBURGH, PA 15220			Controller & CAO	

Signatures

/s/ Todd M. James by Rachelle N. Horning, attorney-in-fact	02/25/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Award of time vested restricted stock, which will vest in 33-1/3% increments on each of the first, second, and third anniversaries of the date of the grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. DING="0" CELLSPACING="0" STYLE="border-collapse: collapse; width: 100%; font: 10pt Times New Roman, Times, Serif">(dollars in thousands, except per share data) For the periods ended June 30, Three months Six months 2017 2016 2017 2016 Interest income: Interest and fees on loans: Taxable $3,458 $3,445 $6,888 $6,807 Exempt from Federal income taxes 133 173 266 345 Interest on deposits in banks 3 2 5 3 Interest and dividends on investment securities: Taxable 1,363 1,441 2,686 2,993 Exempt from Federal income taxes 159 162 316 346 Dividends 5 6 13 11 Total interest income 5,121 5,229 10,174 10,505 Interest expense: Interest on deposits 203 182 397 366 Interest on borrowings 49 39 97 89 Total interest expense 252 221 494 455 Net interest income 4,869 5,008 9,680 10,050 Provision for loan and lease losses — — — — Net interest income after provision for loan and lease losses 4,869 5,008 9,680 10,050 Noninterest income: Service charges on deposit accounts 114 127 231 256 Gain (loss) on sale, call, or impairment of securities 86 (1) 142 281 Rental income from other real estate owned — — — 106 Other noninterest income 239 237 485 474 Total noninterest income 439 363 858 1,117 Noninterest expense: Salaries and employee

benefits 2,064 2,101 4,234 4,261 Occupancy 262 292 531 590 Furniture and equipment 147 163 298 328 Federal Deposit Insurance Corporation assessments 52 76 105 156 Expenses related to other real estate owned 12 20 32 360 Other expense 831 763 1,598 1,511 Total noninterest expense 3,368 3,415 6,798 7,206 Income before provision for income taxes 1,940 1,956 3,740 3,961 Provision for income taxes 643 652 1,259 1,285 Net income $1,297 $1,304 $2,481 $2,676 Basic earnings per share $0.20 $0.19 $0.38 $0.39 Diluted earnings per share $0.20 $0.19 $0.38 $0.39 Cash dividends per share $0.05 $0.00 $0.10 $0.00

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data) For the periods ended June 30,	Three months		Six months	
	2017	2016	2017	2016
Net income	$1,297	$1,304	$2,481	$2,676
Other comprehensive income:				
Increase in net unrealized gains on investment securities	412	810	873	3,712
Deferred tax expense	(166)	(324)	(344)	(1,485)
Increase in net unrealized gains on investment securities, net of tax	246	486	529	2,227
Reclassification adjustment for realized (gains) losses included in net income	(86)	1	(142)	(281)
Tax effect	35	—	57	112
Realized (gains) losses, net of tax	(51)	1	(85)	(169)
Total other comprehensive gain income	195	487	444	2,058
Comprehensive income	$1,492	$1,791	$2,925	$4,734

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2016	7,343,649	$49,554	$34,418	$ 2,103	$ 86,075
Net income			2,676		2,676
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				2,058	2,058
Net restricted stock award activity and related compensation expense	28,728	147			147
Stocks option exercised and compensation expense	500	24			24
Retirement of common stock	(716,897)	(7,414)			(7,414)
Balance, June 30, 2016	6,655,980	$42,311	$37,094	$ 4,161	$ 83,566
Balance, January 1, 2017	6,661,726	$42,484	$40,822	$ 544	$ 83,850
Net income			2,481		2,481
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				444	444
Cash dividends ($0.10 per share)			(657)		(657)
Net restricted stock award activity and related compensation expense	22,032	181			181
Stock options exercised	7,095	60			60
Stock option compensation expense	—	20			20
Retirement of common stock	(333,086)	(5,006)			(5,006)
Balance, June 30, 2017	6,357,767	$37,739	$42,646	$ 988	$ 81,373

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

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

	2017	2016
Cash flows from operating activities:		
Net income	$2,481	$2,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	—
Increase in deferred loan origination fees, net	3	26
Depreciation and amortization	173	220
Gain on sale, call, and impairment of investment securities, net	(142)	(281)
Amortization of investment security premiums and discounts, net	1,648	1,422
Increase in cash surrender values of life insurance policies	(157)	(160)
Stock based compensation expense	201	167
Loss on sale or write-down of other real estate owned	—	259
(Increase) decrease in accrued interest receivable and other assets	(98)	621
Decrease in accrued interest payable and other liabilities	(442)	(1,563)
Net cash provided by operating activities	3,667	3,387
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	17,605	8,287
Proceeds from matured available-for-sale investment securities	1,930	600
Proceeds from called available-for-sale investment Securities	145	
Purchases of available-for-sale investment securities	(45,419)	(8,875)
Proceeds from principal repayments for available-for-sale investment securities	21,513	21,612
Proceeds from principal repayments for held-to-maturity investment securities	54	83
Net increase in interest-bearing deposits in banks	(249)	(249)
Net decrease (increase) in loans	7,937	(14,326)
Proceeds from sale of other real estate	—	710
Net increase in FHLB stock	(153)	—
Purchases of equipment	(86)	(118)
Net cash provided by investing activities	3,277	7,724

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

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

	2017	2016
Cash flows from financing activities:		
Net decrease in demand, interest-bearing and savings deposits	$(4,771)	$(2,785)
Net decrease in time deposits	(2,155)	(1,972)
Net (decrease) increase in short-term borrowings	(1,500)	1,500
Net increase (decrease) in long-term borrowings	1,500	(1,500)
Proceeds from stock option exercise	60	4
Cash dividends paid	(657)	—
Cash paid to repurchase common stock	(5,006)	(7,414)
Net cash used in financing activities	$(12,529)	$(12,167)
Decrease in cash and cash equivalents	(5,585)	(1,056)
Cash and cash equivalents at beginning of year	27,589	23,727
Cash and cash equivalents at end of period	$22,004	$22,671

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 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 June 30, 2017 and December 31, 2016, the results of its operations and statement of comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016, its cash flows for the six-month periods ended June 30, 2017 and 2016 and its statement of changes in shareholders' equity for the six months ended June 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 six-month periods ended June 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. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes, the valuation of goodwill and the estimated fair value of investment securities, impaired loans and other real estate owned.

