AMERICAN RIVER BANKSHARES
Form 10-Q
November 06, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from ____________________ to ____________________

Commission File Number: 0-31525

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[X]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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

No par value Common Stock - 5,517,247 shares outstanding at November 5, 2008.

AMERICAN RIVER BANKSHARES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2008

			Page
Part I.			
	Item 1.	Financial Statements	3
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
	Item 4.	Controls and Procedures	33
Part II.			
	Item 1.	Legal Proceedings	34
	Item 1A.	Risk Factors	34
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
	Item 3.	Defaults Upon Senior Securities	36
	Item 4.	Submission of Matters to a Vote of Security Holders	36
	Item 5.	Other Information	36
	Item 6.	Exhibits	36
Signatures			41
Exhibit Index			42
	31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	43
	31.2	Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	44
	32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	45

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2008	Decem 20
ASSETS		
Cash and due from banks	$ 17,258	$
Federal funds sold	--	
Total cash and cash equivalents	17,258	
Interest-bearing deposits in banks	4,941	
Investment securities:		
Available-for-sale (amortized cost: 2008--$64,648; 2007--$78,799)	63,954	
Held-to-maturity (fair value: 2008--$26,859; 2007--$34,855)	26,655	
Loans and leases, less allowance for loan and lease losses of $6,183 at September 30, 2008 and $5,883 at December 31, 2007	420,911	
Premises and equipment, net	2,028	
Federal Home Loan Bank stock	3,890	
Accounts receivable servicing receivables, net	1,310	
Goodwill and other intangible assets	17,299	
Accrued interest receivable and other assets	18,422	
	$ 576,668	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 120,231	$
Interest-bearing	315,674	
Total deposits	435,905	
Short-term borrowings	56,873	
Long-term borrowings	16,500	
Accrued interest payable and other liabilities	5,796	
Total liabilities	515,074	
Commitments and contingencies		
Shareholders' equity:		
Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 5,517,415 shares at September 30, 2008 and 5,590,277 shares at December 31, 2007	44,543	
Retained earnings	17,461	
Accumulated other comprehensive (loss) income, net of taxes	(410)	
Total shareholders' equity	61,594	

	$ 576,668	$

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
UNAUDITED CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share data)
For the periods ended September 30,

	Three months		
	2008	2007	20
Interest income:			
Interest and fees on loans	$ 7,283	$ 8,010	$
Interest on Federal funds sold	1	15	
Interest on deposits in banks	52	68	
Interest and dividends on investment securities:			
Taxable	984	1,089	
Exempt from Federal income taxes	280	268	
Dividends	4	4	
Total interest income	8,604	9,454	
Interest expense:			
Interest on deposits	1,415	2,481	
Interest on borrowings	447	293	
Total interest expense	1,862	2,774	
Net interest income	6,742	6,680	
Provision for loan and lease losses	381	50	
Net interest income after provision for loan and lease losses	6,361	6,630	
Noninterest income	446	669	
Noninterest expense:			
Salaries and employee benefits	2,097	2,168	
Occupancy	376	356	
Furniture and equipment	186	176	
Other expense	1,035	1,096	
Total noninterest expense	3,694	3,796	
Income before provision for income taxes	3,113	3,503	
Provision for income taxes	1,182	1,351	

Net income	$ 1,931	$ 2,152	$
Basic earnings per share	$ 0.35	$ 0.37	$
Diluted earnings per share	$ 0.35	$ 0.37	$
Cash dividends per share	$ 0.15	$ 0.14	$

See notes to Unaudited Consolidated Financial Statements

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

	Common Stock			Accumu Oth
	Shares	Amount	Retained Earnings	Compreh Income
Balance, January 1, 2007	5,657,346	$ 48,246	$ 14,690	$
Comprehensive income:				
Net income			8,478	
Other comprehensive income, net of tax:				
Net change in unrealized gains (losses) on available-for-sale investment securities				
Total comprehensive income				
Cash dividends ($0.58 per share)			(3,319)	
Fractional shares redeemed for stock dividend	(6)	(9)		
5% stock dividend	265,683	5,645	(5,645)	
Stock options exercised and related tax benefit	54,569	679		
Stock option compensation expense		301		
Retirement of common stock	(387,315)	(9,194)		
Balance, December 31, 2007	5,590,277	45,668	14,204	
Comprehensive income:				
Net income			5,745	
Other comprehensive income, net of tax:				
Net change in unrealized gains (losses) on available-for-sale investment securities				
Total comprehensive income				
Cash dividends ($0.45 per share)			(2,488)	

Stock options exercised and related tax benefit	32,638	320		
Stock option compensation expense		216		
Retirement of common stock	(105,500)	(1,661)		
Balance, September 30, 2008	5,517,415	$ 44,543	$ 17,461	$

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands)
For the nine months ended September 30,

	2008	20
Cash flows from operating activities:		
Net income	$ 5,745	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	908	
Increase (decrease) in deferred loan origination fees, net	23	
Depreciation and amortization	612	
Loss (gain) on sale, call and impairment of securities	106	
Amortization of investment security premiums and discounts, net	104	
Decrease in provision for accounts receivable servicing receivable allowance for losses	--	
Increase in cash surrender value of life insurance polices	(306)	
Stock option compensation expense	216	
Tax benefit from exercise of stock options	(85)	
Decrease in accrued interest receivable and other assets	1,106	
Decrease in accrued interest payable and other liabilities	(657)	
Net cash provided by operating activities	7,772	
Cash flows from investing activities:		
Proceeds from the sale of investment securities	24,225	
Proceeds from matured and called available-for-sale investment securities	12,495	
Purchases of available-for-sale investment securities	(29,629)	
Purchases of held-to-maturity investment securities	--	
Proceeds from principal repayments for available-for-sale investment securities	6,786	
Proceeds from principal repayments for held-to-maturity investment securities	8,162	
Net decrease in interest-bearing deposits in banks	10	
Net increase in loans	(27,582)	

Proceeds from sale of other real estate	61	
Net decrease in accounts receivable servicing receivables	356	
Purchases of equipment	(443)	
Net (increase) decrease in FHLB stock	(1,090)	
Net cash (used in) provided by investing activities	(6,649)	

Cash flows from financing activities:		
Net decrease in demand, interest-bearing and savings deposits	$ (23,989)	$
Net increase (decrease) in time deposits	4,249	(
Net increase (decrease) in short-term borrowings	5,270	
Net increase (decrease) in long-term borrowings	16,500	
Payment of cash dividends	(2,499)	
Cash paid to repurchase common stock	(1,661)	
Exercise of stock options	235	
Tax benefit from exercise of stock options	85	
Net cash used in financing activities	(1,810)	(
Decrease in cash and cash equivalents	(687)	
Cash and cash equivalents at beginning of year	17,945	
Cash and cash equivalents at end of period	$ 17,258	$

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the "Company") at September 30, 2008 and December 31, 2007, and the results of its operations for the three-month and nine-month periods ended September 30, 2008 and 2007 and its cash flows for the nine-month periods ended September 30, 2008 and 2007 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 2007 annual report on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2008 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 and the estimated fair value of investment securities.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of American River Bank, all branches 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 branches 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

Stock Option Plans

In 2000 and 1995, the Board of Directors adopted stock option plans under which options may be granted to employees and directors under incentive and nonstatutory agreements. The plans require that the option price may not be less than the fair market value of the stock at the date the option is granted. The options under the plans expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. 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 options under the plans are exercisable until their expiration. New shares are issued upon exercise.

Stock Option Compensation

There were no stock options granted during the three-month periods ended September 30, 2008 and 2007. The weighted average grant date fair value of options granted for the nine-month periods ended September 30, 2008 and 2007 was $2.89 and $6.06, respectively. For the three-month periods ended September 30, 2008 and 2007, the compensation cost recognized for stock option compensation was $74,000 and $80,000, respectively. For the nine-month periods ended September 30, 2008 and 2007, the compensation cost recognized for stock option compensation was $216,000 and $221,000, respectively. The recognized tax benefit for stock option compensation expense was $9,000 and $13,000, for the

three-month periods ended September 30, 2008 and 2007, respectively. The recognized tax benefit for stock option compensation expense was $26,000 and $37,000, for the nine-month periods ended September 30, 2008 and 2007, respectively. At September 30, 2008, the total compensation cost related to nonvested awards not yet recorded is expected to be $841,000. This amount will be recognized over the next five years and the weighted average period of recognizing these costs is expected to be 3.1 years.

