

2017 Annual Report
Giving Business More Reach



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ANNUAL REPORT COPIES. American River Bankshares will provide its security holders and interested parties, without charge, a copy of its 2017 Annual Report on Form 10-K, including the financial statements and schedules thereto, as filed with the Securities and Exchange Commission. To request a copy by mail, please contact American River Bankshares. To view a PDF version online, please go to our web site at www.envisionreports.com/AMRB.

2017 YEAR IN REVIEW

Dear Valued Shareholder,

On October 27, 2017 the Company announced the appointment of David E. Ritchie, Jr. as President and CEO, signifying a major change for the Company. This addition of his financial service experience and top-tier lending expertise is representative of our direction for the Company. With Mr. Ritchie's expertise our leadership team has implemented new strategies for relationship building and growth, designed to position the Company to further our existing relationships and acquire new business. The hiring of additional top talent and the subsequent restructuring of our commercial lending operations will allow us to best deploy capital in the communities we serve. Profitable growth remains the priority with a coordinated marketing plan engaging both our commercial and retail teams as we continue efforts to drive value for shareholders.

SHAREHOLDER VALUE. The Company continued the 2017 Stock Repurchase Program which resulted in the Company repurchasing 574,748 shares and reinstated the quarterly cash dividend program, paying out \$0.20 per share for the year.

EARNINGS PER SHARE DRIVER. For the year ended December 31, 2017, the Company experienced a reduction in earnings per share by 47% to \$0.50 per share. The majority of our income was derived from net interest income, which decreased overall by \$890,000. The primary reason for the decrease in interest income was due to lower yields earned on loans and investments. We also experienced an increase in noninterest expenses of \$213,000, primarily as a result of costs associated with the change in leadership, including salaries and benefits, as well as, professional expenses. During 2017, the Company recorded an income tax expense adjustment of \$1.2 million related to the "H.R.1" commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). These factors contributed to a 4.4% decrease in net income for 2017.

BALANCE SHEET GROWTH. Core deposits* grew by \$14.6 million for the year while net loans decreased \$15.4 million. This decrease in loans was the key driver in our decisions to augment our lending expertise with new talented executives and relationship managers.

The results from 2017 underscore the opportunities for enhancing our growth activities. While the 2017 financial performance was impacted by the expenses related to the leadership change and the Tax Act, we continue to be well capitalized and positioned for greater levels of growth and performance. This will be led by skilled sales practices including expanded promotion efforts to share our excellent client satisfaction ratings with new audiences. Strategic additions to our team and targeted outbound sales and marketing efforts will help us maintain and expand our services in providing financial solutions.

We extend our gratitude for your investment, continued trust and confidence you place in our Company.

Sincerely,



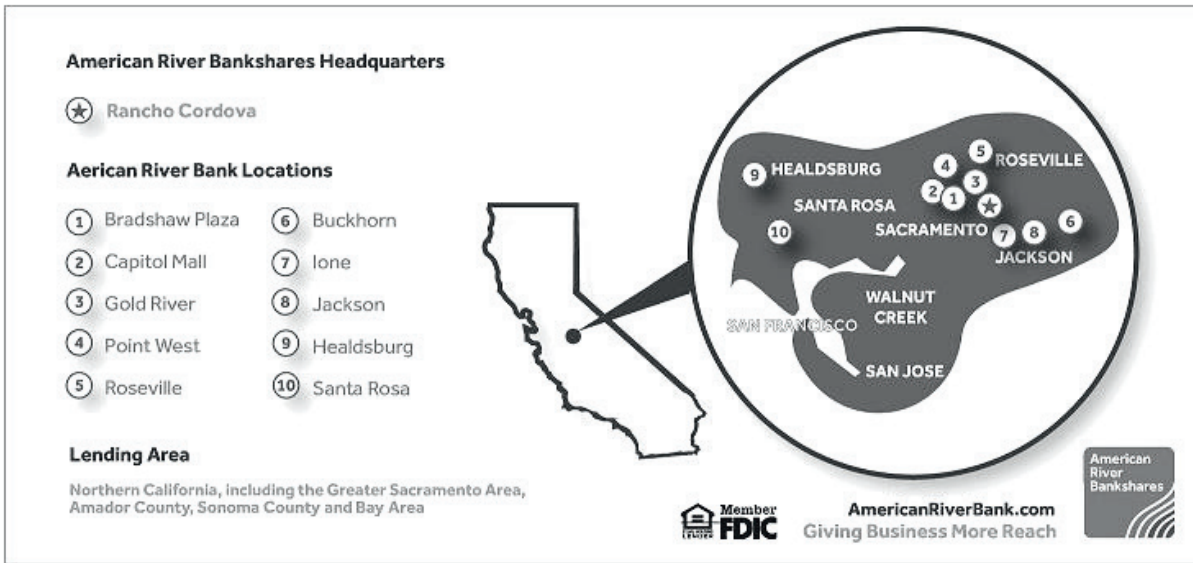
Charles D. Fite
Chairman of the Board



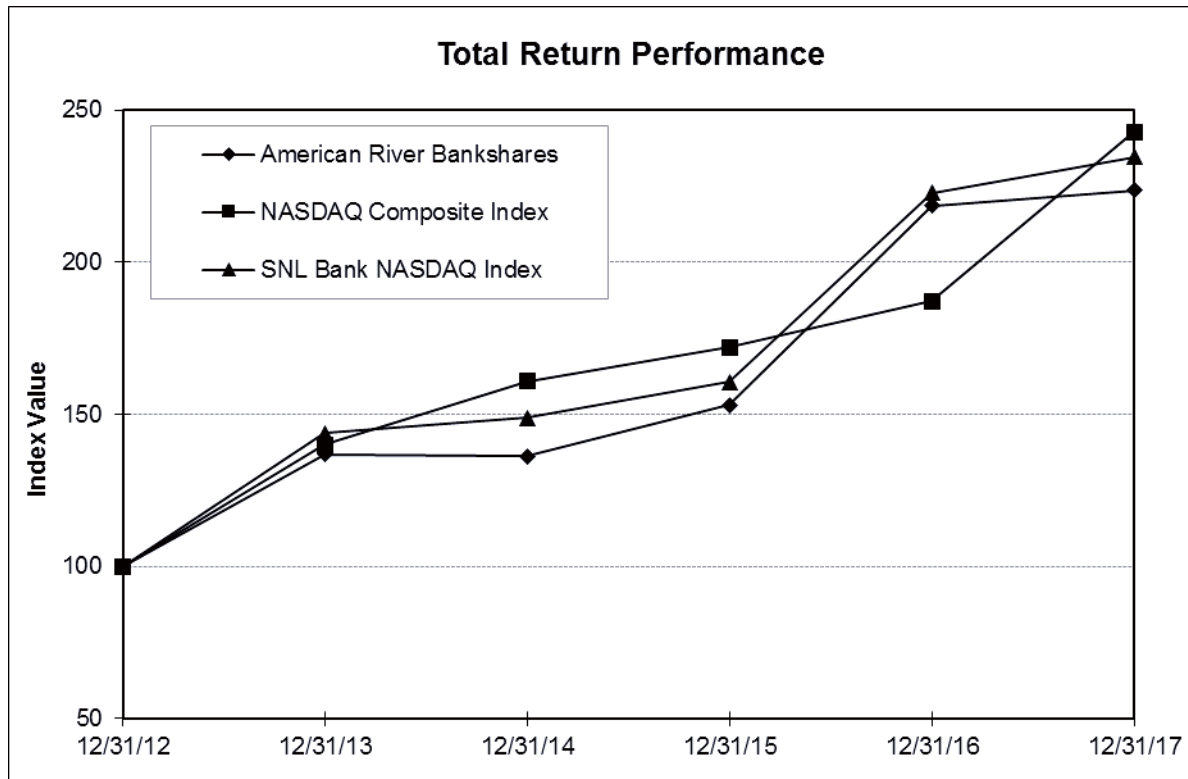
David E. Ritchie, Jr.
President & CEO

*The Company considers all deposits except time deposits as core deposits.

OUR LOCATIONS



TOTAL RETURN PERFORMANCE



Index	Period Ending						
	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
American River Bankshares	100.00	151.87	207.69	207.03	232.53	332.09	223.56
NASDAQ Composite	100.00	117.45	164.57	188.84	201.98	219.89	242.71
SNL Bank NASDAQ	100.00	119.19	171.31	177.42	191.53	265.56	234.58

Source: S&P Global Market Intelligence

OUR TEAM

AMERICAN RIVER BANK AND BANKSHARES BOARD OF DIRECTORS

Charles D. Fite
Chairman of the Board
President, Fite Development Co.

William A. Robotham, CPA
Vice-Chairman of the Board
Former Executive Partner, Pisenti & Brinker LLP

Stephen H. Waks, Esq.
Corporate Secretary
Attorney-at-Law and Owner, Waks Law Corporation

Nicolas C. Anderson
Chief Executive Officer, Capitol Digital & Calforensics

Kimberly A. Box
President & Chief Executive Officer,
Gatekeeper Innovation, Inc.

Jeffery Owensby
Partner, Kennaday Leavitt Owensby PC

David E. Ritchie, Jr.
President & Chief Executive Officer,
American River Bankshares

Philip A. Wright
President & Owner, Wright Investments
Inc. dba Wright Realty

Michael A. Ziegler
President & Chief Executive Officer,
PRIDE Industries

ANNUAL MEETING

The 2018 annual meeting of American River Bankshares will be held at 3:00 p.m. on May 17, 2018 at:

Rancho Cordova City Hall
American River Room North
2729 Prospect Park Drive
Rancho Cordova, CA 95670

AMERICAN RIVER BANK LEADERSHIP TEAM

David E. Ritchie, Jr.
President & Chief Executive Officer

Kevin B. Bender
EVP & Chief Operating Officer

Lisa R. Cisneros
EVP & Retail Banking Manager

Mitchell A. Derenzo
EVP & Chief Financial Officer

Dennis F. Raymond, Jr.
EVP & Chief Lending Officer

Marie A. Crayne
SVP & Interim Chief Credit Officer

STOCK LISTING

American River Bankshares trades on the NASDAQ Global Select Stock Market under the symbol "AMRB"

INVESTOR RELATIONS

American River Bankshares
3100 Zinfandel Drive, Suite 450
Rancho Cordova, CA 95670
(916) 851-0123
investor.relations@americanriverbank.com
www.AmericanRiverBank.com

TRANSFER AGENCY

Computershare Trust Company
P.O. Box 43070
Providence, RI 02940-3070
(800) 962 4284
www-us.computershare.com/Investor/

Selected Financial Data.

FINANCIAL SUMMARY-The following table presents certain consolidated financial information concerning the business of the Company and its subsidiaries. This information should be read in conjunction with the Consolidated Financial Statements, the notes thereto, and Management's Discussion and Analysis included in this report. All per share data has been retroactively restated to reflect stock dividends and stock splits.

As of and for the Years Ended December 31,
(In thousands, except per share amounts and ratios)

	2017	2016	2015	2014	2013
Operations Data:					
Net interest income	\$ 19,353	\$ 20,243	\$ 20,007	\$ 18,797	\$ 17,391
Provision for loan and lease losses	450	(1,344)	—	(541)	200
Noninterest income	1,596	2,045	2,015	2,177	2,015
Noninterest expenses	14,049	13,836	14,080	14,862	14,891
Income before income taxes	6,450	9,796	7,942	6,653	4,315
Income tax expense	3,252	3,392	2,674	2,292	1,258
Net income	\$ 3,198	\$ 6,404	\$ 5,268	\$ 4,361	\$ 3,057
Share Data:					
Earnings per share – basic	\$ 0.50	\$ 0.95	\$ 0.70	\$ 0.54	\$ 0.34
Earnings per share – diluted	\$ 0.50	\$ 0.94	\$ 0.70	\$ 0.54	\$ 0.34
Cash dividends per share (1)	\$ 0.20	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Book value per share	\$ 12.54	\$ 12.59	\$ 11.72	\$ 11.08	\$ 10.25
Tangible book value per share	\$ 9.88	\$ 10.14	\$ 9.50	\$ 9.06	\$ 8.33
Balance Sheet Data:					
Assets	\$ 655,622	\$ 651,450	\$ 634,640	\$ 617,754	\$ 592,753
Loans and leases, net	308,713	324,086	289,102	258,057	251,747
Deposits	556,080	544,806	530,690	510,693	483,690
Shareholders' equity	76,921	83,850	86,075	89,647	87,020
Financial Ratios:					
Return on average equity	3.91%	7.60%	6.03%	4.98%	3.38%
Return on average tangible equity	4.88%	9.43%	7.42%	6.12%	4.13%
Return on average assets	0.49%	1.00%	0.85%	0.72%	0.52%
Efficiency ratio (2)	65.84%	60.81%	62.87%	69.96%	75.61%
Net interest margin (2) (3)	3.39%	3.62%	3.63%	3.54%	3.45%
Net loans and leases to deposits	55.52%	59.49%	54.48%	50.53%	52.05%
Net charge-offs (recoveries) to average loans & leases	0.25%	(0.39%)	0.12%	(0.20%)	0.25%
Nonperforming loans and leases to total loans and leases (4)	0.60%	0.01%	0.56%	0.63%	0.77%
Allowance for loan and lease losses to total loans and leases	1.43%	1.47%	1.69%	2.01%	2.08%
Average equity to average assets	12.53%	13.20%	14.02%	14.47%	15.31%
Dividend payout ratio (1)	40.19%	0.00%	0.00%	0.00%	0.00%
Capital Ratios:					
Leverage capital ratio	9.45%	10.50%	10.97%	11.60%	11.88%
Tier 1 risk-based capital ratio	18.08%	19.02%	19.34%	21.60%	21.95%
Total risk-based capital ratio	19.34%	20.27%	20.59%	22.85%	23.20%

- (1) On January 25, 2017, the Company reinstated the payment of quarterly cash dividends.
- (2) Fully taxable equivalent.
- (3) Excludes the amortization of intangible assets.
- (4) Nonperforming loans and leases consist of loans and leases past due 90 days or more and still accruing and nonaccrual loans and leases.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report including, but not limited to, matters described herein, are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following:

- the legislation promulgated by the United States Congress and actions taken by governmental agencies that may impact the U.S. financial system;
- the risks presented by economic volatility and recession, which could adversely affect credit quality, collateral values, including real estate collateral, investment values, liquidity and loan originations and loan portfolio delinquency rates;
- variances in the actual versus projected growth in assets and return on assets;
- potential loan and lease losses;
- potential expenses associated with resolving 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 increased capital and regulatory compliance requirements and government intervention in the U.S. financial system;
- changes in business conditions and inflation;
- changes in securities markets, public debt markets, and other capital markets;
- potential data processing, cybersecurity and other operational systems failures, breach or fraud;
- potential decline in real estate values in our operating markets;
- the effects of uncontrollable events such as terrorism, the threat of terrorism or the impact of military conflicts in connection with the conduct of the war on terrorism by the United States and its allies, negative financial and economic conditions, natural disasters, and disruption of power supplies and communications;
- changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations;
- projected business increases following any future strategic expansion could be lower than expected;
- the goodwill we have recorded in connection with acquisitions could become impaired, which may have an adverse impact on our earnings;
- the reputation of the financial services industry could experience deterioration, which could adversely affect our ability to access markets for funding and to acquire and retain customers; and
- the efficiencies we may expect to receive from any investments in personnel and infrastructure may not be realized.

The factors set forth under "Item 1A - Risk Factors" in our 2017 Form 10-K and other cautionary statements and information set forth in this report should be carefully considered and understood as being applicable to all related forward-looking statements contained in this report, when evaluating the business prospects of the Company and its subsidiaries.

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

Use of Non-GAAP Financial Measures

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

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

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

Tangible Equity (non-GAAP financial measures)

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

Critical Accounting Policies

General

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

Allowance for Loan and Lease Losses

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

Stock-Based Compensation

The Company recognizes compensation expense over the service 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. The fair value of each restricted award is estimated on the date of award and amortized over the service period.

Overview

The Company recorded net income in 2017 of \$3,198,000, a decrease of \$3,206,000 (50.1%) from \$6,404,000 in 2016. Diluted earnings per share were \$0.50 for 2017 and \$0.94 for 2016. For 2017, the Company realized a return on average equity of 3.91% and a return on average assets of 0.49%, compared to 7.60% and 1.00%, respectively, in 2016.

Net income for 2016 increased \$1,136,000 (21.6%) from \$5,268,000 in 2015. Diluted earnings per share for 2015 were \$0.70. For 2015, the Company realized a return on average equity of 6.03% and return on average assets of 0.85%. Table One below provides a summary of the components of net income for the years indicated (dollars in thousands):

Table One: Components of Net Income

	2017	2016	2015
Interest income*	\$ 20,804	\$ 21,618	\$ 21,340
Interest expense	(1,061)	(910)	(961)
Net interest income*	19,743	20,708	20,379
Provision for loan and lease losses (expense) income	(450)	1,344	—
Noninterest income	1,596	2,045	2,015
Noninterest expense	(14,049)	(13,836)	(14,080)
Provision for income taxes	(3,252)	(3,392)	(2,674)
Tax equivalent adjustment	(390)	(465)	(372)
Net income	\$ 3,198	\$ 6,404	\$ 5,268
Average total assets	\$ 652,720	\$ 638,276	\$ 623,049
Net income as a percentage of average total assets	0.49%	1.00%	0.85%

* Fully taxable equivalent basis (FTE)

During 2017, total assets of the Company increased \$4,172,000 (0.6%) from \$651,450,000 at December 31, 2016 to \$655,622,000 at December 31, 2017. At December 31, 2017, net loans totaled \$308,713,000, a decrease of \$15,373,000 (4.7%) from the ending balance of \$324,086,000 at December 31, 2016. Deposits increased \$11,274,000 or 2.1% from \$544,806,000 at December 31, 2016 to \$556,080,000 at December 31, 2017. Shareholders' equity decreased \$6,929,000 or 8.3% from \$83,850,000 at December 31, 2016 to \$76,921,000 at December 31, 2017. The Company ended 2017 with a leverage capital ratio of 9.5% and a total risk-based capital ratio of 19.3% compared to a leverage capital ratio of 10.5% and a total risk-based capital ratio of 20.3% at the end of 2016.

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, securities, Federal funds sold and interest-bearing deposits in other banks over the interest paid on deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets.