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

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the "2010 Plan"). The 2010 Plan was approved by the Company's shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company's shareholders approved a stock option plan (the "2000 Plan"), under which 64,134 options remain outstanding at June 30, 2017. At June 30, 2017, under the 2010 Plan, there were 76,461 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 unvested restricted stock under the 2010 Plan have dividend and voting rights. The 2010 Plan and the 2000 Plan (collectively the "Plans") require that the option price may not be less than the fair market value of the stock at the date the option is awarded. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company's Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

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

Equity Compensation

For the three-month periods ended June 30, 2017 and 2016, the compensation cost recognized for equity compensation was $100,000 and $85,000, respectively. The recognized tax benefit for equity compensation expense was $36,000 and $30,000, respectively, for the three-month periods ended June 30, 2017 and 2016. For the six-month periods ended June 30, 2017 and 2016, the compensation cost recognized for equity compensation was $201,000 and $167,000, respectively. The recognized tax benefit for equity compensation expense was $73,000 and $59,000, respectively, for the six-month periods ended June 30, 2017 and 2016.

At June 30, 2017, the total unrecognized pre-tax compensation cost related to nonvested stock option awards was $79,000. This amount will be recognized over the next 3.0 years and the weighted average period of recognizing these costs is expected to be 1.7 years. At June 30, 2017, the total unrecognized pre-tax compensation cost related to restricted stock awards was $579,000. This amount will be recognized over the next 4.9 years and the weighted average period of recognizing these costs is expected to be 1.6 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month and six-month periods ended June 30, 2017 and June 30, 2016. A summary of option activity under the Plans as of June 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	(7,095)	8.50	—	—
Expired, forfeited or cancelled	(38,333)	21.70	—	—
Outstanding at June 30, 2017	140,595	$ 10.42	4.2 years	$ 629
Vested at June 30, 2017	111,648	$ 10.73	3.4 years	$ 477
Non-vested at June 30, 2017	28,947	$ 9.24	7.4 years	$ 153

Restricted Stock

There were 9,949 and 24,982 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2017, respectively. There were 11,923 and 29,756 shares of restricted stock awarded during the three-month and six-month periods ended June 30, 2016, respectively.

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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	14,387	9.76
Less: Expired, forfeited or cancelled	2,949	10.01
Nonvested at June 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 six-month month periods ended June 30, 2017 or 2016 or outstanding at June 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 $14.51 as of June 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 $10,658,000 and standby letters of credit of approximately $191,000 at June 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 June 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 (6,346,650 and 6,454,864 shares for the three-month and six-month periods ended June 30, 2017 and 6,717,456 and 6,906,620 shares for the three-month and six-month periods ended June 30, 2016). Using the treasury stock method, 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 81,372 and 85,801, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2017 and 28,643 and 26,818, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2016. For the three-month periods ended June 30, 2017 and 2016, there were 32,448 and 105,844 stock options, respectively, that were excluded from the calculation as they were considered antidilutive. For the six-month periods ended June 30, 2017 and 2016, there were 32,448 and 138,549 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.

Accounting Standards Codification ("ASC") 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends as a separate class of securities in calculating earnings per share. The Company has granted and expects to continue to grant to directors and employees restricted stock grants that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, the Company is required to include these grants in the calculation of basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company has calculated earnings per share using the two-class method and has determined that there was no difference in earnings per share using the two-class method versus the treasury stock method and therefore the two-class method will not be presented.

5. INVESTMENT SECURITIES

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

Available-for-Sale

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$227,252	$ 2,078	$ (1,065)	$228,265
Obligations of states and political subdivisions	22,032	664	(171)	22,525
Corporate bonds	6,489	113	(13)	6,589
Equity securities:				
Corporate stock	51	41	—	92
	$255,824	$ 2,896	$ (1,249)	$257,471

	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 $1,647,000 were recorded, net of $659,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 30, 2017. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended

June 30, 2017 totaled $9,133,000 and $86,000, respectively, and for the six-month period ended June 30, 2017 proceeds and gross realized gains from the sale and call of available-for-sale investment securities totaled $17,605,000 and $142,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 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. There were no sales or calls of available-for-sale investment securities for the three-month period ended June 30, 2016, however, there was an impairment loss of one security resulting in the write-down of the remaining balance of $1,000, and for the six-month period ended June 30, 2016 proceeds and gross realized gains from the sale, call, and impairment of available-for-sale investment securities totaled $8,287,000 and $281,000, respectively. There were no transfers of available-for-sale investment securities for the three-month and six-month periods ended June 30, 2016.

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Held-to-Maturity

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Entities	$ 429	$ 33	$ —	$ 462

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 June 30, 2017 and June 30, 2016. Investment securities with unrealized losses at June 30, 2017 and December 31, 2016 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

June 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	$ 101,497	$ (1,023)	4,817	(42)	$ 106,314	$ (1,065)
Obligations of states and political subdivisions	4,646	(130)	985	(41)	5,631	(171)
Corporate bonds	1,976	(13)			1,976	(13)
	$ 108,119	$ (1,166)	$ 5,802	$ (83)	$ 113,921	$ (1,249)

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)

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2017 or December 31, 2016.

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Explanation of Responses:

At June 30, 2017, the Company held 222 securities of which 67 were in a loss position for less than twelve months and four were in a loss position for twelve months or more. Of the 67 securities in a loss position for less than twelve months, 62 were U.S. Government Agencies and Sponsored Entities securities, four were obligations of states or political subdivisions, and one was a corporate bond and of the four securities that were in a loss position for greater than twelve months, three were U.S. Government Agencies and Sponsored Entities securities and one was an obligation 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 June 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	4,974	5,026		
After five years through ten years	18,268	18,839		
After ten years	5,279	5,249		
	28,521	29,114		
Investment securities not due at a single maturity date:				
US Government Agencies and Sponsored Entities	227,252	228,265	$ 429	$ 462
Corporate stock	51	92	—	—
	$255,824	$257,471	$ 429	$ 462

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

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

At June 30, 2017 and December 31, 2016, the recorded investment in nonperforming loans and leases was approximately $12,000 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 June 30, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $16,998,000, which includes

$12,000 in nonaccrual loans and leases and $16,986,000 in performing loans and leases. Of the total impaired loans of $16,998,000, loans totaling $9,088,000 were deemed to require no specific reserve and loans totaling $7,910,000 were deemed to require a related valuation allowance of $505,000. 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 June 30, 2017 and December 31, 2016, the balance in other real estate owned (“OREO”) was $1,348,000. During the first and second quarters of 2017, the Company did not add any new, impair, or sell any of the OREO properties. The June 30, 2017 OREO balance of $1,348,000 consists of two properties, one of which is commercial real estate in the amount of $386,000 and the other is commercial land in the amount of $962,000.