Stock Option Activity

A summary of option activity under the stock option plans as of September 30, 2008 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	V
Outstanding at January 1, 2008	332,310	$ 18.33	6.5 years	$
Granted	62,285	$ 16.93	9.8 years	
Exercised	(32,626)	$ 7.74	--	
Cancelled	(32,456)	$ 16.68	--	
Outstanding at September 30, 2008	329,513	$ 19.41	7.1 years	$
Exercisable at September 30, 2008	142,179	$ 17.74	5.8 years	$

The intrinsic value was derived from the market price of the Company's common stock of $9.93 as of September 30, 2008.

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 $89,198,000 and standby letters of credit of approximately $5,304,000 at September 30, 2008. Such loans relate primarily to real estate construction loans and 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 2008 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees was not significant at September 30, 2008 or September 30, 2007.

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 (5,526,654 and 5,540,812 shares for the three-month and nine-month periods ended September 30, 2008, and 5,772,888 and 5,804,940 shares for the three-month and nine-month periods ended September 30, 2007). Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options (5,264 and

16,740 shares for the three-month and nine-month periods ended September 30, 2008 and 50,592 and 67,172 shares for the three-month and nine-month periods ended September 30, 2007). Earnings per share is retroactively adjusted for stock dividends and stock splits for all periods presented.

5. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is comprised of net income plus other comprehensive (loss) income. Other comprehensive (loss) income, net of taxes, was comprised of the unrealized losses on available-for-sale investment securities of $(374,000) and $(511,000), respectively, for the three-month and nine-month periods ended September 30, 2008 and $495,000 and $362,000, respectively, for the three-month and nine month periods ended September 30, 2007. Comprehensive income was $1,557,000 and $5,234,000, respectively, for the three-month and nine-month periods ended September 30, 2008 and $2,647,000 and $6,698,000, respectively, for the three-month and nine-month periods ended September 30, 2007. Reclassification adjustments resulting from realized gain or loss on sale of investment securities for the quarter ended included gains on sale of $93,000 and an impairment loss of $233,000 and for the quarter ended September 30, 2007 were not significant.

6. BORROWING ARRANGEMENTS

At September 30, 2008, the Company has a total of $52,000,000 in unsecured short-term borrowing arrangements with three of its correspondent banks. There were no advances under the borrowing arrangements as of September 30, 2008 or December 31, 2007.

In addition, the Company has a line of credit available with the Federal Home Loan Bank (the "FHLB") which is secured by pledged mortgage loans and investment securities. Borrowings may include overnight advances as well as loans with terms of up to thirty years. Advances (both short and long-term) totaling $73,373,000 were outstanding from the FHLB at September 30, 2008, bearing interest rates ranging from 1.31% to 3.78% and maturing between October 1, 2008 and August 22, 2011. Advances totaling $51,603,000 were outstanding from the FHLB at December 31, 2007, bearing interest rates ranging from 3.25% to 5.21% and maturing between January 2, 2008 and October 30, 2008. Remaining amounts available under the borrowing arrangement with the FHLB at September 30, 2008 and December 31, 2007 totaled $39,627,000 and $79,631,000, respectively.

7. 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 income taxes.

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

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the three and nine-month periods ended September 30, 2008.

8. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. There was no cumulative effect adjustment to beginning retained earnings recorded upon adoption and no impact on the financial statements in the first nine months of 2008.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize information other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement, in its entirety, falls has been determined based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement, in its entirety, requires judgment and considers factors specific to the asset or liability.

(dollars in thousands)

Description	Fair Value September 30, 2008	Fair Value Measurements at September 30, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Si Uno (

Assets and liabilities measured on a recurring basis:				
Available-for-sale securities	$ 63,954	$ 93	$ 63,861	$
Total	$ 63,954	$ 93	$ 63,861	$
Assets and liabilities measured on a nonrecurring basis:				
Impaired loans	$ 7,253	$ --	$ 7,253	$
Other real estate owned	716	--	716	
Total	$ 7,969	$ --	$ 7,969	$

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

Available-for-sale securities - Fair values for investment securities are based on evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Evaluated pricing applications apply available information, as applicable, through processes such as benchmark curves, benchmarking to like securities, sector groupings, and matrix pricing.

Impaired Loans - The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

Other real estate owned - Other real estate owned represents real estate which the Company has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the fair value of the real estate less costs to sell, which becomes the property's new basis.

9. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"(SFAS No. 162). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with accounting principles generally accepted in the United States of America. The provisions of SFAS No. 162 did not have a material impact on the Company's condensed consolidated financial statements.

On October 10, 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." The FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provision of the FSP effective September 30, 2008. The implementation of FSP FAS 157-3 did not affect the Company's fair value measurement as of September 30, 2008.

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, 2007 and September 30, 2008 and its income and expense accounts for the three-month and nine-month periods ended September 30, 2008 and 2007. 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.

Certain matters discussed or incorporated by reference in this Quarterly Report on Form 10-Q including, but not limited to, matters described in "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ significantly from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) variances in the actual versus projected growth in assets; (2) return on assets; (3) loan and lease losses; (4) expenses; (5) changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits and other borrowed funds; (6) competition effects; (7) fee and other noninterest income earned; (8) general economic conditions nationally, regionally, and in the operating market areas of the Company and its subsidiaries; (9) changes in the regulatory environment; (10) changes in business conditions and inflation; (11) changes in securities markets; (12) data processing problems; (13) a decline in real estate values in the Company's operating market areas; (14) the effects of terrorism, the threat of terrorism or the impact of the current military conflicts in Afghanistan and Iraq and the conduct of the war on terrorism by the United States and its allies, as well as other factors. The factors set forth under "Item 1A-Risk Factors" in the Company's report on Form 10-K for the year ended December 31, 2007, and other cautionary statements and information set forth in this report should be carefully considered and understood as being applicable to all related forward-looking statements contained in this report, 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. To gain a more complete understanding of the uncertainties and risks involved in the Company's business, this report should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2007 and its 2008 reports filed on Forms10-Q and 8-K.

Interest income and net interest income are presented on a fully taxable equivalent basis (FTE) within management's discussion and analysis.

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. We use historical loss data and the economic environment as factors, among others, in determining the inherent loss that may be present in our loan and lease portfolio. Actual losses could differ significantly from the factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is an estimate of the credit loss risk in our loan and lease portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5 "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) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which requires that losses be accrued on impaired loans based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

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

Stock-Based Compensation

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

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of 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 in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually following the year of acquisition. The Company performed an evaluation of the goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2007 and determined that there was no impairment. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes in earnings, the effective tax rate, historical earnings multiples and the cost of capital could all cause different results for the calculation of the present value of future cash flows.

Fair Value

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS No. 157 establishes a hierarchical disclosure framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

General Development of Business

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 854-0123. The Company employed an equivalent of 125 full-time employees as of September 30, 2008.

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

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. The Bank operates: (1) five full service offices and one convenience office in Sacramento and Placer Counties including the head office located at 1545 River Park Drive, Suite 107, Sacramento, and branch offices located at 520 Capitol Mall, Suite 100, Sacramento, 9750 Business Park Drive, Sacramento, 10123 Fair Oaks Boulevard, Fair Oaks and 2240 Douglas Boulevard, Roseville, and the convenience office (limited service office) located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, and (2) three full service offices in Sonoma County located at 412 Center Street, Healdsburg, 8733 Lakewood Drive, Windsor, and 50 Santa Rosa Avenue, Suite 100, Santa Rosa, operated under the name "North Coast Bank, a division of American River Bank." North Coast Bank was acquired by the Company in 2000 as a separate bank subsidiary and was merged with and into American River Bank in 2003. The Company acquired Bank of Amador located in Jackson, California in 2004. Bank of Amador was merged with and into American River Bank and now operates three full service banking offices as "Bank of Amador, a division of American River Bank" within its primary service area of Amador County, in the cities of Jackson, Pioneer and Ione.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to applicable legal limits. See also "Item 1A--Risk Factors" regarding changes to the FDIC insurance coverage and the changes to the assessments. The Bank does not offer trust services or international banking services and does not plan to do so in the near future. The Bank's primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. The Bank accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and revolving credit loans and offers other customary banking services. The Bank also conducts lease financing for most types of business equipment, from computer software to heavy earth-moving equipment. The Bank owns 100% of two inactive companies, ARBCO and American River Mortgage. ARBCO was formed in 1984 to conduct real estate development and has been inactive since 1995. American River Mortgage has been inactive since its formation in 1994.