The Company's fully taxable equivalent net interest margin was 3.39% in 2017, 3.62% in 2016, and 3.63% in 2015. The fully taxable equivalent net interest income decreased \$965,000 (4.7%, from \$20,708,000 in 2016 to \$19,743,000 in 2017). The fully taxable equivalent net interest income was up \$329,000 (1.6%, from \$20,379,000 in 2015 to \$20,708,000 in 2016).

The fully taxable equivalent interest income component decreased \$814,000 (3.8% from \$21,618,000 in 2016 to \$20,804,000 in 2017). The decrease in the fully taxable equivalent interest income for 2017 compared to the same period in 2016 is comprised of two components - rate (down \$1,337,000 and volume (up \$523,000. The rate decrease primarily occurred in the loan and investment portfolios. While average loans increased by \$12,894,000 (4.2% from \$306,737,000 during 2016 to \$319,631,000 during 2017, due to the overall lower interest rate environment, the new loans added were at lower yields than the existing loans. Yield on loans decreased from 4.88% in 2016 to 4.57% in 2017 and contributed to a decrease of \$961,000 in loan interest income. The investment portfolio also contributed to the decrease in interest income. The yield on the investments decreased from 2.51% in 2016 to 2.36% in 2017 and contributed to a decrease of \$379,000 in interest income. This decrease in investment income due to rates can also be attributed to the lower overall rate environment as proceeds from paid down securities were invested at lower rates. The volume increase of \$523,000 was primarily from the increase of \$12,894,000 in average loans mentioned above contributing \$600,000 in interest income and partially offset by the decrease in investments reducing interest income by \$80,000. When compared to 2016, average investment securities decreased \$2,622,000 (1.0% from \$264,176,000 in 2016 compared to \$261,554,000 in 2017, as a portion of these funds helped fund the increase in loans.

The fully taxable equivalent interest income component increased \$278,000 (1.3% from \$21,340,000 in 2015 to \$21,618,000 in 2016). The increase in the fully taxable equivalent interest income for 2016 compared to the same period in 2015 is comprised of two components - rate (down \$613,000 and volume (up \$891,000. The rate decrease primarily occurred in the loan portfolio. While average loans increased by \$27,009,000 (9.7% from \$279,728,000 during 2015 to \$306,737,000 during 2016, due to the overall lower interest rate environment, the new loans added were at lower yields than the existing loans. Yield on loans decreased from 5.01% in 2015 to 4.88% in 2016 and contributed to a decrease of \$399,000 in loan interest income. The investment portfolio also contributed to the decrease in interest income. The yield on the investments decreased from 2.60% in 2015 to 2.51% in 2016 and contributed to a decrease of \$217,000 in interest income. This decrease in investment income due to rates can also be attributed to the lower overall rate environment as proceeds from paid down securities were invested at lower rates. The volume increase of \$891,000 was primarily from an increase of \$1,346,000 in interest income from the increase in average loans mentioned above and partially offset by a decrease of \$454,000 in interest income from a reduction in investments. When compared to 2015, average investment securities decreased \$17,168,000 (6.1% from \$281,344,000 in 2015 compared to \$264,176,000 in 2016, as a portion of these funds helped fund the increase in loans.

Interest expense was \$151,000 (16.6% higher in 2017 compared to 2016, increasing from \$910,000 to \$1,061,000. The primary increase in interest expense relates to higher rates (up \$177,000. Rates paid on interest bearing liabilities increased four basis points from 0.26% to 0.30% in 2017 compared to 2016. The average balances on interest bearing liabilities were \$358,756,000 (or \$7,661,000 and 2.2% higher in 2017 compared to \$351,095,000 in 2016. Despite the slightly higher average balances, the Company experienced a slight decrease in interest expense of \$26,000 due to volume as a result of a decrease in the higher cost time deposits and other borrowings. Time deposits decreased from \$83,144,000 in 2016 to \$81,056,000 in 2017 and had a \$14,000 impact on the decrease in interest expense due to volume and other borrowings decreased from \$17,201,000 in 2016 to \$15,522,000 in 2017 and had an \$18,000 impact on the decrease in interest expense due to volume.

Interest expense was \$51,000 (5.3%) lower in 2016 compared to 2015, decreasing from \$961,000 to \$910,000. The primary decrease in interest expense relates to lower rates (down \$53,000). Rates paid on interest bearing liabilities decreased one basis point from 0.27% to 0.26% in 2016 compared to 2015. The average balances on interest bearing liabilities were \$351,095,000 (or \$4,957,000 and 1.4% lower) in 2016 compared to \$356,052,000 in 2015. Despite the slightly lower average balances, the Company experienced a slight increase in interest expense of \$2,000 due to volume as a result of an increase in the higher cost other borrowings which increased from \$14,092,000 in 2015 to \$17,201,000 in 2016 and had a \$32,000 impact on the increase in interest expense due to volume. This increase was offset by a decrease in interest expense of \$30,000 related to deposit balances.

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 past 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), computed on a daily average basis, and changes in average interest rates.

Table Two: Analysis of Net Interest Margin on Earning Assets

Year Ended December 31, (Taxable Equivalent Basis) (dollars in thousands)	2017			2016			2015		
	Avg Balance	Interest	Avg Yield	Avg Balance	Interest	Avg Yield	Avg Balance	Interest	Avg Yield
Assets:									
Earning assets:									
Taxable loans and leases (1)	\$305,345	\$ 13,947	4.57%	\$289,699	\$ 14,008	4.84%	\$270,267	\$ 13,547	5.01%
Tax-exempt loans and leases (2)	14,286	667	4.67%	17,038	967	5.68%	9,461	481	5.08%
Taxable investment Securities	238,710	5,287	2.21%	240,149	5,755	2.40%	255,137	6,280	2.46%
Tax-exempt investment securities (2)	22,789	874	3.84%	23,952	867	3.62%	26,128	1,015	3.88%
Corporate stock	55	16	29.09%	75	14	18.67%	79	12	15.19%
Federal funds sold	—	—	—	—	—	—	—	—	—
Interest bearing deposits in other banks	1,258	13	1.03%	996	7	0.70%	994	5	0.50%
Total earning assets	582,443	20,804	3.57%	571,909	21,618	3.78%	562,066	21,340	3.80%
Cash & due from banks	35,876			33,806			26,313		
Other assets	39,201			37,753			39,941		
Allowance for loan & lease losses	(4,800)			(5,192)			(5,271)		
	<u>\$652,720</u>			<u>\$638,276</u>			<u>\$623,049</u>		
Liabilities & Shareholders' Equity:									
Interest bearing liabilities:									
NOW & MMDA	\$197,298	\$ 139	0.07%	\$190,237	\$ 146	0.08%	\$196,120	\$ 244	0.12%
Savings	64,880	22	0.03%	60,543	19	0.03%	58,910	29	0.05%
Time deposits	81,056	694	0.86%	83,114	565	0.68%	86,930	544	0.63%
Other borrowings	15,522	206	1.33%	17,201	180	1.05%	14,092	144	1.02%
Total interest bearing liabilities	358,756	1,061	0.30%	351,095	910	0.26%	356,052	961	0.27%
Demand deposits	204,565			196,434			173,130		
Other liabilities	7,583			6,494			6,537		
Total liabilities	570,904			554,023			535,719		
Shareholders' equity	81,816			84,253			87,330		
	<u>\$652,720</u>			<u>\$638,276</u>			<u>\$623,049</u>		
Net interest income & margin (3)		<u>\$ 19,743</u>	<u>3.39%</u>		<u>\$ 20,708</u>	<u>3.62%</u>		<u>\$ 20,379</u>	<u>3.63%</u>

- (1) Loan and lease interest includes loan and lease fees of \$238,000, \$253,000 and \$322,000 in 2017, 2016 and 2015, respectively.
- (2) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% in 2017, 2016 and 2015.
- (3) Net interest margin is computed by dividing net interest income by total average earning assets.

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

Year ended December 31, 2017 over 2016 (dollars in thousands)

Increase (decrease) in interest income and expense due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Taxable net loans and leases (1)(2)	\$ 757	\$ (818)	\$ (61)
Tax-exempt net loans and leases (3)	(156)	(144)	(300)
Taxable investment securities	(34)	(434)	(468)
Tax-exempt investment securities (3)	(42)	49	7
Corporate stock	(4)	6	2
Federal funds sold & other	—	—	—
Interest bearing deposits in other banks	2	4	6
Total	523	(1,337)	(814)

Interest-bearing liabilities:

Demand deposits	5	(12)	(7)
Savings deposits	1	2	3
Time deposits	(14)	143	129
Other borrowings	(18)	44	26
Total	(26)	177	151
Interest differential	\$ 549	\$ (1,514)	\$ (965)

Year Ended December 31, 2016 over 2015 (dollars in thousands)

Increase (decrease) in interest income and expense due to change in:

	Volume	Rate (4)	Net Change
Interest-earning assets:			
Taxable net loans and leases (1)(2)	\$ 974	\$ (532)	\$ 442
Tax-exempt net loans and leases (3)	372	133	505
Taxable investment securities	(369)	(156)	(525)
Tax-exempt investment securities (3)	(85)	(63)	(148)
Corporate stock	(1)	3	2
Federal funds sold & other	—	—	—
Interest bearing deposits in other banks	—	2	2
Total	891	(613)	278

Interest-bearing liabilities:

Demand deposits	(7)	(91)	(98)
Savings deposits	1	(11)	(10)
Time deposits	(24)	45	21
Other borrowings	32	4	36
Total	2	(53)	(51)
Interest differential	\$ 889	\$ (560)	\$ 329

- (1) The average balance of non-accruing loans and leases is immaterial as a percentage of total loans and leases and has been included in net loans and leases.
- (2) Loan and lease fees of \$238,000, \$253,000 and \$322,000 for the years ended December 31, 2017, 2016 and 2015, respectively, have been included in the interest income computation.
- (3) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% in 2017, 2016 and 2015.
- (4) The rate/volume variance has been included in the rate variance.

Provision for Loan and Lease Losses

The Company experienced net loan and lease losses of \$794,000 or 0.25% of average loans and leases during 2017, compared to net loan and lease recoveries of \$1,191,000 or 0.39% of average loans and leases during 2016. To support the net losses in 2017, the Company recorded a provision for loan and lease losses of \$450,000 during the year. As a result of the net recoveries in 2016, the Company reduced the allowance for loan and lease losses by recording a negative provision for loan and lease losses of \$1,344,000. The level of nonperforming loans and leases, which began to increase during the economic cycle of 2007 through 2010, reached a high of \$22,571,000 at December 31, 2010, but has decreased to \$1,892,000 at December 31, 2017. For additional information see the “Nonaccrual, Past Due and Restructured Loans and Leases” and the “Allowance for Loan and Lease Losses Activity.”

Service Charges and Fees and Other 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

	Year Ended December 31,		
	2017	2016	2015
Service charges on deposit accounts	\$ 465	\$ 502	\$ 498
Income from OREO properties	—	279	335
Merchant fee income	411	377	378
Earnings on bank-owned life insurance	317	322	316
Gain on sale and impairment of securities	161	314	251
Other	242	251	237
	<u>\$ 1,596</u>	<u>\$ 2,045</u>	<u>\$ 2,015</u>

Noninterest income decreased \$449,000 (22.0% to \$1,596,000 in 2017 from \$2,045,000 in 2016). The decrease from 2016 to 2017 was primarily related to lower gains on sale of securities and lower earnings on OREO properties. Gain on sales of securities decreased \$153,000 (48.7% from 2016 to 2017 and income from OREO properties decreased \$279,000 (100.0% during that same time period). The decrease in OREO income resulted from the sale of the Bank's only remaining income producing OREO property in the first quarter of 2016.

Noninterest income increased \$30,000 (1.5% to \$2,045,000 in 2016 from the 2015 level). The increase from 2015 to 2016 was primarily related to higher gains on sale of securities offset by lower earnings on OREO properties. Gain on sales of securities increased \$63,000 (25.1% from 2015 to 2016 while income from OREO properties decreased \$56,000 (16.7% during that same time period). The decrease in OREO income resulted from the sale of the Bank's only remaining income producing OREO property in the first quarter of 2016.

Salaries and Benefits

Salaries and benefits were \$8,920,000 (up \$485,000 or 5.7% for 2017, compared to \$8,435,000 in 2016). The increase in salary and benefits was due in part to expenses related to a change in the Company's Chief Executive Officer during the fourth quarter of 2017. This leadership change was announced on October 27, 2017, on a Form 8-K filed with the Securities and Exchange Commission. The leadership change resulted in salary and benefit expenses of \$597,000 in 2017. The expenses related to the leadership change were partially offset by lower salary expenses. Salary expenses decreased \$206,000 (3.5% from \$5,853,000 in 2016 to \$5,647,000 in 2017). The decrease in salaries resulted from a lower number of average full time equivalent employees, which decreased from 98 in 2016 to 93 in 2017.

Salaries and benefits were \$8,435,000 (down \$93,000 or 1.1% for 2016, compared to \$8,528,000 in 2015). The decrease in salary and benefits was due in part to lower employee benefits which decreased \$102,000 (7.2% from \$1,422,000 in 2015 to \$1,320,000 in 2016). The decrease in other employee benefits, which includes health care related benefits, 401(k) matching, and employee placement fees, was primarily related to lower employer paid health care insurance and lower employee placement fees paid in 2016.

Other Real Estate Owned

The total other real estate owned ("OREO" expense in 2017 was \$44,000 (down \$202,000 or 82.1% compared to \$246,000 in 2016). The primary reason for the decrease in OREO related expenses was due to the sale of a number of properties, including office buildings which have high operating expenses, and lower property write-downs. Operating expenses on the properties held in 2017 totaled \$52,000 compared to \$128,000 in 2016. In 2017, the gains on sale, which offset the overall OREO expense, were lower than in 2016. Gains from properties sold in 2017 totaled \$8,000 compared to a \$258,000 in 2016. There were no write-downs on any of the properties held during 2017 compared to write-downs of \$376,000 in 2016. At December 31, 2017, the Company held one property with a book value of \$961,000.

The total OREO expense in 2016 was \$246,000 (down \$76,000 or 23.6%) compared to \$322,000 in 2015. The primary reason for the decrease in OREO related expenses was due to the sale of a number of properties, which resulted in lower operating expenses and lower property write-downs. Operating expenses on the properties held in 2016 totaled \$128,000 compared to \$245,000 in 2015. In 2016, the gains on sale, which offset the overall OREO expense, were higher than in 2015. Gains from properties sold in 2016 totaled \$258,000 compared to a loss of \$1,000 in 2015. These reductions were offset by higher write-downs in 2016. In 2016, write-downs were \$376,000 compared to \$76,000 in 2015. This increase in the write-downs in 2016 was related to a single property that was evaluated during the first quarter of 2016. This property was eventually sold in 2016 for a gain of \$89,000.

Occupancy, Furniture and Equipment

Occupancy expense decreased \$122,000 (10.4%) during 2017 to \$1,053,000, compared to \$1,175,000 in 2016. Furniture and equipment expense decreased \$66,000 (10.1%) during 2017 to \$586,000 compared to \$652,000 in 2016. The decrease in occupancy resulted from the Company renewing leases at more favorable terms or relocating branch offices to smaller locations. The furniture and equipment expense decrease resulted from lower depreciation expense on equipment owned by the Company.

Occupancy expense decreased \$8,000 (0.1%) during 2016 to \$1,175,000, compared to \$1,183,000 in 2015. Furniture and equipment expense decreased \$38,000 (5.5%) during 2016 to \$652,000 compared to \$690,000 in 2015. The decrease in the furniture and equipment expense resulted from lower maintenance expense on the Company's equipment.

Regulatory Assessments

Regulatory assessments include fees paid to the California Department of Business Oversight (the "DBO") and the Federal Deposit Insurance Corporation (the "FDIC"). FDIC assessments decreased \$50,000 (19.5%) during 2017 to \$206,000, compared to \$256,000 in 2016. The majority of this decrease resulted from a lower assessment rate as a result of the Deposit Insurance Fund achieving the FDIC's target level of 1.15% during 2016, which resulted in lower assessments for community banks such as American River Bank. The assessments paid to the DBO in 2017 were \$74,000, compared to an expense of \$72,000 in 2016.

FDIC assessments decreased \$68,000 (21.0%) during 2016 to \$256,000, compared to \$324,000 in 2015. The majority of this decrease resulted from a lower assessment rate as a result of lower nonperforming assets and the Deposit Insurance Fund achieving the FDIC's target level of 1.15% during 2016. The assessments paid to the DBO in 2016 were \$72,000 compared to \$71,000 in 2015.

Other Expenses

Table Five below provides a summary of the components of the other noninterest expenses for the periods indicated (dollars in thousands):

	Year Ended December 31,		
	2017	2016	2015
Professional fees	\$ 1,140	\$ 995	\$ 863
Outsourced item processing	319	366	360
Directors' expense	427	417	402
Telephone and postage	360	357	368
Stationery and supplies	135	141	143
Advertising and promotion	175	129	164
Other operating expenses	610	595	662
	<u>\$ 3,166</u>	<u>\$ 3,000</u>	<u>\$ 2,962</u>

Other expenses were \$3,166,000 (up \$166,000 or 5.5%) for 2017, compared to \$3,000,000 for 2016. The increase in other expenses occurred primarily in the professional expense category. Professional expenses, which primarily include legal, accounting and other professional services, increased \$145,000 (14.6%), from \$995,000 in 2016 to \$1,140,000 in 2017. Much of this increase is related to the leadership change that occurred during the fourth quarter of 2017 resulting in professional expenses of \$78,000 and fees paid in 2017 related to strategic planning consulting of \$38,000. The overhead efficiency ratio on a taxable equivalent basis for 2017 was 65.8% compared to 60.8% in 2016.

Other expenses were \$3,000,000 (up \$38,000 or 1.3%) for 2016, compared to \$2,962,000 for 2015. The increase in other expenses occurred primarily in the professional expense category. Professional expenses, which primarily include legal, accounting and other professional services, increased \$132,000 (15.3%), from \$863,000 in 2015 to \$995,000 in 2016. Much of this increase is related to network administration fees. Network administration fees increased from \$278,000 to \$441,000 related to additional work performed by the network vendor, including full hosting of the Company's computer network. The overhead efficiency ratio on a taxable equivalent basis for 2016 was 60.8% compared to 62.9% in 2015.