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Nonperforming assets at June 30, 2017 and December 31, 2016 are summarized as follows:

(dollars in thousands)	June 30, 2017	December 31, 2016
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$ 12	$ 19
Nonaccrual loans and leases that are past due	—	—
Loans and leases past due 90 days and accruing interest	—	—
Other real estate owned	1,348	1,348
Total nonperforming assets	$ 1,360	$ 1,367
Nonperforming loans and leases to total loans and leases	0.00 %	0.01 %
Total nonperforming assets to total assets	0.21 %	0.21 %

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

(dollars in thousands)	As of June 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:						
Real estate-commercial	$ 8,757	$ 9,337	$ —	$ 10,910	$ 11,540	$ —
Real estate-residential	331	417	—	334	421	—
Subtotal	$ 9,088	$ 9,754	$ —	$ 11,244	$ 11,961	$ —
With an allowance recorded:						
Commercial	$ —	$ —	$ —	$ 157	$ 157	$ 11
Real estate-commercial	4,975	5,064	317	3,244	3,336	246
Real estate-multi-family	478	478	20	482	482	2
Real estate-residential	2,106	2,106	140	1,813	1,813	133
Agriculture	351	351	28	357	357	29
Subtotal	$ 7,910	$ 7,999	$ 505	$ 6,053	$ 6,145	$ 421
Total:						
Commercial	$ —	$ —	$ —	$ 157	$ 157	$ 11
Real estate-commercial	13,732	14,401	317	14,154	14,876	246
Real estate-multi-family	478	478	20	482	482	2
Real estate-residential	2,437	2,523	140	2,147	2,234	133
Agriculture	351	351	28	357	357	29
	$ 16,998	$ 17,753	$ 505	$ 17,297	$ 18,106	$ 421

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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 six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Commercial	$ 16	$ 80	$ —	$ 100
Real estate-commercial	14,067	16,878	13,732	17,021
Real estate-multi-family	481	491	478	495
Real estate-residential	2,296	2,216	2,437	2,236
Agriculture	357	373	351	378
Consumer	—	76	—	77
Total	$ 17,217	$ 20,114	$ 16,998	$ 20,307

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 six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Commercial	$ —	$ 2	$ 1	$ 3
Real estate-commercial	179	259	356	444
Real estate-multi-family	8	2	16	10
Real estate-residential	37	31	63	52
Agriculture	4	5	9	10
Consumer	—	—	—	—
Total	$ 228	$ 299	$ 445	$ 519

7. TROUBLED DEBT RESTRUCTURINGS

During the three and six-month periods ended June 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 six-month periods ended June 30, 2017 and June 30, 2016. At June 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.

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8. ALLOWANCE FOR LOAN AND LEASE LOSSES

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

June 30, 2017 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade	Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$24,647	$163,362	$ 66,608	$ 7,479	$ 14,864
Watch	123	24,782	478	2,373	1,463
Special mention	1,267	2,197	3,945	—	720
Substandard	2,719	—	—	—	456
Doubtful	—	—	—	—	—
Total	$28,756	$190,341	$ 71,031	$ 9,852	$ 17,503

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$ 297	$ 1,762	$ 972	$279,991
Watch	—	351	240	29,810
Special mention	—	—	133	8,262
Substandard	—	—	14	3,189
Doubtful	—	—	—	—
Total	$ 297	$ 2,113	$ 1,359	$321,252

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

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

June 30, 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	58	(12)	(62)	11	15	—	(5)	(8)	3	—
Loans charged-off	—	—	—	—	—	—	—	—	—	—
Recoveries	3	53	—	—	—	—	—	3	—	59
Ending balance, June 30, 2017	$916	$2,091	$789	$457	$268	$1	$59	$19	$281	$4,881
Ending balance: Individually evaluated for impairment	$—	$317	$20	$—	$140	$—	$28	$—	$—	$505
Ending balance: Collectively evaluated for impairment	$916	$1,774	$769	$457	$128	$1	$31	$19	$281	$4,376
Loans										
Ending balance	$28,756	$190,341	$71,031	$9,852	$17,503	$297	$2,113	$1,359	$—	$321,252
Ending balance: Individually evaluated for impairment	$—	$13,732	$478	$—	$2,437	$—	$351	$—	$—	$16,998
Ending balance: Collectively evaluated for impairment	$28,756	$176,609	$70,553	$9,852	$15,066	$297	$1,762	$1,359	$—	$304,254
Allowance for Loan and Lease Losses										
Beginning balance, March 31, 2017	$836	$2,107	$836	$479	$232	$1	$62	$21	$259	$4,833
	78	(60)	(47)	(22)	36	—	(3)	(4)	22	—

Provision for loan losses										
Loans charged off	—	—	—	—	—	—	—	—	—	—
Recoveries	2	44	—	—	—	—	—	2	—	48
Ending balance, June 30, 2017	$916	$2,091	$789	$457	$268	$1	$59	$19	$281	$4,881

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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

June 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	(125)	266	101	(88)	(36)	—	(4)	(90)	(24)	—
Loans charged-off	—	—	—	—	—	—	—	—	—	—
Recoveries	73	12	—	—	—	—	—	72	—	157
Ending balance, June 30, 2016	$ 808	$2,647	$ 329	$ 725	$ 283	$1	$ 73	$ 60	$ 206	$5,132
Allowance for Loan and Lease Losses										
Beginning balance, March 31, 2016	$ 813	$2,513	$ 270	$ 625	$ 298	$2	$ 77	$ 65	$ 419	$5,082
Provision for loan losses	(44)	123	59	100	(15)	(1)	(4)	(5)	(213)	—
Loans charged off	—	—	—	—	—	—	—	—	—	—
Recoveries	39	11	—	—	—	—	—	—	—	50

Ending balance, June 30, 2016	$ 808	$2,647	$ 329	$ 725	$ 283	$1	$ 73	$ 60	$ 206	$5,132

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

June 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	$ —	$ —	$ —	$ —	$ 28,756	$ 28,756	—	$ —
Real estate:								
Commercial	—	—	—	—	190,341	190,341	—	—
Multi-family	—	—	—	—	71,031	71,031	—	—
Construction	—	—	—	—	9,852	9,852	—	—
Residential	—	—	—	—	17,503	17,503	—	—
Other:								
Leases	—	—	—	—	297	297	—	—
Agriculture	—	—	—	—	2,113	2,113	—	—
Consumer	—	—	—	—	1,359	1,359	—	12
Total	$ —	$ —	$ —	$ —	$ 321,252	$ 321,252	$ —	$ 12

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

9. BORROWING ARRANGEMENTS

At June 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 June 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 June 30, 2017, bearing interest rates ranging from 1.01% to 1.52% and maturing between July 17, 2017 and July 13, 2020. 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 June 30, 2017 and December 31, 2016 totaled $113,515,000 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 June 30, 2017 and December 31, 2016 were $9,746,000 and $11,068,000, respectively. There were no advances outstanding under this borrowing arrangement as of June 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 six-month periods ended June 30, 2017 and 2016.

