AMERICAN RIVER BANKSHARES
Form 10-Q
August 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012
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, Suite 450, Rancho Cordova, California	95670
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes S No £

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

Yes S 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 £
Non-accelerated filer S (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 S

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

No par value Common Stock – 9,328,481 shares outstanding at August 6, 2012.

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED JUNE 30, 2012

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$35,257	$23,768
Interest-bearing deposits in banks	1,000	1,250
Investment securities:		
Available-for-sale, at fair value	221,846	208,711
Held-to-maturity, at amortized cost	3,049	4,010
Loans and leases, less allowance for loan and lease losses of $6,201 at June 30, 2012 and $7,041 at December 31, 2011	277,605	293,731
Premises and equipment, net	2,204	2,355
Federal Home Loan Bank stock	3,254	3,093
Goodwill and other intangible assets	16,404	16,504
Other real estate owned	10,366	8,190
Accrued interest receivable and other assets	18,687	19,906
	$589,672	$581,518
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$137,572	$133,440
Interest-bearing	337,982	328,845
Total deposits	475,554	462,285
Short-term borrowings	2,000	5,000
Long-term borrowings	12,000	14,000
Accrued interest payable and other liabilities	7,776	6,134
Total liabilities	497,330	487,419
Commitments and contingencies		

Shareholders’ equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 9,328,481 shares at June 30, 2012 and 9,890,909 shares at December 31, 2011	67,901	72,016
Retained earnings	20,082	18,525
Accumulated other comprehensive income, net of taxes	4,359	3,558
Total shareholders’ equity	92,342	94,099
	$589,672	$581,518

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data) For the periods ended June 30,	Three months		Six months	
	2012	2011	2012	2011
Interest income:				
Interest and fees on loans	$4,238	$4,845	$8,554	$9,842
Interest on deposits in banks	3	5	6	11
Interest and dividends on investment securities:				
Taxable	931	1,351	1,970	2,152
Exempt from Federal income taxes	148	166	300	316
Dividends	4		4	
Total interest income	5,324	6,367	10,834	12,321
Interest expense:				
Interest on deposits	418	592	853	1,223
Interest on borrowings	64	86	131	180
Total interest expense	482	678	984	1,403
Net interest income	4,842	5,689	9,850	10,918
Provision for loan and lease losses	375	1,700	955	3,075
Net interest income after provision for loan and lease losses	4,467	3,989	8,895	7,843
Noninterest income:				
Service charges on deposit accounts	194	187	390	383
Gain on sale of securities	11	25	75	27
Other noninterest income	489	242	922	477
Total noninterest income	694	454	1,387	887
Noninterest expense:				
Salaries and employee benefits	2,033	2,043	4,235	4,123
Occupancy	299	290	595	568
Furniture and equipment	202	174	392	361
Federal Deposit Insurance Corporation assessments	141	242	283	540
Expenses related to other real estate owned	468	507	842	709
Other expense	908	941	1,816	1,947
Total noninterest expense	4,051	4,197	8,163	8,248
Income before provision for income taxes	1,110	246	2,119	482

Provision for income taxes	265	25	562	55
Net income	$845	$221	$1,557	$427
Basic earnings per share	$0.09	$0.02	$0.16	$0.04
Diluted earnings per share	$0.09	$0.02	$0.16	$0.04
Cash dividends per share	$0.00	$0.00	$0.00	$0.00

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF COMPRENENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data) For the periods ended June 30,	Three months 2012	Three months 2011	Six months 2012	Six months 2011
Net income	$845	$221	$1,557	$427
Other comprehensive income:				
Increase in net unrealized gains on investment securities	761	1,649	1,380	1,863
Deferred tax expense	(302)	(654)	(534)	(739)
Increase in net unrealized gains on investment securities, net of tax	459	995	846	1,124
Reclassification adjustment for realized gains included in net income	(11)	(25)	(75)	(27)
Tax effect	5	10	30	11
Realized gains, net of tax	(6)	(15)	(45)	(16)
Total other comprehensive income	453	980	801	1,108
Comprehensive income	$1,298	$1,201	$2,358	$1,535

See notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands)	Common Stock			Accumulated Other	Total
	Shares	Amount	Retained Earnings	Comprehensive Income	Shareholders' Equity
Balance, January 1, 2011	9,874,867	71,814	16,021	1,709	89,544
Net income			2,504		2,504
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				1,849	1,849
Net restricted stock awarded and related compensation expense	16,042	86			86
Stock option compensation expense		116			116
Balance, December 31, 2011	9,890,909	72,016	18,525	3,558	94,099
Net income			1,557		1,557
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				801	801
Net restricted stock award activity and related compensation expense	12,961	52			52
Stock option compensation expense		27			27
Retirement of common stock	(575,389)	(4,194)			(4,194)
Balance, June 30, 2012	9,328,481	$67,901	$20,082	$4,359	$92,342

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(dollars in thousands) For the six months ended June 30,	2012	2011
Cash flows from operating activities:		
Net income	$1,557	$427
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	955	3,075
Decrease in deferred loan origination fees, net	(70)	(67)
Depreciation and amortization	816	373
Gain on sale and call of investment securities	(75)	(27)
Amortization of investment security premiums and discounts, net	2,060	1,122
Increase in cash surrender values of life insurance policies	(132)	(137)
Stock based compensation expense	79	108
Loss on sale and write-down of other real estate owned	373	260
Decrease in accrued interest receivable and other assets	403	371
Increase (decrease) in accrued interest payable and other liabilities	1,642	(999)
Net cash provided by operating activities	7,608	4,506
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	5,543	632
Proceeds from matured available-for-sale investment securities	665	130
Proceeds from called available-for-sale investment securities	195	1,145
Purchases of available-for-sale investment securities	(43,475)	(24,557)
Proceeds from principal repayments for available- for-sale investment securities	23,284	12,156
Proceeds from principal repayments for held-to- maturity investment securities	964	1,179
Net decrease (increase) in interest-bearing deposits in banks	250	(1)
Net decrease in loans	11,886	17,197
Proceeds from sale of other real estate	807	678
Net (increase) decrease in FHLB stock	(161)	282
Purchases of equipment	(152)	(311)
Net cash (used in) provided by investing activities	(194)	8,530
Cash flows from financing activities:		
Net increase (decrease) in demand, interest-bearing and savings deposits	$9,032	$(1,868)
Net increase (decrease) in time deposits	4,237	(7,991)
Net decrease in short-term borrowings	(3,000)	—
Net decrease in long-term borrowings	(2,000)	—
Cash paid to repurchase common stock	(4,194)	—

Net cash provided by (used in) financing activities	$4,075	$(9,859)
Increase in cash and cash equivalents	11,489	3,177
Cash and cash equivalents at beginning of year	23,768	31,871
Cash and cash equivalents at end of period	$35,257	$35,048

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the “Company”) at June 30, 2012 and December 31, 2011, the results of its operations for the three and six month periods ended June 30,2012 and 2011, its cash flows for the six-month periods ended June 30, 2012 and 2011 and its statement of changes in shareholders’ equity for the year ended December 31, 2011 and the six months ended June 30, 2012 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 2011 annual report on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2012 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes, the valuation of goodwill and the estimated fair value of investment securities, impaired loans and other real estate owned.

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

2. STOCK-BASED COMPENSATION

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 329,195 options remain outstanding at June 30, 2012. The total number of authorized shares that remain available for issuance under the 2010 Plan is 1,463,531. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonstatutory agreements and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company’s Board of Directors. Outstanding option awards under the Plans are exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

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

Equity Compensation

For the three-month periods ended June 30, 2012 and 2011, the compensation cost recognized for equity compensation was $46,000 and $36,000, respectively. The recognized tax benefit for equity compensation expense was $14,000 and $9,000, for the three-month periods ended June 30, 2012 and 2011, respectively. For the six-month periods ended June 30, 2012 and 2011, the compensation cost recognized for equity compensation was $79,000 and $108,000, respectively. The recognized tax benefit for equity compensation expense was $22,000 and $29,000, for the six-month periods ended June 30, 2012 and 2011, respectively.

At June 30, 2012, the total compensation cost related to nonvested stock option awards not yet recorded is $72,000. This amount will be recognized over the next 5.0 years and the weighted average period of recognizing these costs is expected to be 1.6 years. At June 30, 2012, the total compensation cost related to restricted stock awards not yet recorded is $193,000. This amount will be recognized over the next 5.0 years and the weighted average period of recognizing these costs is expected to be 1.3 years.

Equity Plans Activity

Stock Options

There were 17,329 stock options awarded during the three and six-month periods ended June 30, 2012 at an average exercise price of $7.07. The weighted average grant date fair value of options granted for the three and six- month periods ended June 30, 2012 was $2.31. There were no stock options awarded during the three- and six-month periods ended June 30, 2011. A summary of option activity under the Plans as of June 30, 2012 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2012	358,198	$ 17.25	4.0 years	$ —
Granted	17,329	7.07	9.9 years	4
Exercised	—	—	—	—
Cancelled	29,003	16.92	—	—
Outstanding at June 30, 2012	346,524	$ 16.77	4.2 years	$ 4

Vested at June 30, 2012	298,803	$ 17.91	3.7 years	$ —
Non-vested at June 30, 2012	47,721	$ 9.61	7.6 years	$ 4

Restricted Stock

There were 16,207 shares of restricted stock awarded during the three- and six-month periods ended June 30, 2012. Of the 16,207 restricted common shares, 9,898 will vest one year from the date of the award and 6,309 will vest over five years at 20% per year from the date of the award. There was no restricted stock awarded during the three and six-month periods ended June 30, 2011. Grant date fair value is determined by the market price of the Company's common stock on the date of grant ($7.07 on May 16, 2012).

There were no restricted awards that were fully vested during the three and six-month periods ended June 30, 2012 and 2011. There were zero and 3,246 awards that had been forfeited during the three and six-month periods ended June 30, 2012 and 2,860 awards that had been forfeited during the three and six-month periods ended June 30, 2011. The intrinsic value of nonvested restricted stock at June 30, 2012 was $328,000.

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	32,078	$ 5.96
Awarded	16,207	7.07
Vested	—	—
Cancelled	(3,246)	6.54
Nonvested at June 30, 2012	45,039	$ 6.32

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three or six month periods ended June 30, 2012 or 2011.

The intrinsic value used for stock options and restricted stock was derived from the market price of the Company's common stock of $7.28 as of June 30, 2012.

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 $32,592,000 and standby letters of credit of approximately $8,355,000 at June 30, 2012 and loan commitments of approximately $36,479,000 and standby letters of credit of approximately $10,086,000 at December 31, 2011. Such commitments relate primarily to real estate construction loans, revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2012 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2012 or December 31, 2011.