Provision for Income Taxes

The effective tax rate on income was 50.4%, 34.6%, and 33.7% in 2017, 2016 and 2015, respectively. The effective tax rate differs from the federal statutory tax rate due to state tax expense (net of federal tax effect) of \$420,000, \$697,000, and \$516,000 in these years. Tax-exempt income of \$1,471,000, \$1,681,000, and \$1,412,000 from investment securities, loans, and bank-owned life insurance in these years helped to reduce the effective tax rate. The higher effective tax rate in 2017 compared to 2016 resulted from the Company recording an income tax expense adjustment of \$1,220,000 related to "H.R.1" commonly referred to as the Tax Cuts and Jobs Act that was signed into law on December 22, 2017. The adjustment relates to revaluing the Company's net deferred tax assets using the new lower corporate federal income tax rate of 21% effective January 1, 2018, which was a reduction from the Company's 2017 rate of 34%. The Company experienced a lower level of taxable income in 2017 compared to 2016 as taxable income decreased \$3,346,000 (34.2%) from \$9,796,000 in 2016 to \$6,450,000 in 2017, which resulted in an overall lower tax expense. Excluding the \$1,220,000 adjustment related to H.R.1, the tax expense would have been \$2,032,000 a decrease of \$1,360,000 (40.1%) compared to the \$3,392,000 tax expense recorded in 2016.

Balance Sheet Analysis

The Company's total assets were \$655,622,000 at December 31, 2017 compared to \$651,450,000 at December 31, 2016, representing an increase of \$4,172,000 (0.6%). The average balances of total assets during 2017 were \$652,720,000, up \$14,444,000 or 2.3% from the 2016 average balances of total assets of \$638,276,000.

Investment Securities

The Company classifies its investment securities as trading, held-to-maturity or available-for-sale. 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 classified as available-for-sale may be sold to implement asset/liability management strategies as part of our contingency funding plan and in response to changes in interest rates, prepayment rates and similar factors. Table Six below summarizes the values of the Company's investment securities held on December 31 of the years indicated. The Company did not have any investment securities classified as trading in any of the years indicated below.

Table Six: Investment Securities Composition

(dollars in thousands)

Available-for-sale (at fair value)	2017	2016	2015
Debt securities:			
US Government Agencies and US Government-Sponsored Agencies	\$ 232,869	\$ 229,785	\$ 246,185
Obligations of states and political subdivisions	22,715	22,612	26,013
Corporate debt securities	6,626	1,519	1,551
Equity securities:			
Corporate stock	112	104	70
Total available-for-sale investment securities	\$ 262,322	\$ 254,020	\$ 273,819
Held-to-maturity (at amortized cost)			
Debt securities:			
US Government Agencies and US Government-Sponsored Agencies	\$ 378	\$ 483	\$ 623
Total held-to-maturity investment securities	\$ 378	\$ 483	\$ 623

Net unrealized losses on available-for-sale investment securities totaling \$456,000 were recorded, net of \$135,000 in tax assets, as accumulated other comprehensive income within shareholders' equity at December 31, 2017 and net unrealized gains on available-for-sale investment securities totaling \$916,000 were recorded, net of \$372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2016.

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

Loans and Leases

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. At December 31, 2017, these categories accounted for approximately 8%, 59%, 25%, 2%, 5%, 0%, 1% and 0%, respectively, of the Company's loan portfolio. This mix was relatively unchanged compared to 11%, 58%, 22%, 3%, 5%, 0%, 1% and 0%, respectively, at December 31, 2016. Also, as noted in Table 7 below, lease financing receivable, agriculture, and consumer loan balances have decreased as the Company's primary focus is commercial and real estate loans.

Continuing focus in the Company's market area, new borrowers developed through the Company's marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating approximately \$30 million in new loans in 2017, however, this production was offset by normal pay downs and payoffs, and resulted in an overall net decrease in net loans and leases of \$15.4 million (4.7%) from December 31, 2016. The market in which the Company operates has begun to show demand for credit products as the continued low rate environment and expectations for economic expansion have increased refinancing as well as new loan activity. Table Seven below summarizes the composition of the loan and lease portfolio for the past five years as of December 31.

Table Seven: Loan and Lease Portfolio Composition

(dollars in thousands)	December 31,				
	2017	2016	2015	2014	2013
Commercial	\$ 25,377	\$ 35,374	\$ 36,195	\$ 25,186	\$ 24,545
Real estate:					
Commercial	185,452	191,129	199,591	193,871	184,204
Multi-family	78,025	73,373	23,494	14,167	11,085
Construction	5,863	9,180	14,533	8,028	9,633
Residential	15,813	15,718	14,200	13,309	17,703
Lease financing receivable	205	404	732	1,286	1,344
Agriculture	1,713	2,302	2,431	2,882	3,120
Consumer	945	1,650	3,122	4,916	5,772
	313,393	329,130	294,298	263,645	257,406
Deferred loan fees, net	(202)	(222)	(221)	(287)	(313)
Allowance for loan and lease losses	(4,478)	(4,822)	(4,975)	(5,301)	(5,346)
Total net loans and leases	\$ 308,713	\$ 324,086	\$ 289,102	\$ 258,057	\$ 251,747

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

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

"Subprime" real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the banking industry, many of these loans are originated with adjustable interest rates that reset upward after an introductory period. These "subprime" loans coupled with declines in housing prices led to an increase in default rates during the last recession, resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company did not have any such "subprime" loans at December 31, 2017 and December 31, 2016.

Average loans and leases in 2017 were \$319,631,000, which represents an increase of \$12,894,000 (4.2% compared to the average in 2016). Average loans and leases in 2016 were \$306,737,000 which represents an increase of \$27,009,000 (9.7% compared to the average in 2015).

Risk Elements

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

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

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

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

In management's judgment, a concentration exists in real estate loans which represented approximately 91% of the Company's loan and lease portfolio at December 31, 2017 and 88% at December 31, 2016. Management believes that the residential land portion of the Company's loan portfolio carries a reasonable level of credit risk. As of December 31, 2017, outstanding unimproved residential land commitments were \$2,335,000 (or just 0.8% of the total real estate loans. Of the \$2,335,000, \$2,282,000 (98% was represented by one amortizing loan, which was considered well-secured, with a favorable loan-to-value ratio. Management currently believes that it maintains its allowance for loan and lease losses at levels adequate to reflect the loss risk inherent in its total loan portfolio.

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

Northern California Wildfires

Beginning on October 8, 2017, much of the North Bay region of Northern California was struck by massive wildfires which destroyed numerous properties and adversely affected the region's economy. Our two offices in Healdsburg and Santa Rosa were not damaged. Some of the Company's clients did lose their homes, but we do not have loans on those properties. We currently believe that losses, if any, to commercial or business properties that secure our loans is not material. At December 31, 2017, the Company had approximately 9% of total loans in the Sonoma County market, the majority of which are secured by commercial property. Management continues to closely monitor the situation and continues to respond to needs of clients and employees. It is not possible at this time to assess the full scope of this disaster or its long-term impact on our clients and the economy of the region. As of December 31, 2017, none of the loans in the Sonoma County market were greater than 30 days past due.

Nonaccrual, Past Due and Restructured Loans and Leases

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

The recorded investments in nonperforming loans and leases, which includes nonaccrual loans and leases and loans and leases that were 90 days or more past due and on accrual, totaled \$1,892,000 and \$19,000 at December 31, 2017 and 2016, respectively. The \$1,892,000 in nonperforming loans and leases at December 31, 2017 were comprised of one commercial loan totaling \$1,597,000, one commercial real estate loan totaling \$289,000, and one consumer loan totaling \$6,000. The \$1,597,000 commercial loan is a shared national credit to a large retailer purchased by the Company in 2013. The initial loan balance was \$3,000,000 and had paid as agreed down to \$2,692,000. In September 2017, the retailer filed for bankruptcy reorganization. At that time the loan was placed on nonaccrual and the loan balance has subsequently been reduced by \$1,095,000 through a \$1,073,000 loss charged to the loan and lease loss allowance and \$22,000 applied to principal from payments made by the borrower. This bankruptcy filing occurred late in the third quarter and the Company has been using the latest information available to perform an impairment analysis. As more information becomes available, the Company will update the impairment analysis, which could lead to further charges to the loan loss allowance. At December 31, 2016, the \$19,000 in nonperforming loans consisted of two consumer loans.

Table Eight: Nonperforming Loans and Leases

(dollars in thousands)	December 31,				
	2017	2016	2015	2014	2013
Past due 90 days or more and still accruing:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 80
Real estate	—	—	—	—	—
Lease financing receivable	—	—	—	—	—
Consumer and other	—	—	—	—	—
Nonaccrual:					
Commercial	1,597	—	30	666	766
Real estate	289	—	1,493	845	977
Lease financing receivable	—	—	—	—	—
Consumer and other	6	19	120	142	156
Total nonperforming loans and leases	\$ 1,892	\$ 19	\$ 1,643	\$ 1,653	\$ 1,979

Interest income recognized from payments received on nonaccrual loans and leases was approximately \$2,000 in 2017, \$115,000 in 2016 and \$59,000 in 2015. Table Eight below sets forth nonaccrual loans and leases and loans and leases past due 90 days or more and on accrual as of year-end for the past five years. 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 December 31, 2017. Management is not aware of any potential problem loans, which were accruing and current at December 31, 2017, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company apart from those loans identified in the Bank's impairment analysis.

Management monitors the Company's performance metrics including the ratios related to nonperforming loans and leases. From 2008 to 2010, the Company experienced an increase in nonperforming loans and leases. In 2011, the focused efforts of the previous years resulted in a decrease in these levels. From 2012 to 2017, the level of nonperforming loans and leases continued to decrease to a level below the amount reported at December 31, 2008. However, the variations in the amount of nonperforming loans and leases does not directly impact the level of the Company's allowance for loan and lease losses as management monitors each of the loans and leases for loss potential or probability of loss on an individual basis using accounting principles generally accepted in the United States of America.

Impaired Loans and Leases

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

The recorded investment in loans and leases that were considered to be impaired totaled \$13,757,000 at December 31, 2017 and had a related valuation allowance of \$355,000. The average recorded investment in impaired loans and leases during 2017 was approximately \$14,046,000. As of December 31, 2016, the recorded investment in loans and leases that were considered to be impaired totaled \$17,297,000 and had a related valuation allowance of \$421,000. The average recorded investment in impaired loans and leases during 2016 was approximately \$17,503,000. As of December 31, 2015, the recorded investment in loans and leases that were considered to be impaired totaled \$21,365,000 and had a related valuation allowance of \$899,000. The average recorded investment in impaired loans and leases during 2015 was approximately \$20,818,000.

Allowance for Loan and Lease Losses Activity

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

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

The ALLL totaled \$4,478,000 or 1.43% of total loans and leases at December 31, 2017, \$4,822,000 or 1.47% of total loans and leases at December 31, 2016, and \$4,975,000 or 1.69% at December 31, 2015. The decrease in the allowance for loan and lease losses from \$4,822,000 at December 31, 2016 to \$4,478,000 at December 31, 2017, was mainly due to a decrease in historical losses impacting the loss factor used in calculating the reserve on loans collectively valued for impairment and a reduction in the valuation allowances held for impaired loans. The Company establishes general and specific reserves in accordance with accounting principles generally accepted in the United States of America. The ALLL is composed of categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination.

The allowance for loans and leases as a percentage of nonperforming loans and leases was 236.7% at December 31, 2017 and 25,379.0% at December 31, 2016. The allowance for loans and leases as a percentage of impaired loans and leases was 32.6% at December 31, 2017 and 27.9% at December 31, 2016. Of the total nonperforming and impaired loans and leases outstanding as of December 31, 2017, there were \$2,468,000 in loans or leases that had been reduced by partial charge-offs of \$1,480,000.

At December 31, 2017, there was \$7,601,000 in impaired loans or leases that did not carry a specific reserve. Of this amount, \$2,105,000 were loans or leases that had previous partial charge-offs and \$5,496,000 were 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. Prior to 2013, the Company had been operating in a market that had experienced significant decreases in real estate values of commercial, residential, land, and construction properties. As such, the Company continues to focus 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 twelve months, and are reviewed by a qualified credit officer.

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

It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Formula allocations are calculated by applying historical loss factors to outstanding loans with similar characteristics. Historical loss factors are based upon the Company's loss experience. These historical loss factors are adjusted for changes in the business cycle and for significant factors that, in management's judgment, affect the collectability of the loan portfolio as of the evaluation date. The discretionary allocation is based upon management's evaluation of various loan segment conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions. Based on information currently available, management believes that the allowance for loan and lease losses is prudent and adequate. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty. Table Nine below summarizes, for the periods indicated, the activity in the ALLL.

Table Nine: Allowance for Loan and Lease Losses

(dollars in thousands)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Average loans and leases outstanding	\$319,631	\$ 306,737	\$279,728	\$253,898	\$252,807
Allowance for loan & lease losses at beginning of period	\$ 4,822	\$ 4,975	\$ 5,301	\$ 5,346	\$ 5,781
Loans and leases charged off:					
Commercial	1,073	—	609	—	377
Real estate	—	93	—	—	534
Consumer	—	34	6	76	1
Lease financing receivable	—	—	1	—	26
Total	1,073	127	616	76	938
Recoveries of loans and leases previously charged off:					
Commercial	6	660	123	256	215
Real estate	228	534	165	163	88
Consumer	4	124	2	150	—
Lease financing receivable	41	—	—	3	—
Total	279	1,318	290	572	303
Net loans and leases charged off (recovered)	794	(1,191)	326	(496)	635
Additions (reductions) to allowance charged (credited) to operating expenses	450	(1,344)	—	(541)	200
Allowance for loan and lease losses at end of period	\$ 4,478	\$ 4,822	\$ 4,975	\$ 5,301	\$ 5,346
Ratio of net charge-offs (recoveries) to average loans and leases outstanding	0.25%	(0.39%)	0.12%	(0.20%)	0.25%
Provision for loan and lease losses to average loans and leases outstanding	0.14%	(0.44%)	—	(0.21%)	0.08%
Allowance for loan and lease losses to total loans and leases, at end of period	1.43%	1.47%	1.69%	2.01%	2.08%
Allowance for loan and lease losses to nonperforming loans and leases, at end of period	236.68%	25,378.95%	302.80%	320.69%	270.14%

As part of its loan review process, management has allocated the overall allowance based on specific identified problem loans and leases, qualitative factors, uncertainty inherent in the estimation process and historical loss data. A risk exists that future losses cannot be precisely quantified or attributed to particular loans or leases or classes of loans and leases. Management continues to evaluate the loan and lease portfolio and assesses current economic conditions that will affect management's conclusion as to future allowance levels. Table Ten below summarizes the allocation of the allowance for loan and lease losses for the five years ended December 31, 2017.

Table Ten: Allowance for Loan and Lease Losses by Loan Category

(dollars in thousands)

	December 31, 2017		December 31, 2016		December 31, 2015	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial	\$ 447	8%	\$ 855	12%	\$ 860	12%
Real estate	3,695	91%	3,600	86%	3,729	86%
Agriculture	31	1%	64	1%	77	1%
Consumer	14	—	24	1%	78	1%
Lease financing receivable	—	—	1	—	1	—
Unallocated	291	—	278	—	230	—
Total	\$ 4,478	100%	\$ 4,822	100%	\$ 4,975	100%

	December 31, 2014		December 31, 2013	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial	\$ 1,430	10%	\$ 885	10%
Real estate	3,429	86%	4,010	86%
Agriculture	62	1%	80	1%
Consumer	124	2%	161	2%
Lease financing receivable	2	1%	4	1%
Unallocated	254	—	206	—
Total	\$ 5,301	100%	\$ 5,346	100%

The allocation presented should not be interpreted as an indication that charges to the allowance for loan and lease losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan and lease category represents the total amounts available for charge-offs that may occur within these categories.

Other Real Estate Owned

The balance in OREO at December 31, 2017 consisted of one property acquired through foreclosure. The balance in OREO at December 31, 2016 consisted of two properties acquired through foreclosure. During 2017, the Company received \$395,000 in cash from the net proceeds of the sale of one OREO property with a net gain of \$8,000 and there was no financing provided by the Bank. During 2017, the Company did not acquire any OREO properties. There was \$961,000 in OREO at December 31, 2017 with no valuation allowance and \$1,348,000 in OREO at December 31, 2016 with no valuation allowance.

Deposits

At December 31, 2017, total deposits were \$556,080,000 representing an increase of \$11,274,000 (2.1% from the December 31, 2016 balance of \$544,806,000). The Company's deposit growth plan for 2017 was to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and interest-bearing checking, and savings accounts, while continuing to focus on reducing overall interest expense. Due to these efforts, the Company experienced increases during 2017 in noninterest-bearing demand (\$14,415,000 or 7.2%, interest-bearing checking (\$57,000 or 0.1%, and savings (\$1,390,000 or 2.1% and decreases in money market (\$1,310,000 or 1.0% and time deposit (\$3,278,000 or 4.0% accounts. The decrease in money market accounts is related to the plan to reduce interest expense as the Company evaluated the rate structure on some of the higher cost money market accounts and reduced the interest rates on some accounts.

Other Borrowed Funds

Other borrowings outstanding as of December 31, 2017 consist of advances from the Federal Home Loan Bank (the “FHLB”). The following table summarizes these borrowings (dollars in thousands):

	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
Short-term borrowings:						
FHLB advances	\$ 3,500	1.39%	\$ 3,500	1.01%	\$ 3,500	1.28%
Long-term borrowings:						
FHLB advances	\$ 12,000	1.41%	\$ 12,000	1.32%	\$ 7,500	1.24%

The maximum amount of short-term borrowings at any month-end during 2017, 2016 and 2015, was \$3,500,000, \$25,500,000, and \$11,500,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

	Short-term	Long-term
Amount	\$ 3,500	\$ 12,000
Maturity	2018	2019 to 2021
Average rates	1.39%	1.41%

The Company has the ability to enter into letters of credit with the FHLB. There were no letters of credit outstanding as of December 31, 2017 or 2016. There were no amounts drawn upon any letter of credit in 2017 or 2016 and management does not expect to draw upon these sources of liquidity in the foreseeable future.