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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 June 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:			
June 30, 2017	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$22,004	$22,004	$—	$—	$22,004
Interest-bearing deposits in banks	1,248	—	1,248	—	1,248
Available-for-sale securities	257,471	46	257,425	—	257,471
Held-to-maturity securities	429	—	462	—	462
FHLB stock	3,932	N/A	N/A	N/A	N/A
Net loans and leases:	316,146	—	—	324,882	324,882
Accrued interest receivable	1,885	—	1,062	823	1,885
Financial liabilities:					
Deposits:					
Noninterest-bearing	$196,212	$196,212	$—	$—	$196,212
Savings	65,630	65,630	—	—	65,630
Money market	131,998	131,998	—	—	131,998
NOW accounts	63,236	63,236	—	—	63,236

Time Deposits	80,804	—	81,157	—	81,157
Short-term borrowings	2,000	2,000	—	—	2,000
Long-term borrowings	13,500	—	13,433	—	13,433
Accrued interest payable	42	—	42	—	42

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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 June 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.

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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 June 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)
June 30, 2017					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
US Government Agencies and Sponsored Entities	$ 228,265	$ —	$ 228,265	$ —	$ —
Obligations of states and political subdivisions	22,525	—	22,525	—	—
Corporate bonds	6,589	—	6,589	—	—
Corporate stock	92	46	46	—	—
Total recurring	$ 257,471	$ 46	$ 257,425	$ —	$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Real estate:					
Commercial	$ 3,499	$ —	$ —	$ 3,499	$ —
Residential	332	—	—	332	—
Other real estate owned					
Commercial	386	—	—	386	—
Land	962	—	—	962	—
Total nonrecurring	$ 5,179	$ —	$ —	$ 5,179	$ —

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Description		Fair Value Measurements Using			Total Gains
(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3	(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 six-month periods ended June 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:

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

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

Other real estate owned – 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%.

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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 a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows, however, the Company will continue to closely monitor developments and additional guidance.

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 and the adoption did not, and is not expected to, have a material impact on the Company's financial position, results of operations or cash flows.

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 June 30, 2017 and its income and expense accounts for the three-month and six-month periods ended June 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;
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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.

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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.

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.

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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 June 30, 2017 or 2016 or for the three-month periods then ended.

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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 90 full-time employees as of June 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”). On November 9, 2010, the FDIC implemented a final rule to permanently increase the maximum insurance limit to $250,000 per depositor under the Dodd-Frank Act.

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 2017 and 2016, 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 $1,297,000 for the quarter ended June 30, 2017, which was a decrease of $7,000 compared to $1,304,000 reported for the same period of 2016. Diluted earnings per share for the second quarter of 2017 were $0.20 compared to $0.19 recorded in the second quarter of 2016. The return on average equity (“ROAE”) and the return on average assets (“ROAA”) for the second quarter of 2017 were 6.35% and 0.80%, respectively, as compared to 6.29% and 0.84%, respectively, for the same period in 2016.

Net income for the six months ended June 30, 2017 and 2016 was $2,481,000 and $2,676,000, respectively, with diluted earnings per share of $0.38 in 2017 and $0.39 in 2016. For the first six months of 2017, ROAE was 6.05% and ROAA was 0.77% compared to 6.37% and 0.85%, respectively, for the same period in 2016.

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Total assets of the Company decreased by $9,845,000 (1.5%) from $651,450,000 at December 31, 2016 to $641,605,000 at June 30, 2017. Net loans totaled $316,146,000 at June 30, 2017, a decrease of $7,940,000 (2.4%) from $324,086,000 at December 31, 2016. Deposit balances at June 30, 2017 totaled $537,880,000, a decrease of $6,926,000 (1.3%) from the $544,806,000 at December 31, 2016.

The Company ended the second quarter of 2017 with a leverage capital ratio of 10.2%, a Tier 1 capital ratio of 18.4%, and a total risk-based capital ratio of 19.7% 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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest income*	$ 5,222	$ 5,343	$ 10,373	$ 10,740
Interest expense	(252)	(221)	(494)	(455)
Net interest income*	4,970	5,122	9,879	10,285
Provision for loan and lease losses	—	—	—	—
Noninterest income	439	363	858	1,117
Noninterest expense	(3,368)	(3,415)	(6,798)	(7,206)
Provision for income taxes	(643)	(652)	(1,259)	(1,285)
Tax equivalent adjustment	(101)	(114)	(199)	(235)
Net income	$ 1,297	$ 1,304	$ 2,481	$ 2,676
Average total assets	$ 647,381	$ 625,652	$ 650,058	$ 630,364
Net income (annualized) as a percentage of average total assets	0.80 %	0.84 %	0.77 %	0.85 %

* 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 3.41% for the three months ended June 30, 2017, 3.64% for the three months ended June 30, 2016, 3.43% for the six months ended June 30, 2017 and 3.64% for the six months ended June 30, 2016.

The fully taxable equivalent interest income component for the second quarter of 2017 decreased $121,000 (2.3%) to $5,222,000 compared to $5,343,000 for the three months ended June 30, 2016. The decrease in the fully taxable equivalent interest income for the second quarter of 2017 compared to the same period in 2016 is broken down by rate (down $323,000) and volume (up $202,000). The yield on earning assets decreased from 3.80% during the second quarter of 2016 to 3.59% during the second quarter of 2017. The primary driver in this rate decrease was a decrease in

the yield on loans which saw a decrease from 4.92% in the second quarter of 2016 to 4.61% in the second quarter of 2017. While average loans increased $16,000,000 (5.3%) from $300,423,000 during the second quarter of 2016 to $316,423,000 during the second quarter of 2017, due to the overall lower interest rate environment, the new loans added were at lower yields than the existing loans. The investment portfolio also experienced lower yields, decreasing from 2.53% in the second quarter of 2016 to 2.38% in the second quarter of 2017. The volume increase of $202,000 was primarily from loans ($191,000), with the remaining $11,000 difference coming from an increase in investment balances. The average balance of earning assets increased $17,960,000 (3.2%) from $565,831,000 in the second quarter of 2016 to $583,791,000 in the second quarter of 2017. When compared to the second quarter of 2016, average investment securities increased $1,700,000 (0.6%) from $264,409,000 for the second quarter of 2016 compared to $266,109,000 for the second quarter of 2017.