4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (9,518,897 and 9,671,083 shares for the three-month and six-month periods ended June 30, 2012, and 9,845,533 for the three-month and six-month periods ended June 30, 2011). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock based awards. There were 13,306 and 11,794, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2012 and 11,960 and 10,541, respectively, dilutive shares for the three-month and six-month periods ended June 30, 2011. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, for all periods presented.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at June 30, 2012 and December 31, 2011 consisted of the following (dollars in thousands):

Available-for-Sale

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$185,047	$5,677	$(62)	$190,662
Obligations of states and political subdivisions	27,963	1,665	(16)	29,612
Corporate bonds	1,507	—	(7)	1,500
Equity securities:				
Corporate stock	64	8	—	72
	$214,581	$7,350	$(85)	$221,846

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$175,038	$4,570	$(154)	$179,454
Obligations of states and political subdivisions	27,678	1,510	—	29,188
Equity securities:				
Corporate stock	65	4	—	69
	$202,781	$6,084	$(154)	$208,711

Net unrealized gains on available-for-sale investment securities totaling $7,265,000 were recorded, net of $2,906,000 in tax liabilities, as accumulated other comprehensive income within shareholders’ equity at June 30, 2012. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended June 30, 2012 totaled $830,000 and $11,000, respectively, and for the six-month period ended June 30, 2012 totaled $5,738,000 and $75,000, respectively. There were no transfers of available-for-sale investment securities for the three- and six-month periods ended June 30, 2012.

Net unrealized gains on available-for-sale investment securities totaling $5,930,000 were recorded, net of $2,372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2011. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the three-month period ended June 30, 2011 totaled $1,306,000 and $25,000, respectively, and the six-month period ended June 30, 2011 totaled $1,777,000 and $27,000, respectively. There were no transfers of available-for-sale investment securities for the three- and six-month periods ended June 30, 2011.

Held-to-Maturity

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	$3,049	$187	$—	$3,236

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated air Value
Debt securities:				
Mortgage-backed securities	$4,010	$221	$—	$4,231

There were no sales or transfers of held-to-maturity investment securities for the periods ended June 30, 2012 and June 30, 2011. Investment securities with unrealized losses at June 30, 2012 and December 31, 2011 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>Available-for-Sale</u>						
Debt securities:						
Mortgage-backed securities	$17,068	$(62)	—	—	$17,068	$(62)
Obligations of states and political subdivisions	1,431	(16)	—	—	1,431	(16)
Corporate bonds	1,500	(7)	—	—	1,500	(7)
Equity Securities:						
Corporate stock	—	—	—	—	—	—
	$19,999	$(85)	$—	$—	$19,999	$(85)

	2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	$23,749	$(154)	—	—	$23,749	$(154)
	$23,749	$(154)	$—	$—	$23,749	$(154)

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2012 or December 31, 2011.

At June 30, 2012, the Company held 191 securities of which ten were in a loss position for less than twelve months and none were in a loss position for twelve months or more. Of the ten securities in a loss position, seven are mortgage-backed securities, two are obligations of states and political subdivisions, and one is a corporate bond. At December 31, 2011, the Company held 189 securities of which eleven were in a loss position for less than twelve months and none were in a loss position for twelve months or more. All eleven securities in a loss position were mortgage-backed securities.

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

The amortized cost and estimated fair values of investment securities at June 30, 2012 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$345	$348		
After one year through five years	3,651	3,723		
After five years through ten years	10,985	11,646		
After ten years	14,489	15,395		
	29,470	31,112		
Investment securities not due at a single maturity date:				
Mortgage-backed securities	185,047	190,662	$3,049	$3,236
Corporate stock	64	72	—	—
	$214,581	$221,846	$3,049	$3,236

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

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

At June 30, 2012 and December 31, 2011, the recorded investment in nonperforming loans and leases was approximately $10,673,000 and $13,423,000, respectively. Nonperforming loans and leases include all such loans and leases that are either placed on nonaccrual status or are 90 days past due as to principal or interest but still accrue interest because such loans are well-secured and in the process of collection. The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the original loan agreement. At June 30, 2012, the recorded investment in loans and leases that were considered to be impaired totaled $29,565,000, which includes $10,673,000 in nonaccrual loans and leases and $18,892,000 in performing loans and leases. Of the total impaired loans of $29,565,000, loans totaling $14,241,000 were deemed to require no specific reserve and loans totaling $15,324,000 were deemed to require a related valuation allowance of $1,238,000. At December 31, 2011, the recorded investment in loans and leases that were considered to be impaired totaled $30,085,000 and had a related valuation allowance of $1,680,000. If interest had been accruing on the nonperforming loans, such income would have approximated $200,000 and $465,000 for the three months ended June 30, 2012 and 2011, respectively, and approximated $472,000 and $890,000 for the six months ended June 30, 2012 and 2011, respectively.

At June 30, 2012 and December 31, 2011, the recorded investment in other real estate owned (“OREO”) was $10,366,000 and $8,190,000, respectively. In addition, at December 31, 2011, the Company owned one repossessed mobile home classified on the balance sheet in accrued interest receivable and other assets with a book value of $55,000. For the three months ended March 31, 2012, the Company transferred four properties with loan balances in the amount of $3,439,000 to OREO and wrote these balances down by $194,000 to $3,245,000, and sold four properties with balances of $497,000 for a net loss of $30,000. In addition to the $194,000 in write downs, the Company also adjusted balances through charges to the allowance for loan and lease losses of $74,000 and OREO expense of $60,000 for properties obtained in the prior quarter. For the three months ended June 30, 2012, the Company transferred one property into OREO with a loan balance of $244,000 and the Company sold two properties and a mobile home with balances of $406,000 for a loss of $39,000. The property added during the quarter was adjusted to its current carrying value of $212,000, which is equal to fair value less selling costs. The single property added consisted of three contiguous undeveloped parcels in Amador County, which are zoned residential. One parcel is approximately eleven acres and the other two parcels are approximately five acres each.

The Company periodically obtains property valuations to determine whether the recorded book value is considered fair value. During the second quarter of 2012, this valuation process resulted in the Company reducing the book value of seven properties by $285,000. Of this adjustment, $216,000 was charged to OREO expense, $45,000 was an adjustment to receivables, and $24,000 was charged to the allowance for loan and lease loss.

The June 30, 2012 OREO balance of $10,366,000 consists of twenty properties including eight commercial real estate properties in the amount of $7,831,000, six residential land properties in the amount of $1,713,000, one commercial land property totaling $258,000 and five residential real estate properties in the amount of $564,000.

Nonperforming loans and leases and OREO at June 30, 2012 and December 31, 2011 are summarized as follows:

(in thousands)	June 30, 2012		December 31, 2011	
Nonaccrual loans and leases that are current to terms (less than 30 days past due)	$654		$396	
Nonaccrual loans and leases that are past due	10,019		13,027	
Loans and leases past due 90 days and accruing interest	—		—	
Other real estate owned	10,366		8,190	
Total nonperforming assets	$21,039		$21,613	
Nonperforming loans and leases to total loans and leases	3.76	%	4.46	%
Total nonperforming assets to total assets	3.57	%	3.73	%

Impaired loans and leases as of and for the periods ended June 30, 2012 and December 31, 2011 are summarized as follows:

(in thousands)	As of June 30, 2012			As of December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	$2,534	$4,147	$—	$3,069	$3,089	$—
Real estate-commercial	9,951	10,731	—	4,723	6,428	—
Real estate-multi-family	—	—	—	17	17	—
Real estate-construction	1,719	1,790	—	—	—	—
Real estate-residential	—	—	—	180	180	—
Leases	—	—	—	17	17	—
Consumer	37	37	—	133	133	—
Subtotal	$14,241	$16,705	$—	$8,139	$9,864	$—

With an allowance recorded:						
Commercial	$2,810	$2,810	$393	$2,054	$3,705	$538
Real estate-commercial	8,717	8,780	447	13,504	13,853	707
Real estate-multi-family	1,176	1,176	78	1,187	1,280	5
Real estate-construction	74	260	14	2,083	2,402	147
Real estate-residential	1,994	1,994	107	1,936	1,936	118
Agriculture	393	594	150	597	597	89
Consumer	160	160	49	585	585	76
Subtotal	$15,324	$15,774	$1,238	$21,946	$24,358	$1,680
Total:						
Commercial	$5,344	$6,957	$393	$5,123	$6,794	$538
Real estate-commercial	18,668	19,511	447	18,227	20,281	707
Real estate-multi-family	1,176	1,176	78	1,204	1,297	5
Real estate-construction	1,793	2,050	14	2,083	2,402	147
Real estate-residential	1,994	1,994	107	2,116	2,116	118
Leases	—	—	—	17	17	—
Agriculture	393	594	150	597	597	89
Consumer	197	197	49	718	718	76
	$29,565	$32,479	$1,238	$30,085	$34,222	$1,680

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

	Average Recorded Investments for the three months ended		Average Recorded Investments for the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Commercial	$5,256	$4,490	$5,123	$6,285
Real estate-commercial	17,743	20,801	15,899	21,304
Real estate-multi-family	1,187	1,894	1,228	1,897
Real estate-construction	1,937	4,905	1,852	4,740
Real estate-residential	2,253	4,314	1,543	3,998
Leases	4	—	—	—
Agriculture	395	489	495	490
Consumer	457	452	212	479
Total	$29,232	$38,345	$26,352	$39,193

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

	Interest Income Recognized for the three months ended		Interest Income Recognized for the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Commercial	$23	$32	$74	$92
Real estate-commercial	210	187	330	323
Real estate-multi-family	15	8	30	17
Real estate-construction	—	6	—	12
Real estate-residential	25	38	45	67
Leases	—	—	—	—
Agriculture	—	3	—	3
Consumer	3	3	8	13
Total	$276	$277	$487	$527

7. TROUBLED DEBT RESTRUCTURINGS

At June 30, 2012, there were 28 loans and leases that were considered to be troubled debt restructurings. Of these loans and leases, 19 were modified and are currently performing (less than ninety days past due) totaling $7,753,000 and 9 are considered nonperforming (and included in the $10,673,000 noted above in Note 6), totaling $2,746,000. At June 30, 2012 and December 31, 2011, there were no unfunded commitments on those loans considered troubled debt restructures. See also "Impaired Loans and Leases" in Item 2.

The Company has allocated $500,000 and $535,000 of specific reserves to loans whose terms have been modified as troubled debt restructurings as of June 30, 2012 and December 31, 2011.