Capital Resources

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

On January 20, 2016, the Company approved and authorized a stock repurchase program for 2016 (the “2016 Program”). The 2016 Program authorized the repurchase during 2016 of up to 5% of the outstanding shares of the Company’s common stock. In addition, on April 20, 2016, the Company approved and authorized an additional amount of 5% to be purchased under the 2016 Program. During 2016, the Company repurchased 716,897 shares of its common stock at an average price of \$10.34 per share. On January 25, 2017, the Company approved and authorized a stock repurchase program for 2017 (the “2017 Program”). The 2017 Program authorized the repurchase during 2017 of up to 5% of the outstanding shares of the Company’s common stock. In addition, on October 18, 2017, the Company approved and authorized an additional amount of 5% to be purchased under the 2017 Program. During 2017, the Company repurchased 574,748 shares of its common stock at an average price of \$14.99 per share

On January 24, 2018, the Company approved and authorized a stock repurchase program for 2018 (the “2018 Program”). The 2018 Program authorized the repurchase during 2018 of up to 5% of the outstanding shares of the Company’s common stock, or approximately 308,618 shares based on the 6,132,362 shares outstanding as of December 31, 2017. Any repurchases under the 2018 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 Commission Rule 10b-18 and all shares repurchased under the 2018 Program will be retired. The number, price and timing of the repurchases will be at the Company’s sole discretion and the 2018 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 2018 Program at any time without notice.

The Company did not repurchase any shares in 2011 or 2010 and repurchased 575,389 shares in 2012, 849,404 shares in 2013, 424,462 in 2014, and 790,989 shares in 2015. Share amounts have been adjusted for stock dividends and/or splits.

The Company and American River Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of December 31, 2017 and 2016, the most recent regulatory notification categorized American River Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's categories.

At December 31, 2017, shareholders' equity was \$76,921,000, representing a decrease of \$6,929,000 (8.3%) from \$83,850,000 at December 31, 2016. The decrease resulted from repurchases of common stock of \$8,641,000, the payment of cash dividends of \$1,293,000, and a decrease in other comprehensive income of \$817,000, as a result of the decrease in the unrealized gain on securities due to an increase in interest rates, exceeding the additions from net income of \$3,198,000 for the period and the stock based compensation expense of \$624,000. In 2016, shareholders' equity decreased \$2,225,000 (2.6%) from \$86,075,000 at December 31, 2015. The decrease resulted from the reductions in other comprehensive income and repurchases of common stock exceeding the additions from net income for the period and the increase in stock based compensation expense.

Table Eleven below lists the Company's and American River Bank's actual capital ratios at December 31, 2017 and 2016, as well as the minimum capital ratios for capital adequacy. The ratio for the minimum regulatory requirement includes the capital conservation buffer of 1.25% as of December 31, 2017 and 0.625% as of December 31, 2016.

Table Eleven: Capital Ratios

	At December 31,		Minimum Regulatory Capital Requirements	
	2017	2016	2017	2016
American River Bankshares:				
Leverage ratio	9.5%	10.5%	5.3%	4.6%
Tier 1 Risk-Based Capital	18.1%	19.0%	7.3%	6.6%
Total Risk-Based Capital	19.3%	20.3%	9.3%	8.6%
American River Bank:				
Leverage ratio	9.3%	10.6%	5.3%	4.6%
Common Equity Tier 1 Capital	17.7%	18.9%	5.8%	5.1%
Tier 1 Risk-Based Capital	17.7%	18.9%	7.3%	6.6%
Total Risk-Based Capital	19.0%	20.2%	9.3%	8.6%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. At December 31, 2017, American River Bank's ratios were in excess of the regulatory definition of "well capitalized." Management believes that the Company's capital is adequate to support current operations and anticipated growth and currently foreseeable future capital requirements of the Company and its subsidiaries.

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

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

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

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

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer-modeling techniques, with specialized software built for this specific purpose for financial institutions, the Company is able to estimate the potential impact of changing interest rates on earnings, net interest margin and market value of equity. A balance sheet is prepared using detailed inputs of actual loans, securities and interest-bearing liabilities (i.e. deposits/borrowings). The balance sheet is processed using multiple interest rate scenarios. The scenarios include a rising rate forecast, a flat rate forecast and a falling rate forecast which take place within a one-year time frame. The net interest income is measured over one-year and two-year periods assuming a gradual change in rates over the twelve-month horizon. The simulation modeling attempts to estimate changes in the Company’s net interest income utilizing a detailed current balance sheet. Table Twelve below summarizes the effect on net interest income (NII) of a ± 100 and ± 200 basis point change in interest rates as measured against a constant rate (no change) scenario.

Table Twelve: Interest Rate Risk Simulation of Net Interest as of December 31, 2017

(dollars in thousands)

Variation from a constant rate scenario	\$ Change in NII from Current 12 Month Horizon	\$ Change in NII from Current 24 Month Horizon
	+100bp	\$ 403
+200bp	\$ 641	\$ 1,453
-100bp	\$ (635)	\$ (1,452)
-200bp	\$ (1,274)	\$ (2,835)

After a review of the model results as of December 31, 2017, the Company does not consider the fluctuations from the base case, to have a material impact on the Company’s projected results and are within the tolerance levels outlined in the Company’s interest rate risk policies. 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.

Interest Rate Sensitivity Analysis

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps. A positive cumulative gap may be equated to an asset sensitive position. An asset sensitive position in a rising interest rate environment will cause a bank's interest rate margin to expand. This results as floating or variable rate loans reprice more rapidly than fixed rate certificates of deposit that reprice as they mature over time. Conversely, a declining interest rate environment will cause the opposite effect. A negative cumulative gap may be equated to a liability sensitive position. A liability sensitive position in a rising interest rate environment will cause a bank's interest rate margin to contract, while a declining interest rate environment will have the opposite effect.

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 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 material effect upon the results of operations of the Company during the years ended December 31, 2017, 2016 and 2015.

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 December 31, 2017 were approximately \$10,923,000 and \$121,000, 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. On December 31, 2017, consolidated liquid assets totaled \$226.3 million or 34.5% of total assets compared to \$224.2 million or 34.4% of total assets on December 31, 2016. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of \$17,000,000 with two of its correspondent banks. At December 31, 2017, the Company had \$17,000,000 available under these credit lines. Additionally, American River Bank is a member of the FHLB. At December 31, 2017, American River Bank could have arranged for up to \$133,046,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At December 31, 2017, the Company had \$117,546,000 available under these secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank. The borrowing can be secured by pledging selected loans and investment securities. Based on the amount of assets pledged at the Federal Reserve Bank at December 31, 2017, the Company's borrowing capacity was \$9,085,000.

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 to volatile and cyclical deposits.

Liquidity is also affected by portfolio maturities and the effect of interest rate fluctuations on the marketability of both assets and liabilities. The Company can sell any of its unpledged securities held in the available-for-sale category to meet liquidity needs. These securities are also available to pledge as collateral for borrowings if the need should arise. American River Bank can also pledge additional securities to borrow from the Federal Reserve Bank and the FHLB.

The maturity distribution of certificates of deposit is set forth in Table Thirteen below for the period presented. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere if available.

Table Thirteen: Certificates of Deposit Maturities

December 31, 2017		
(dollars in thousands)	Less than \$250,000	Over \$250,000
Three months or less	\$ 8,210	\$ 16,104
Over three months through six months	4,817	18,969
Over six months through twelve months	6,188	1,115
Over twelve months	14,640	9,641
Total	\$ 33,855	\$ 45,826

Loan and lease demand also affects the Company's liquidity position. Table Fourteen below presents the maturities of loans and leases for the period indicated.

Table Fourteen: Loan and Lease Maturities (Gross Loans and Leases)

December 31, 2017				
(dollars in thousands)	One year or less	One year through five years	Over five years	Total
Commercial	\$ 4,075	\$ 8,354	\$ 12,948	\$ 25,377
Real estate	19,865	61,960	203,328	285,153
Agriculture	70	—	1,643	1,713
Consumer	373	313	259	945
Leases	—	205	—	205
Total	\$ 24,383	\$ 70,832	\$ 218,178	\$ 313,393

Loans and leases shown above with maturities greater than one year include \$184,668,000 of variable interest rate loans and \$104,342,000 of fixed interest rate loans and leases. The carrying amount, maturity distribution and weighted average yield of the Company's investment securities available-for-sale and held-to-maturity portfolios are presented in Table Fifteen below. The yields on tax-exempt obligations have been computed on a tax equivalent basis. Yields may not represent actual future income to be recorded. Timing of principal prepayments on mortgage-backed securities may increase or decrease depending on market factors and the borrowers' ability to make unscheduled principal payments. Fast prepayments on bonds that were purchased with a premium will result in a lower yield and slower prepayments on premium bonds will result in a higher yield, the opposite would be true for bonds purchased at a discount. Table Fifteen does not include FHLB Stock, which does not have stated maturity dates or readily available market values. The balance in FHLB Stock at December 31, 2017, 2016 and 2015 was \$3,932,000, \$3,779,000 and \$3,779,000, respectively.

Table Fifteen: Securities Maturities and Weighted Average Yields

(Taxable Equivalent Basis)

December 31,

	2017		2016		2015	
	Carrying Amount	Weighted Average Yield	Carrying Amount	Weighted Average Yield	Carrying Amount	Weighted Average Yield
(dollars in thousands)						
Available-for-sale securities:						
State and political subdivisions						
Maturing within 1 year	\$ —	—	\$ 580	5.39%	\$ 494	2.40%
Maturing after 1 year but within 5 years	3,018	2.23%	2,328	4.35%	3,746	5.93%
Maturing after 5 years but within 10 years	14,389	4.42%	14,486	4.36%	15,543	4.29%
Maturing after 10 years	5,307	4.11%	5,218	3.23%	6,230	4.29%
U.S. Government Agencies and U.S.-Sponsored Agencies	232,869	2.10%	229,785	2.04%	246,185	2.11%
Other						
Maturing after 1 year but within 5 years	2,469	2.72%	1,519	4.88%	1,551	4.88%
Maturing after 5 years but within 10 years	4,158	4.56%	1,519	4.88%	1,551	4.88%
Non-maturing	112	0.00%	104	0.00%	70	0.00%
Total investment securities	\$ 262,322	2.32%	\$ 254,020	2.35%	\$ 273,819	2.35%
Held-to-maturity securities:						
U.S. Government Agencies and U.S.-Sponsored Agencies	\$ 378	5.46%	\$ 483	5.43%	\$ 623	4.68%
Total investment securities	\$ 378	5.46%	\$ 483	5.43%	\$ 623	4.68%

The carrying values of available-for-sale securities include net unrealized (losses) gains of (\$456,000), \$916,000 and \$3,504,000 at December 31, 2017, 2016 and 2015, respectively. The carrying values of held-to-maturity securities do not include unrealized gains or losses; however, the net unrecognized gains at December 31, 2017, 2016 and 2015 were \$26,000, \$38,000 and \$46,000, respectively.

Off-Balance Sheet Arrangements

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.

As of December 31, 2017, commitments to extend credit and 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. At origination, real estate commitments are generally secured by property with a loan-to-value ratio of 55% to 75%. In addition, the majority of the Company's commitments have variable interest rates. The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2017	2016
Commitments to extend credit (dollars in thousands):		
Revolving lines of credit secured by 1-4 family residences	\$ 175	\$ 251
Commercial real estate, construction and land development commitments secured by real estate	3,565	10,027
Other unused commitments, principally commercial loans	7,183	9,450
	<u>\$ 10,923</u>	<u>\$ 19,728</u>
Letters of credit	<u>\$ 121</u>	<u>\$ 238</u>

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 uses the same credit policies in making commitments and letters of credit as it does for loans included on the consolidated balance sheets.

Certain financial institutions have elected to use special purpose vehicles ("SPV") to dispose of problem assets. The SPV is typically a subsidiary company with an asset and liability structure and legal status that makes its obligations secure even if the parent corporation goes bankrupt. Under certain circumstances, these financial institutions may exclude the problem assets from their reported impaired and nonperforming assets. The Company does not use those vehicles or any other structures to dispose of problem assets.

Contractual Obligations

The Company leases certain facilities at which it conducts its operations. Future minimum lease commitments under non-cancelable operating leases are noted in Table Sixteen below. Table Sixteen below presents certain of the Company's contractual obligations as of December 31, 2017.

Table Sixteen: Contractual Obligations

(dollars in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	\$ 15,500	\$ 3,500	\$ 10,000	\$ 2,000	\$ —
Capital Lease Obligations	—	—	—	—	—
Operating Leases	4,009	765	1,247	1,109	888
Purchase Obligations	—	—	—	—	—
Certificates of Deposit	79,681	55,400	10,887	13,394	—
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under GAAP	4,691	428	751	786	2,276
Total	<u>\$ 103,881</u>	<u>\$ 60,093</u>	<u>\$ 22,885</u>	<u>\$ 17,289</u>	<u>\$ 3,614</u>

Included in the table are amounts payable under the Company's Deferred Compensation Plan, Deferred Fees Plan and salary continuation agreements listed in the "Other Long-Term Liabilities..." category. At December 31, 2017, these amounts represented \$4,691,000 most of which is anticipated to be primarily payable at least five years in the future.

Report of Management on Internal Control Over Financial Reporting

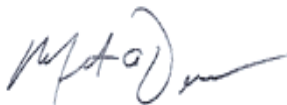
Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017, presented in conformity with accounting principles generally accepted in the United States of America. In making this assessment, management used the criteria applicable to the Company as set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control—Integrated Framework*. Based upon such assessment, management believes that, as of December 31, 2017, the Company’s internal control over financial reporting is effective based upon those criteria.

The Company’s independent registered public accounting firm that audited the Company’s financial statements included in this Form 10-K has issued an attestation report on the Company’s internal control over financial reporting.



David E. Ritchie, Jr.
President and Chief Executive Officer



Mitchell A. Derenzo
Executive Vice President
and Chief Financial Officer



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
American River Bankshares
Rancho Cordova, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of American River Bankshares and Subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

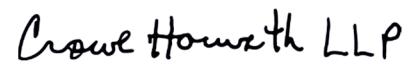
Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 2011.

Sacramento, California
February 27, 2018



Crowe Horwath LLP

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and due from banks	\$ 38,467	\$ 27,589
Interest-bearing deposits in banks	1,746	999
Investment securities (Note 5):		
Available-for-sale, at fair value	262,322	254,020
Held-to-maturity, at amortized cost; fair value of \$404 in 2017 and \$521 in 2016	378	483
Loans and leases, less allowance for loan and lease losses of \$4,478 in 2017 and \$4,822 in 2016 (Notes 6, 7, 12 and 17)	308,713	324,086
Premises and equipment, net (Note 8)	1,158	1,362
Federal Home Loan Bank of San Francisco stock	3,932	3,779
Other real estate owned, net	961	1,348
Goodwill (Note 4)	16,321	16,321
Bank-owned life insurance (Note 16)	15,122	14,805
Accrued interest receivable and other assets (Notes 11 and 16)	6,502	6,658
	<u>\$ 655,622</u>	<u>\$ 651,450</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 215,528	\$ 201,113
Interest-bearing (Note 9)	340,552	343,693
Total deposits	556,080	544,806
Short-term borrowings (Note 10)	3,500	3,500
Long-term borrowings (Note 10)	12,000	12,000
Accrued interest payable and other liabilities (Note 16)	7,121	7,294
Total liabilities	578,701	567,600
Commitments and contingencies (Note 12)		
Shareholders' equity (Notes 13 and 14):		
Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 6,132,362 shares in 2017 and 6,661,726 shares in 2016	34,463	42,484
Retained earnings	42,779	40,822
Accumulated other comprehensive (loss) income, net of taxes (Note 5)	(321)	544
Total shareholders' equity	76,921	83,850
	<u>\$ 655,622</u>	<u>\$ 651,450</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands, except per share data)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income:			
Interest and fees on loans and leases:			
Taxable	\$ 13,947	\$ 14,008	\$ 13,566
Exempt from Federal income taxes	499	723	345
Interest on deposits in banks	13	7	5
Interest and dividends on investment securities:			
Taxable	5,300	5,769	6,292
Exempt from Federal income taxes	<u>655</u>	<u>646</u>	<u>760</u>
Total interest income	<u>20,414</u>	<u>21,153</u>	<u>20,968</u>
Interest expense:			
Interest on deposits (Note 9)	855	730	817
Interest on borrowings	<u>206</u>	<u>180</u>	<u>144</u>
Total interest expense	<u>1,061</u>	<u>910</u>	<u>961</u>
Net interest income	19,353	20,243	20,007
Provision for loan and lease losses (Note 7)	<u>450</u>	<u>(1,344)</u>	<u>—</u>
Net interest income after provision for loan and lease losses	<u>18,903</u>	<u>21,587</u>	<u>20,007</u>
Noninterest income:			
Service charges	465	502	498
Gain on sale and call of investment securities (Note 5)	161	314	251
Income from other real estate owned properties	—	279	335
Other income (Note 15)	<u>970</u>	<u>950</u>	<u>931</u>
Total noninterest income	<u>1,596</u>	<u>2,045</u>	<u>2,015</u>
Noninterest expense:			
Salaries and employee benefits (Notes 6 and 16)	8,920	8,435	8,528
Other real estate expense	44	246	322
Occupancy (Notes 8, 12 and 17)	1,053	1,175	1,183
Furniture and equipment (Notes 8 and 12)	586	652	690
Regulatory assessments	280	328	395
Other expense (Note 15)	<u>3,166</u>	<u>3,000</u>	<u>2,962</u>
Total noninterest expense	<u>14,049</u>	<u>13,836</u>	<u>14,080</u>
Income before provision for income taxes	<u>6,450</u>	<u>9,796</u>	<u>7,942</u>
Provision for income taxes (Note 11)	<u>3,252</u>	<u>3,392</u>	<u>2,674</u>
Net income	<u>\$ 3,198</u>	<u>\$ 6,404</u>	<u>\$ 5,268</u>
Basic earnings per share (Note 13)	<u>\$ 0.50</u>	<u>\$ 0.95</u>	<u>\$ 0.70</u>
Diluted earnings per share (Note 13)	<u>\$ 0.50</u>	<u>\$ 0.94</u>	<u>\$ 0.70</u>
Cash dividends per share of issued and outstanding common stock	<u>\$ 0.20</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2017, 2016 and 2015
(Dollars in thousands)