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Total fully taxable equivalent interest income for the six months ended June 30, 2017 decreased $367,000 (3.4%) to $10,373,000 compared to $10,740,000 for the six months ended June 30, 2016. The breakdown of the fully taxable equivalent interest income for the six months ended June 30, 2017 over the same period in 2016 resulted from a decrease in rate (down $756,000) and an increase in volume (up $389,000). The yield on earnings assets decreased from 3.80% in 2016 to 3.60% in 2017. The primary driver in this rate decrease was a decrease in the yield on loans which saw a decrease from 4.91% in 2016 to 4.59% in 2017 and a decrease in the yield on investments, which saw a decrease from 2.58% in 2016 to 2.40% in 2017. This decrease is caused by the overall lower interest rate environment. Average earning assets increased $12,941,000 (2.3%) from $568,584,000 during the first six months of 2016 to $581,525,000 for the same period in 2017. The volume increase of $367,000 is primarily related to an increase in loan balances from 2016 to 2017. Average loan balances increased by $20,494,000 (6.9%) from $297,764,000 during 2016 to $318,258,000 during 2017 and accounted for an increase of $488,000 in interest income, which was partially offset by a decrease in average investment balances. Average investment securities decreased $7,750,000 (2.9%) from $269,828,000 for the first six months of 2016 compared to $262,078,000 for the first six months of 2017.

Interest expense was $31,000 (14.0%) higher in the second quarter of 2017 versus the prior year period, increasing from $221,000 to $252,000. The $31,000 increase in interest expense during the second quarter of 2017 compared to the second quarter of 2016 was due to higher rates (up $28,000) and higher volume (up $3,000). While average deposits increased by $21,048,000 (up 4.0%), from $521,777,000 during the second quarter of 2016 to $542,825,000 during the second quarter of 2017, interest bearing balances (which includes other borrowings) increased by $16,359,000 (up 4.7%), from $345,417,000 during the second quarter of 2016 to $361,776,000 during the second quarter of 2017. 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. Interest expense on time deposits increased by $20,000 (up 14.1%) from $142,000 in the second quarter of 2016 to $162,000 in the second quarter of 2017 while the time deposit balances actually decreased by $1,444,000 (down 1.7%) from $83,087,000 in the second quarter of 2016 to $81,643,000 in the second quarter of 2017.

Interest expense was $39,000 (8.6%) higher in the six-month period ended June 30, 2017 increasing from $455,000 in 2016 to $494,000 in 2017. The increase is related to rates (up $57,000) partially offset by volume (down $18,000). Rates paid on interest bearing liabilities increased 2 basis points from 0.26% to 0.28% for 2016 compared to 2017. The $57,000 increase in interest expense related to higher rates 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. Interest expense on time deposits increased by $36,000 (up 12.8%) from $281,000 in 2016 to $317,000 in 2017 while the time deposit balances actually decreased by $1,478,000 (down 1.8%) from $83,449,000 in 2016 to $81,971,000 in 2017. Also contributing to the volume increase was higher borrowing costs. Interest expense on borrowings, due to rate, increased interest expense by $26,000 as the matured borrowings were renewed at the higher current market rates. The borrowings also had an impact on the $18,000 change in rates due to volume. Average other borrowings decreased $3,827,000 (19.8%) from $19,327,000 in the first six months of 2016 to $15,500,000 in the first six months of 2017.

Table Two, Analysis of Net Interest Margin on Earning Assets, and Table Three, Analysis of Volume and Rate Changes on Net Interest Income and Expenses, are provided to enable the reader to understand the components and trends of the Company's interest income and expenses. Table Two provides an analysis of net interest margin on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. Table Three sets forth a summary of the changes in interest income and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates.

Table Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended June 30, (Taxable Equivalent Basis) (dollars in thousands)	2017 Avg Balance	2017 Interest	2017 Avg Yield (4)		2016 Avg Balance	2016 Interest	2016 Avg Yield (4)	
Assets								
Earning assets:								
Taxable loans and leases (1)	$302,062	$3,458	4.59	%	$283,373	$3,445	4.89	%
Tax-exempt loans and leases (2)	14,361	180	5.03	%	17,050	232	5.47	%
Taxable investment securities	243,199	1,363	2.25	%	240,997	1,441	2.40	%
Tax-exempt investment securities (2)	22,811	212	3.73	%	23,336	215	3.71	%
Corporate stock (2)	99	6	24.31	%	76	8	42.34	%
Federal funds sold	—	—	—		—	—	—	
Investments in time deposits	1,259	3	0.96	%	999	2	0.81	%
Total earning assets	583,791	5,222	3.59	%	565,831	5,343	3.80	%
Cash & due from banks	29,263				28,070			
Other assets	39,191				36,849			
Allowance for loan & lease losses	(4,864)				(5,098)			
	$647,381				$625,652			
Liabilities & Shareholders' Equity								
Interest bearing liabilities:								
Interest checking and money market	$201,166	36	0.07	%	$188,365	35	0.07	%
Savings	63,467	5	0.03	%	59,679	5	0.03	%
Time deposits	81,643	162	0.80	%	83,087	142	0.69	%
Other borrowings	15,500	49	1.27	%	14,286	39	1.10	%
Total interest bearing liabilities	361,776	252	0.28	%	345,417	221	0.26	%
Noninterest bearing demand deposits	196,549				190,646			
Other liabilities	7,195				6,258			
Total liabilities	565,520				542,321			
Shareholders' equity	81,861				83,331			
	$647,381				$625,652			
Net interest income & margin (3)		$4,970	3.41	%		$5,122	3.64	%

(1) Loan interest includes loan fees of $43,000 and $55,000, respectively, during the three months ended June 30, 2017 and June 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 (91 days) and annualized to actual days in the year (366 days in 2016 and 365 days in 2017).