During 2008, 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 "Board of Governors"), 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 $1,931,000 for the quarter ended September 30, 2008, which was $221,000 (10.3%) below the $2,152,000 reported for the same period of 2007. Diluted earnings per share for the third quarter of 2008 were $0.35 compared to $0.37 recorded in the third quarter of 2007. The return on average equity (ROAE) and the return on average assets (ROAA) for the third quarter of 2008 were 12.51% and 1.32%, respectively, as compared to 13.99% and 1.50%, respectively, for the same period in 2007.

Net income for the nine months ended September 30, 2008 and 2007 was $5,745,000 and $6,336,000, respectively, with diluted earnings per share of $1.03 and $1.08, respectively. For the first nine months of 2008, ROAE was 12.63% and ROAA was 1.33% compared to 13.97% and 1.47%, respectively, for the same period in 2007.

Total assets of the Company increased by $2,983,000 (0.5%) from $573,685,000 at December 31, 2007 to $576,668,000 at September 30, 2008. Net loans totaled $420,911,000 at September 30, 2008, up $25,936,000 (6.6%) from $394,975,000 at December 31, 2007. Deposit balances at September 30, 2008 totaled $435,905,000, down $19,740,000 (4.3%) from $455,645,000 at December 31,

2007. The growth in loans was funded primarily by the maturities and pay downs on investment securities and increased short and long-term borrowings.

The Company ended the third quarter of 2008 with a Tier 1 capital ratio of 9.8% and a total risk-based capital ratio of 11.0% versus 9.5% and 10.7%, respectively, at December 31, 2007. 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

	For the three months ended September 30,		For the n months en September
(in thousands, except percentages)	2008	2007	2008
Net interest income*	$ 6,834	$ 6,765	$ 19,744
Provision for loan and lease losses	(381)	(50)	(908)
Noninterest income	446	669	1,670
Noninterest expense	(3,694)	(3,796)	(10,965)
Provision for income taxes	(1,182)	(1,351)	(3,531)
Tax equivalent adjustment	(92)	(85)	(265)
Net income	$ 1,931	$ 2,152	$ 5,745
Average total assets	$ 581,851	$ 569,099	$ 577,220
Net income (annualized) as a percentage of average total assets	1.32%	1.50%	1.33%

* 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 5.14% for the three months ended September 30, 2008, 5.17% for the three months ended September 30, 2007, 5.02% for the nine months ended September 30, 2008 and 5.10% for the nine months ended September 30, 2007.

The fully taxable equivalent interest income component for the third quarter of 2008 decreased $843,000 (8.8%) to $8,696,000 compared to $9,539,000 for the three months ended September 30, 2007. Total fully taxable equivalent interest income for the nine months ended September 30, 2008 decreased

$2,980,000 (10.4%) to $25,699,000 compared to $28,679,000 for the nine months ended September 30, 2007. The decrease in the fully taxable equivalent interest income for the third quarter of 2008 compared to the same period in 2007 is broken down by rate (down $1,168,000) and volume (up $325,000). The decline in rates can be attributed to decreases implemented by the Company during the latter part of 2007 and 2008 in response to the Federal Reserve Board (the "FRB") decreases in the Federal funds and discount rates. Decreases by the FRB have resulted in seven rate reductions totaling 325 basis points since September 2007. The decrease in rates was mitigated during the third quarter of 2008 by recoveries of interest income on certain non-performing loans. During the third quarter of 2008, the Company collected interest on certain non-performing loans and reestablished the accrual of interest on certain loans that are now considered performing and were returned to accrual status. The amount recorded was higher than the amount that was required to be reversed on loans placed on non-accrual during the quarter and the forgone interest related to carrying loans on non-performing status during the quarter. The net positive effect to interest income on loans was approximately $84,000 during the third quarter of 2008 or 8 basis points. The overall decreases in the interest rate environment net of the 8 basis points described above resulted in a 75 basis point decrease in the yield on average earning assets. Yields were 7.29% for the third quarter of 2007 compared to 6.54% for the third quarter of 2008. The volume increase occurred as a result of an increase in the level of average earning assets during the quarter from $519,448,000 during 2007 to $528,981,000 during 2008 combined with a shift in the mix of earning assets from lower earning investments to higher earning loans. This is directly related to the Company's decision to use the proceeds from principal reductions and maturing investment securities to provide funding for loan growth. This strategy has reduced the average balances on investment securities by $13,246,000 or 10.8% from $122,617,000 during the third quarter of 2007 to $109,371,000 during the third quarter of 2008, while average loan balances increased $23,798,000 or 6.1% from $390,694,000 during the third quarter of 2007 to $414,492,000 during the third quarter of 2008. The Company's ability to increase its average loans is the result of its continued concentrated focus on business lending and the purchase of a $7,255,000 pool of loans secured by properties located in the Company's market area from another bank.

The breakdown of the fully taxable equivalent interest income for the nine months ended September 30, 2008 over the same period in 2007 resulted from decreases in rate (down $3,415,000) and an increase in volume (up $435,000). Average earning assets decreased $1,539,000 (0.3%) during the first nine months of 2008 as compared to the same period in 2007. Average loan balances increased $18,244,000 (4.7%) during that same period and average investment securities balances decreased $19,756,000 (15.0%).

Interest expense was $912,000 (32.9%) lower in the third quarter of 2008 versus the prior year period. The average balances of interest-bearing liabilities were $28,621,000 (7.9%) higher in the third quarter of 2008 versus the same quarter in 2007. The higher balances accounted for a $481,000 increase in interest expense. Average borrowings were up $42,155,000 (189.3%) as the Company used the borrowed funds as part of the funding for the increased loan balances with the decrease in deposit balances. Average deposit balances have decreased $29,855,000 (6.2%) from $480,097,000 during the third quarter of 2007 to $450,242,000 during the third quarter of 2008. Although the number of deposit relationships and accounts remains relatively stable, the average balances in those accounts have experienced a decrease over the past twelve months. As a result of the lower overall interest rate environment the decrease in rates accounted for a $1,168,000 reduction in interest expense for the three-month

period ended September 30, 2008. Rates paid on interest-bearing liabilities decreased 115 basis points from the third quarter of 2007 to the third quarter of 2008 from 3.06% to 1.91%. The rate on average borrowings dropped 246 basis points during that same time period from 5.22% to 2.76%.

Interest expense was $2,625,000 (30.6%) lower in the nine-month period ended September 30, 2008 versus the prior year period. The average balances on interest-bearing liabilities were $17,406,000 (4.8%) higher in the nine-month period ended September 30, 2008 versus the same period in 2007. The increase in the average balances was concentrated in the other borrowings as the average balances of the interest bearing deposit accounts decreased. As a result the higher balances accounted for an $832,000 increase in interest expense. This increase was offset by lower rates, which accounted for a $3,457,000 decrease in interest expense for the nine-month period. Rates paid on interest-bearing liabilities decreased 106 basis points from the first nine months of 2007 to the first nine months of 2008 from 3.14% to 2.08%.