	2017	2016	2015
Net income	\$ 3,198	\$ 6,404	\$ 5,268
Other comprehensive income:			
Decrease in net unrealized gains on investment securities	(1,211)	(2,274)	(1,863)
Deferred tax benefit	491	905	745
Decrease in net unrealized gains on investment securities, net of tax	(720)	(1,369)	(1,118)
Reclassification adjustment for realized gains included in net income	(161)	(314)	(251)
Tax effect	64	124	101
Realized gains, net of tax	(97)	(190)	(150)
Total other comprehensive (loss)	(817)	(1,559)	(1,268)
Comprehensive income	<u>\$ 2,381</u>	<u>\$ 4,845</u>	<u>\$ 4,000</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2015	8,089,615	\$ 57,126	\$ 29,150	\$ 3,371	\$ 89,647
Net income	—	—	5,268	—	5,268
Other comprehensive loss, net of tax (Note 5)	—	—	—	(1,268)	(1,268)
Retirement of common stock (Note 13)	(790,989)	(7,843)	—	—	(7,843)
Net restricted stock award activity and related compensation expense (Note 13)	45,023	236	—	—	236
Stock option compensation expense (Note 13)	—	35	—	—	35
Balance, December 31, 2015	7,343,649	49,554	34,418	2,103	86,075
Net income	—	—	6,404	—	6,404
Other comprehensive loss, net of tax (Note 5)	—	—	—	(1,559)	(1,559)
Retirement of common stock (Note 13)	(716,897)	(7,414)	—	—	(7,414)
Net restricted stock award activity and related compensation expense (Note 13)	33,474	291	—	—	291
Stock options exercised (Note 13)	1,500	13	—	—	13
Stock option compensation expense (Note 13)	—	40	—	—	40
Balance, December 31, 2016	6,661,726	42,484	40,822	544	83,850
Net income	—	—	3,198	—	3,198
Other comprehensive loss, net of tax (Note 5)	—	—	—	(817)	(817)
Disproportionate tax effect resulting from H.R.1 Tax Act (Note 2)	—	—	48	(48)	—
Payment of cash dividend (Note 14)	—	—	(1,293)	—	(1,293)
Retirement of common stock (Note 13)	(574,748)	(8,641)	—	—	(8,641)
Net restricted stock award activity and related compensation expense (Note 13)	3,486	248	4	—	252
Stock options exercised (Note 13)	41,898	351	—	—	351
Stock option compensation expense (Note 13)	—	21	—	—	21
Balance, December 31, 2017	6,132,362	\$ 34,463	\$ 42,779	\$ (321)	\$ 76,921

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 3,198	\$ 6,404	\$ 5,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	450	(1,344)	—
(Decrease) increase in deferred loan and lease origination fees, net	(20)	1	(66)
Depreciation and amortization	333	420	430
Amortization of investment security premiums and discounts, net	3,246	2,940	3,160
Gain on sale and call of investment securities	(161)	(314)	(251)
Increase in cash surrender value of life insurance policies	(317)	(322)	(316)
Deferred income tax expense (benefit)	1,247	(283)	473
Stock-based compensation expense	273	331	271
(Gain) loss on sale or write-down of other real estate owned	(8)	118	70
Fair value adjustment to acquired other real estate owned	—	(239)	—
(Increase) decrease in accrued interest receivable and other assets	(537)	1,734	(723)
(Decrease) increase in accrued interest payable and other liabilities	(173)	419	461
 Net cash provided by operating activities	 <u>7,531</u>	 <u>9,865</u>	 <u>8,777</u>
Cash flows from investing activities:			
Proceeds from the sale of available-for-sale investment securities	31,289	12,655	23,764
Proceeds from called available-for-sale investment securities	145	1,550	—
Proceeds from matured available-for-sale investment securities	1,930	1,100	175
Purchases of available-for-sale investment securities	(89,273)	(47,292)	(62,958)
Proceeds from principal repayments for available-for-sale mortgage-backed securities	43,150	46,570	49,242
Proceeds from principal repayments for held-to-maturity mortgage-backed securities	105	140	239
Net (increase) decrease in interest-bearing deposits in banks	(747)	(249)	250
Net decrease (increase) in loans and leases	14,944	(33,064)	(30,979)
Net proceeds from sale of other real estate owned	395	1,747	1,153
Capitalized additions to other real estate	—	—	(127)
Purchases of equipment	(129)	(375)	(319)
Net increase in FHLB stock	(153)	—	(93)
 Net cash provided by (used in) investing activities	 <u>1,656</u>	 <u>(17,218)</u>	 <u>(19,653)</u>

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands)

	2017	2016	2015
Cash flows from financing activities:			
Net increase in demand, interest-bearing and savings deposits	\$ 14,552	\$ 15,728	\$ 23,114
Net decrease in time deposits	(3,278)	(1,612)	(3,117)
Cash paid to repurchase common stock	(8,641)	(7,414)	(7,843)
Proceeds from exercised options	351	13	—
Increase in long-term borrowings	—	4,500	—
Cash dividends paid	(1,293)	—	—
Net cash provided by financing activities	1,691	11,215	12,154
Increase in cash and cash equivalents	10,878	3,862	1,278
Cash and cash equivalents at beginning of year	<u>27,589</u>	<u>23,727</u>	<u>22,449</u>
Cash and cash equivalents at end of year	<u>\$ 38,467</u>	<u>\$ 27,589</u>	<u>\$ 23,727</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 1,058	\$ 908	\$ 961
Income taxes	\$ 2,375	\$ 2,790	\$ 2,495
Non-cash investing activities:			
Real estate acquired through foreclosure or deed in lieu of foreclosure	\$ —	\$ 1,109	\$ —
Loans resulting from sale of other real estate owned	\$ —	\$ 1,686	\$ —

See accompanying notes to consolidated financial statements.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS OF THE COMPANY

American River Bankshares (the “Company”) was incorporated under the laws of the State of California in 1995 under the name of American River Holdings and changed its name in 2004 to American River Bankshares. 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. As a community oriented regional bank holding company, the principal communities served are located in Sacramento, Placer, Yolo, El Dorado, Amador, and Sonoma counties.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank (“ARB” or the “Bank”). ARB was incorporated in 1983. ARB 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. ARB operates four full-service banking offices in Sacramento County, one full-service banking office in Placer County, two full-service banking offices in Sonoma County, and three full-service banking offices in Amador County. The Company also owns one inactive subsidiary, American River Financial.

ARB does not offer trust services or international banking services and does not plan to do so in the near future. The deposits of ARB are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to applicable legal limits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Reclassifications

Certain reclassifications have been made to prior years’ balances to conform to classifications used in 2017. Reclassifications did not affect prior year net income or shareholders’ equity.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and accounts among the Company and its subsidiaries have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one-day periods.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. There were no transfers during the years ended December 31, 2017 and 2016.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. For debt securities, once a decline in value is determined to be other than temporary and management does not intend to sell the security or it is more likely than not that management will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that management will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings. For equity securities, the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank Stock

Investments in Federal Home Loan Bank of San Francisco (the "FHLB") stock are carried at cost and are redeemable at par with certain restrictions. Investments in FHLB stock are necessary to participate in FHLB programs.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Leases

Loans and leases that management has both the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amounts outstanding, adjusted for unearned income, deferred loan origination fees and costs, purchase premiums and discounts, write-downs and the allowance for loan and lease losses. Loan and lease origination fees, net of certain deferred origination costs, and purchase premiums and discounts are recognized as an adjustment to the yield of the related loans and leases.

For all classes of loans and leases, the accrual of interest is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payment requirements within an acceptable time frame relative to the terms stated in the loan agreement. Upon such discontinuance, all unpaid accrued interest is reversed against current income unless the loan or lease is well secured and in the process of collection. Interest received on nonaccrual loans and leases is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

Loan Sales and Servicing

Included in the loan and lease portfolio are Small Business Administration ("SBA") loans and Farm Service Agency guaranteed loans that may be sold in the secondary market. At the time the loan is sold, the related right to service the loan is either retained, with the Company earning future servicing income, or released in exchange for a one-time servicing-released premium. Loans subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. There were no loans held for sale at December 31, 2017 and 2016.

SBA and Farm Service Agency loans with unpaid balances of \$138,000 and \$170,000 were being serviced for others as of December 31, 2017 and 2016, respectively. The Company also serviced loans that are participated with other financial institutions totaling \$7,941,000 and \$7,740,000 as of December 31, 2017 and 2016, respectively.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are initially recorded at fair value and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes at December 31, 2017 and 2016.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is an estimate of probable credit losses inherent in the Company's credit portfolio that have been incurred as of the balance-sheet date. The allowance is established through a provision for loan and lease losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is typically recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired credits and general reserves for inherent probable losses related to credits that are not impaired.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

For all classes of the portfolio, a loan or lease is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Factors considered by management in determining impairment include payment status, and the probability of collecting scheduled principle and interest payments when due. Impaired loans are individually evaluated to determine the extent of impairment, if any, except for smaller-balance loans that are collectively evaluated for credit risk. When a loan or lease is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the credit's original interest rate, the credit's observable market price, or the fair value of the collateral if the credit is collateral dependent. A loan or lease is collateral dependent if the repayment of the credit is expected to be provided solely by the sale or operation of the underlying collateral.

For all portfolio segments, a restructuring of a debt constitutes a troubled debt restructuring ("TDR") if the Company grants a concession to the borrower for economic or legal reasons related to the borrower's financial difficulties that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans or leases that are reported as TDRs are considered impaired and measured for impairment as described above.

For all portfolio segments, the determination of the general reserve for loans and leases that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the credit portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company determines a separate allowance for each portfolio segment. These portfolio segments include commercial, real estate construction (including land and development loans), residential real estate, multi-family real estate, commercial real estate, leases, agriculture, and consumer loans. The allowance for loan and lease losses attributable to each portfolio segment, which includes both impaired credits and credits that are not impaired, is combined to determine the Company's overall allowance, which is included as a component of loans and leases on the consolidated balance sheet and available for all loss exposures.

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual credit. The risk ratings can be grouped into six major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Watch – A watch credit is a loan or lease that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local market or industry, adverse changes in local or regional employer, management changes (including illness, disability, and death), and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

Special Mention – A special mention credit is a loan or lease that has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit or in the Company’s position at some future date. Special Mention credits are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard credit is a loan or lease that is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Credits classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include inadequate cash flow or collateral support, a project’s lack of marketability, failure to complete construction on time or a project’s failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Credits classified as doubtful are loans or leases that have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Credits classified as loss are loans or leases considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan and lease losses also consists of reserve factors that are based on management’s assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Real Estate- Commercial – Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

Real Estate- Construction – These loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Real Estate- Multi-family – Multi-family loans are non-construction term mortgages for the acquisition, refinance, or improvement of residential rental properties with generally more than 4 dwelling units. Underwriting is generally based on borrower creditworthiness, sufficiency of net operating income to service the bank loan payment, and a prudent loan-to-value ratio, among other factors.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Lease Losses (Continued)

Real Estate- Residential – Residential loans are generally loans to purchase or refinance 1-4 unit single-family residences, either owner-occupied or investor-owned. Some residential loans are short term to match their intended source of repayment through sale or refinance. The remainder are fixed or floating-rate term first mortgages with an original maturity between 2 and 10 years, generally with payments based on a 25-30 year amortization.

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Lease Financing Receivable – Leases originated by the bank are non-consumer finance leases (as contrasted with operating leases) for the acquisition of titled and non-titled business equipment. Leases are generally amortized over a period from 36 to 84 months, depending on the useful life of the equipment acquired. Residual (balloon) payments at lease end range from 0-20% of original cost, and are a non-optional obligation of the lessee. Lessees are contractually responsible for all costs, expenses, taxes, and liability associated with the leased equipment.

Agricultural – Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of the Company and borrowers: commodity prices and weather conditions.

Consumer – The consumer loan portfolio is comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Also included in the consumer loan portfolio are home equity lines of credit. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators, the FDIC and the California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Company also maintains a separate allowance for off-balance-sheet commitments. Management estimates probable incurred losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheet.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned (OREO)

Other real estate owned includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property less estimated selling costs is charged against the allowance for loan and lease losses. Any excess of the fair value over the loan balance less estimated selling costs is recorded as noninterest income-other income. A valuation allowance for losses on other real estate may be maintained to provide for temporary declines in value. The valuation allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from permanent impairments are recorded in other income or expense as incurred.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is not depreciated. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful life of the building and improvements is forty years. The useful lives of furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Impairment of long-lived assets is evaluated by management based upon an event or changes in circumstances surrounding the underlying assets which indicate long-lived assets may be impaired.

Goodwill and Intangible Assets

Business combinations involving the Company's acquisition of equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at least annually. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2017, the Company had one reporting unit and that reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. The deferred provision for income taxes is the result of the net change in the deferred tax asset and deferred tax liability balances during the year. This amount combined with the current taxes payable or refundable, results in the income tax expense for the current year. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On December 22, 2017, President Trump signed into law "H.R.1" commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). During 2017, the Company recorded an income tax expense adjustment of \$1,220,000 related to the Tax Act. The adjustment relates to revaluing the Company's net deferred tax assets using the new lower corporate federal income tax rate of 21% which becomes effective January 1, 2018, a reduction from the Company's 2017 rate of 34%.

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon the Company's analysis of available evidence, the Company determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2017 and 2016 will be fully realized and therefore no valuation allowance was recorded.

The Company uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income.

Comprehensive Income

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income consists of net income and other comprehensive income. Unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive income (loss), adjusted for realized gains or losses included in net income, net of tax. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Earnings Per Share

Basic earnings per share ("EPS"), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects 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 that share in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options and restricted stock in computing diluted EPS. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements. There were no stock splits or stock dividends in 2017, 2016 or 2015.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

At December 31, 2017, the Company had two stock-based compensation plans, which are described more fully in Note 13. Compensation expense recorded in 2017, 2016, and 2015 totaled \$273,000, \$331,000 and \$270,000, respectively. Compensation expense is recognized over the vesting period on a straight line accounting basis.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton based option valuation model that uses the assumptions noted in the following table. Because Black-Scholes-Merton based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate the dividend yield, option life and forfeiture rate within the valuation model. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free rate for the period representing the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Recently Issued Financial Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP consisted of broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets;

(4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers*." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption was not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, "*Revenue from Contracts with Customers - Deferral of the Effective Date*" which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These updates include ASU No. 2016-08, “*Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*,” ASU No. 2016-10, “*Identifying Performance Obligations and Licensing*,” ASU No. 2016-12, “*Narrow-Scope Improvements and Practical Expedients*,” and ASU No. 2016-20 “*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.” The Company has assessed its revenue streams and reviewed its contracts that could potentially be affected by the ASU including deposit related fees, interchange fees, and merchant income, to determine the potential impact the new guidance is expected to have on the Company’s financial position, results of operations or cash flows. The Company adopted ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach. The effects of adopting ASU No. 2014-09 did not have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

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

In February 2016, the FASB issued ASU No. 2016-02, “*Leases*.” Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee’s obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU No. 2016-02. Based on the initial evaluation of the Company's current lease obligations, the Company has determined that the provisions of ASU No. 2016-02 may result in an increase in assets to recognize the present value of the lease obligations with a corresponding increase in liabilities, however, the Company does not expect this to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "*Improvements to Employee Share-Based Payment Accounting.*" This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminated the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance also requires an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 was effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption was permitted, but all of the guidance must be adopted in the same period. The Company adopted the provisions of ASU No. 2016-09 in the first quarter of 2017. The Company recorded a benefit of \$263,000 as a reduction of the provision for income taxes for the year ended December 31, 2017, related to the adoption of ASU No. 2016-09.

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In February 2018, the FASB issued ASU No. 2018-02, “*Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.” Under ASU 2018-02, entities are allowed, but not required, to reclassify from Accumulated Other Comprehensive Income (“AOCI”) to retained earnings stranded tax effects resulting from the new federal corporate income tax rate of the Tax Cuts and Jobs Act (“TCJA”). The reclassification could include other stranded tax effects that relate to the TCJA but do not directly relate to the change in the federal rate, e.g., state taxes, changing from a worldwide tax system to a territorial system. Tax effects that are stranded in AOCI for other reasons, e.g., prior changes in tax law, a change in valuation allowance, may not be reclassified. Entities also will have an option to adopt the standard retrospectively or in the period of adoption. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted the provisions of ASU No. 2018-02 in the fourth quarter of 2017. The Company reclassified the disproportionate tax effect resulting from the TCJA by increasing retained earnings by \$48,000 and reducing AOCI by \$48,000.

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

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

December 31, 2017	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 38,467	\$ 38,467	\$ —	\$ —	\$ 38,467
Interest-bearing deposits in banks	1,746	—	1,750	—	1,750
Available-for-sale securities	262,322	66	262,256	—	262,322
Held-to-maturity securities	378	—	404	—	404
FHLB stock	3,932	N/A	N/A	N/A	N/A
Loans and leases, net	308,713	—	—	317,900	317,900
Accrued interest receivable	1,956	—	1,124	832	1,956
Financial liabilities:					
Deposits:					
Noninterest-bearing	\$ 215,528	\$ 215,528	\$ —	\$ —	\$ 215,528
Savings	66,130	66,130	—	—	66,130
Money market	130,032	130,032	—	—	130,032
NOW accounts	64,709	64,709	—	—	64,709
Time Deposits	79,681	—	79,614	—	79,614
Short-term borrowings	3,500	3,500	—	—	3,500
Long-term borrowings	12,000	—	11,978	—	11,978
Accrued interest payable	65	—	65	—	65

December 31, 2016	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 27,589	\$ 27,589	\$ —	\$ —	\$ 27,589
Interest-bearing deposits in banks	999	—	999	—	999
Available-for-sale securities	254,020	60	253,960	—	254,020
Held-to-maturity securities	483	—	521	—	521
FHLB stock	3,779	N/A	N/A	N/A	N/A
Loans and leases, net	324,086	—	—	329,110	329,110
Accrued interest receivable	1,824	—	937	887	1,824
Financial liabilities:					
Deposits:					
Noninterest-bearing	\$ 201,113	\$ 201,113	\$ —	\$ —	\$ 201,113
Savings	64,740	64,740	—	—	64,740
Money market	131,342	131,342	—	—	131,342
NOW accounts	64,652	64,652	—	—	64,652
Time Deposits	82,959	—	83,720	—	83,720
Short-term borrowings	3,500	3,500	—	—	3,500
Long-term borrowings	12,000	—	12,110	—	12,110
Accrued interest payable	62	—	62	—	62

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

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

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

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

FHLB stock: FHLB stock is not publically traded, as such, it is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

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

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

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

Accrued interest receivable and payable: The carrying amount of accrued interest receivable and accrued interest payable approximates fair value resulting in a Level 2 or 3 classification consistent with the asset or liability with which it is associated.