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Six Months Ended June 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)	$303,834	$6,888	4.57	%	$281,143	$6,807	4.87	%
Tax-exempt loans and leases (2)	14,424	356	4.98	%	16,621	462	5.59	%
Taxable investment securities	239,207	2,686	2.26	%	245,310	2,993	2.45	%
Tax-exempt investment securities (2)	22,768	422	3.74	%	24,446	461	3.79	%
Corporate stock (2)	103	16	31.33	%	72	14	39.10	%
Federal funds sold	—	—	—		—	—	—	
Interest-bearing deposits in banks	1,189	5	0.85	%	992	3	0.61	%
Total earning assets	581,525	10,373	3.60	%	568,584	10,740	3.80	%
Cash & due from banks	34,261				28,108			
Other assets	39,118				38,723			
Allowance for loan & lease losses	(4,846)				(5,051)			
	$650,058				$630,364			
Liabilities & Shareholders' Equity								
Interest-bearing liabilities:								
Interest checking and money market	$198,794	70	0.07	%	$188,463	75	0.08	%
Savings	63,367	10	0.03	%	59,442	10	0.03	%
Time deposits	81,971	317	0.78	%	83,449	281	0.68	%
Other borrowings	15,500	97	1.26	%	19,327	89	0.93	%
Total interest-bearing liabilities	359,632	494	0.28	%	350,681	455	0.26	%
Noninterest-bearing demand deposits	200,086				188,791			
Other liabilities	7,597				6,362			
Total liabilities	567,315				545,834			
Shareholders' equity	82,743				84,530			
	$650,058				$630,364			
Net interest income & margin (3)		$9,879	3.43	%		$10,285	3.64	%

(1) Loan interest includes loan fees of $110,000 and $95,000, respectively, during the six months ended June 30, 2017 and June 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 (182 days for 2016 and 181 days for 2017) and annualized to actual days in the year (366 days for 2016 and 365 days for 2017).

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Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses
Three Months Ended June 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)	$ 228	$ (215)	$ 13
Tax-exempt loans and leases (2)	(37)	(15)	(52)
Taxable investment securities	13	(91)	(78)
Tax exempt investment securities (3)	(5)	2	(3)
Corporate stock	2	(4)	(2)
Interest-bearing deposits in banks	1	—	1
Total	202	(323)	(121)
Interest-bearing liabilities:			
Interest checking and money market	2	(1)	1
Savings deposits	—	—	—
Time deposits	(2)	22	20
Other borrowings	3	7	10
Total	3	28	31
Interest differential	$ 199	$ (351)	$ (152)

Six Months Ended June 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)	$ 549	$ (468)	$ 81
Tax-exempt loans and leases (2)	(61)	(45)	(106)
Taxable investment securities	(74)	(233)	(307)
Tax exempt investment securities (3)	(32)	(7)	(39)
Corporate stock	6	(4)	2
Interest-bearing deposits in banks	1	1	2
Total	389	(756)	(367)
Interest-bearing liabilities:			
Interest checking and money market	4	(9)	(5)
Savings deposits	1	(1)	—
Time deposits	(5)	41	36
Other borrowings	(18)	26	8
Total	(18)	57	39
Interest differential	$ 407	$ (813)	$ (406)

(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 $43,000 and $55,000, respectively, during the three months ended June 30, 2017 and June 30, 2016, and loan fees of $110,000 and $95,000, respectively, during the six months ended June 30, 2017 and June 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 did not provide any provision for loan and lease losses for the second quarter of 2017 or 2016. The Company experienced net loan and lease recoveries of $48,000 or 0.06% (on an annualized basis) of average loans and leases for the three months ended June 30, 2017 compared to net loan and lease recoveries of $50,000 or 0.07% (on an annualized basis) of average loans and leases for the three months ended June 30, 2016. For the first six months of 2017 and 2016, the Company did not make any provisions for loan and lease losses and net loan and lease recoveries were $59,000 or 0.04% (on an annualized basis) of average loans and leases outstanding in 2017 and $157,000 or 0.11% (on an annualized basis) of average loans and leases outstanding in 2016. The Company continued to experience an overall improvement in the credit quality of the loan and lease portfolio and a reduction of credit losses. For additional information see the “Allowance for Loan and Lease Losses Activity.”

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Noninterest Income

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

Table Four: Components of Noninterest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Service charges on deposit accounts	$ 114	$ 127	$ 231	$ 256
Gain (loss) on sale/call/impairment of securities	86	(1)	142	281
Merchant fee income	104	93	196	179
Bank owned life insurance	79	81	157	159
Income from OREO properties	—	—	—	106
Other	56	63	132	136
Total noninterest income	$ 439	$ 363	$ 858	$ 1,117

Noninterest income increased $76,000 (20.9%) to $439,000 for the three months ended June 30, 2017 compared to $363,000 for the three months ended June 30, 2016. The increase from the second quarter of 2016 to the second quarter of 2017 was primarily related to an increase in gain on sale of securities, which increased $87,000 from a loss of $1,000 in 2016 to a gain of $86,000 in 2017.

For the six months ended June 30, 2017, noninterest income decreased $259,000 (23.2%) from $1,117,000 to $858,000. The decrease from the first six months of 2016 compared to the same period in 2017 was primarily related to lower gain on sale of securities (down $139,000 or 49.5%) resulting in income of $281,000 in the first half of 2016 compared to $142,000 for the first half of 2017. In addition, there was a decrease in rental income from OREO properties which declined $106,000 from $106,000 in 2016 to zero in 2016. The decrease in OREO income resulted from the sale of the only income producing OREO property in the first quarter of 2016.

Noninterest Expense

Noninterest expense decreased $47,000 (1.4%) to $3,368,000 for the three months ended June 30, 2017 compared to $3,415,000 for the three months ended June 30, 2016. Salary and employee benefits expense decreased $37,000 (1.8%) from $2,101,000 during the second quarter of 2016 to $2,064,000 during the second quarter of 2017. The decrease in salaries and benefits expense resulted from some vacant positions. Average full-time equivalent employees was 92 during the second quarter of 2017 compared to 98 during the second quarter of 2016. Occupancy expense decreased $30,000 (10.7%) and furniture and equipment expense decreased $16,000 (9.8%) from the second quarter of 2016 to the second quarter of 2017. FDIC assessments decreased $24,000 (31.6%) from the second quarter of 2016 to the second 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 decreased $8,000 (40.0%) during the second quarter of 2016 to $12,000, from $20,000 in the second quarter of 2016. The primary reason for the decrease in OREO related expenses was the reduction in OREO properties and related carrying costs. Other expenses increased $68,000 (8.9%) to $831,000 in the second quarter of 2017 compared to $763,000 in the second quarter of 2016. The fully taxable equivalent efficiency ratio for the second quarters of 2017 and 2016 was 62.3%.