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

Table Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended September 30,		2008		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance
Assets				
Earning assets:				
Loans and leases (1)	$ 414,492	$ 7,283	6.99%	$ 390,694
Taxable investment securities	81,101	984	4.83%	95,454
Tax-exempt investment securities (2)	28,101	371	5.25%	26,881
Corporate stock (2)	169	5	11.77%	282
Federal funds sold	177	1	2.25%	1,203
Investments in time deposits	4,941	52	4.19%	4,934
Total earning assets	528,981	8,696	6.54%	519,448
Cash & due from banks	19,224			16,094
Other assets	39,822			39,489
Allowance for loan & lease losses	(6,176)			(5,932)
	$ 581,851			$ 569,099
Liabilities & Shareholders' Equity				
Interest bearing liabilities:				
Interest checking and money market	$ 162,985	454	1.11%	$ 178,616
Savings	37,798	95	1.00%	37,062
Time deposits	123,554	866	2.79%	122,193

Other borrowings	64,423	447	2.76%	22,268
Total interest bearing liabilities	388,760	1,862	1.91%	360,139
Noninterest bearing demand deposits	125,905			142,226
Other liabilities	5,770			5,719
Total liabilities	520,435			508,084
Shareholders' equity	61,416			61,015
	$ 581,851			$ 569,099
Net interest income & margin (3)		$ 6,834	5.14%	

(1) Loan interest includes loan fees of $47,000 and $159,000 during the three months ending September 30, 2008 and September 30, 2007, respectively.
(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 35% for 2008 and 2007.
(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 quarter (92) and annualized to actual days in year (366 days in 2008 and 365 days in 2007).

Nine Months Ended September 30,	2008			
(Taxable Equivalent Basis) (In thousands, except percentages)	Avg Balance	Interest	Avg Yield (4)	Avg Balance
Assets				
Earning assets:				
Loans and leases (1)	$ 407,723	$ 21,472	7.03%	$ 389,479
Taxable investment securities	84,148	2,946	4.68%	102,957
Tax-exempt investment securities (2)	27,463	1,074	5.22%	28,111
Corporate stock (2)	216	22	13.61%	515
Federal funds sold	541	9	2.22%	561
Investments in time deposits	4,942	176	4.76%	4,949
Total earning assets	525,033	25,699	6.54%	526,572
Cash & due from banks	19,106			17,752
Other assets	39,136			39,782
Allowance for loan & lease losses	(6,055)			(5,949)
	$ 577,220			$ 578,157

Liabilities & Shareholders' Equity				
Interest-bearing liabilities:				
Interest checking and money market	$ 166,744	1,522	1.22%	$ 170,769
Savings	36,671	245	0.89%	38,128
Time deposits	121,475	2,855	3.14%	125,860
Other borrowings	57,747	1,333	3.09%	30,474
Total interest-bearing liabilities	382,637	5,955	2.08%	365,231
Noninterest-bearing demand deposits	127,601			146,632
Other liabilities	6,211			5,677
Total liabilities	516,449			517,540
Shareholders' equity	60,771			60,617
	$ 577,220			$ 578,157
Net interest income & margin (3)		$ 19,744	5.03%	

(1) Loan interest includes loan fees of $229,000 and $428,000 during the nine months ending September 30, 2008 and September 30, 2007, respectively.

(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 35% for 2008 and 2007.

(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 period (274 days in 2008 and 273 days in 2007) and annualized to actual days in year (366 days in 2008 and 365 days in 2007).

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

Three Months Ended September 30, 2008 over 2007 (dollars in thousands) Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ 487	$ (1,214)	$ (727)
Taxable investment securities	(163)	58	(105)
Tax exempt investment securities (3)	16	4	20
Corporate stock	(2)	1	(1)
Federal funds sold	(13)	(1)	(14)
Interest-bearing deposits in banks	--	(16)	(16)
Total	325	(1,168)	(843)
Interest-bearing liabilities:			
Interest checking and money market	(90)	(487)	(577)
Savings deposits	3	(44)	(41)
Time deposits	15	(463)	(448)
Other borrowings	553	(399)	154

Total	481	(1,393)	(912)
Interest differential	$ (156)	$ 225	$ 69

Nine Months Ended September 30, 2008 over 2007 (dollars in thousands) Increase (decrease) due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Net loans (1)(2)	$ 1,118	$ (3,486)	$ (2,368)
Taxable investment securities	(640)	86	(554)
Tax exempt investment securities (3)	(25)	14	(11)
Corporate stock	(17)	10	(7)
Federal funds sold	(1)	(11)	(12)
Interest-bearing deposits in banks	--	(28)	(28)
Total	435	(3,415)	(2,980)
Interest-bearing liabilities:			
Interest checking and money market	(69)	(1,317)	(1,386)
Savings deposits	(17)	(172)	(189)
Time deposits	(141)	(1,060)	(1,201)
Other borrowings	1,059	(908)	151
Total	832	(3,457)	(2,625)
Interest differential	$ (397)	$ 42	$ (355)

(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 $47,000 and $159,000 during the three months ending September 30, 2008 and September 30, 2007, respectively, and $229,000 and $428,000 during the nine months ending September 30, 2008 and September 30, 2007, respectively, 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 35% for 2008 and 2007.

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

Provision for Loan and Lease Losses

The Company provided $381,000 for loan and lease losses for the third quarter of 2008 as compared to $50,000 for the third quarter of 2007. Net loan and lease losses for the three months ended September 30, 2008 were $309,000 or ..30% (on an annualized basis) of average loans and leases as compared to $133,000 or 0.14% (on an annualized basis) of average loans and leases for the three months ended September 30, 2007. For the first nine months of 2008, the Company made provisions for loan and lease losses of $908,000 and net loan and lease losses were $608,000 or .20% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of

$315,000 and net loan and lease losses of $300,000 for the first nine months of 2007 or .10% (on an annualized basis) of average loans and leases outstanding. For additional information see the "Allowance for Loan and Lease Losses Activity."

Noninterest Income

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

Table Four: Components of Noninterest Income

	Three Months Ended September 30,		
	2008	2007	
Service charges on deposit accounts	$ 192	$ 177	$
Accounts receivable servicing fees	40	57	
(Loss) gain on sale and impairment of securities	(140)	11	
Merchant fee income	123	149	
Income from residential lending	72	115	
Bank owned life insurance	103	103	
Other	56	57	
Total noninterest income	$ 446	$ 669	$ 1

Noninterest income decreased $223,000 (33.3%) to $446,000 for the three months ended September 30, 2008 as compared to $669,000 for the three months ended September 30, 2007. For the nine months ended September 30, 2008, noninterest income decreased $364,000 (17.9%) to $1,670,000. The decrease from the third quarter of 2007 to the third quarter of 2008 was primarily related to an impairment charge of $233,000 on the Company's investment in Federal National Mortgage Association ("FNMA") preferred stock and lower income from fees on residential lending (down $43,000 or 37.4%). On September 7, 2008, the U.S. Government placed FNMA into conservatorship and as a result the market value of the shares has experienced a significant decline. The par value of the shares is $250,000 and the Company has written down the balance by $233,000 to $17,000. The decrease in fees from residential lending resulted from the lower number of loan closings due to the slowdown in the residential real estate market. The decrease from the first nine months of 2007 to the same period in 2008 was primarily related to the impairment of the FNMA stock and lower income from accounts receivable servicing fees (down $58,000 or 30.2%), merchant fees (down $43,000 or 10.4%) and fees on residential lending (down $93,000 or 26.6%), as activity levels have decreased since 2007.

Noninterest Expense

Noninterest expense decreased $102,000 (2.7%) to a total of $3,694,000 in the third quarter of 2008 versus $3,796,000 in the third quarter of 2007. Salary and employee benefit expense decreased $71,000 (3.3%) from $2,168,000 during the third quarter of 2007 to $2,097,000 during the third quarter of 2008. Most of this decrease resulted from a reduction in the number of full-time equivalent employees from 131 during the third quarter of 2007 to 124 during the third quarter of 2008. On a quarter-over-quarter basis, occupancy expense increased by $20,000 (5.6%) and furniture and equipment expense increased $10,000 (5.7%). The increase in occupancy and furniture and equipment expenses resulted from normal rent and utility increases and higher technology related maintenance. Other expense decreased $61,000 (5.6%) to a total of $1,035,000 in the third quarter of 2008 compared to $1,096,000 in the third quarter of 2007. The efficiency ratios (fully taxable equivalent), excluding the amortization of intangible assets, for the 2008 and 2007 third quarters were 49.8% and 50.0%, respectively.