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 December 31, 2017 and December 31, 2016. They are excluded from the following tables.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

(Dollars in thousands)

December 31, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
U.S. Government Agencies and Sponsored Agencies	\$ 232,869	\$ —	\$ 232,869	\$ —	\$ —
Corporate Debt Securities	6,626	—	6,626	—	—
Obligations of states and political subdivisions	22,715	—	22,715	—	—
Corporate stock	112	66	46	—	—
Total recurring	\$ 262,322	\$ 66	\$ 262,256	\$ —	\$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Commercial	\$ 1,598	\$ —	\$ —	\$ 1,598	\$ (1,073)
Real estate:					
Commercial	178	—	—	178	—
Residential	329	—	—	329	—
Other real estate owned:					
Land	961	—	—	961	—
Total nonrecurring	\$ 3,066	\$ —	\$ —	\$ 3,066	\$ (1,073)

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

(Dollars in thousands)

December 31, 2016	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets and liabilities measured on a recurring basis:					
Available-for-sale securities:					
U.S. Government Agencies and Sponsored Agencies	\$ 229,785	\$ —	\$ 229,785	\$ —	\$ —
Corporate Debt Securities	1,519	—	1,519	—	—
Obligations of states and political subdivisions	22,612	—	22,612	—	—
Corporate stock	104	60	44	—	—
Total recurring	\$ 254,020	\$ 60	\$ 253,960	\$ —	\$ —
Assets and liabilities measured on a nonrecurring basis:					
Impaired loans:					
Real estate:					
Commercial	\$ 3,535	\$ —	\$ —	\$ 3,535	\$ —
Residential	334	—	—	334	—
Other real estate owned:					
Commercial	386	—	—	386	(25)
Land	961	—	—	961	173
Total nonrecurring	\$ 5,216	\$ —	\$ —	\$ 5,216	\$ 148

U.S. Government Agencies and Sponsored Agencies consist predominately of residential mortgage-backed securities. There were no transfers between Levels 1 and 2 during the years ended December 31, 2017 or December 31, 2016.

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

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

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

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

4. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2017 and 2016, goodwill totaled \$16,321,000. Goodwill is evaluated annually for impairment under the provisions of the codification Topic 350, *Goodwill and Other Intangibles*. The most recent annual assessment was performed as of December 31, 2017, and at that time, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. Management determined that no impairment recognition was required for the years ended December 31, 2017, 2016 and 2015.

At December 31, 2017 and 2016, the Company did not have other intangible assets.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2017 and 2016 consisted of the following (dollars in thousands):

Available-for-Sale

	2017			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 233,956	\$ 1,184	\$ (2,271)	\$ 232,869
Obligations of states and political subdivisions	22,281	528	(94)	22,715
Corporate Debt Securities	6,490	160	(24)	6,626
Equity securities:				
Corporate stock	51	61	—	112
	<u>\$ 262,778</u>	<u>\$ 1,933</u>	<u>\$ (2,389)</u>	<u>\$ 262,322</u>
	2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 229,118	\$ 2,150	\$ (1,483)	\$ 229,785
Obligations of states and political subdivisions	22,436	559	(383)	22,612
Corporate Debt Securities	1,501	18	—	1,519
Equity securities:				
Corporate stock	49	55	—	104
	<u>\$ 253,104</u>	<u>\$ 2,782</u>	<u>\$ (1,866)</u>	<u>\$ 254,020</u>

U.S. Government Agencies and U.S. Government-sponsored Agencies consist predominately of residential mortgage-backed securities. Net unrealized losses on available-for-sale investment securities totaling \$456,000 were recorded, net of \$135,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2017. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the year ended December 31, 2017 totaled \$31,434,000 and \$161,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2017.

Net unrealized gains on available-for-sale investment securities totaling \$916,000 were recorded, net of \$372,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2016. Proceeds and gross realized gains from the sale, impairment and call of available-for-sale investment securities for the year ended December 31, 2016 totaled \$14,205,000 and \$314,000, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2016.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. INVESTMENT SECURITIES (Continued)

Proceeds and gross realized gains from the sale, impairment and call of available-for-sale investment securities for the year ended December 31, 2016 totaled \$23,764,000 and \$251,000, respectively.

Held-to-Maturity

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 378	\$ 26	\$ —	\$ 404
	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government Agencies and Sponsored Agencies	\$ 483	\$ 38	\$ —	\$ 521

There were no sales or transfers of held-to-maturity investment securities for the years ended December 31, 2017, 2016 and 2015.

The amortized cost and estimated fair value of investment securities at December 31, 2017 by contractual maturity are shown below (dollars in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ —	\$ —		
After one year through five years	5,449	5,487		
After five years through ten years	18,092	18,547		
After ten years	5,230	5,307		
	<u>28,771</u>	<u>29,341</u>		
Investment securities not due at a single maturity date:				
U.S. Government Agencies and Sponsored Agencies	233,956	232,869	\$ 378	\$ 404
Corporate stock	51	112	—	—
	<u>\$ 262,778</u>	<u>\$ 262,322</u>	<u>\$ 378</u>	<u>\$ 404</u>

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.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. INVESTMENT SECURITIES (Continued)

Investment securities with amortized costs totaling \$55,834,000 and \$44,552,000 and estimated fair values totaling \$56,021,000 and \$44,944,000 were pledged to secure State Treasury funds on deposit, public agency and bankruptcy trustee deposits and borrowing arrangements (see Note 10) at December 31, 2017 and 2016, respectively.

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

	2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	\$ 119,455	\$ (1,148)	\$ 49,258	\$ (1,123)	\$ 168,713	\$ (2,271)
Obligations of states and political subdivisions	1,130	(9)	4,654	(85)	5,784	(94)
Corporate bonds	1,967	(24)	—	—	1,967	(24)
	<u>\$ 122,552</u>	<u>\$ (1,181)</u>	<u>\$ 53,912</u>	<u>\$ (1,208)</u>	<u>\$ 176,464</u>	<u>\$ (2,389)</u>
	2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
U.S. Government Agencies and Sponsored Agencies	\$ 111,870	\$ (1,415)	\$ 5,010	\$ (68)	\$ 116,880	\$ (1,483)
Obligations of states and political subdivisions	8,319	(383)	—	—	8,319	(383)
	<u>\$ 120,189</u>	<u>\$ (1,798)</u>	<u>\$ 5,010</u>	<u>\$ (68)</u>	<u>\$ 125,199</u>	<u>\$ (1,866)</u>

At December 31, 2017, the Company held 217 securities of which 64 were in a loss position for less than twelve months and 35 were in a loss position for twelve months or more. These 35 securities consisted of mortgage-backed and municipal securities.

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

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. LOANS AND LEASES

Outstanding loans and leases are summarized as follows (dollars in thousands):

	December 31,	
	2017	2016
Real estate – commercial	\$ 185,452	\$ 191,129
Real estate – construction	5,863	9,180
Real estate – multi-family	78,025	73,373
Real estate – residential	15,813	15,718
Commercial	25,377	35,374
Lease financing receivable	205	404
Agriculture	1,713	2,302
Consumer	945	1,650
	313,393	329,130
Deferred loan and lease origination fees, net	(202)	(222)
Allowance for loan and lease losses	(4,478)	(4,822)
	\$ 308,713	\$ 324,086

Certain loans are pledged as collateral for available borrowings with the FHLB and the Federal Reserve Bank of San Francisco (the “FRB”). Pledged loans totaled \$209,889,000 and \$190,181,000 at December 31, 2017 and 2016, respectively (see Note 10).

The components of the Company’s lease financing receivable are summarized as follows (dollars in thousands):

	December 31,	
	2017	2016
Future lease payments receivable	\$ 211	\$ 422
Residual interests	—	—
Unearned income	(6)	(18)
Net lease financing receivable	\$ 205	\$ 404

Future lease payments receivable are as follows (dollars in thousands):

Year Ending December 31,	
2018	\$ 178
2019	33
Total lease payments receivable	\$ 211

Salaries and employee benefits totaling \$177,000, \$289,000 and \$257,000 have been deferred as loan and lease origination costs for the years ended December 31, 2017, 2016 and 2015, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following tables show the activity in the allowance for loan and lease losses for the years ended December 31, 2017, 2016 and 2015 and the allocation of the allowance for loan and lease losses as of December 31, 2017, 2016 and 2015 by portfolio segment and by impairment methodology (dollars in thousands):

	December 31, 2017										
	Commercial	Real Estate				Other				Unallocated	Total
		Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer			
Allowance for Loan and Lease Losses											
Beginning balance	\$ 855	\$ 2,050	\$ 851	\$ 446	\$ 253	\$ 1	\$ 64	\$ 24	\$ 278	\$ 4,822	
Provision for loan losses	659	(104)	196	(177)	(48)	(42)	(33)	(14)	13	450	
Loans charged-off	(1,073)	—	—	—	—	—	—	—	—	(1,073)	
Recoveries	6	228	—	—	—	41	—	4	—	279	
Ending balance allocated to portfolio segments	<u>\$ 447</u>	<u>\$ 2,174</u>	<u>\$ 1,047</u>	<u>\$ 269</u>	<u>\$ 205</u>	<u>\$ —</u>	<u>\$ 31</u>	<u>\$ 14</u>	<u>\$ 291</u>	<u>\$ 4,478</u>	
Ending balance:											
Individually evaluated for impairment	<u>\$ —</u>	<u>\$ 261</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 73</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 355</u>	
Ending balance:											
Collectively evaluated for impairment	<u>\$ 447</u>	<u>\$ 1,913</u>	<u>\$ 1,026</u>	<u>\$ 269</u>	<u>\$ 132</u>	<u>\$ —</u>	<u>\$ 31</u>	<u>\$ 14</u>	<u>\$ 291</u>	<u>\$ 4,123</u>	
Loans											
Ending balance	<u>\$ 25,377</u>	<u>\$ 185,452</u>	<u>\$78,025</u>	<u>\$ 5,863</u>	<u>\$ 15,813</u>	<u>\$ 205</u>	<u>\$ 1,713</u>	<u>\$ 945</u>	<u>\$ —</u>	<u>\$313,393</u>	
Ending balance:											
Individually evaluated for impairment	<u>\$ 1,598</u>	<u>\$ 10,070</u>	<u>\$ 474</u>	<u>\$ —</u>	<u>\$ 1,615</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,757</u>	
Ending balance:											
Collectively evaluated for impairment	<u>\$ 23,779</u>	<u>\$ 175,382</u>	<u>\$77,551</u>	<u>\$ 5,863</u>	<u>\$ 14,198</u>	<u>\$ 205</u>	<u>\$ 1,713</u>	<u>\$ 945</u>	<u>\$ —</u>	<u>\$299,636</u>	

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2016									
	Commercial	Real Estate				Other			Unallocated	Total
		Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer		
Allowance for Loan and Lease Losses										
Beginning balance	\$ 860	\$ 2,369	\$ 228	\$ 813	\$ 319	\$ 1	\$ 77	\$ 78	\$ 230	\$ 4,975
Provision for loan losses	(665)	(653)	623	(474)	(66)	—	(13)	(144)	48	(1,344)
Loans charged-off	—	(93)	—	—	—	—	—	(34)	—	(127)
Recoveries	660	427	—	107	—	—	—	124	—	1,318
Ending balance allocated to portfolio segments	<u>\$ 855</u>	<u>\$ 2,050</u>	<u>\$ 851</u>	<u>\$ 446</u>	<u>\$ 253</u>	<u>\$ 1</u>	<u>\$ 64</u>	<u>\$ 24</u>	<u>\$ 278</u>	<u>\$ 4,822</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 11</u>	<u>\$ 246</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 133</u>	<u>\$ —</u>	<u>\$ 29</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 421</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 844</u>	<u>\$ 1,804</u>	<u>\$ 849</u>	<u>\$ 446</u>	<u>\$ 120</u>	<u>\$ 1</u>	<u>\$ 35</u>	<u>\$ 24</u>	<u>\$ 278</u>	<u>\$ 4,401</u>
Loans										
Ending balance	<u>\$ 35,374</u>	<u>\$ 191,129</u>	<u>\$73,373</u>	<u>\$ 9,180</u>	<u>\$ 15,718</u>	<u>\$ 404</u>	<u>\$ 2,302</u>	<u>\$ 1,650</u>	<u>\$ —</u>	<u>\$329,130</u>
Ending balance:										
Individually evaluated for impairment	<u>\$ 157</u>	<u>\$ 14,154</u>	<u>\$ 482</u>	<u>\$ —</u>	<u>\$ 2,147</u>	<u>\$ —</u>	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,297</u>
Ending balance:										
Collectively evaluated for impairment	<u>\$ 35,217</u>	<u>\$ 176,975</u>	<u>\$72,891</u>	<u>\$ 9,180</u>	<u>\$ 13,571</u>	<u>\$ 404</u>	<u>\$ 1,945</u>	<u>\$ 1,650</u>	<u>\$ —</u>	<u>\$311,833</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2015										
	Commercial	Real Estate				Other				Unallocated	Total
		Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer			
Allowance for Loan and Lease Losses											
Beginning balance	\$ 1,430	\$ 2,317	\$ 130	\$ 583	\$ 399	\$ 2	\$ 62	\$ 124	\$ 254	\$ 5,301	
Provision for loan losses	(84)	—	98	230	(193)	—	15	(42)	(24)	—	
Loans charged-off	(609)	—	—	—	—	(1)	—	(6)	—	(616)	
Recoveries	123	52	—	—	113	—	—	2	—	290	
Ending balance allocated to portfolio segments	<u>\$ 860</u>	<u>\$ 2,369</u>	<u>\$ 228</u>	<u>\$ 813</u>	<u>\$ 319</u>	<u>\$ 1</u>	<u>\$ 77</u>	<u>\$ 78</u>	<u>\$ 230</u>	<u>\$ 4,975</u>	
Ending balance:											
Individually evaluated for impairment	<u>\$ 25</u>	<u>\$ 598</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 204</u>	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ 29</u>	<u>\$ —</u>	<u>\$ 899</u>	
Ending balance:											
Collectively evaluated for impairment	<u>\$ 835</u>	<u>\$ 1,771</u>	<u>\$ 223</u>	<u>\$ 813</u>	<u>\$ 115</u>	<u>\$ 1</u>	<u>\$ 39</u>	<u>\$ 49</u>	<u>\$ 230</u>	<u>\$ 4,076</u>	
Loans											
Ending balance	<u>\$ 36,195</u>	<u>\$ 199,591</u>	<u>\$23,494</u>	<u>\$ 14,533</u>	<u>\$ 14,200</u>	<u>\$ 732</u>	<u>\$ 2,431</u>	<u>\$ 3,122</u>	<u>\$ —</u>	<u>\$ 294,298</u>	
Ending balance:											
Individually evaluated for impairment	<u>\$ 121</u>	<u>\$ 17,866</u>	<u>\$ 488</u>	<u>\$ —</u>	<u>\$ 2,452</u>	<u>\$ —</u>	<u>\$ 370</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 21,365</u>	
Ending balance:											
Collectively evaluated for impairment	<u>\$ 36,074</u>	<u>\$ 181,725</u>	<u>\$23,006</u>	<u>\$ 14,533</u>	<u>\$ 11,748</u>	<u>\$ 732</u>	<u>\$2,061</u>	<u>\$ 3,054</u>	<u>\$ —</u>	<u>\$272,933</u>	

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings as of December 31, 2017 and 2016 (dollars in thousands):

December 31, 2017									
Credit Risk Profile by Internally Assigned Grade									
	Real Estate					Other Credit Exposure			Total
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	
Grade:									
Pass	\$ 23,617	\$ 164,815	\$ 73,644	\$ 5,863	\$ 13,767	\$ 205	\$ 1,713	\$ 713	\$284,337
Watch	96	18,083	4,381	—	1,507	—	—	155	24,222
Special mention	66	2,265	—	—	539	—	—	70	2,940
Substandard	—	289	—	—	—	—	—	7	296
Doubtful	1,598	—	—	—	—	—	—	—	1,598
Total	\$ 25,377	\$ 185,452	\$ 78,025	\$ 5,863	\$ 15,813	\$ 205	\$ 1,713	\$ 945	\$313,393

December 31, 2016									
Credit Risk Profile by Internally Assigned Grade									
	Real Estate					Other Credit Exposure			Total
	Commercial	Commercial	Multi-Family	Construction	Residential	Leases	Agriculture	Consumer	
Grade:									
Pass	\$ 31,733	\$ 166,769	\$ 68,615	\$ 6,770	\$ 12,773	\$ 404	\$ 1,945	\$ 1,093	\$290,102
Watch	157	21,328	4,758	2,410	1,773	—	357	316	31,099
Special mention	721	3,032	—	—	710	—	—	219	4,682
Substandard	2,763	—	—	—	462	—	—	22	3,247
Doubtful	—	—	—	—	—	—	—	—	—
Total	\$ 35,374	\$ 191,129	\$ 73,373	\$ 9,180	\$ 15,718	\$ 404	\$ 2,302	\$ 1,650	\$329,130

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show an aging analysis of the loan portfolio at December 31, 2017 and 2016 (dollars in thousands):

	December 31, 2017							
	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	\$ —	\$ —	\$ —	\$ —	\$ 25,377	\$ 25,377	\$ —	\$ 1,597
Real estate:								
Commercial	—	—	289	289	185,163	185,452	—	289
Multi-family	—	—	—	—	78,025	78,025	—	—
Construction	—	—	—	—	5,863	5,863	—	—
Residential	146	—	—	146	15,667	15,813	—	—
Other:								
Leases	—	—	—	—	205	205	—	—
Agriculture	—	—	—	—	1,713	1,713	—	—
Consumer	1	—	—	1	944	945	—	6
Total	<u>\$ 147</u>	<u>\$ —</u>	<u>\$ 289</u>	<u>\$ 436</u>	<u>\$ 312,957</u>	<u>\$ 313,393</u>	<u>\$ —</u>	<u>\$ 1,892</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2016										
	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Past Due Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Past Due Greater Than 90 Days and Accruing</u>	<u>Nonaccrual</u>			
Commercial:											
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 35,374	\$ 35,374	\$ —	\$ —			
Real estate:											
Commercial	—	—	—	—	191,129	191,129	—	—			
Multi-family	—	—	—	—	73,373	73,373	—	—			
Construction	—	—	—	—	9,181	9,181	—	—			
Residential	—	—	—	—	15,719	15,719	—	—			
Other:											
Leases	—	—	—	—	404	404	—	—			
Agriculture	—	—	—	—	2,302	2,302	—	—			
Consumer	—	—	—	—	1,650	1,650	—	19			
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 329,130</u>	<u>\$ 329,130</u>	<u>\$ —</u>	<u>\$ 19</u>			