During the six-month period ended June 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

The following table presents loans by class modified as troubled debt restructurings during the three months ended June 30, 2012 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	4	$ 646	$ 646
Real estate – commercial	4	1,299	1,299
Real estate – multi-family	1	274	274
Total	9	$ 2,219	$ 2,219

The following table presents loans by class modified as troubled debt restructurings during the six months ended June 30, 2012 (dollars in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	5	$ 693	$ 693
Real estate – commercial	6	3,509	3,509
Real estate – multi-family	2	539	539
Real estate – residential	3	921	808
Other – agriculture	1	410	410
Other – consumer	2	31	31
Total	19	$ 6,103	$ 5,990

The troubled debt restructurings described above increased the allowance for loan and lease losses by $96,000 and resulted in charge offs of $113,000 during the six months ended June 30, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period indicated (dollars in thousands):

Three months ended June 30, 2012	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Commercial	2	$ 1,097
Consumer	1	5
Total	3	$ 1,102

Six months ended June 30, 2012	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Commercial	1	$ 863
Real estate – commercial	6	2,357
Consumer	1	5
Total	8	$ 3,225

8. ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio allocated by management's internal risk ratings as of June 30, 2012 and December 31, 2011 are summarized below:

June 30, 2012 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$30,067	$147,935	$ 6,921	$ 6,827	$ 16,636
Watch	1,638	19,423	1,193	327	1,588
Special mention	1,178	14,302	445	1,225	830
Substandard	3,640	11,157	518	1,757	902
Doubtful	714	—	—	—	—
Total	$37,237	$192,817	$ 9,077	$ 10,136	$ 19,956

	Credit Risk Profile by Internally Assigned Grade			
	Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$1,307	$ 2,917	$ 8,594	$221,204
Watch	—	—	694	24,863
Special mention	—	408	77	18,465
Substandard	5	392	420	18,791
Doubtful	—	—	—	714
Total	$1,312	$ 3,717	$ 9,785	$284,037

December 31, 2011 (dollars in thousands)	Credit Risk Profile by Internally Assigned Grade				
		Real Estate			
	Commercial	Commercial	Multi-family	Construction	Residential
Grade:					
Pass	$33,856	$164,117	$ 5,669	$ 6,462	$ 16,215
Watch	1,540	20,673	1,204	984	1,163
Special mention	2,173	7,187	449	827	1,372
Substandard	3,794	11,938	258	2,083	945
Doubtful	745	128	—	—	—
Total	$42,108	$204,043	$ 7,580	$ 10,356	$ 19,695

	Credit Risk Profile by Internally Assigned Grade Other Credit Exposure			
	Leases	Agriculture	Consumer	Total
Grade:				
Pass	$1,708	$ 3,416	$9,684	$241,127
Watch	—	570	237	26,371
Special mention	—	—	264	12,272
Substandard	17	597	799	20,431
Doubtful	—	—	—	873
Total	$1,725	$ 4,583	$10,984	$301,074

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

June 30, 2012

(dollars in thousands)

	Com-mercial	Real Estate Com-mercial	Multi-Family	Construc-tion	Residential	Other Leases	Agri-culture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance	$1,536	$3,156	$198	$582	$609	$79	$167	$348	$ 366	$7,041
Provision for loan losses	(320)	703	70	(151)	6	(76)	241	510	(28)	955
Loans charged-off	(151)	(845)	(8)	(82)	(113)	(8)	(202)	(492)		(1,901)
Recoveries	—	65	3	22	—	6	—	10		106
Ending balance allocated to portfolio segments	$1,065	$3,079	$263	$371	$502	$1	$206	$376	$ 338	$6,201
Ending balance: Individually evaluated for impairment	$393	$447	$78	$14	$107	$—	$150	$49	$ —	$1,238
Ending balance: Collectively evaluated for impairment	$672	$2,631	$185	$357	$395	$1	$56	$327	$ 338	$4,962
Loans										
Ending balance	$37,237	$192,817	$9,077	$10,136	$19,956	$1,312	$3,717	$9,785	$ —	$284,037

Ending balance: Individually evaluated for impairment	$5,344	$18,668	$1,176	$1,793	$1,994	$—	$393	$197	$ —	$29,565
Ending balance: Collectively evaluated for impairment	$31,893	$174,149	$7,901	$8,343	$17,962	$1,312	$3,324	$9,588	$ —	$254,472

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December 31, 2011 (dollars in thousands)		Real Estate				Other				
	Com-mercial	Com-mercial	Multi-Family	Construc-tion	Residential	Leases	Agri-culture	Consumer	Un-allocated	Total
Ending balance: Individually evaluated for impairment	$538	$707	$5	$147	$118	$—	$89	$76	$—	$1,680
Ending balance: Collectively evaluated for impairment	$998	$2,449	$193	$435	$491	$ 79	$78	$272	$ 366	$5,361
Loans										
Ending balance	$42,108	$204,043	$7,580	$10,356	$19,695	$ 1,725	$4,583	$10,984	$—	$301,074
Ending balance: Individually evaluated for impairment	$5,123	$18,227	$1,204	$2,083	$2,116	$ 17	$597	$718	$—	$30,085
Ending balance: Collectively evaluated for impairment	$36,985	$185,816	$6,376	$8,273	$17,579	$ 1,708	$3,986	$10,266	$—	$270,989

June 30, 2011 (dollars in thousands)		Real Estate				Other				
	Com-mercial	Com-mercial	Multi-Family	Construc-tion	Residential	Leases	Agri-culture	Consumer	Unallocated	Total
Allowance for Loan and Lease Losses										
Beginning balance	$2,574	$2,715	$115	$1,090	$ 581	$7	$131	$ 221	$ 151	$7,585
Charge-offs	(509)	(1,491)	(83)	(217)	(602)	—	(241)	(27)	—	(3,170)
Recoveries	141	—	—	—	1	—	241	14	—	397
Provision	235	1,390	158	(378)	546	94	12	97	921	3,075

Ending balance	$2,441	$2,614	$190	$495	$ 526	$101	$143	$ 305	$ 1,072	$7,887

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The Company's aging analysis of the loan and lease portfolio at June 30, 2012 and December 31, 2011 are summarized below:

June 30, 2012
(dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$461	$74	$3,362	$3,897	$33,340	$37,237	—	$ 3,713
Real estate:							—	
Commercial	1,727	994	3,991	6,712	186,105	192,817	—	4,607
Multi-family	—	—	—	—	9,077	9,077	—	—
Construction	—	—	1,793	1,793	8,343	10,136	—	1,793
Residential	51	—	—	51	19,905	19,956	—	—
Other:								
Leases	—	—	5	5	1,307	1,312	—	5
Agriculture	—	—	393	393	3,324	3,717	—	393
Consumer	106	—	100	206	9,579	9,785	4	162
Total	$2,345	$1,068	$9,644	$13,057	$270,980	$284,037	$ 4	$ 10,673

December 31, 2011
(dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Past Due Greater Than 90 Days	Total Past Due	Current	Total Loans	Past Due Greater Than 90 Days and Accruing	Nonaccrual
Commercial:								
Commercial	$60	$277	$2,472	$2,809	$39,299	$42,108	—	$ 2,775
Real estate:								
Commercial	2,318	1,527	5,271	9,116	194,927	204,043	—	7,469
Multi-family	—	—	257	257	7,323	7,580	—	257
Construction	—	244	1,967	2,211	8,145	10,356	—	2,083
Residential	—	—	—	—	19,695	19,695	—	—
Other:								
Leases	—	—	17	17	1,708	1,725	—	17
Agriculture	—	—	597	597	3,986	4,583	—	597
Consumer	188	411	139	738	10,246	10,984	—	225
Total	$2,566	$2,459	$10,720	$15,745	$285,329	$301,074	$ —	$ 13,423

9. BORROWING ARRANGEMENTS

At June 30, 2012, the Company had $17,000,000 of unsecured short-term borrowing arrangements with two of its correspondent banks. There were no advances under the borrowing arrangements as of June 30, 2012 or December 31, 2011.

The Company has a line of credit available with the Federal Home Loan Bank of San Francisco (the “FHLB”) which is secured by pledged mortgage loans and investment securities. Borrowings may include overnight advances as well as loans with terms of up to thirty years. Advances (both short and long-term) totaling $14,000,000 were outstanding from the FHLB at June 30, 2012, bearing interest rates ranging from 0.67% to 2.73% and maturing between May 20, 2013 and July 10, 2016. Advances totaling $19,000,000 were outstanding from the FHLB at December 31, 2011, bearing interest rates ranging from 0.67% to 2.73% and maturing between January 9, 2012 and July 20, 2016. Remaining amounts available under the borrowing arrangement with the FHLB at June 30, 2012 and December 31, 2011 totaled $65,801,000 and $62,242,000, respectively. The increased borrowing capacity during 2012 resulted from the reduction in outstanding borrowings. In addition, the Company has a secured borrowing agreement with the Federal Reserve Bank of San Francisco. The borrowing can be secured by pledging selected loans and investment securities. Borrowings generally are short-term including overnight advances as well as loans with terms up to ninety days. Amounts available under this borrowing arrangement at June 30, 2012 and December 31, 2011 were $26,226,000 and $30,396,000, respectively. The decreased borrowing capacity during 2012 resulted from the decrease in the pledged loan collateral. There were no advances outstanding under this borrowing arrangement as of June 30, 2012 and December 31, 2011.

10. INCOME TAXES

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

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their 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, if applicable, is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There have been no unrecognized tax benefits or accrued interest and penalties for the three- and six-month periods ended June 30, 2012 and 2011.

11. FAIR VALUE MEASUREMENTS

The following tables present information about the Company’s assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2012 and December 31, 2011. They indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

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

	Carrying	Fair Value Measurements Using:			
June 30, 2012	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$35,257	$35,257			$35,257
Interest-bearing deposits in banks	1,000		$1,000		1,000
Available-for-sale securities	221,846	13	221,833		221,846
Held-to-maturity securities	3,049		3,236		3,236
FHLB stock	3,254	N/A	N/A	N/A	N/A
Net loans and leases:	277,605			275,070	275,070
Accrued interest receivable	1,908			1,908	1,908
Financial liabilities:					
Deposits:					

Noninterest-bearing	$137,572	$137,572			$137,572
Savings	51,491	51,491			51,491
Money market	134,528	134,528			134,528
NOW accounts	50,003	50,003			50,003
Time, $100,000 or more	74,814		75,725		75,725
Other time	27,146		27,390		27,390
Short-term borrowings	2,000	2,000			2,000
Long-term borrowings	12,000		12,121		12,121
Accrued interest payable	168		168		168

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December 31, 2011	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$23,768	$23,768			$23,768
Interest-bearing deposits in banks	1,250		$1,254		1,254
Available-for-sale securities	208,711	9	208,702		208,711
Held-to-maturity securities	4,010		4,231		4,231
FHLB stock	3,093	N/A	N/A	N/A	N/A
Net loans and leases:	293,731			$290,505	290,505
Accrued interest receivable	1,952			1,952	1,952
Financial liabilities:					
Deposits:					
Noninterest-bearing	$133,440	$133,440			$133,440
Savings	47,919	47,919			47,919
Money market	139,244	139,244			139,244
NOW accounts	43,959	43,959			43,959
Time, $100,000 or more	69,464		70,143		70,143
Other time	28,259		28,513		28,513
Short-term borrowings	5,000	5,000			5,000
Long-term borrowings	14,000		14,326		14,326
Accrued interest payable	226		226		226

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

The following methods and assumptions were used by the Company to estimate the fair values of its financial instruments at June 30, 2012 and December 31, 2011:

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

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

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

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

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

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

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

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

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments was not material at June 30, 2012 and December 31, 2011.