Noninterest expense for the nine-month period ended September 30, 2008 was $10,965,000 compared to $11,267,000 for the same period in 2007 for a decrease of $302,000 (2.7%). Salaries and benefits expense decreased $244,000

(3.8%) from $6,435,000 for the nine months ended September 30, 2007 to $6,191,000 for the same period in 2008. The decrease resulted from a reduction in the number of full-time equivalent employees. Occupancy expense increased $67,000 (6.4%) and furniture and equipment expense increased $69,000 (13.8%). The increase in occupancy and furniture and equipment expenses resulted from normal rent and utility increases and higher technology related maintenance. Other expense decreased $194,000 (5.9%) from $3,286,000 for the nine months ended September 30, 2007 to $3,092,000 for the same period in 2008. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first nine months of 2008 was 50.2% as compared to 49.9% in the same period of 2007.

Provision for Income Taxes

Federal and state income taxes for the third quarter of 2008 decreased $169,000 (12.5%) to $1,182,000 from $1,351,000 for the third quarter of 2007. For the first nine months of 2008, federal and state income taxes decreased $421,000 (10.7%) from the first nine months of 2007. The decreases were a result of the lower income as the effective federal and state tax rate for the third quarter and first nine months of 2008 remained consistent at 38.0% and 38.1% versus 38.6% and 38.4%, respectively, for the same two periods of 2007.

Balance Sheet Analysis

The Company's total assets were $576,668,000 at September 30, 2008 as compared to $573,685,000 at December 31, 2007, representing a slight increase of 0.5%. The average assets for the nine months ended September 30, 2008 were $577,220,000, which represents a slight decrease of $937,000 or 0.2% from the balance of $578,157,000 during the nine-month period ended September 30, 2007. The average assets for the third quarter of 2008 were $581,851,000 compared to $569,099,000 during the third quarter of 2007 an increase of $12,752,000 or 2.2%. Although the overall change was not significant, there was a positive shift in the mix of earning assets from investment securities to loans. Average loans increased $23,798,000 (6.1%) from the third quarter of 2007 to the third quarter of 2008, while average investment securities decreased $13,246,000 (10.8%) during the same time period. The Company chose to utilize the proceeds from the reduction in the investment portfolio as a funding source for the growth in the loans.

Investment Securities

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company's intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities available-for-sale may be sold to implement asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Table Five below summarizes the values of the Company's investment securities held on September 30, 2008 and December 31, 2007.

Table Five: Investment Securities Composition

(dollars in thousands)

Available-for-sale (at fair value)	September 30, 2008	December 31, 2007
Debt securities:		
U.S. Government agencies	$ --	$ 16,506
Mortgage-backed securities	33,125	31,066
Obligations of states and political subdivisions	30,721	31,111
Corporate stock	108	287
Total available-for-sale investment securities	$ 63,954	$ 78,970
Held-to-maturity (at amortized cost)		
Debt securities:		
Mortgage-backed securities	$ 26,655	$ 34,754
Total held-to-maturity investment securities	$ 26,655	$ 34,754

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. As discussed above during the third quarter of 2008 the Company recorded an impairment charge related to the other than temporary decline in the value of the Company's investment in FNMA preferred stock. Other than this investment, management continues to have the ability and intent to hold securities with established maturity dates until recovery of fair value, which may be maturity, and believes it will be able to collect all amounts due according to the contractual terms for all of the underlying investment securities; therefore, management does not consider any other investments to be other-than-temporarily-impaired.

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. At September 30, 2008, these categories accounted for approximately 27%, 49%, 2%, 13%, 3%, 1%, 2% and 3%, respectively, of the Company's loan portfolio. This mix was relatively unchanged compared to 26%, 48%, 2%, 16%, 2%, 1%, 2% and 3% at December 31, 2007. Continuing marketing efforts, particularly in the business banking field, resulted in new borrowers, and credit extensions were expanded to existing borrowers resulting in the Company's net increase in loans. In addition, during the third quarter of 2008 the Company purchased a $7,255,000 pool of loans secured by properties located in the Company's market area from another bank. Total net loans increased

$25,936,000 (6.6%) from December 31, 2007. Table Six below summarizes the composition of the loan portfolio as of September 30, 2008 and December 31, 2007.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	September 30, 2008	December 31, 2007	Change in dollars	Percent chang
Commercial	$ 115,706	$ 105,467	$ 10,239	
Real estate				
Commercial	209,501	191,774	17,727	
Multi-family	9,145	5,830	3,315	
Construction	57,456	66,022	(8,566)	(
Residential	10,806	9,285	1,521	
Lease financing receivable	3,775	4,070	(295)	
Agriculture	8,054	8,177	(123)	
Consumer	13,191	10,750	2,441	
Total loans and leases	427,634	401,375	26,259	
Deferred loan and lease fees, net	(540)	(517)	(23)	
Allowance for loan and lease losses	(6,183)	(5,883)	(300)	
Total net loans and leases	$ 420,911	$ 394,975	$ 25,936	

A significant portion of the Company's loans and leases are direct loans and leases made to individuals and local businesses. The Company relies substantially on local promotional activity and personal contacts by 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, both unsecured and home equity secured, and loans to finance purchases of autos, boats, recreational vehicles, mobile homes and various other consumer items. Construction loans are generally comprised of commitments to customers within the Company's service area for construction of commercial properties, multi-family properties and custom and semi-custom single-family residences. Other real estate loans consist primarily of loans secured by first trust deeds on commercial and residential properties typically with maturities from 3 to 10 years and original loan to value ratios generally from 65% to 75%, and loans secured by commercial and residential land, both

finished and undeveloped, with maturities generally under 24 months and with original loan to value ratios generally below 65%. Agriculture loans consist primarily of vineyard loans and development loans to plant vineyards. In general, except in the case of loans under SBA programs or Farm Services Agency guarantees, the Company does not make mortgage loans with an original maturity over ten years; however, the Bank has a residential lending division to assist customers in securing most forms of longer term single-family mortgage financing. The Bank acts as a broker between the Bank's clients and the loan wholesalers. The Bank receives an origination fee for loans closed.

"Subprime" real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the industry, many of these loans were originated with adjustable interest rates that reset upward after an introductory period. These "subprime" loans coupled with declines in housing prices have led to an increase in the industry's default rates resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company does not have any such "subprime" loans at September 30, 2008.

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

The Company has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent upon 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 as well as other factors on the collectability of real estate loans. The more significant factors management considers involve the following: lease rate and terms, absorption and sale rates, changes in real estate values, supply and demand factors, rates of return, operating expenses, inflation, general availability of commercial and consumer credit in the banking and other credit markets, and sufficiency of repayment sources independent of the real estate including, in some instances, personal guarantees.

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

In management's judgment, a concentration exists in real estate loans which represented approximately 67.1% of the Company's loan and lease portfolio at September 30, 2008, down from 68.0% at December 31, 2007. Management believes that the residential land and residential construction portion of the Company's loan portfolio carries more credit risk than it has seen in the past several years, due primarily to severely curtailed demand for new and resale residential property, a large supply of unsold residential land and new and resale homes, and observed reductions in values throughout the Company's market area. Management has responded by evaluating loans that it considers to carry additional risk above the normal risk of collectability, and by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio, including loans considered to be impaired. A substantial further decline in the economy in general, or an additional decline in real estate values in the Company's primary market areas in particular, could have a further adverse impact on the collectability of these loans and require an increase in the provision for loan and lease losses which could adversely affect the Company's future prospects, results of operations, capitalization, profitability and stock price. Management believes that its lending policies and underwriting standards will tend to minimize losses in an economic downturn; however, there is no assurance that losses will not occur under such circumstances. The Company's loan policies and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Company's service area and originating a significant majority of its loans within that area, (2) maintaining a thorough understanding of borrowers' knowledge, capacity, and market position in their field of expertise, (3) basing real estate loan approvals not only on market demand for the project, but also on the borrowers' capacity to support the project financially in the event it does not perform to expectations (whether sale or income performance), and (4) maintaining conforming and prudent loan to value and loan to cost ratios based on independent outside appraisals and ongoing inspection and analysis by the Company's lending officers or contracted third-party professionals.