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

The following tables show information related to impaired loans as of and for the years ended December 31, 2017, 2016 and 2015 (dollars in thousands):

	December 31, 2017				
	Recorded Investment	Unpaid Recorded Investment	Income Recognized	Average Principal Balance	Interest Related Allowance
With no related allowance recorded:					
Commercial	\$ 1,598	\$ 2,671	\$ —	\$ 1,808	\$ 108
Real estate:					
Commercial	5,674	5,907	—	5,701	281
Multi-family	—	—	—	—	—
Residential	329	416	—	331	19
Other:					
Consumer	—	—	—	—	2
	<u>\$ 7,601</u>	<u>\$ 8,994</u>	<u>\$ —</u>	<u>\$ 7,840</u>	<u>\$ 410</u>
With an allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Commercial	4,396	4,483	261	4,435	249
Multi-family	474	474	21	476	33
Residential	1,286	1,286	73	1,295	62
Other:					
Agriculture	—	—	—	—	—
Consumer	—	—	—	—	—
	<u>\$ 6,156</u>	<u>\$ 6,243</u>	<u>\$ 355</u>	<u>\$ 6,206</u>	<u>\$ 344</u>
Total:					
Commercial	\$ 1,598	\$ 2,671	\$ —	\$ 1,808	\$ 108
Real estate:					
Commercial	10,070	10,390	261	10,136	530
Multi-family	474	474	21	476	33
Residential	1,615	1,702	73	1,626	81
Other:					
Agriculture	—	—	—	—	—
Consumer	—	—	—	—	2
	<u>\$ 13,757</u>	<u>\$ 15,237</u>	<u>\$ 355</u>	<u>\$ 14,046</u>	<u>\$ 754</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2016				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Commercial	10,910	11,540	—	11,011	558
Multi-family	—	—	—	—	1
Residential	334	421	—	337	15
Other:					
Consumer	—	—	—	—	3
	<u>\$ 11,244</u>	<u>\$ 11,961</u>	<u>\$ —</u>	<u>\$ 11,348</u>	<u>\$ 577</u>
With an allowance recorded:					
Commercial	\$ 157	\$ 157	\$ 11	\$ 161	\$ 11
Real estate:					
Commercial	3,244	3,336	246	3,308	168
Multi-family	482	482	2	485	33
Residential	1,813	1,813	133	1,837	87
Other:					
Agriculture	357	357	29	364	21
Consumer	—	—	—	—	—
	<u>\$ 6,053</u>	<u>\$ 6,145</u>	<u>\$ 421</u>	<u>\$ 6,155</u>	<u>\$ 320</u>
Total:					
Commercial	\$ 157	\$ 157	\$ 11	\$ 161	\$ 11
Real estate:					
Commercial	14,154	14,876	246	14,319	726
Multi-family	482	482	2	485	34
Residential	2,147	2,234	133	2,174	102
Other:					
Agriculture	357	357	29	364	21
Consumer	—	—	—	—	3
	<u>\$ 17,297</u>	<u>\$ 18,106</u>	<u>\$ 421</u>	<u>\$ 17,503</u>	<u>\$ 897</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

	December 31, 2015				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Commercial	12,269	12,902	—	12,345	595
Residential	338	338	—	338	—
Other:					
Consumer	—	—	—	—	—
	<u>\$ 12,607</u>	<u>\$ 13,240</u>	<u>\$ —</u>	<u>\$ 12,683</u>	<u>\$ 595</u>
With an allowance recorded:					
Commercial	\$ 121	\$ 121	\$ 25	\$ 99	\$ 9
Real estate:					
Commercial	5,597	5,693	598	4,953	320
Multi-family	488	488	5	492	29
Residential	2,114	2,201	204	2,140	91
Other:					
Agriculture	370	370	38	375	18
Consumer	68	68	29	76	—
	<u>\$ 8,758</u>	<u>\$ 8,941</u>	<u>\$ 899</u>	<u>\$ 8,135</u>	<u>\$ 467</u>
Total:					
Commercial	\$ 121	\$ 121	\$ 25	\$ 99	\$ 9
Real estate:					
Commercial	17,866	18,595	598	17,298	915
Multi-family	488	488	5	492	29
Residential	2,452	2,539	204	2,478	91
Other:					
Agriculture	370	370	38	375	18
Consumer	68	68	29	76	—
	<u>\$ 21,365</u>	<u>\$ 22,181</u>	<u>\$ 899</u>	<u>\$ 20,818</u>	<u>\$ 1,062</u>

Interest income on non-accrual loans is generally recognized on a cash basis and was approximately \$2,000, \$115,000 and \$59,000 for the years ended December 31, 2017, 2016 and 2015.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. ALLOWANCE FOR LOAN AND LEASE LOSSES (Continued)

Troubled Debt Restructurings

There was one modification made during the period ended December 31, 2017 and there were no modifications made during the period ended December 31, 2016 that were considered as troubled debt restructurings. The modification of the terms of the loan included a reduction of the stated interest rate for eighteen months according to a bankruptcy court-order as part of a debtor-in-possession financing agreement. The loan had a pre-modification and post-modification outstanding recorded investment of \$2,692,000. As of December 31, 2017 and 2016, the Company has a recorded investment in troubled debt restructurings of \$8,403,000 and \$7,994,000, respectively. The Company has allocated \$72,000 and \$111,000 of specific allowance for those loans at December 31, 2017 and 2016 and has not committed to lend additional amounts

The Company has not committed to lend additional amounts as of December 31, 2017 or December 31, 2016 to borrowers with outstanding loans that are classified as troubled debt restructurings.

There were no payment defaults on troubled debt restructurings within 12 months following the modification during the year ended December 31, 2017 or December 31, 2016.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

8. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (dollars in thousands):

	December 31,	
	2017	2016
Land	\$ 206	\$ 206
Building and improvements	853	830
Furniture, fixtures and equipment	6,058	5,973
Leasehold improvements	1,690	1,688
	8,807	8,697
Less accumulated depreciation and amortization	(7,649)	(7,335)
	\$ 1,158	\$ 1,362

Depreciation and amortization included in occupancy and furniture and equipment expense totaled \$333,000, \$420,000 and \$430,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following (dollars in thousands):

	December 31,	
	2017	2016
Savings	\$ 66,130	\$ 64,740
Money market	130,032	131,342
NOW accounts	64,709	64,652
Time, \$250,000 or more	45,826	45,836
Other time	33,855	37,123
	<u>\$ 340,552</u>	<u>\$ 343,693</u>

The Company held \$29,000,000 in certificates of deposit for the State of California as of December 31, 2017 and 2016. This amount represents 5.2% of total deposit balances at December 31, 2017 and 5.3% at December 31, 2016.

Aggregate annual maturities of time deposits are as follows (dollars in thousands):

Year Ending December 31,	
2018	\$ 55,400
2019	6,488
2020	4,399
2021	8,434
2022	4,960
Thereafter	—
	<u>\$ 79,681</u>

Interest expense recognized on interest-bearing deposits consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2017	2016	2015
Savings	\$ 22	\$ 19	\$ 29
Money market	123	128	218
NOW accounts	16	18	26
Time Deposits	694	565	544
	<u>\$ 855</u>	<u>\$ 730</u>	<u>\$ 817</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. BORROWING ARRANGEMENTS

The Company has \$17,000,000 in unsecured short-term borrowing arrangements to purchase Federal funds with two of its correspondent banks. There were no advances under the borrowing arrangements as of December 31, 2017 and 2016.

In addition, the Company has a line of credit available with the FHLB which is secured by pledged mortgage loans (see Note 6) and investment securities (see Note 5). Borrowings may include overnight advances as well as loans with a term of up to thirty years. Advances totaling \$15,500,000 were outstanding from the FHLB at December 31, 2017, bearing fixed interest rates ranging from 1.18% to 1.90% and maturing between July 20, 2018 and April 12, 2021. Advances totaling \$15,500,000 were outstanding from the FHLB at December 31, 2016, bearing fixed interest rates ranging from 1.01% to 1.52% and maturing between May 22, 2017 and July 13, 2020. Amounts available under the borrowing arrangement with the FHLB at December 31, 2017 and 2016 totaled \$117,546,000 and \$100,187,000, respectively.

In addition, the Company entered into a secured borrowing agreement with the FRB in 2008. The borrowing arrangement is secured by pledging selected loans (see Note 6) and investment securities (see Note 5). There were no advances outstanding as of December 31, 2017 and 2016. Amounts available under the borrowing arrangement with the FRB at December 31, 2017 and 2016 totaled \$9,085,000 and \$11,068,000, respectively.

The following table summarizes these borrowings (dollars in thousands):

	December 31,			
	2017		2016	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Short-term portion of borrowings	\$ 3,500	1.39%	\$ 3,500	1.01%
Long-term borrowings	<u>12,000</u>	1.41%	<u>12,000</u>	1.32%
	<u>\$ 15,500</u>	1.41%	<u>\$ 15,500</u>	1.25%

Maturities on these borrowings are as follows (dollars in thousands):

Year Ending December 31,	
2018	\$ 3,500
2019	5,000
2020	5,000
2021	2,000
Thereafter	—
	<u>\$ 15,500</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2017, 2016 and 2015 consisted of the following (dollars in thousands):

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2017</u>			
Current	\$ 1,397	\$ 608	\$ 2,005
Deferred	<u>1,222</u>	<u>25</u>	<u>1,247</u>
Provision for income taxes	<u>\$ 2,619</u>	<u>\$ 633</u>	<u>\$ 3,252</u>
<u>2016</u>			
Current	\$ 2,701	\$ 974	\$ 3,675
Deferred	<u>(308)</u>	<u>25</u>	<u>(283)</u>
Provision for income taxes	<u>\$ 2,393</u>	<u>\$ 999</u>	<u>\$ 3,392</u>
<u>2015</u>			
Current	\$ 1,482	\$ 719	\$ 2,201
Deferred	<u>409</u>	<u>64</u>	<u>473</u>
Provision for income taxes	<u>\$ 1,891</u>	<u>\$ 783</u>	<u>\$ 2,674</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

11. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following (dollars in thousands):

	December 31,	
	2017	2016
Deferred tax assets:		
Allowance for loan and lease losses	\$ 1,458	\$ 2,207
Unrealized gains on available-for-sale investment securities	135	—
Deferred compensation	1,945	2,688
Future state tax deduction	132	347
Other	108	197
Total deferred tax assets	3,778	5,439
Deferred tax liabilities:		
Future liability of state deferred tax assets	(237)	(392)
Unrealized gains on available-for-sale investment securities	—	(372)
Deferred loan costs	(146)	(229)
Federal Home Loan Bank stock dividends	(150)	(211)
Other real estate owned	(55)	(77)
Premises and equipment	(45)	(38)
Total deferred tax liabilities	(633)	(1,319)
Net deferred tax assets	\$ 3,145	\$ 4,120

The Company and its subsidiaries file income tax returns in the United States and California jurisdictions. There are currently no pending federal, state or local income tax examinations by tax. Furthermore, with few exceptions, the Company is no longer subject to the examination by federal taxing authorities for the years ended before December 31, 2014 and by state and local taxing authorities for years before December 31, 2013. The unrecognized tax benefits and changes therein and the interest and penalties accrued by the Company as of December 31, 2017 were not significant.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rate of 34% in 2017, 2016 and 2015 to income before income taxes. The significant items comprising these differences consisted of the following:

	Year Ended December 31,		
	2017	2016	2015
Federal income tax statutory rate	34.0%	34.0%	34.0%
State franchise tax, net of Federal tax effect	6.5%	7.1%	6.5%
Effect of Federal rate reduction on deferred tax assets	19.0%	—	—
Tax benefit of interest on loans to/investments in states and political subdivisions	(6.1)%	(4.7)%	(4.5)%
Tax-exempt income from life insurance policies	(1.7)%	(1.1)%	(1.3)%
Equity compensation expense	0.1%	0.1%	0.1%
Other	(1.4)%	(0.8)%	(1.1)%
Effective tax rate	50.4%	34.6%	33.7%

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK

Leases

The Company leases branch facilities, administrative offices and various equipment under noncancelable operating leases which expire on various dates through the year 2024. Certain of the leases have five year renewal options. One of the branch facilities is leased from a current member of the Company's Board of Directors (see Note 17).

Future minimum lease payments are as follows (dollars in thousands):

Year Ending December 31,		
2018	\$	765
2019		658
2020		589
2021		556
2022		553
Thereafter		888
	\$	4,009

Rental expense included in occupancy, furniture and equipment expense totaled \$755,000, \$858,000 and \$837,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Financial Instruments With Off-Balance-Sheet Risk

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 standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheet.

The following financial instruments represent off-balance-sheet credit risk (dollars in thousands):

	December 31,	
	2017	2016
Commitments to extend credit:		
Revolving lines of credit secured by 1-4 family residences	\$ 175	\$ 251
Commercial real estate, construction and land development commitments secured by real estate	3,565	10,027
Other unused commitments, principally commercial loans	7,183	9,450
	\$ 10,923	\$ 19,728
Standby letters of credit	\$ 121	\$ 238

At inception, real estate loan commitments are generally secured by property with a loan to value ratio of 55% to 75%. In addition, the majority of the Company's commitments have variable rates.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each client's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, equipment and deeds of trust on real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance or financial obligation of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial, agricultural and consumer loans to clients throughout Northern California.

In management's judgment, a concentration exists in real estate-related loans which represented approximately 91% and 88% of the Company's loan portfolio at December 31, 2017 and 2016, respectively. A continued substantial decline in the economy in general, or a continued decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on collectability of these loans. However, personal and business income represents the primary source of repayment for a majority of these loans.

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Company had \$6,882,000 in uninsured deposits at December 31, 2017. The Company had \$6,237,000 in uninsured deposits at December 31, 2016.

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows (dollars and shares in thousands, except per share data):

<u>For the Year Ended</u>	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>December 31, 2017</u>			
Basic earnings per share	\$ 3,198	6,349	\$ <u>0.50</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>78</u>	
Diluted earnings per share	<u>\$ 3,198</u>	<u>6,427</u>	<u>\$ 0.50</u>
<u>December 31, 2016</u>			
Basic earnings per share	\$ 6,404	6,747	\$ <u>0.95</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>36</u>	
Diluted earnings per share	<u>\$ 6,404</u>	<u>6,783</u>	<u>\$ 0.94</u>
<u>December 31, 2015</u>			
Basic earnings per share	\$ 5,268	7,561	\$ <u>0.70</u>
Effect of dilutive stock-based compensation	<u>—</u>	<u>18</u>	
Diluted earnings per share	<u>\$ 5,268</u>	<u>7,579</u>	<u>\$ 0.70</u>

Stock options for 34,736 shares, 98,783 shares and 188,735 shares of common stock were not considered in computing diluted earnings per common share for the years ended December 31, 2017, 2016 and 2015, respectively, because they were antidilutive.

Stock Based Compensation

In 2000, the Board of Directors adopted and the Company's shareholders approved a stock option plan (the "2000 Plan"), under which 54,470 options remain outstanding at December 31, 2017. 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. The total number of authorized shares that are available for issuance under the 2010 Plan is 1,325,423. 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. The 2010 Plan and the 2000 Plan (collectively the "Plans"), under which equity incentives may be granted to employees and directors under incentive and nonstatutory agreements, require that the option price may not be less than the fair 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. The Plans do not provide for the settlement of awards in cash and new shares are issued upon exercise of an option.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Based Compensation (Continued)

	2015
Dividend yield	0.0%
Expected volatility	28.1%
Risk-free interest rate	1.92%
Expected option life in years	7
Weighted average fair value of options granted during the year	\$ 3.24

There were no options granted in 2016 or in 2017 under either stock-based compensation plans.