Assets and liabilities measured at fair value on a recurring and non-recurring basis are presented in the following table:

Description		Fair Value Measurements Using			Total Gains
(dollars in thousands)	Fair Value	Level 1	Level 2	Level 3	(Losses)
June 30, 2012					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
Mortgage-backed securities	$190,662		$190,662		
Obligations of states and political subdivisions	29,612		29,612		
Corporate bonds	1,500		1,500		
Corporate stock	72	$13	59		
Total recurring	$221,846	$13	$221,833	$—	$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Commercial	$998	$—	$—	$998	$ 103
Real estate:					
Commercial	3,139	—	—	3,139	(273)
Multi-family	—	—	—	—	—
Construction	862	—	—	862	43
Residential	—	—	—	—	—
Other:					
Agriculture	393	—	—	393	(262)
Consumer	46	—	—	46	(56)
Other real estate owned	10,366	—	—	10,366	(373)

Total nonrecurring	$15,804	$—	$—	$15,804	$ (818)

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Description (dollars in thousands)	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Gains (Losses)
December 31, 2011					
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
Mortgage-backed securities	$179,454	—	$179,454	—	—
Obligations of states and political subdivisions	29,188	—	29,188	—	—
Corporate stock	69	$9	60		
Total recurring	$208,711	$9	$208,702	$—	$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Commercial	$1,828	$—	$—	$1,828	$ (181)
Real estate:					
Commercial	7,982	—	—	7,982	(489)
Construction	2,083	—	—	2,083	(422)
Other:					
Agriculture	597	—	—	597	(330)
Consumer	565	—	—	565	(66)
Other real estate owned	8,190	—	—	8,190	(1,002)
Total nonrecurring	$21,245	$—	$—	$21,245	$ (2,490)

There were no significant transfers between Levels 1 and 2 during the three-month and six-month periods ended June 30, 2012 or the twelve months ended December 31, 2011.

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

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

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

and selling costs ranging from 8% to 10%.

Other real estate owned – Certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may use a single valuation approach or a combination of approaches including comparable sales, cost and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income and other available data. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The valuation technique used for all Level 3 nonrecurring OREO is the sales comparison approach less selling costs ranging from 8% to 10%.

Item2. 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, 2011 and June 30, 2012 and its income and expense accounts for the three-month and six-month periods ended June 30, 2012 and 2011. The discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This discussion and supporting tables and the consolidated financial statements and related notes appearing elsewhere in this report are unaudited. Interest income and net interest income are presented on a fully taxable equivalent basis (FTE) within management's discussion and analysis. Certain matters discussed or incorporated by reference in this Quarterly Report on Form 10-Q including, but not limited to, matters described in "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "shoul "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ significantly from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following:

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

- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings;
- the reputation of the financial services industry could experience further deterioration, which could adversely affect our ability to access markets for funding and to acquire and retain customers;
- the efficiencies we may expect to receive from any investments in personnel and infrastructure may not be realized; and
- downgrades in the credit rating of the United States by credit rating agencies.

The factors set forth under "Item 1A - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and other cautionary statements and information set forth in this Quarterly Report on Form 10-Q should be carefully considered and understood as being applicable to all related forward-looking statements contained in this Quarterly Report on Form 10-Q, when evaluating the business prospects of the Company and its subsidiaries.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. The future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the Securities and Exchange Commission (the "SEC") on Forms 10-K, 10-Q and 8-K.

Critical Accounting Policies

General

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

Allowance for Loan and Lease Losses

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

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

Stock-Based Compensation

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

Goodwill

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branch offices constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net fair value 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 goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2011 and determined that there was no impairment. No events have occurred since the last evaluation that would result in the Company recording an impairment of the goodwill. 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 upon which the assessment is based.

Income Taxes

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

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

The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is, if applicable, reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statement of income. There were no unrecognized tax benefits or accrued interest and penalties at June 30, 2012 or 2011 or for the three-month and six-month periods then ended.

General Development of Business

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 854-0123. The Company employed an equivalent of 114 full-time employees as of June 30, 2012.

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

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. American River Bank operates five full service offices in Sacramento and Placer Counties including the main office located at 1545 River Park Drive, Suite 107, Sacramento and branch offices in Sacramento, Fair Oaks, and Roseville. American River Bank also operates two full service offices in Sonoma County in Healdsburg and Santa Rosa, operated under the name "North Coast Bank, a division of American River Bank." North Coast Bank was incorporated and commenced business in 1990 as Windsor Oaks National Bank in Windsor, California. In 1997, the name was changed to North Coast Bank. In 2000, North Coast Bank was acquired by the Company as a separate bank subsidiary. Effective December 31, 2003, North Coast Bank was merged with and into American River Bank. On December 3, 2004, the Company acquired Bank of Amador located in Jackson, California. Bank of Amador was merged with and into American River Bank and now operates three full service banking offices in Amador County in Jackson, Pioneer, and Ione, operating as "Bank of Amador, a division of American River Bank."

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to applicable legal limits. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act includes a permanent increase to $250,000 as the maximum FDIC insurance limit per depositor retroactive to January 1, 2008 and the extension of unlimited FDIC insurance for noninterest-bearing transaction accounts effective December 31, 2010 through December 31, 2012. On November 9, 2010, the FDIC implemented a final rule to increase the coverage and extension of FDIC insurance under the Dodd-Frank Act. FDIC insurance coverage and assessments are discussed under "Item 1A--Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

American River Bank does not offer trust services or international banking services and does not plan to do so in the near future. American River Bank's primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. American River Bank accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and term loans and offers other customary banking services. American River Bank also conducts lease financing for certain types of business equipment. American River Bank owns 100% of two inactive companies, ARBCO and American River Mortgage. ARBCO was formed in 1984 to conduct real estate development and has been inactive since 1995. American River Mortgage has been inactive since its formation in 1994. During 2012, the Company conducted no significant activities other than holding the shares of its subsidiaries. However, it is authorized, with the prior approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the Company's principal regulator, to engage in a variety of activities which are deemed closely related to the business of banking. The common stock of the Company is registered under the Securities Exchange Act of 1934, as amended, and is listed and traded on the Nasdaq Global Select Market under the symbol "AMRB."

Overview

The Company recorded net income of $845,000 for the quarter ended June 30, 2012, which was an increase of $624,000 compared to $221,000 reported for the same period of 2011. Diluted earnings per share for the second quarter of 2012 were $0.09 compared to $0.02 recorded in the second quarter of 2011. The return on average equity ("ROAE") and the return on average assets ("ROAA") for the second quarter of 2012 were 3.64% and 0.58%, respectively, as compared to 0.97% and 0.16%, respectively, for the same period in 2011.

Net income for the six months ended June 30, 2012 and 2011 was $1,557,000 and $427,000, respectively, with diluted earnings per share of $0.16 in 2012 and $0.04 in 2011. For the first six months of 2012, ROAE was 3.33% and ROAA was 0.54% compared to 0.95% and 0.15%, respectively, for the same period in 2011.

Total assets of the Company increased by $8,154,000 (1.4%) from $581,518,000 at December 31, 2011 to $589,672,000 at June 30, 2012. Net loans totaled $277,605,000 at June 30, 2012, down $16,126,000 (5.5%) from $293,731,000 at December 31, 2011. Deposit balances at June 30, 2012 totaled $475,554,000, up $13,269,000 (2.9%) from the $462,285,000 at December 31, 2011.

The Company ended the second quarter of 2012 with a leverage capital ratio of 12.8%, a Tier 1 capital ratio of 21.7%, and a total risk-based capital ratio of 23.0% compared to 13.1%, 21.5%, and 22.8%, respectively, at December 31, 2011. Table One below provides a summary of the components of net income for the periods indicated (See the "Results of Operations" section that follows for an explanation of the fluctuations in the individual components).

Table One: Components of Net Income

(dollars in thousands)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Interest income*	$5,399	$6,422	$10,983	$12,426
Interest expense	(482)	(678)	(984)	(1,403)
Net interest income*	4,917	5,744	9,999	11,023
Provision for loan and lease losses	(375)	(1,700)	(955)	(3,075)
Noninterest income	694	454	1,387	887
Noninterest expense	(4,051)	(4,197)	(8,163)	(8,248)
Provision for income taxes	(265)	(25)	(562)	(55)
Tax equivalent adjustment	(75)	(55)	(149)	(105)
Net income	$845	$221	$1,557	$427
Average total assets	$570,683	$570,683	$573,636	$573,636
Net income (annualized) as a percentage of average total assets	0.58 %	0.16 %	0.54 %	0.15 %

* Fully taxable equivalent basis (FTE)

Results of Operations

Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company’s net interest margin was 3.93% for the three months ended June 30, 2012, 4.58% for the three months ended June 30, 2011, 3.97% for the six months ended June 30, 2012 and 4.41% for the six months ended June 30, 2011.

The fully taxable equivalent interest income component for the second quarter of 2012 decreased $1,023,000 (15.9%) to $5,399,000 compared to $6,422,000 for the three months ended June 30, 2011. The decrease in the fully taxable equivalent interest income for the second quarter of 2012 compared to the same period in 2011 is broken down by rate (down $848,000) and volume (down $175,000). The rate decrease can be attributed to the overall lower interest rate environment and lower average loan balances replaced with higher average investment securities. While forgone interest on nonaccrual loans has decreased, it continues to negatively impact the yield on earning assets. During the second quarter of 2012, foregone interest income on nonaccrual loans was approximately $200,000, compared to foregone interest of $465,000 during the second quarter of 2011. The foregone interest of $200,000 had a 19 basis point negative impact on the yield on earning assets. The average balance of earning assets increased $1,124,000 (0.2%) from $502,505,000 in the second quarter of 2011 to $503,629,000 in the second quarter of 2012; however, there was a significant change in the average earning asset mix during these periods, due to an increase in investment securities, offset by a decrease in loan balances. Principal reductions from loan balances were invested into investment securities. When compared to the second quarter of 2011, average loan balances were down $39,300,000 (12.0%) to $287,869,000 for the second quarter of 2012 and average investment securities were up $41,390,000 (23.9%) to $214,856,000 for the second quarter of 2012. The overall low interest rate environment and the change in the asset mix (lower loan totals and higher investment security totals) resulted in a 82 basis point decrease in the yield on average earning assets from 5.13% for the second quarter of 2011 to 4.31% for the second quarter of 2012. The volume decrease of $175,000 occurred mainly as a result of the decrease in average loans. The market in which the Company operates continues to see a slowdown in new loan volume as existing and potential new borrowers continue to pay down debt and delay expansion plans.

Total fully taxable equivalent interest income for the six months ended June 30, 2012 decreased $1,443,000 (11.6%) to $10,983,000 compared to $12,426,000 for the six months ended June 30, 2011. The breakdown of the fully taxable equivalent interest income for the six months ended June 30, 2012 over the same period in 2011 resulted from decreases in rate (down $1,032,000) and a decrease in volume (down $411,000). Average earning assets increased $3,123,000 (0.6%) during the first six months of 2012 as compared to the same period in 2011. Average loan balances decreased $39,905,000 (12.0%) during that same period and average investment securities balances increased $44,009,000 (26.0%).