Nonaccrual, Past Due and Restructured Loans and Leases

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

At September 30, 2008, non-performing 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 $8,402,000 or 1.97% of total loans and leases. Non-performing loans and leases were $7,440,000 or 1.86% of total loans and leases at December 31, 2007. Of the $8,402,000 in non-performing loans at September 30, 2008, $8,152,000 was real estate related. Of the $8,152,000, $3,913,000 remains from the June 30, 2008 total and the remainder, $4,239,000, was added during the third quarter of 2008. Of the balances that remain from the end of June, $3,156,000 remains from two relationships--a $1,352,000 development loan for residential lots and multiple loans to a developer with remaining balances of $1,804,000. The $1,352,000 development loan represents the Company's net 29% interest in an approximate total loan amount of $4,600,000 participated with other lenders. The loan is a lot development loan for 29 single-family residential lots, 47 townhouse lots and 3 commercial lots located in Amador County. The other relationship carrying over from the end of June for multiple loans to a developer has decreased from $3,734,000 at March 31, 2008 to $1,804,000 at September 30, 2008. This relationship was originally made up of eight individual loans and included loans on three finished homes totaling $2,242,000; one partially completed home for $493,000 and four finished lots for $999,000. In April 2008, the Company filed notices of default on all eight properties. The filing of Chapter 11 bankruptcy by one of the borrowers, subsequent to the Company's filing of the notices of default, has delayed the foreclosure process. Since March 31, 2008, two of the completed homes and the unfinished home were sold by the borrower and the Company received payoffs of 100% of its principal balance on the loans secured by those properties. Five loans remain from this relationship--a loan on one finished home totaling $805,000 and loans on four finished lots totaling $999,000. One other non-performing real estate loan in the amount of $466,000 at June 30, and $460,000 at September 30, 2008, was paid off in October 2008 with 100% principal recovery.

Of the $4,239,000 in non-performing real estate loans added during the third quarter of 2008, there are five loans on individual real estate loans that are finished homes totaling $2,398,000 and two land loans totaling $1,841,000. Loan balances of the five loans on the finished homes range from $127,000 to $1.5 million. Of the two land loans, one is for a loan on 6.32 acres of unimproved land in Sacramento County totaling $1,386,000 that is in the latter stages of the entitlement process the process to obtain a tentative map for 22 single family lots, and the other, for $455,000, is for one lot in Solano County that is in an existing subdivision awaiting approval to subdivide into four residential lots.

One of the loans that was included as non-performing as of June 30, 2008 was a commercial real estate loan secured by a mini-storage facility in the amount of $5,286,000 located in El Dorado County. In April 2008, the Company confirmed that the borrower had filed for reorganization under Chapter 11 bankruptcy, which remains in effect. The borrower is current under a court-confirmed agreement and has made each of the six required interest payments since the order was issued. The Company has removed this loan from non-accrual status.

All significant nonaccrual loans have been evaluated for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and have been assigned specific reserves as deemed necessary. At September 30, 2008, specific reserves in the amount of $873,000 were held on $8,126,000 in non-accrual loans considered to be impaired. 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 loan agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans that are collectively evaluated for credit risk. The net interest due on nonaccrual loans and leases but excluded from interest income was $523,000 for the first nine months of 2008 and not significant during the same period in 2007. In the first nine months of 2008, interest income recognized from payments received on nonaccrual loans and leases was approximately $318,000 and not significant during the same period in 2007.

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of September 30, 2008. Management is not aware of any potential problem loans, which were accruing and current at September 30, 2008, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company. Table Seven below sets forth nonaccrual loans and loans past due 90 days or more as of September 30, 2008 and December 31, 2007.

Table Seven: Non-Performing Loans

(dollars in thousands)	September 30, 2008	December 31, 2007
Past Due 90 days or more and still accruing		
Commercial	$ --	$ --
Real estate	246	455
Lease financing receivable	--	--
Consumer and other	8	--
Nonaccrual		
Commercial	221	148
Real estate	7,906	6,787
Lease financing receivable	21	50
Consumer and other	--	--
Total non-performing loans	$ 8,402	$ 7,440

Allowance for Loan and Lease Losses Activity

The Company maintains an allowance for loan and lease losses ("ALLL") to cover probable losses inherent in the loan and lease portfolio, which is based upon management's estimated range of those losses. The ALLL is established

through a provision for loan and lease losses and is increased by provisions charged against current earnings and recoveries and reduced by charge-offs. Actual losses for loans and leases can vary significantly from this estimate. The methodology and assumptions used to calculate the allowance are continually reviewed as to their appropriateness given the most recent losses realized and other factors that influence the estimation process. The model assumptions and resulting allowance level are adjusted accordingly as these factors change.

The adequacy of the ALLL and the level of the related provision for loan and lease losses is determined based on management's judgment after consideration of numerous factors including but not limited to: (i) local and regional economic conditions, (ii) borrowers' financial condition, (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) historical loss rates, (x) quarterly review by the Board of Directors, and (xi) assessments by banking regulators and other third parties. Management and the Board of Directors evaluate the ALLL quarterly or more frequently and determine its appropriate level considering objective and subjective measures, such as knowledge of the borrower's business, valuation of collateral, the determination of impaired loans or leases and exposure to potential losses.

The allowance for loan and lease losses totaled $6,183,000 or 1.45% of total loans and leases at September 30, 2008 compared to $5,883,000 or 1.47% of total loans and leases at December 31, 2007. The Company establishes general reserves in accordance with SFAS No. 5, "Accounting for Contingencies," and specific reserves in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". The ALLL is maintained by categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While management uses available information to recognize probable 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 ALLL based on their judgment of information available to them at the time of their examination.

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 allowance for loan and lease losses is 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. Table Eight below summarizes, for the periods indicated, the activity in the ALLL.

Table Eight: Allowance for Loan and Lease Losses

(dollars in thousands)	Three Months Ended September 30,		Ende
	2008	2007	2008
Average loans and leases outstanding	$ 414,492	$ 390,694	$ 407
Allowance for loan and lease losses at beginning of period	$ 6,111	$ 5,972	$ 5
Loans and leases charged off:			
Commercial	(100)	(180)	
Real estate	(186)	--	
Lease financing receivable	(34)	(7)	
Consumer	--	(2)	
Total	(320)	(189)	

Recoveries of loans and leases previously charged off:			
Commercial	11	1	
Real estate	--	--	
Lease financing receivable	--	55	
Consumer	--	--	
Total	11	56	
Net loans charged off	(309)	(133)	
Additions to allowance charged to operating expenses	381	50	
Allowance for loan and lease losses at end of period	$ 6,183	$ 5,889	$ 6
Ratio of net (recoveries) charge-offs to average loans and leases outstanding (annualized)	.30%	.14%	
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	.37%	.05%	
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	1.45%	1.51%	

Other Real Estate

During the third quarter of 2008, two loans that were listed as non-performing at June 30, 2008 were foreclosed on and transferred to other real estate owned. Upon transfer the properties were adjusted to their fair value, less estimated selling costs through a charge to the allowance for loan losses of $77,000 resulting in a carrying value of $716,000 at September 30, 2008. At December 31, 2007, the Company had $61,000 in other real estate.

Deposits

At September 30, 2008, total deposits were $435,905,000 representing a decrease of $19,740,000 (4.3%) from the December 31, 2007 balance of $455,645,000. Noninterest-bearing deposits decreased $12,435,000 (9.4%) from December 31, 2007 to September 30, 2008, while interest-bearing deposits decreased $7,305,000 (2.3%) from the same period. The Company's deposit growth plan continues to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts categories. The Company experienced some success in the interest checking and savings accounts with an increase of $3,763,000 (4.8%) in those accounts from December 31, 2007 to September 30, 2008.

Other Borrowed Funds

Other borrowings outstanding as of September 30, 2008 and December 31, 2007, consist of advances (both long-term and short-term) from the Federal Home Loan Bank ("FHLB"). Table Nine below summarizes these borrowings:

Table Nine: Other Borrowed Funds

(dollars in thousands)	September 30, 2008	December 31,

	Amount	Rate	Amount
Short-term borrowings:			
FHLB advances	$ 56,873	2.34%	$ 51,603
Long-term borrowings:			
FHLB advances	$ 16,500	3.15%	$ --

The maximum amount of short-term borrowings at any month-end during the first three quarters of 2008 and 2007 was $59,000,000 and $42,384,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

	Short-term	Long-term
Amount	$ 56,873	$ 16,500
Maturity	2008 to 2009	2009 to 2011
Average rates	2.34%	3.15%

The Company has also been issued a total of $2,500,000 in letters of credit by the FHLB which have been pledged to secure Local Agency Deposits. The letters of credit act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letters of credit were not drawn upon in 2008 or 2007 and management does not currently expect to draw upon these lines in the foreseeable future. See the Liquidity section that follows for additional information on FHLB borrowings.