A summary of the outstanding and nonvested stock option activity for the year ended December 31, 2017 is as follows:

	Outstanding		Nonvested	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Balance, January 1, 2017	186,023	\$ 12.92	44,243	\$ 2.81
Options granted	—	\$ —	—	\$ —
Options vested	—	\$ —	(29,505)	\$ 2.84
Options exercised	(41,898)	\$ 8.38	—	\$ —
Options expired or canceled	(46,582)	\$ 20.46	—	\$ —
Balance, December 31, 2017	97,543	\$ 11.26	14,738	\$ 2.93

A summary of options as of December 31, 2017 is as follows:

<u>Nonvested:</u>	
Weighted average exercise price of nonvested stock options	\$ 9.29
Aggregate intrinsic value of nonvested stock options	\$ 87,759
Weighted average remaining contractual term in years of nonvested stock options	7.00
<u>Vested:</u>	
Number of vested stock options	82,805
Number of options expected to vest	14,738
Weighted average exercise price per share	\$ 11.61
Aggregate intrinsic value	\$ 331,381

Weighted average remaining contractual term in years 2.44

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Based Compensation (Continued)

<u>Range of Exercise Prices</u>	Number of Options Outstanding December 31, 2017	Weighted Average Remaining Contractual Life	Number of Options Exercisable December 31, 2017
\$7.07- \$11.66	63,520	4.73 years	48,787
\$11.67- \$18.10	34,023	0.15 years	34,018
	<u>97,543</u>	<u>82,805</u>	

Restricted Stock

Restricted stock awards are grants of shares of the Company's common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or service and/or achieving specified performance goals. During the period of restriction, Plan participants holding restricted share awards have voting and cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement. Upon the vesting of each restricted stock award, the Company issues the associated common shares from its inventory of authorized common shares. All outstanding awards under the Plan immediately vest in the event of a change of control of the Company. The shares associated with any awards that fail to vest become available for re-issuance under the Plan. The following is a summary of stock-based compensation information as of or for the years ended December 31, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Dollars in thousands)		
Total intrinsic value of options exercised	\$ 235	\$ 3	\$ —
Aggregate cash received for option exercises	\$ 351	\$ 13	\$ —
Total fair value of options vested	\$ 57	\$ 41	\$ 24
Total compensation cost, options and restricted stock	\$ 273	\$ 331	\$ 271
Tax benefit recognized	\$ 99	\$ 116	\$ 94
Net compensation cost, options and restricted stock	\$ 174	\$ 215	\$ 176
Total compensation cost for nonvested option awards not yet recognized	\$ 47	\$ 99	\$ 165
Weighted average years for compensation cost for nonvested options to be recognized	1.0	1.3	2.0
Total compensation cost for restricted stock not yet recognized	\$ 284	\$ 376	\$ 530
Weighted average years for compensation cost for restricted stock to be recognized	1.1	1.6	1.6

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Restricted Stock (Continued)

There were 32,315 shares of restricted stock awarded during 2017. Of the 32,315 restricted common shares, 7,862 will vest one year from the date of the award, 7,333 will vest 33% per year from the date of the award, and 2,087 will vest 20% per year from the date of the award. The remaining 15,033 are considered performance based awards. The awards can be earned based upon the stock performance of the Company's common stock in relationship to the common stock of the Company's peer group. The number of shares can be adjusted by up to 150% of the award if outstanding performance is reached or can be forfeited if minimum performance is not reached. The remaining 15,033 awards are related to the 2017-2018 performance period and vest one year and a day after the two year performance period or January 1, 2020. The weighted average contractual term over which the restricted stock will vest is 2.60 years. There were 34,888 shares of restricted stock awarded during 2016. Of the 34,888 restricted common shares, 10,094 will vest one year from the date of the award and 1,829 will vest 20% per year from the date of the award. The remaining 22,965 are considered performance based awards. The awards can be earned based upon the stock performance of the Company's common stock in relationship to the common stock of the Company's peer group. The number of shares can be adjusted by up to 150% of the award if outstanding performance is reached or can be forfeited if minimum performance is not reached. Of the 22,965 performance based awards issued in 2016, 5,312 were additional awards based on performance of the Company's common stock and related to the awards initially awarded in 2015 for the 2015-2016 performance period. The additional shares were earned as the target was exceeded and the employees received 125% of the initial award. The remaining 17,833 awards are related to the 2016-2017 performance period and were forfeited as the Company did not meet the minimum performance target or the employee was terminated prior to the end of the performance period. The weighted average contractual term over which the restricted stock will vest is 1.50 years.

<u>Restricted Stock</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at January 1, 2017	71,824	\$ 9.69
Awarded	32,315	\$ 14.72
Vested	(26,257)	\$ 9.69
Cancelled	<u>(28,829)</u>	\$ 11.03
Nonvested at December 31, 2017	<u>49,053</u>	\$ 12.27

The shares awarded to employees and directors under the restricted stock agreements vest on 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. Of the 26,257 shares that vested in 2017, 11,875 vested prior to their original vesting period as a result of an agreement with the Company's former Chief Executive Officer in connection with his departure in 2017. New shares are issued upon vesting of the restricted common stock.

Stock Repurchase Program

On January 20, 2016, the Company approved and authorized a stock repurchase program for 2016 (the "2016 Program"). The 2016 Program authorized the repurchase during 2016 of up to 5% of the outstanding shares of the Company's common stock. In addition, on April 20, 2016, the Company approved and authorized an additional amount of 5% to be purchased under the 2016 Program. During 2016, the Company repurchased 716,897 shares of its common stock at an average price of \$10.34 per share. On January 25, 2017, the Company approved and authorized a stock repurchase program for 2017 (the "2017 Program"). The 2017 Program authorized the repurchase during 2017 of up to 5% of the outstanding shares of the Company's common stock. In addition, on October 18, 2017, the Company approved and authorized an additional amount of 5% to be purchased under the 2017 Program. During 2017, the Company repurchased 574,748 shares of its common stock at an average price of \$14.99 per share.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. SHAREHOLDERS' EQUITY (Continued)

Stock Repurchase Program (Continued)

On January 24, 2018, the Company approved and authorized a stock repurchase program for 2018 (the "2018 Program"). The 2018 Program authorized the repurchase during 2018 of up to 5% of the outstanding shares of the Company's common stock, or approximately 308,618 shares based on the 6,132,362 shares outstanding as of December 31, 2017. Any repurchases under the 2018 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 Commission Rule 10b-18 and all shares repurchased under the 2018 Program will be retired. The number, price and timing of the repurchases will be at the Company's sole discretion and the 2018 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 2018 Program at any time without notice.

14. REGULATORY MATTERS

Dividends

Upon declaration by the Board of Directors of the Company, all shareholders of record will be entitled to receive dividends. Beginning in January of 2017, the Company reinstated paying quarterly cash dividends on its common stock. In 2017, the Company declared cash dividends in the amount of \$0.05 per common share for each quarter, totaling \$0.20 per common share for the year ended December 31, 2017. There is no assurance, however, that any dividends will be paid in the future since they are subject to regulatory restrictions, and dependent upon earnings, financial condition and capital requirements of the Company and its subsidiaries. There were no cash dividends declared or paid in 2016 or 2015.

As a California corporation, the Company's ability to pay cash dividends is subject to restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that neither a corporation nor any of its subsidiaries shall make a distribution to the corporation's shareholders unless the board of directors has determined in good faith either of the following: (1) the amount of retained earnings of the corporation immediately prior to the distribution equals or exceeds the sum of (A) the amount of the proposed distribution plus (B) the preferential dividends arrears amount; or (2) immediately after the distribution, the value of the corporation's assets would equal or exceed the sum of its total liabilities plus the preferential rights amount. The good faith determination of the board of directors may be based upon (1) financial statements prepared on the basis of reasonable accounting practices and principles, (2) a fair valuation, or (3) any other method reasonable under the circumstances; provided, that a distribution may not be made if the corporation or subsidiary making the distribution is, or is likely to be, unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature. The term "preferential dividends arrears amount" means the amount, if any, of cumulative dividends in arrears on all shares having a preference with respect to payment of dividends over the class or series to which the applicable distribution is being made, provided that if the articles of incorporation provide that a distribution can be made without regard to preferential dividends arrears amount, then the preferential dividends arrears amount shall be zero. The term "preferential rights amount" means the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy the preferential rights, including accrued but unpaid dividends, of other shareholders upon dissolution that are superior to the rights of the shareholders receiving the distribution, provided that if the articles of incorporation provide that a distribution can be made without regard to any preferential rights, then the preferential rights amount shall be zero.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. REGULATORY MATTERS (Continued)

Dividends (Continued)

In addition, the California Financial Code restricts the total dividend payment of any state banking corporation in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. In addition, subject to prior regulatory approval, any state banking corporation may request an exception to this restriction.

Regulatory Capital

The Company and ARB are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As of December 31, 2017 and 2016, the most recent regulatory notification categorized American River Bank as well capitalized under the regulatory framework for prompt corrective action plan. There are no conditions or events since that notification that management believes have changed the Bank's categories.

Effective January 1, 2015, bank holding companies with consolidated assets of \$1 Billion or more and banks like American River Bank must comply with new minimum capital ratio requirements to be phased-in between January 1, 2015 and January 1, 2019, which 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%.

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

To be categorized as well capitalized, ARB must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

Management believes that the Company and ARB met all their capital adequacy requirements as of December 31, 2017 and 2016.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. REGULATORY MATTERS (Continued)

Regulatory Capital (Continued)

	December 31,			
	2017		2016	
	Amount	Ratio	Amount	Ratio
(Dollars in thousands)				
<u>Leverage Ratio</u>				
American River Bankshares and Subsidiaries	\$ 60,921	9.5%	\$ 66,985	10.5%
Minimum regulatory requirement *	\$ 33,230	5.3%	\$ 29,499	4.6%
American River Bank	\$ 60,041	9.3%	\$ 67,369	10.6%
Minimum requirement for “Well-Capitalized” institution	\$ 32,215	5.0%	\$ 31,874	5.0%
Minimum regulatory requirement*	\$ 33,826	5.3%	\$ 29,483	4.6%
<u>Common Equity Tier 1 Risk-Based Capital Ratio</u>				
American River Bank	\$ 60,041	17.7%	\$ 67,369	18.9%
Minimum requirement for “Well-Capitalized” institution	\$ 22,038	6.5%	\$ 23,132	6.5%
Minimum regulatory requirement*	\$ 19,495	5.8%	\$ 18,239	5.1%
<u>Tier 1 Risk-Based Capital Ratio</u>				
American River Bankshares and Subsidiaries	\$ 60,921	18.1%	\$ 66,985	19.0%
Minimum regulatory requirement*	\$ 24,423	7.3%	\$ 23,329	6.6%
American River Bank	\$ 60,041	17.7%	\$ 67,369	18.9%
Minimum requirement for “Well-Capitalized” institution	\$ 27,123	8.0%	\$ 28,499	8.0%
Minimum regulatory requirement*	\$ 24,581	7.3%	\$ 23,577	6.6%
<u>Total Risk-Based Capital Ratio</u>				
American River Bankshares and Subsidiaries	\$ 65,135	19.3%	\$ 71,392	20.3%
Minimum regulatory requirement*	\$ 31,185	9.3%	\$ 30,407	8.6%
American River Bank	\$ 64,282	19.0%	\$ 71,822	20.2%
Minimum requirement for “Well-Capitalized” institution	\$ 33,928	10.0%	\$ 35,624	10.0%
Minimum regulatory requirement*	\$ 31,383	9.3%	\$ 30,726	8.6%

* Ratio for regulatory requirement includes the capital conservation buffer of 1.25% as of December 31, 2017 and 0.625% as of December 31, 2016.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

15. OTHER NONINTEREST INCOME AND EXPENSE

Other noninterest income consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2017	2016	2015
Merchant fee income	\$ 411	\$ 377	\$ 378
Increase in cash surrender value of life insurance policies (Note 16)	317	322	316
Other	242	251	237
	<u>\$ 970</u>	<u>\$ 950</u>	<u>\$ 931</u>

Other noninterest expense consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2017	2016	2015
Professional fees	\$ 1,140	\$ 995	\$ 863
Outsourced item processing	319	366	360
Directors' expense	427	417	402
Telephone and postage	360	357	368
Stationery and supplies	135	141	143
Advertising and promotion	175	129	164
Other operating expenses	610	595	662
	<u>\$ 3,166</u>	<u>\$ 3,000</u>	<u>\$ 2,962</u>

16. EMPLOYEE BENEFIT PLANS

American River Bankshares 401(k) Plan

The American River Bankshares 401(k) Plan has been in place since January 1, 1993 and is available to all employees. Under the plan, the Company will match 100% of each participant's contribution up to 3% of annual compensation plus 50% of the next 2% of annual compensation. Employer Safe Harbor matching contributions are 100% vested upon entering the plan. The Company's contributions totaled \$196,000, \$195,000 and \$202,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Employee Stock Purchase Plan

The Company contracts with an administrator for an Employee Stock Purchase Plan which allows employees to purchase the Company's stock at fair market value as of the date of purchase. The Company bears all costs of administering the Plan, including broker's fees, commissions, postage and other costs actually incurred.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. EMPLOYEE BENEFIT PLANS (Continued)

Employee Stock Purchase Plan

The Company contracts with an administrator for an Employee Stock Purchase Plan which allows employees to purchase the Company's stock at fair market value as of the date of purchase. The Company bears all costs of administering the Plan, including broker's fees, commissions, postage and other costs actually incurred.

American River Bankshares Deferred Compensation Plan

The Company has established a Deferred Compensation Plan for certain members of the management team and a Deferred Fee Agreement for Non-Employee Directors for the purpose of providing the opportunity for participants to defer compensation. Participants of the management team, who are selected by a committee designated by the Board of Directors, may elect to defer annually a minimum of \$5,000 or a maximum of eighty percent of their base salary and all of their cash bonus. Directors may also elect to defer up to one hundred percent of their monthly fees. The Company bears all administration costs and accrues interest on the participants' deferred balances at a rate based on U.S. Government Treasury rates plus 4.0%. This rate was 5.93% and 5.76% for 2017 and 2016, respectively. Deferred compensation, including interest earned, totaled \$3,216,000 and \$2,994,000 at December 31, 2017 and 2016, respectively. The expense recognized under this plan totaled \$183,000, \$168,000 and \$156,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Salary Continuation Plan

The Company has agreements to provide certain current executives, or their designated beneficiaries, with annual benefits for up to 15 years after retirement or death. These benefits are substantially equivalent to those available under life insurance policies purchased by the Company on the lives of the executives. The Company accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. As of December 31, 2017 and 2016, the Company had accrued \$1,474,000 and \$1,335,000, respectively, for potential benefits payable. This payable approximates the then present value of the benefits expected to be provided at retirement and is included in accrued interest payable and other liabilities on the consolidated balance sheet. The expense recognized under this plan totaled \$234,000, \$178,000 and \$168,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

In connection with these current and former plans, the Company invested in single premium life insurance policies with cash surrender values totaling \$15,122,000 and \$14,803,000 at December 31, 2017 and 2016, respectively. Tax-exempt income on these policies, net of expense, totaled approximately \$317,000, \$322,000 and \$316,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

17. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including Directors and affiliates. The following is a summary of the aggregate activity involving related party borrowers during 2017 (dollars in thousands):

Balance, January 1, 2017	\$	740
Disbursements		—
Amounts repaid		<u>(32)</u>
Balance, December 31, 2017	\$	<u>708</u>

There are no undisbursed commitments to related parties as of December 31, 2017.

The Company also leases one of its branch facilities from a current member of the Company's Board of Directors. Rental payments to the Director totaled \$76,000, \$110,000 and \$108,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2017 and 2016
(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and due from banks	\$ 1,605	\$ 259
Investment in subsidiaries	76,040	84,234
Other assets	<u>264</u>	<u>347</u>
	<u>\$ 77,909</u>	<u>\$ 84,840</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Other liabilities	\$ 988	\$ 990
Total liabilities	<u>988</u>	<u>990</u>
Shareholders' equity:		
Common stock	34,463	42,484
Retained earnings	42,779	40,822
Accumulated other comprehensive (loss) income, net of taxes	<u>(321)</u>	<u>544</u>
Total shareholders' equity	<u>76,921</u>	<u>83,850</u>
	<u>\$ 77,909</u>	<u>\$ 84,840</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME

For the Years Ended December 31, 2017, 2016 and 2015
(Dollars in thousands)

	2017	2016	2015
Income:			
Dividends declared by subsidiaries- eliminated in consolidation	\$ 11,118	\$ 7,675	\$ 7,900
Management fee from subsidiaries- eliminated in consolidation other income	—	—	—
Total income	<u>11,118</u>	<u>7,675</u>	<u>7,900</u>
Expenses:			
Professional fees	142	91	97
Directors' expense	282	285	285
Other expenses	<u>226</u>	<u>203</u>	<u>204</u>
Total expenses	<u>650</u>	<u>579</u>	<u>586</u>
Income before equity in undistributed income of subsidiaries	10,468	7,096	7,314
Equity in distributed income of subsidiaries	<u>(7,554)</u>	<u>(930)</u>	<u>(2,287)</u>
Income before income taxes	2,914	6,166	5,027
Income tax benefit	<u>284</u>	<u>238</u>	<u>241</u>
Net income	<u>\$ 3,198</u>	<u>\$ 6,404</u>	<u>\$ 5,268</u>

AMERICAN RIVER BANKSHARES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

18. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017, 2016 and 2015
(Dollars in thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 3,198	\$ 6,404	\$ 5,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Distributed earnings of subsidiaries	8,852	2,088	2,287
Equity-based compensation expense	273	331	271
Increase in other assets	(2,686)	(1,393)	(206)
(Decrease) increase in other liabilities	(1)	39	36
Net cash provided by operating activities	<u>9,636</u>	<u>7,469</u>	<u>7,656</u>
Cash flows from financing activities:			
Proceeds from exercised options	351	13	—
Cash paid to repurchase common stock	<u>(8,641)</u>	<u>(7,414)</u>	<u>(7,843)</u>
Net cash used in financing activities	<u>(8,290)</u>	<u>(7,401)</u>	<u>(7,843)</u>
Net increase (decrease) in cash and cash equivalents	1,346	68	(187)
Cash and cash equivalents at beginning of year	<u>259</u>	<u>191</u>	<u>378</u>
Cash and cash equivalents at end of year	<u>\$ 1,605</u>	<u>\$ 259</u>	<u>\$ 191</u>

Selected Quarterly Information (Unaudited)

(In thousands, except per share and price range of common stock)

	March 31,		June 30,		September 30,		December 31,	
	<u>2017</u>							
Interest income	\$	5,053	\$	5,121	\$	5,082	\$	5,158
Net interest income		4,811		4,869		4,803		4,870
Provision for loan and lease losses		—		—		300		150
Noninterest income		419		439		377		361
Noninterest expense (1)		3,430		3,368		3,312		3,939
Income before taxes		1,800		1,940		1,568		1,142
Net income (loss) (2)		1,184		1,297		1,109		(392)
Basic earnings (loss) per share	\$	0.18	\$	0.20	\$	0.18	\$	(0.06)
Diluted earnings (loss) per share		0.18		0.20		0.17		(0.06)
Cash dividends per share		0.05		0.05		0.05		0.05
Price range, common stock		\$ 13.09-15.90		\$ 13.46-15.20		\$ 12.97-14.55		\$ 13.95-15.69

	<u>2016</u>							
Interest income	\$	5,276	\$	5,229	\$	5,304	\$	5,344
Net interest income		5,042		5,008		5,081		5,112
Provision for loan and lease losses		—		—		(668)		(676)
Noninterest income		754		363		399		529
Noninterest expense		3,791		3,415		3,346		3,284
Income before taxes		2,005		1,956		2,802		3,033
Net income		1,372		1,304		1,813		1,915
Basic earnings per share	\$.19	\$.19	\$.28	\$.29
Diluted earnings per share		.19		.19		.27		.29
Cash dividends per share		—		—		—		—
Price range, common stock		\$ 9.71-10.98		\$ 9.69-10.97		\$ 10.15-10.91		\$ 10.59-15.99

- (1) The increase in noninterest expense during the fourth quarter of 2017 was related to the leadership change that occurred during the fourth quarter of 2017.
- (2) The net loss in the fourth quarter of 2017 results from the increased expenses related to the leadership change and tax related expenses as the Company was required to write-down a portion of its deferred tax assets to comply with “H.R.1” commonly referred to as the Tax Cuts and Jobs Act.



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