Interest expense was $482,000 or $196,000 (28.9%) lower in the second quarter of 2012 versus the prior year period. The average balances on interest bearing liabilities were $304,000 (0.1%) higher in the second quarter of 2012 compared to the same quarter in 2011. The slightly higher balances did not impact the overall interest expense, as the lower rate was the main cause for the decrease in interest expense. The net $196,000 decrease in interest expense during the second quarter of 2012 compared to the second quarter of 2011 was due to lower rates (down $190,000) and lower volume (down $6,000). The Company focused its marketing efforts on replacing higher cost time deposits with lower cost checking, savings, and money market accounts. Average time deposit balances were down $2,177,000 (2.1%) during the second quarter of 2012 compared to the second quarter of 2011, while average interest checking, savings, and money market accounts were up $3,008,000 (1.3%) during that same time period. The Company continues to have success attracting new deposit relationships as a direct result of its business development efforts. The decrease of $190,000 in rates is a result of the lower overall interest rate environment. Rates paid on interest bearing liabilities decreased 22 basis points from 0.78% to 0.56% for the second quarter of 2011 compared to the second quarter of 2012.

Interest expense was $419,000 (29.9%) lower in the six-month period ended June 30, 2012 versus the prior year period. The average balances on interest-bearing liabilities were $2,285,000 (0.7%) lower in the six-month period ended June 30, 2012 compared to the same period in 2011. The lower balances, especially in the level of average time deposits accounted for a $21,000 decrease in interest expense. Average time deposit balances were down $5,119,000 (4.9%) during the first six months of 2012 compared to the same period in 2011. The decrease in interest expense was also aided by lower rates, which accounted for a $398,000 decrease in interest expense for the six-month period. Rates paid on interest-bearing liabilities decreased 24 basis points from the first six months of 2011 to the first six months of 2012 from 0.81% to 0.57%.

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

Table Two: Analysis of Net Interest Margin on Earning Assets

Three Months Ended June 30,	2012			2011		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	$287,869	$4,238	5.92 %	$327,169	$4,845	5.94%
Taxable investment Securities	185,300	931	2.02 %	156,264	1,351	3.47%
Tax-exempt investment securities (2)	29,547	223	3.04 %	17,187	221	5.16%
Corporate stock (2)	9	4	178.75%	15	—	—
Federal funds sold	—	—	—	—	—	—
Investments in time deposits	904	3	1.33 %	1,870	5	1.07%
Total earning assets	503,629	5,399	4.31 %	502,505	6,422	5.13%
Cash & due from banks	38,085			34,014		
Other assets	46,801			41,981		
Allowance for loan & lease losses	(6,333)			(7,817)		
	$582,182			$570,683		
Liabilities & Shareholders' Equity						
Interest bearing liabilities:						
Interest checking and money market	$181,611	170	0.38 %	$184,056	281	0.61%
Savings	51,223	31	0.24 %	45,770	50	0.44%
Time deposits	100,941	217	0.86 %	103,118	261	1.02%
Other borrowings	14,000	64	1.84 %	14,527	86	2.37%
Total interest bearing liabilities	347,775	482	0.56 %	347,471	678	0.78%
Noninterest bearing demand deposits	134,611			126,163		
Other liabilities	6,364			5,878		
Total liabilities	488,750			479,512		
Shareholders' equity	93,432			91,171		
	$582,182			$570,683		
Net interest income & margin (3)		$4,917	3.93 %		$5,744	4.58%

(1) Loan interest includes loan fees of $7,000 and $26,000, respectively, during the three months ended June 30, 2012 and June 30, 2011. Average loan balances include non-performing

loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.

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

(4) Average yield is calculated based on actual days in the period (92 days in 2012 and 91 in 2011) and annualized to actual days in the year (366 days for 2012 and 365 days for 2011).

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Six Months Ended June 30,	2012			2011		
(Taxable Equivalent Basis) (dollars in thousands)	Avg Balance	Interest	Avg Yield (4)	Avg Balance	Interest	Avg Yield (4)
Assets						
Earning assets:						
Loans and leases (1)	$292,485	$8,554	5.88 %	$332,390	$9,842	5.97%
Taxable investment securities	184,138	1,970	2.15 %	153,205	2,152	2.83%
Tax-exempt investment securities (2)	29,179	449	3.09 %	16,091	421	5.28%
Corporate stock (2)	9	4	89.38%	21	—	—
Federal funds sold	—	—	—	—	—	—
Interest-bearing deposits in banks	1,077	6	1.12 %	2,058	11	1.08%
Total earning assets	506,888	10,983	4.36 %	503,765	12,426	4.97%
Cash & due from banks	35,493			35,451		
Other assets	46,439			42,207		
Allowance for loan & lease losses	(6,657)			(7,787)		
	$582,163			$573,636		
Liabilities & Shareholders' Equity						
Interest-bearing liabilities:						
Interest checking and money market	$182,653	362	0.40 %	$183,738	576	0.63%
Savings	49,850	60	0.24 %	45,800	104	0.46%
Time deposits	99,914	431	0.87 %	105,033	543	1.04%
Other borrowings	14,797	131	1.78 %	14,928	180	2.43%
Total interest-bearing liabilities	347,214	984	0.57 %	349,499	1,403	0.81%
Noninterest-bearing demand deposits	134,690			127,980		
Other liabilities	6,301			5,836		
Total liabilities	488,205			483,315		
Shareholders' equity	93,958			90,321		
	$582,163			$573,636		
Net interest income & margin (3)		$9,999	3.97 %		$11,023	4.41%

(1) Loan interest includes loan fees of $11,000 and $28,000, respectively, during the six months ended June 30, 2012 and June 30, 2011. Average loan balances include non-performing loans.

(2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.

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

(4) Average yield is calculated based on actual days in the period (183 days in 2012 and 181 in 2011) and annualized to actual days in the year (366 days for 2012 and 365 days for 2011).

Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses
Three Months Ended June 30, 2012 over 2011 (dollars in thousands)
Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Net loans (1)(2)	$(580)	$(27)	$(607)
Taxable investment securities	250	(670)	(420)
Tax exempt investment securities (3)	158	(156)	2
Corporate stock	—	4	4
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(3)	1	(2)
Total	(175)	(848)	(1,023)
Interest-bearing liabilities:			
Interest checking and money market	(4)	(107)	(111)
Savings deposits	6	(25)	(19)
Time deposits	(5)	(39)	(44)
Other borrowings	(3)	(19)	(22)
Total	(6)	(190)	(196)
Interest differential	$(169)	$(658)	$(827)

Six Months Ended June 30, 2012 over 2011 (dollars in thousands)
Increase (decrease) due to change in:

Interest-earning assets:	Volume	Rate (4)	Net Change
Net loans (1)(2)	$(1,185)	$(103)	$(1,288)
Taxable investment securities	436	(618)	(182)
Tax exempt investment securities (3)	343	(315)	28
Corporate stock	—	4	4
Federal funds sold	—	—	—
Interest-bearing deposits in banks	(5)	—	(5)
Total	(411)	(1,032)	(1,443)
Interest-bearing liabilities:			
Interest checking and money market	(3)	(211)	(214)
Savings deposits	9	(53)	(44)
Time deposits	(26)	(86)	(112)
Other borrowings	(1)	(48)	(49)
Total	(21)	(398)	(419)
Interest differential	$(390)	$(634)	$(1,024)

(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 $7,000 and $26,000, respectively, during the three months ended June 30, 2012 and June 30, 2011, and loan fees of $11,000 and $28,000, respectively, during the six months ended June 30, 2012 and June 30, 2011, have been included in the interest income computation.

(3) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2012 and 2011.
(4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company provided $375,000 for loan and lease losses for the second quarter of 2012 as compared to $1,700,000 for the second quarter of 2011. Net loan and lease losses for the three months ended June 30, 2012 were $439,000 or 0.61% (on an annualized basis) of average loans and leases as compared to $1,175,000 or 1.44% (on an annualized basis) of average loans and leases for the three months ended June 30, 2011. For the first six months of 2012, the Company made provisions for loan and lease losses of $955,000 and net loan and lease losses were $1,795,000 or 1.23% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of $3,075,000 and net loan and lease losses of $2,773,000 for the first six months of 2011 or 1.68% (on an annualized basis) of average loans and leases outstanding. The Company has continued to add to the allowance for loan and lease losses for 2012 as we continue to have a higher than historical average level of nonperforming loans and leases. The high level of nonperforming loans and leases is due to the impact that the overall challenging economy in the Company's market areas and in the United States, has had on the Company's borrowers. 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		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Service charges on deposit accounts	$194	$187	$390	$383
Gain on sale/call of securities	11	25	75	27
Merchant fee income	135	120	263	222
Bank owned life insurance	66	69	132	137
Income from OREO properties	229	—	392	—
Other	59	53	135	118
Total noninterest income	$694	$454	$1,387	$887

Noninterest income increased $240,000 (52.9%) to $694,000 for the three months ended June 30, 2012 as compared to $454,000 for the three months ended June 30, 2011. The increase from the second quarter of 2011 to the second quarter of 2012 was primarily related to rents received on properties obtained through foreclosure. For the second quarter of 2012, rental income was $229,000 compared to zero in the second quarter of 2011. The income from the rental properties results primarily from leased office properties the Company foreclosed upon in the fourth quarter of 2011 and the first quarter of 2012. For the six months ended June 30, 2012, noninterest income increased $500,000 (56.4%) to $1,387,000. The increase from the first six months of 2011 compared to the same period in 2012 was also related to higher rents received on properties obtained through foreclosure.

Noninterest Expense

Noninterest expense decreased $146,000 (3.5%) to a total of $4,051,000 in the second quarter of 2012 compared to $4,197,000 in the second quarter of 2012. Salary and employee benefits expense decreased $10,000 (0.6%) from $2,043,000 during the second quarter of 2011 to $2,033,000 during the second quarter of 2012. On a quarter-over-quarter basis, occupancy expense increased $9,000 (3.0%) and furniture and equipment expense increased $28,000 (16.1%). FDIC assessments decreased $101,000 (41.7%) during the second quarter of 2012 to $141,000, from $242,000 in the second quarter of 2011. OREO related expenses decreased $39,000 (6.8%) during the second quarter of 2012 to $468,000, from $507,000 in the second quarter of 2011. Other expense decreased $33,000 (3.5%) to a total of $908,000 in the second quarter of 2012 versus the second quarter of 2011. The increase in the furniture and equipment expense resulted from depreciation related to purchases of furniture and equipment, including software and three new ATM machines. The decrease in the FDIC assessments resulted from the change in the FDIC assessment methodology from a deposit based system to an asset risk-based system. The fully taxable equivalent efficiency ratio for the second quarter of 2012 increased to 71.3% from 66.8% for the second quarter of 2012. Since the Company experienced a decrease in noninterest expense during this time period the increase in the efficiency is related to a decrease in the net interest margin.