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies is reviewed regularly by management. The Company's capital position represents the level of capital available to support continuing operations and expansion.

The Company and the Bank are subject to certain regulations issued by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, which require maintenance of certain levels of capital. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At September 30, 2008, shareholders' equity was $61,594,000, representing an increase of $1,621,000 (2.7%) from $59,973,000 at December 31, 2007. The increase results from the net income for the period, the stock based compensation, and the proceeds from the exercise of stock options exceeding the stock repurchases, decrease in other comprehensive income, and cash dividends paid to shareholders. The ratio of total risk-based capital to risk adjusted assets was 11.0% at September 30, 2008 and 10.7% at December 31, 2007. Tier 1 risk-based capital to risk-adjusted assets was 9.8% at September 30, 2008 and 9.5% at December 31, 2007.

Table Ten below lists the Company's actual capital ratios at September 30, 2008 and December 31, 2007 as well as the minimum capital ratios for capital adequacy.

Table Ten: Capital Ratios

Capital to Risk-Adjusted Assets	At September 30, 2008	At December 31, 2007	Minimu Capital
Leverage ratio	7.9%	7.7%	
Tier 1 Risk-Based Capital	9.8%	9.5%	
Total Risk-Based Capital	11.0%	10.7%	

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. Management believes that both the Company and the Bank met all of their capital adequacy requirements as of September 30, 2008 and December 31, 2007.

The Company, through a Board of Directors authorized plan, may repurchase, as conditions warrant, up to 6.5% annually of the Company's common stock. Repurchases are generally made in the open market at market prices. See Part II, Item 2, for additional disclosure.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the "EESA"). Pursuant to the EESA, the Secretary of the Treasury was authorized to establish the Troubled Asset Relief Program ("TARP") and to invest in financial institutions and purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions, in an aggregate amount up to $700 billion, for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the United States Department of the Treasury ("UST") announced a Capital Purchase Program ("CPP") to invest up to $250 billion of this $700 billion amount in certain eligible U.S. banks, thrifts and their holding companies in the form of non-voting, senior preferred stock. Bank holding companies and banks eligible to participate as a Qualifying Financial Institution ("QFI") in the CPP will be expected to comply with certain standardized terms and conditions specified by the UST, including the following:

- Submission of an application prior to November 14, 2008 to the QFI's Federal banking regulator to obtain preliminary approval to participate in the CPP;
- If the QFI receives preliminary approval, it will have 30 days within which to submit final documentation and fulfill any outstanding requirements;
- The minimum amount of capital eligible for purchase by the UST under the CPP is 1 percent of the Total Risk-Weighted Assets of the QFI and the maximum is the lesser of (i) an amount equal to 3 percent of the Total Risk-Weighted Assets of the QFI or (ii) $25 billion;
- Capital acquired by a QFI under the CPP will be accorded Tier 1 capital treatment;
- The preferred stock issued to the UST will be non-voting (except in the case of class votes), senior perpetual preferred stock that ranks senior to common stock and pari passu with existing preferred stock (except junior preferred stock);

- o In addition to the preferred stock, the UST will be issued warrants to acquire shares of the QFI's common stock equal in value to 15 percent of the amount of capital purchased by the UST;
- o Dividends on the preferred stock are payable to the UST at the rate of 5% per annum for the first 5 years and 9% per annum thereafter;
- o Subject to certain exceptions and other requirements, no redemption of the preferred stock is permitted during the first 3 years;
- o Certain restrictions on the payment of dividends to shareholders of the QFI shall remain in effect while the preferred stock purchased by the UST is outstanding;
- o Any repurchase of QFI shares will require the consent of the UST, subject to certain exceptions;
- o The preferred shares are not subject to any contractual restrictions on transfer; and
- o The QFI must agree to be bound by certain executive compensation and corporate governance requirements and senior executive officers must agree to certain compensation restrictions.

The Company is currently evaluating whether to participate in the CPP. Such determination will depend upon various factors including, without limitation, the requirements imposed upon the Company under the investment agreement and related documentation that will be provided to participating QFI's and the evaluation of other factors including the summary factors listed above.

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing or other commercial concerns primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company and it subsidiaries through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a significant effect upon the results of operations of the Company and its subsidiaries during the periods ended September 30, 2008 and 2007.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, borrowing arrangements with the FHLB, payments at maturity of short-term investments and securities, and loan repayments contribute to liquidity, along with deposit increases, while loan funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding letters of credit at September 30, 2008 and December 31, 2007 were approximately $89,198,000 and $5,304,000 and $112,633,000 and $7,537,000, respectively. Such loan commitments relate primarily to revolving lines of credit, other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale and/or pledged for secured borrowings. At September 30, 2008, consolidated liquid assets totaled $40.0 million or 6.9% of total assets compared to $47.1 million or 8.2% of total assets on December 31, 2007. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of $52,000,000 with correspondent banks. At September 30, 2008, the Company had $52,000,000 available under these credit lines. Additionally, the Bank is a member of the FHLB. At September 30, 2008, the Bank could have arranged for up to $115,550,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At September 30, 2008, the Company had advances, borrowings and commitments (including letters of credit) outstanding of $75,873,000, leaving $39,677,000 available under these FHLB secured borrowing arrangements. The Bank also has informal agreements with various other banks to sell participations in loans, if necessary. The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets and borrowing capacity to offset the potential runoff of these volatile and/or cyclical deposits.

Liquidity is also affected by portfolio maturities and the effect of interest rate fluctuations on the marketability of both assets and liabilities. The Company can sell any of its unpledged securities held in the available-for-sale category to meet liquidity needs. These securities are also available to pledge as collateral for borrowings if the need should arise. The Bank has established a master repurchase agreement with a correspondent bank to enable such transactions. The Bank can also pledge securities to borrow from the FRB and the FHLB.

The principal cash requirements of the Company are for expenses incurred in the support of administration and operations. For nonbanking functions, the Company is dependent upon the payment of cash dividends from the Bank to service its commitments. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this payment schedule.

Off-Balance Sheet Items

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

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company applies the same credit policies to commitments and letters of credit as it does for loans included on the consolidated balance sheet. As of September 30, 2008 and December 31, 2007, commitments to extend credit and standby letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and standby letters of credit were $94,502,000 and $120,170,000 at September 30, 2008 and

December 31, 2007, respectively. As a percentage of net loans and leases these off-balance sheet items represent 22.5% and 30.4%, respectively.

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

Other Matters

Effects of Terrorism. The terrorist actions on September 11, 2001 and thereafter, as well as, the current military conflicts in Afghanistan and Iraq have had significant adverse effects upon the United States economy. Whether the terrorist activities in the future and the actions of the United States and its allies in combating terrorism on a worldwide basis will adversely impact the Company and the extent of such impact is uncertain. Such economic deterioration could adversely affect the Company's future results of operations by, among other matters, reducing the demand for loans and other products and services offered by the Company, increasing non-performing loans and the amounts reserved for loan and lease losses, and causing a decline in the Company's stock price.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

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

Company has a Risk Management Committee, made up of Company management that establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

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

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

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

Table Eleven: Interest Rate Risk Simulation of Net Interest as of September 30, 2008 and December

(dollars in thousands)	$ Change in NII from Current 12 Month Horizon September 30, 2008
Variation from a constant rate scenario	
+200bp	$ 467
-200bp	$ 162

The simulations of earnings do not incorporate any management actions, which might moderate the negative consequences of interest rate deviations. Therefore, they do not reflect likely actual results, but serve as reasonable estimates of interest rate risk.

Item 4. Controls and Procedures.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

During the quarter ended September 30, 2008, there have been no changes in the Company's internal control over financial reporting that have significantly affected, or are reasonably likely to materially affect, these controls.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

- The overall decline in real estate values in California and in the Company's primary market area has continued and expanded during 2008.