Noninterest expense for the six-month period ended June 30, 2017 was $6,798,000 compared to $7,206,000 for the same period in 2016 for a decrease of $408,000 (5.7%). Salaries and benefits expense decreased $26,000 (0.6%) from $4,261,000 for the six months ended June 30, 2016 to $4,235,000 for the same period in 2017. Occupancy expense decreased $59,000 (10.0%) and furniture and equipment expense decreased $30,000 (9.1%). FDIC assessments decreased $51,000 (32.7%) from $156,000 in 2016 to $105,000 in 2017. OREO related expenses decreased $328,000 (91.1%) during 2017 to $32,000, from $360,000 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 $87,000 (5.8%) from $1,511,000 for the six months ended June 30, 2016 to $1,598,000 for the same period in 2017.

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The overhead efficiency ratio (fully taxable equivalent), for the first six months of 2017 was 63.3% as compared to 63.2% in the same period of 2016.

Provision for Income Taxes

Federal and state income taxes for the quarter ended June 30, 2017 decreased $9,000 (1.4%) from $652,000 in the second quarter of 2016 to $643,000 in the second quarter of 2017 and decreased $26,000 (2.0%) from $1,285,000 in the six months ended June 30, 2016 to $1,259,000 for the six months ended June 30, 2017. The combined federal and state effective tax rate for the quarter ended June 30, 2017 was 33.1%, compared to 33.3% for the second quarter of 2016. For the six months ended June 30, 2017, the combined federal and state effective tax rate was 33.7% compared to 32.4% for the six months ended June 30, 2016. The lower effective tax rate in the second quarter of 2017 results from tax benefits realized under ASU 2016-09. The Company's tax benefit from ASU 2016-09 for the second quarter of 2017 was $28,000. The higher effective tax rate for the six month period in 2017 compared to 2016 resulted from a decrease in tax exempt loan interest. Tax exempt loan interest was $266,000 in 2017 compared to $345,000 in 2016.

Balance Sheet Analysis

The Company's total assets were $641,605,000 at June 30, 2017 compared to $651,450,000 at December 31, 2016, representing a decrease of $9,845,000 (1.5%). The average assets for the three months ended June 30, 2017 were $647,381,000, which represents an increase of $21,729,000 (3.5%) from the balance of $625,652,000 during the three-month period ended June 30, 2016. The average assets for the six months ended June 30, 2017 were $650,058,000, which represents an increase of $19,694,000 (3.1%) from the average balance of $630,364,000 during the six-month period ended June 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 June 30, 2017 and December 31, 2016.

Table Five: Investment Securities Composition
(dollars in thousands)

Available-for-sale (at fair value)	June 30, 2017	December 31, 2016
Debt securities:		
U.S. Government Agencies and Sponsored Entities	$ 228,265	$ 229,785
Obligations of states and political subdivisions	22,525	22,612
Corporate bonds	6,589	1,519
Corporate stock	92	104
Total available-for-sale investment securities	$ 257,471	$ 254,020
Held-to-maturity (at amortized cost)		
Debt securities:		

U.S. Government Agencies and Sponsored Entities	$ 429	$ 483
Total held-to-maturity investment securities	$ 429	$ 483

Net unrealized gains on available-for-sale investment securities totaling $1,647,000 were recorded, net of $659,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 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.

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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 originating $12 million in new loans during the first half 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 $7,940,000 (2.4%) from $324,086,000 at December 31, 2016 to $316,146,000 at June 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 June 30, 2017 and December 31, 2016.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	June 30, 2017 $	%	December 31, 2016 $	%	Change in dollars	Percentage change
Commercial	$28,756	9 %	$ 35,374	11 %	$ (6,618)	(18.7 %)
Real estate						
Commercial	190,341	59 %	191,129	58 %	(788)	(0.4 %)
Multi-family	71,031	22 %	73,373	22 %	(2,342)	(3.2 %)
Construction	9,852	3 %	9,180	3 %	672	7.3 %
Residential	17,503	6 %	15,718	5 %	1,785	11.4 %
Lease financing receivable	297	—	404	— %	(107)	(26.5 %)
Agriculture	2,113	1 %	2,302	1 %	(189)	(8.2 %)
Consumer	1,359	—	1,650	— %	(291)	(17.6 %)
Total loans and leases	321,252	100%	329,130	100 %	(7,878)	(2.4 %)
Deferred loan and lease fees, net	(225)		(222)		(3)	
Allowance for loan and lease losses	(4,881)		(4,822)		(59)	
Total net loans and leases	$316,146		$ 324,086		$ (7,940)	(2.4 %)

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.

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“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 June 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 June 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 June 30, 2017, outstanding unimproved residential land commitments were $2,429,000 (or just 0.8% of the total real estate loans). Of the $2,429,000, $2,358,000 (97%) 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.

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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.

Nonperforming, Past Due and Restructured Loans and Leases

At June 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 $12,000 or 0.00% of total loans and leases. The $12,000 in nonperforming loans and leases consisted of one consumer loan that was less than 30 days past due pursuant to the 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 June 30, 2017 or December 31, 2016.

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

Table Seven: Nonperforming Loans and Leases

(dollars in thousands)	June 30, 2017	December 31, 2016
Past due 90 days or more and still accruing:		
Commercial	$ —	$ —
Real estate	—	—
Lease financing receivable	—	—
Agriculture	—	—
Consumer	—	—
Nonaccrual:		
Commercial	—	—
Real estate	—	—
Lease financing receivable	—	—
Agriculture	—	—
Consumer	12	19
Total nonperforming loans	$ 12	$ 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 June 30, 2017. Management is not aware of any potential problem loans, which were accruing and current at June 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 June 30, 2017, the recorded investment in loans and leases that were considered to be impaired totaled $16,998,000, all of which are considered performing loans and leases. Of the total impaired loans of $16,998,000, loans totaling $9,088,000 were deemed to require no specific reserve and loans totaling $7,910,000 were deemed to require a related valuation allowance of $505,000. Of the $9,088,000 impaired loans that did not carry a specific reserve there were $3,831,000 in loans or leases that had previous partial charge-offs and $5,257,000 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 second quarter of 2017, the Company had net recoveries of $48,000 with no provision. In the second quarter of 2016, the Company had net recoveries of $50,000 with no provision.