Noninterest expense for the six-month period ended June 30, 2012 was $8,163,000 versus $8,248,000 for the same period in 2011 for a decrease of $85,000 (1.0%). Salaries and benefits expense increased $112,000 (2.7%) from $4,123,000 for the six months ended June 30, 2011 to $4,235,000 for the same period in 2012. The increase in salary and benefits was due in part to an increase in taxes (up $27,000 or 9.7%) and benefits (up $61,000 or 9.2%). The increase in taxes is related to taxes paid on incentive payments and the increase in benefits relates primarily to higher medical related insurance and 401(k) contributions. Occupancy expense increased $27,000 (4.8%) and furniture and equipment expense increased $31,000 (8.6%). FDIC assessments decreased $257,000 (47.6%) during 2012 to $283,000, from $540,000 in 2011. OREO related expenses increased $133,000 (18.8%) during 2012 to $842,000, from $709,000 in 2011. The primary reason for this increase in OREO expenses is due to higher costs to maintain the larger number of foreclosed properties now owned by the Company. Other expense decreased $131,000 (6.7%) from $1,947,000 for the six months ended June 30, 2011 to $1,816,000 for the same period in 2012. The decrease in other expenses results from the Company's focus on reducing controllable expenses and a reduction in legal fees. Legal expenses are down $60,000 (26.1%), from $230,000 in 2012 to $170,000 in 2011, mainly as a result of lower number of loans that require legal assistance in the collection process. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first six months of 2012 was 70.1% as compared to 68.3% in the same period of 2011.

Provision for Income Taxes

Federal and state income taxes for the quarter ended June 30, 2012 increased $240,000 from $25,000 in the second quarter of 2011 to $265,000 in the second quarter of 2012. The effective tax rate for the quarter ended June 30, 2012 was 23.9%, an increase from 10.2% for the second quarter of 2011. For the six months ended June 30, 2012, the provision for income taxes was $562,000 with an effective tax rate of 26.5%, compared to a provision of $55,000 and an effective tax rate of 11.4% for the six months ended June 30, 2011. The higher level of income taxes and effective tax rate resulted from higher pretax income which contributed to a more normalized tax expense and effective tax rate when compared to the tax expense recorded in 2011. The Company realizes less of the benefits of tax-free income related to such items as municipal bonds and bank owned life insurance when it records an overall higher amount of taxable income as these benefits are spread over a larger base of taxable income.

Balance Sheet Analysis

The Company’s total assets were $589,672,000 at June 30, 2012 as compared to $581,518,000 at December 31, 2011, representing an increase of $8,154,000 (1.4%). The average assets for the three months ended June 30, 2012 were $582,182,000, which represents an increase of $11,499,000 or 2.0% over the balance of $570,683,000 during the three-month period ended June 30, 2011. The average assets for the six months ended June 30, 2012 were $582,163,000, which represents an increase of $8,527,000 or 1.5% from the average balance of $573,636,000 during the six-month period ended June 30, 2011.

Investment Securities

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company’s intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities available-for-sale may be sold to implement asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Table Five below summarizes the values of the Company’s investment securities held on June 30, 2012 and December 31, 2011.

Table Five: Investment Securities Composition

Available-for-sale (at fair value) (dollars in thousands)	June 30, 2012	December 31, 2011
Debt securities:		
Mortgage-backed securities	$190,662	$179,454
Obligations of states and political subdivisions	29,612	29,188
Corporate bonds	1,500	—
Corporate stock	72	69
Total available-for-sale investment securities	$221,846	$208,711
Held-to-maturity (at amortized cost)		
Debt securities:		
Mortgage-backed securities	$3,049	$4,010

Total held-to-maturity investment securities	$3,049	$4,010

Net unrealized gains on available-for-sale investment securities totaling $7,265,000 were recorded, net of $2,906,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 30, 2012 and net unrealized gains on available-for-sale investment securities totaling $5,930,000 were recorded, net of $2,372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2011.

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

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. The Company's continuing focus in our market area, new borrowers developed through the Company's marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating $13 million in new loans during the first half of 2012. Normal pay downs, loan charge-offs, and loans transferred to OREO resulted in a net decrease in total loans and leases of $17 million (5.7%) from December 31, 2011. The market in which the Company operates continues to see a slowdown in new loan volume as existing borrowers continue to pay down debt and delay expansion plans. Table Six below summarizes the composition of the loan portfolio as of June 30, 2012 and December 31, 2011.

Table Six: Loan and Lease Portfolio Composition

(dollars in thousands)	June 30, 2012		December 31, 2011		Change in	Percentage
	$	%	$	%	dollars	change
Commercial	$37,237	13 %	$42,108	14 %	$(4,871)	(11.6%)
Real estate						
Commercial	192,817	68 %	204,043	68 %	(11,226)	(5.5%)
Multi-family	9,077	3 %	7,580	2 %	1,497	19.7 %
Construction	10,136	4 %	10,356	3 %	(220)	(2.1%)
Residential	19,956	7 %	19,695	7 %	261	1.3 %
Lease financing receivable	1,312	1 %	1,725	1 %	(413)	(23.9%)
Agriculture	3,717	1 %	4,583	1 %	(866)	(18.9%)
Consumer	9,785	3 %	10,984	4 %	(1,199)	(10.9%)
Total loans and leases	284,037	100%	301,074	100%	(17,037)	(5.7%)
Deferred loan and lease fees, net	(231)		(302)		71	
Allowance for loan and lease losses	(6,201)		(7,041)		840	
Total net loans and leases	$277,605		$293,731		$(16,126)	(5.5%)

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

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

“Subprime” real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the industry, many of these loans were originated with adjustable interest rates that reset upward after an introductory period. These “subprime” loans coupled with declines in housing prices have led to an increase in the banking industry’s default rates resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company did not have any such “subprime” loans at June 30, 2012 and December 31, 2011.

Risk Elements

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

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

The Company has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent on personal or business cash flows or the sale or refinancing of the real estate. The Company monitors the effects of current and expected market conditions and other factors on the collectability of real estate loans. The more significant factors management considers involve the following: lease rates and terms, vacancy rates, absorption and sale rates and capitalization rates; real estate values, supply and demand factors, and rates of return; operating expenses; inflation and deflation; and sufficiency of repayment sources independent of the real estate including, in some instances, personal guarantees. In extending credit and commitments to borrowers, the Company generally requires collateral and/or guarantees as security. The repayment of such loans is expected to come from cash 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 81.7% of the Company's loan and lease portfolio at June 30, 2012, an increase from 79.8% at December 31, 2011. Management believes that the residential land and residential construction portion of the Company's loan portfolio carries more than the normal credit risk it has seen in the past several years, due primarily to severely curtailed demand for new and resale residential property, a large supply of unsold residential land and new and resale homes, and observed reductions in values throughout the Company's market area. Management has responded by evaluating loans that it considers to carry any significant risk above the normal risk of collectability by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio.

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

Nonperforming, Past Due and Restructured Loans and Leases

At June 30, 2012, nonperforming loans and leases (those loans and leases on nonaccrual status and those loans and leases still accruing and past due 90 days or more) were $10,673,000 or 3.76% of total loans and leases. The $10,673,000 in nonperforming loans and leases was made up of thirty-one loans and one lease. Four of those loans totaling $654,000 were current (less than 30 days past due pursuant to their original or modified terms). Nonperforming loans and leases were $13,423,000 or 4.46% of total loans and leases at December 31, 2011. Specific reserves of $583,000 were held on the nonperforming loans at June 30, 2012 and specific reserves of $1,680,000 were held on the nonperforming loans at December 31, 2011.

The overall level of nonperforming loans decreased $16,000 (.1%) to $10,673,000 at June 30, 2012 compared to $10,689,000 at March 31, 2012. At March 31, 2012, the Company had nonperforming loans and leases consisting of twelve real estate loans totaling $6,087,000; thirteen commercial loans totaling $3,995,000; four consumer loans totaling $204,000; one agriculture loan totaling $396,000 and one lease totaling $7,000. During the second quarter of 2012, five loans incurred charge-offs in the amount of $300,000, two loans in the amount of $248,000 were adjusted to market value and moved to OREO, one loan in the amount of $17,000 was paid off, and five loans in the total amount of $834,000 were placed on nonperforming status. The Company also collected approximately $285,000 in principal paydowns. Of the five loans added in the second quarter of 2012, three loans in the total amount of $779,000 were real estate secured and two loans in the amount of $55,000 were consumer loans.

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of June 30, 2012. Management is not aware of any potential problem loans, which were accruing and current at June 30, 2012, 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 and still accruing as of June 30, 2012 and December 31, 2011.

Table Seven: Nonperforming Loans and Leases

(dollars in thousands)	June 30, 2012	December 31, 2011
Past due 90 days or more and still accruing:		
Commercial	$—	$ —

Real estate	—	—
Lease financing receivable	—	—
Agriculture	—	—
Consumer	—	—
Nonaccrual:		
Commercial	3,713	2,775
Real estate	6,400	9,809
Lease financing receivable	5	17
Agriculture	393	597
Consumer	162	225
Total nonperforming loans	$10,673	$ 13,423

The net interest due on nonaccrual loans and leases but excluded from interest income was $200,000 for the three months ended June 30, 2012, compared to foregone interest of $465,000 during three months ended June 30, 2011.

Impaired Loans and Leases

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

At June 30, 2012, the recorded investment in loans and leases that were considered to be impaired totaled $29,565,000, which includes $18,924,000 in performing loans and leases. Of the total impaired loans of $29,565,000, loans totaling $14,241,000 were deemed to require no specific reserve and loans totaling $15,324,000 were deemed to require a related valuation allowance of $1,238,000. Of the $14,241,000 impaired loans that did not carry a specific reserve there were $3,369,000 in loans or leases that had previous partial charge-offs and $10,888,000 in loans or leases that were analyzed and determined not to require a specific reserve or charge-off because the collateral value or discounted cash flow value exceeded the loan or lease balance. The recorded investment in loans and leases that were considered to be impaired totaled $30,085,000 at December 31, 2011. Of the total impaired loans of $30,085,000, loans totaling $8,139,000 were deemed to require no specific reserve and loans totaling $21,946,000 were deemed to require a related valuation allowance of $1,680,000.

The Company has been operating in a market that has experienced significant decreases in real estate values of commercial, residential, land, and construction properties. As such, the Company is focused on monitoring collateral values for those loans considered collateral dependent. The collateral evaluations performed by the Company are updated as necessary, which is generally once every six months, and are reviewed by a qualified credit officer. In the second quarter of 2012, the Company had net charge-offs of $439,000 with a provision of $375,000. In the second quarter of 2011, the Company had net charge-offs of $1,175,000 with a provision of $1,700,000.