The continuing trend of declining real estate values in California and in the Company's primary market areas has not materially adversely impacted the Company to date, but continuing declines in real estate values may have a material adverse effect on the overall economic conditions in the Company's market area, which could result in increased loan losses and require a material increase in the allowance for loan losses and thereby adversely affect the Company's results of operations, financial condition, future prospects, profitability and stock price.

- The effects of legislation in response to current credit conditions may adversely affect the Company.

Legislation passed at the federal level and/or by California in response to current conditions affecting credit markets could cause the Company to experience higher credit losses if such legislation reduces the amount that the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Such legislation could also result in the imposition of limitations upon the Bank's ability to foreclose on property or other collateral or make foreclosure less economically feasible. Such events could result in increased loan losses and require a material increase in the allowance for loan losses and thereby adversely affect the Company's results of operations, financial condition, future prospects, profitability and stock price.

- The effects of changes to FDIC insurance coverage limits are uncertain and increased premiums may adversely affect the Company.

The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures. In such event, the FDIC would take control of failed banks and guarantee payment of deposits up to applicable insured limits from the Deposit Insurance Fund. Insurance premium assessments to insured financial institutions may increase as necessary to maintain adequate funding of the Deposit Insurance Fund.

The Emergency Economic Stabilization Act of 2008 included a provision for an increase in the amount of deposits insured by the FDIC to $250,000. On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits through the scheduled end of the program, currently December 31, 2009. Increased premiums will impact the Company's earnings.

It is not clear how depositors will respond regarding the increase in insurance coverage. Despite the increase, some depositors may reduce the amount of deposits held at the Bank if concerns regarding bank failures persist, which

could affect the level and composition of the Bank's deposit portfolio and thereby directly impact the Bank's funding costs and net interest margin.

The Bank's funding costs may also be adversely affected in the event that the activities of the Federal Reserve Board and the United States Department of the Treasury ("UST") to provide liquidity for the banking system and improvement in capital markets are curtailed or unsuccessful. Such events could reduce liquidity in the markets, thereby increasing funding costs to the Bank or reducing the availability of funds to the Bank to finance its existing operations and thereby adversely affect the Company's results of operations, financial condition, future prospects, profitability and stock price.

o The Troubled Asset Relief Program includes restrictions that affect participating institutions and their shareholders.

The Emergency Economic Stabilization Act of 2008 gave the UST authority to deploy up to $700 billion into the financial system with an objective of improving liquidity in capital markets. On October 14, 2008, the UST announced plans to direct $250 billion of this authority into a Capital Purchase Program ("CPP") under which the UST will make preferred stock investments in bank holding companies, banks and other qualifying financial institutions. The terms and conditions of the CPP could reduce investment returns to shareholders of participating bank holding companies and banks by restricting dividends to common shareholders, diluting existing shareholders' interests, and restricting capital management practices. The Company is currently evaluating whether to participate in the CPP.

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

On January 16, 2008, the Board of Directors of the Company authorized a stock repurchase program which allows for the repurchase of up to six and one half percent (6.5%) annually of the Company's outstanding shares of common stock. Each year the Company may repurchase up to 6.5% of the shares outstanding (adjusted for stock splits or stock dividends). The number of shares reported in column (d) of the table as shares that may be repurchased under the plan represent shares eligible for the calendar year 2008. The repurchases under this plan can be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors has reserved the right to suspend, terminate, modify or cancel the repurchase programs at any time for any reason. The 6.5% program announced in 2008, replaced a program announced in 2001 whereby the Company had the ability to repurchase of up to five percent (5.0%) annually of the Company's outstanding shares of common stock. The following table lists shares repurchased during the quarter and the maximum amount available to repurchase under the repurchase plan as of the dates noted.

Period	(a)	(b)	(c)	
	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	M Approx Share Yet B P

Month #1 July 1 through July 31, 2008	None	N/A	None
Month #2 August 1 through August 31, 2008	25,000	$11.00	25,000
Month #3 September 1 through September 30, 2008	None	N/A	None
Total	25,000	$11.00	25,000

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
(2.1)	Agreement and Plan of Reorganization and Merger by and among the Registrant, ARH Interim National Bank and North Coast Bank, N.A., dated as of March 1, 2000 (included as Annex A). **
(2.2)	Agreement and Plan of Reorganization and Merger by and among the Registrant, American River Bank and Bank of Amador, dated as of July 8, 2004 (included as Annex A). ***
(3.1)	Articles of Incorporation, incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the Commission on August 8, 2008.
(3.2)	Bylaws, as amended, incorporated by reference from Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the Commission on August 8, 2008.
(4.1)	Specimen of the Registrant's common stock certificate, incorporated by reference from Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.

(10.1) Lease agreement between American River Bank and Spieker Properties, L.P., a California limited partnership, dated April 1, 2000, related to 1545 River Park Drive, Suite 107, Sacramento, California. **

(10.2) Lease agreement between American River Bank and Bradshaw Plaza, Associates, Inc. dated November 27, 2006, related to 9750 Business Park Drive, Sacramento, California incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on November 28, 2006.

(10.3) Lease agreement between American River Bank and Marjorie G. Taylor dated April 5, 1984, and addendum thereto dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California. **

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

*(10.5) Registrant's 1995 Stock Option Plan. **

*(10.6) Form of Nonqualified Stock Option Agreement under the 1995 Stock Option Plan. **

*(10.7) Form of Incentive Stock Option Agreement under the 1995 Stock Option Plan. **

*(10.8) Registrant's Stock Option Gross-Up Plan and Agreement, as amended, dated May 20, 1998. **

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

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

(10.11) Lease agreement and addendum between North Coast Bank, N.A. and Rosario LLC, each dated September 1, 1998, related to 50 Santa Rosa Avenue, Santa Rosa, California. **

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

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

(10.14) Lease agreement between R & R Partners, a California General Partnership and North Coast Bank, dated July 1, 2003, related to 8733 Lakewood Drive, Suite A, Windsor, California, incorporated by reference from Exhibit 10.32 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003; the First Amendment thereto, dated January 2, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 3, 2006; and the Second Amendment thereto, dated December 8, 2006, incorporated by reference from Exhibit 10.39 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed with the Commission on May 7, 2007.

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

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

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

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

*(10.19) Registrant's 401(k) Plan dated September 20, 2004, incorporated by reference from Exhibit 10.38 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2004, filed with the Commission on November 12, 2004.

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

*(10.21) Salary Continuation Agreement, as amended on February 21,

2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.22) Director Retirement Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.

(10.23) Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 22, 2005, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on April 27, 2005.

(10.24) Lease agreement between Registrant and One Capital Center, a California limited partnership, dated May 17, 2005, related to 3100 Zinfandel Drive, Rancho Cordova, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 18, 2005.

(10.25) Managed Services Agreement between American River Bankshares and ProNet Solutions, Inc., dated September 8, 2005, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on September 9, 2005.

*(10.26) American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 27, 2005; the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 17, 2006; and the Second Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 23, 2007; and the Third Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.27) American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.33 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 8, 2006.

*(10.28) Employment Agreement dated September 20, 2006 between American River Bankshares and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.

*(10.29) Employment Agreement dated September 20, 2006 between American River Bankshares and Douglas E. Tow, incorporated

by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.

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

*(10.31) Employment Agreement dated September 20, 2006 between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.

*(10.32) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.6 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.

*(10.33) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.7 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.

(10.34) Lease agreement dated May 23, 2007 between Bank of Amador, a division of American River Bank, and Joseph Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust, related to 26395 Buckhorn Ridge Road, Pioneer, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 24, 2007 and the First Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 16, 2007.

(14.1) Registrant's Code of Ethics, incorporated by reference from Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the Commission on March 19, 2004.

(21.1) The Registrant's only subsidiaries are American River Bank and American River Financial.

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

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

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

* Denotes management contracts, compensatory plans or arrangements.

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

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

SIGNATURES

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

AMERICAN RIVER BANKSHARES

November 5, 2008

By: /s/ DAVID T. TABER

David T. Taber
President and
Chief Executive Officer

AMERICAN RIVER BANKSHARES

November 5, 2008

By: /s/ MITCHELL A. DERENZO

Mitchell A. Derenzo
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description	Page
31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	43
31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	44
32.1	Certification of American River Bankshares by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	45