During the quarters ended June 30, 2017 and June 30, 2016, there were no loans that were modified as troubled debt restructurings. There were no payment defaults during the three months ended June 30, 2017 or June 30, 2016 on troubled debt restructurings made in the preceding twelve months. At June 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. Table Eight below summarizes, for the periods indicated, the activity in the ALLL.

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Table Eight: Allowance for Loan and Lease Losses

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Average loans and leases outstanding	$316,423	$300,423	$318,258	$297,764
Allowance for loan and lease losses at beginning of period	$4,833	$5,082	$4,822	$4,975
Loans and leases charged off:				
Commercial	—	—	—	—
Real estate	—	—	—	—
Lease financing receivable	—	—	—	—
Agriculture	—	—	—	—
Consumer	—	—	—	—
Total	—	—	—	—
Recoveries of loans and leases previously charged off:				
Commercial	2	39	3	73
Real estate	44	11	53	12
Lease financing receivable	—	—	—	—
Agriculture	—	—	—	—
Consumer	2	—	3	72
Total	48	50	59	157
Net loans and leases charged off	48	50	59	157
Additions to allowance charged to operating expenses	—	—	—	—
Allowance for loan and lease losses at end of period	$4,881	$5,132	$4,881	$5,132
Ratio of net charge-offs to average loans and leases outstanding (annualized)	-0.06 %	-0.07 %	-0.04 %	-0.11 %
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	0.00 %	0.00 %	0.00 %	0.00 %
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	1.52 %	1.65 %	1.52 %	1.65 %

The ALLL totaled $4,881,000 or 1.52% of total loans and leases at June 30, 2017 compared to $4,822,000 or 1.47% of total loans and leases at December 31, 2016. 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 as a percentage of impaired loans and leases was 28.7% at June 30, 2017 and 27.9% at December 31, 2016. Of the total nonperforming and impaired loans and leases outstanding as of June 30, 2017, there were $4,200,000 in loans or leases that had been reduced by partial charge-offs of $756,000. 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.

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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 June 30, 2017, the Company had two other real estate owned ("OREO") properties totaling $1,348,000, unchanged from the balance reported as of December 31, 2016. During the first and second quarters of 2017, the Company did not acquire or sell any OREO properties nor were there any impairment charges to either of these two properties. There was no valuation allowance at June 30, 2017 nor at year end 2016. The Company believes that both of the OREO properties owned at June 30, 2017 are carried approximately at fair value.

Deposits

At June 30, 2017, total deposits were $537,880,000 representing a $6,926,000 (1.3%) decrease 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 six months of 2017, the Company experienced increases in money market accounts ($656,000 or 0.5%) and savings ($890,000 or 1.4%), and decreases in noninterest-bearing ($4,901,000 or 2.4%), interest-bearing checking ($1,416,000 or 2.2%) and time deposits ($2,155,000 or 2.6%) accounts.

Other Borrowed Funds

Other borrowings outstanding as of June 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)

	June 30, 2017		December 31, 2016	
	Amount	Rate	Amount	Rate
Short-term borrowings:				
FHLB advances	$2,000	1.01%	$ 3,500	1.01 %

Long-term borrowings:				
FHLB advances	$13,500	1.33%	$ 12,000	1.32 %

The maximum amount of short-term borrowings at any month-end during the first six months of 2017 and 2016 was $3,500,000 and $28,500,000, respectively.

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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	$13,500
Maturity	2017-2018	2018 to 2020
Weighted average rates	1.01 %	1.33 %

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 June 30, 2017, shareholders' equity was $81,373,000, representing a decrease of $2,477,000 (3.0%) from $83,850,000 at December 31, 2016. The decrease results from repurchases of common stock ($5,006,000) and the payment of cash dividends ($657,000) exceeding the additions from other comprehensive income ($444,000), net income for the period ($2,481,000), and the stock based compensation ($261,000). The Company's ratio of total risk-based capital to risk adjusted assets was 19.7% at June 30, 2017 and 20.3% at December 31, 2016. Tier 1 risk-based capital to risk-adjusted assets was 18.4% at June 30, 2017 and 19.0% at December 31, 2016. The leverage ratio was 10.2% at June 30, 2017 and 10.5% at December 31, 2016. Table Ten below lists the Company's and American River Bank's capital ratios at June 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	June 30, 2017	December 31, 2016	Minimum Regulatory Capital Requirements	Well-Capitalized Minimum Requirements
American River Bankshares	ITEM 1A. RISK FACTORS			

Not applicable as the Company is a smaller reporting company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

Recent Legislation

The Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") which was signed into law on July 21, 2010, Generally, the Dodd-Frank Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Company's or the Bank's business, results of operations and financial condition. The Dodd-Frank Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;

- Removes trust preferred securities issued after May 19, 2010, as a permitted component of a holding company's Tier 1 capital and, after a three-year phase-in period beginning January 1, 2013, eliminates Tier 1 capital treatment for all trust preferred securities issued by holding companies with more than $15 billion in total consolidated assets;

- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% and changes in the basis for determining FDIC premiums from deposits to assets;

- Creates a new consumer financial protection bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;

- Provides for new disclosure and other requirements relating to executive compensation and corporate governance;

- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;

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Provides mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions;

- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

- Permanently increases the deposit insurance coverage to $250 thousand and allows depository institutions to pay interest on checking accounts; and

- Requires publicly-traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

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- Abolishes the Office of Thrift Supervision and delegates its supervisory and rule making functions to the Office of the Comptroller of the Currency ("OCC"), the primary federal banking regulator of national banks;

- Delegates supervisory and rulemaking functions to the Board of Governors of the Federal Reserve System for savings and loan holding companies, such as the Company;

ITEM 6. EXHIBITS

31.1 Certification of CEO required by Rule 13a-14(a).
31.2 Certification of CFO required by Rule 13a-14(a).
32 Certification required by 18 U.S.C. §1350.

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.

PARKE BANCORP, INC.

Date:	November 15 2010	/s/ Vito S. Pantilione Vito S. Pantilione President and Chief Executive Officer (Principal Executive Officer)
Date:	November 15, 2010	/s/ John F. Hawkins John F. Hawkins Senior Vice President and Chief Financial Officer (Principal Accounting Officer)