At June 30, 2012, there were eighteen loans and leases that were modified and are currently performing (less than ninety days past due) totaling $7,689,000 and ten loans and leases that are considered nonperforming (and included in Table Seven above), totaling $2,810,000, that are considered troubled debt restructures ("TDR"). These TDRs have a specific reserve of $500,000. As of June 30, 2012, of the twenty-eight TDRs, there were seventeen extensions, four changes in terms, four rate reductions, one forbearance, one term out, and one interest only structure change. All were performing as agreed except for five extensions, three changes to amortizing loans, one interest rate decrease and one interest only structure change. The Company generally requires TDRs that are on non-accrual status to make six consecutive payments on the restructured loan or lease prior to returning the loan or lease to accrual status.

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) the financial condition of the borrowers, (iii) loan impairment and the related level of expected charge-offs, (iv) evaluation of industry trends, (v) industry and other concentrations, (vi) loans and leases which are contractually current as to payment terms but demonstrate a higher degree of risk as identified by management, (vii) continuing evaluations of the performing loan portfolio, (viii) ongoing review and evaluation of problem loans identified as having loss potential, (ix) quarterly review by the Board of Directors, and (x) assessments by banking regulators and other third parties. Management and the Board of Directors evaluate the ALLL and determine its appropriate level considering objective and subjective measures, such as knowledge of the borrowers' business, valuation of collateral, the determination of impaired loans or leases and exposure to potential losses.

The allowance for loan and lease losses totaled $6,201,000 or 2.18% of total loans and leases at June 30, 2012 compared to $7,041,000 or 2.34% of total loans and leases at December 31, 2011. The Company establishes general and specific reserves in accordance with the generally accepted accounting principles. 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 possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination.

The allowance for loans and leases as a percentage of non-performing loans and leases was 58.1% at June 30, 2012 and 52.5% at December 31, 2011. The allowance for loans and leases as a percentage of impaired loans and leases was 21.0% at June 30, 2012 and 23.4% at December 31, 2011. Of the total non-performing and impaired loans and leases outstanding as of June 30, 2012, there were $4,261,000 in loans or leases that had been reduced by partial charge-offs of $2,935,000. As these loan or lease balances are charged off, the remaining balances, following analysis, normally do not initially require specific reserves and are not eligible for general reserves. The impact of this on credit ratios is such that the Company's allowance for loan and lease losses as a percentage may be lower, because the partial charge-offs have reduced the potential future losses related to those credits.

The Company's policy with regard to loan or lease charge-offs continues to be that a loan or lease is charged off against the allowance for loan and lease losses when management believes that the collectability of the principal is unlikely. Generally, a loan or lease is charged off, or partially charged down, when estimated losses related to impaired loans and leases are identified. If the loan is collateralized by real estate the impaired portion will be charged off to the allowance for loan and lease losses unless the loan or lease is in the process of collection, in which case a specific reserve may be warranted. If the collateral is other than real estate the Company will typically charge-off the impaired portion of a loan or lease, unless the loan or lease is in the process of collection, in which case a specific reserve may be warranted.

It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Based on information currently available to analyze inherent credit risk, including economic factors, overall credit quality, historical delinquencies and a history of actual charge-offs, management believes that the provision for loan and lease losses and the allowance for loan and lease losses are prudent and adequate. Adjustments may be made based on differences from estimated loan and lease growth, the types of loans constituting this growth, changes in risk ratings within the portfolio, and general economic conditions. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty. Table Eight below summarizes, for the periods indicated, the activity in the ALLL.

Table Eight: Allowance for Loan and Lease Losses

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Average loans and leases outstanding	$287,869	$327,169	$292,485	$332,390
Allowance for loan and lease losses at beginning of period	$6,265	$7,362	$7,041	$7,585
Loans and leases charged off:				
Commercial	(103)	(459)	(151)	(509)
Real estate	(312)	(802)	(1,048)	(2,250)
Lease financing receivable	—	—	(8)	—
Agriculture	—	—	(202)	(241)
Consumer	(82)	(164)	(492)	(170)
Total	(497)	(1,425)	(1,901)	(3,170)
Recoveries of loans and leases previously charged off:				
Commercial	—	250	—	142
Real estate	42	—	90	—
Lease financing receivable	6	—	9	14
Agriculture	—	—	—	241
Consumer	10	—	10	—
Total	58	250	106	397
Net loans and leases charged off	(439)	(1,175)	(1,795)	(2,773)
Additions to allowance charged to operating expenses	375	1,700	955	3,075
Allowance for loan and lease losses at end of period	$6,201	$7,887	$6,201	$7,887
Ratio of net charge-offs to average loans and leases outstanding (annualized)	0.61%	1.44%	1.23%	1.68%
Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized)	0.52%	2.08%	0.66%	1.87%
Allowance for loan and lease losses to loans and leases net of deferred fees at end of period	2.18%	2.43%	2.18%	2.43%

Other Real Estate Owned

At June 30, 2012, the Company had 20 other real estate owned (“OREO”) properties totaling $10,366,000. This compares to 21 properties totaling $8,190,000 at December 31, 2011 and 16 properties totaling $3,224,000 at June 30, 2011. In addition, at December 31, 2011, the Company owned one repossessed mobile home classified on the balance sheet in accrued interest receivable and other assets with a book value of $55,000. During the second quarter of 2012, the Company sold two properties and the one mobile home with balances of $396,000 for a loss of $39,000 and added one property to OREO. The property added during the quarter was adjusted to its current carrying value of $212,000, which is equal to fair value less costs to sell. The single property added consisted of three contiguous undeveloped parcels in Amador County, zoned residential. One parcel is approximately eleven acres and the other two parcels are approximately five acres each.

The Company periodically obtains property valuations as part of the process of determining whether the recorded book value represents fair value. During the second quarter of 2012, this valuation process resulted in the Company reducing the book value of the OREO properties by $261,000. In addition, the Company received an updated appraisal on a property that was obtained in in the first quarter of 2012 resulting in a write down to the allowance for loan and lease losses of $24,000. At June 30, 2012, OREO included a valuation reserve of $70,000. This compares to a reserve balance of $68,000 at June 30, 2011 and $56,000 at December 31, 2011. The Company believes that all 20 OREO properties owned at June 30, 2012 are carried approximately at fair value.

Deposits

At June 30, 2012, total deposits were $475,554,000 representing a $13,269,000 (2.9%) increase from the December 31, 2011 balance of $462,285,000. The Company's deposit growth plan for 2012 is to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts while allowing higher cost time deposits to mature and close or renew at lower rates. The Company experienced increases in noninterest-bearing ($4,132,000 or 3.1%), interest-bearing checking ($6,044,000 or 13.7%), savings ($3,572,000 or 7.5%), and time deposits ($4,237,000 or 4.3%) accounts during 2012.

Other Borrowed Funds

Other borrowings outstanding as of June 30, 2012 and December 31, 2011, consist of advances (both long-term and short-term) from the Federal Home Loan Bank of San Francisco ("FHLB"). Table Nine below summarizes these borrowings.

Table Nine: Other Borrowed Funds

(dollars in thousands)

	June 30, 2012		December 31, 2011	
	Amount	Rate	Amount	Rate
Short-term borrowings:				
FHLB advances	$2,000	0.67%	$5,000	2.08%
Long-term borrowings:				
FHLB advances	$12,000	1.99%	$14,000	1.80%

The maximum amount of short-term borrowings at any month-end during the first six months of 2012 and 2011 was zero and $12,000,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

	Short-term	Long-term
Amount	$2,000	$12,000
Maturity	2013	2014 to 2016
Weighted average rates	0.67%	1.99%

The Company has also been issued a total of $10,000,000 in letters of credit by the FHLB which are pledged to secure Local Agency Deposits. The letters of credit act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letters of credit were not drawn upon in 2012 or 2011 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 Company and American River Bank are subject to certain regulatory capital requirements administered by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the "FDIC"). Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

At June 30, 2012, shareholders' equity was $92,342,000, representing a decrease of $1,787,000 (1.9%) from $94,099,000 at December 31, 2011. The decrease results from repurchases of common stock exceeding the additions from net income for the period, the stock based compensation, and the increase in other comprehensive income. The ratio of total risk-based capital to risk adjusted assets was 23.0% at June 30, 2012 and 22.8% at December 31, 2011. Tier 1 risk-based capital to risk-adjusted assets was 21.7% at June 30, 2012 and 21.5% at December 31, 2011. The leverage ratio was 12.8% at June 30, 2012 and 13.1% at December 31, 2011.

Table Ten below lists the Company’s actual capital ratios at June 30, 2012 and December 31, 2011 as well as the minimum capital ratios for capital adequacy.

Table Ten: Capital Ratios

Capital to Risk-Adjusted Assets	At June 30, 2012	At December 31, 2011	Minimum Regulatory Capital Requirements
Leverage ratio	12.8%	13.1%	4.00%
Tier 1 Risk-Based Capital	21.7%	21.5%	4.00%
Total Risk-Based Capital	23.0%	22.8%	8.00%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory requirements and is adequate to meet future needs. Management believes that both the Company and American River Bank met all of their capital adequacy requirements as of June 30, 2012 and December 31, 2011.

On June 7, 2012, the federal bank regulatory agencies published notices of proposed rulemakings that would revise and replace the current capital requirements. The proposed rules implement the “Basel III” regulatory capital reforms released by the Basel Committee on Banking Supervision and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposed rules are subject to a comment period through October 22, 2012. Therefore, it is uncertain whether the proposed rules will be effective in the form proposed or modified in response to comments including delay of the effective date or other changes that may have a material impact upon the proposed rules and their application to our Company and the Bank.

As proposed, the rules include new minimum capital ratio requirements to be phased in between January 1, 2013 and January 1, 2015, which would consist of the following: (i) a new common equity Tier 1 capital to total risk weighted assets ratio of 4.5%; (ii) a Tier 1 capital to total risk weighted assets ratio of 6% (increased from 4%); (iii) a total capital to total risk weighted assets ratio of 8% (unchanged from current rules); and (iv) a Tier 1 capital to adjusted average total assets (“leverage”) ratio of 4%. Certain additional changes to the calculation of risk-weighted assets and Tier 1 capital components will affect the capital ratio requirements.

The proposed the rules would also establish a “capital conservation buffer,” which requires maintenance of a minimum of 2.5% of common equity Tier 1 capital to total risk weighted assets in excess of the regulatory minimum capital ratio requirements proposed. The new buffer requirement would be phased in between January 2016 and January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital ratio level falls below the buffer amount.

On December 17, 2009, the Company filed a Current Report with the SEC on Form 8-K announcing the completion of an offering of approximately $24 million of its common stock. Effective July 27, 2009, the Company temporarily suspended both the payment of cash dividends and stock repurchases. On January 26, 2012, the Company approved and authorized a new stock repurchase program for 2012 (the "2012 Program"). On June 15, 2012, the Company announced an increase in the number of shares eligible for repurchase in the 2012 Program. See Part II, Item 2, for additional disclosure regarding the 2012 Program.

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 June 30, 2012 and 2011.

Liquidity

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, short-term investments and securities, and loan and lease repayments contribute to liquidity, along with deposit increases, while loan and lease funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding standby letters of credit at June 30, 2012 were approximately $32,592,000 and $8,355,000, respectively. Such loan commitments relate primarily to revolving lines of credit and other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale and/or pledged for secured borrowings. At June 30, 2012, consolidated liquid assets totaled $195.4 million or 33.1% of total assets compared to $177.3 million or 30.5% of total assets on December 31, 2011. In addition to liquid assets, the Company maintains two short-term unsecured lines of credit in the amount of $17,000,000 with two of its correspondent banks. At June 30, 2012, the Company had $17,000,000 available under these credit lines. Additionally, the Bank is a member of the FHLB. At June 30, 2012, the Bank could have arranged for up to $89,901,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At June 30, 2012, the Company had advances, borrowings and commitments (including letters of credit) outstanding of $24,000,000, leaving $65,801,000 available under these FHLB secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank of San Francisco. The borrowing can be secured by pledging selected loans and investment securities. At June 30, 2012, the Company's borrowing capacity at the Federal Reserve Bank was $26,226,000. The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets and borrowing capacity to offset the potential runoff of these volatile and/or cyclical deposits.

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

Off-Balance Sheet Items

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

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company applies the same credit policies to commitments and letters of credit as it does for loans included on the consolidated balance sheet. As of June 30, 2012 and December 31, 2011, 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 $40,947,000 and $46,565,000 at June 30, 2012 and December 31, 2011, respectively. As a percentage of net loans and leases these off-balance sheet items represent 14.8% and 15.9%, respectively.

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

Website Access

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk Management

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

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

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

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

Table Eleven: Interest Rate Risk Simulation of Net Interest as of June 30, 2012 and December 31, 2011

(dollars in thousands)	$ Change in NII from Current 12 Month Horizon June 30, 2012	$ Change in NII from Current 12 Month Horizon December 31, 2011
Variation from a constant rate scenario		
+200bp	$ 722	$ 773
-200bp	$ (771)	$ (1,192)

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

Item 4. Controls and Procedures.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2012. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

During the quarter ended June 30, 2012, 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.

There have been no significant changes in the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2011, filed with the Securities and Exchange Commission on March 2, 2012.

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

On January 26, 2012, the Company approved and authorized a new stock repurchase program for 2012 (the "2012 Program"). The 2012 Program authorizes the repurchase during 2012 of up to 5% of the outstanding shares of the Company's common stock, or approximately 494,500 shares based on the 9,890,909 shares outstanding as of January 26, 2012. On June 15, 2012, the Company approved and authorized an increase to number of shares eligible for repurchase under the 2012 Program, increasing the number from 494,500 to 593,500. Any repurchases under the 2012 Program will be made from time to time by the Company in the open market as conditions allow. All such transactions will be structured to comply with Securities and Exchange Commission Rule 10b-18 and all shares repurchased under the 2012 Program will be retired. The number, price and timing of the repurchases will be at the Company's sole discretion and the 2012 Program may be re-evaluated depending on market conditions, capital and liquidity needs or other factors. Based on such re-evaluation, the Board of Directors may suspend, terminate, modify or cancel the 2012 Program at any time and for any reason. The following table lists shares repurchased during the quarter ended June 30, 2012 and the maximum amount available to repurchase under the repurchase plan.

Period	(a) Total Number of Shares (or Units)	(b) Average Price Paid Per Share	(c) Total Number of Shares (or Units)	(d) Maximum Number (or Approximate Dollar Value)

	Purchased	(or Unit)	Purchased as Part of Publicly Announced Plans or Programs	of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
Month #1				
April 1 through April 30, 2012	60,000	$ 7.28	60,000	289,471
Month #2				
May 1 through May 31, 2012	197,160	7.27	197,160	92,311
Month #3				
June 1 through June 30, 2012	173,200	7.26	173,200	18,111
Total	430,360	$ 7.27	430,360	N/A

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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Exhibit Number	Document Description
(2.1)	Agreement and Plan of Reorganization and Merger by and among the Registrant, ARH Interim National Bank and North Coast Bank, N.A., dated as of March 1, 2000 (included as Annex A). **
(2.2)	Agreement and Plan of Reorganization and Merger by and among the Registrant, American River Bank and Bank of Amador, dated as of July 8, 2004 (included as Annex A). ***
(3.1)	Articles of Incorporation, as amended, incorporated by reference from Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the Commission on May 10, 2011.
(3.2)	Bylaws, as amended, incorporated by reference from Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the Commission on August 8, 2008.
(4.1)	Specimen of the Registrant's common stock certificate, incorporated by reference from Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
(10.1)	Lease agreement between American River Bank and Spieker Properties, L.P., a California limited partnership, dated April 1, 2000, related to 1545 River Park Drive, Suite 107, Sacramento, California (**) and the Second Amendment thereto dated August 27, 2010, with HINES VAF II SACRAMENTO PROPERTIES, L.P., a Delaware limited partnership, the successor to Spieker Properties, L.P., incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on August 30, 2010.
(10.2)	Lease agreement between American River Bank and Bradshaw Plaza Associates, Inc. dated November 27, 2006, related to 9750 Business Park Drive, Sacramento, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on November 28, 2006.
(10.3)	Lease agreement between American River Bank and Marjorie Wood Taylor, Trustee of the Marjorie Wood-Taylor Trust, dated April 5, 1984, and addendum thereto dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California (**) and Amendment No. 2 thereto dated May 14, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 15, 2009.
(10.4)	Lease agreement between American River Bank and LUM YIP KEE, Limited (formerly Sandalwood Land Company) dated August 28, 1996, related to 2240 Douglas Boulevard, Suite 100, Roseville, California (**) and Amendment No. 1 thereto dated July 28, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on July 31, 2006.
*(10.5)	Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 3, 2012.
*(10.6)	Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 3, 2012.

(10.7)	Lease agreement between American River Bank and 520 Capitol Mall, Inc., dated August 19, 2003, related to 520 Capitol Mall, Suite 100, Sacramento, California, incorporated by reference from Exhibit 10.29 to the Registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003 and the First Amendment thereto dated April 21, 2004, incorporated by reference from Exhibit 10.37 to the Registrant’s Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
*(10.8)	Employment Agreement between Registrant and David T. Taber dated June 2, 2006, incorporated by reference from Exhibit 99.3 to the Registrant’s Current Report on Form 8-K, filed with the Commission on May 30, 2006.
*(10.9)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.3 to the Registrant’s Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.10)	Salary Continuation Agreement, as amended on February 21, 2008, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.11)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant’s Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.12)	Registrant’s 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. **
*(10.13)	Registrant’s 401(k) Plan dated December 23, 2008, incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K, filed with the Commission on December 24, 2008.
(10.14)	Lease agreement between Bank of Amador and the United States Postal Service, dated May 24, 2011, related to 424 Sutter Street, Jackson, California, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on May 25, 2011.
*(10.15)	Salary Continuation Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.4 to the Registrant’s Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.16)	Director Retirement Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.5 to the Registrant’s Current Report on Form 8-K, filed with the Commission on February 22, 2008.
(10.17)	Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 30, 2012, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on May 4, 2012.
(10.18)	Lease agreement between Registrant and One Capital Center, a California limited partnership, dated May 17, 2005, related to 3100 Zinfandel Drive, Rancho Cordova, California, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on May 18, 2005 and the First Amendment thereto dated April 23, 2010, incorporated by reference from Exhibit 99.1 to the Registrant’s Current Report on Form 8-K, filed with the Commission on April 23, 2010.

(10.19)	Managed Services Agreement between American River Bankshares and ProNet Solutions, Inc., dated June 25, 2012, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 27, 2012.
*(10.20)	American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 27, 2005; the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 17, 2006; the Second Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 23, 2007; the Third Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008; the Fourth Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 20, 2009; the Fifth Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 18, 2010; the Sixth Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on March 17, 2011; and the Seventh Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 17, 2012.
*(10.21)	American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.33 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 8, 2006.
*(10.22)	Employment Agreement dated September 20, 2006, between American River Bankshares and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.23)	Employment Agreement dated September 20, 2006, between American River Bankshares and Kevin B. Bender, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.24)	Employment Agreement dated September 20, 2006, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.5 to the Registrant's Current Report on Form 8-K, filed with the Commission on September 20, 2006.
*(10.25)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.6 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.
*(10.26)	Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.7 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 22, 2008.
(10.27)	Lease agreement dated May 23, 2007 between Bank of Amador, a division of American River Bank, and Joseph Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust, related to 26395 Buckhorn Ridge Road, Pioneer, California, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on May 24, 2007 and the First

	Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on October 16, 2007.
(10.28)	Lease agreement dated December 23, 2008, between North Coast Bank, a division of American River Bank, and 90 E Street LLC, related to 90 E Street, Santa Rosa, California, incorporated by reference from Exhibit 99.3 to the Registrant's Current Report on Form 8-K, filed with the Commission on December 24, 2008.

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(10.29)	Customer Service Agreement dated January 4, 2010, between American River Bankshares and TriNet HR Corporation, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 5, 2010.
*(10.31)	Form of Indemnification Agreement entered into on January 20, 2010, between American River Bankshares and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.32)	Form of Indemnification Agreement entered into on January 20, 2010, between American River Bank and its Directors and certain named executive officers, incorporated by reference from Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed with the Commission on January 22, 2010.
*(10.33)	Registrant's 2010 Equity Incentive Plan, incorporated by reference from the Registrant's Definitive Proxy Statement for its 2010 Annual Meeting of Shareholders, filed with the Commission on April 9, 2010.
*(10.34)	Employment Agreement dated February 1, 2012, between American River Bank and Robert H. Muttera, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on February 8, 2012.
(10.35)	Subscription and Services Agreement between American River Bank and Postilion, Inc., dated June 19, 2012, incorporated by reference from Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on June 21, 2012.
(14.1)	Registrant's Code of Ethics, incorporated by reference from Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the Commission on March 19, 2004.
(21.1)	The Registrant's only subsidiaries are American River Bank, a California banking corporation, and American River Financial, a California corporation.
(31.1)	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)	Certification of American River Bankshares by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document****
101.SCH	XBRL Taxonomy Extension Schema****
101.CAL	XBRL Taxonomy Extension Calculation****
101.DEF	XBRL Taxonomy Extension Definition****
101.LAB	XBRL Taxonomy Extension Label****
101.PRE	XBRL Taxonomy Extension Presentation****

*Denotes management contracts, compensatory plans or arrangements.

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

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

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

SIGNATURES

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

	AMERICAN RIVER BANKSHARES
August 6, 2012	By: /s/ DAVID T. TABER
	David T. Taber President and Chief Executive Officer
	AMERICAN RIVER BANKSHARES
August 6 , 2012	By: /s/ MITCHELL A. DERENZO
	Mitchell A. Derenzo Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description	Page
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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.	57